

# Government Economic Intelligence in Canada<sup>1</sup>

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**F**IGHTING a war is more than a contest of arms. It is also a battle of wits. Military intelligence provides the ammunition to win the combat of the minds of two warring nations or groups of nations. A multitude of activities is covered under military intelligence. One group involves collecting and evaluating information on the combat potential of the enemy for purposes of offense and defence—his economic strength, his strategic advantages based on geography and disposition of military resources, his tactical intentions as revealed by plans of action, moves and countermoves, his fighting efficiency as indicated by the quality of military and civilian leadership, the morale of troops and civilians, the fighting experience of troops and the amount and quality of equipment. Another group of activities involves obtaining and appraising information with respect to specific weaknesses in the armour of the enemy—the selection of targets—against which pressure can be applied most advantageously.

Winning the peace that follows a war means fighting destruction, hunger, sickness and slums. It means more than passive encouragement and charity. It means positive action on the part of individuals as well as the community as a whole. It involves a concentrated effort to improve the standard of living of the citizens of a country, based on the knowledge that, in the end, prosperity is indivisible. Beyond this, national prosperity, unless supported by peace, security and prosperity abroad, cannot be achieved even with the best of efforts by any one nation trying in isolation to further the wellbeing of its citizens.

To cope with the problems of making a livelihood, private individuals make

decisions continually. To provide and to adapt to changing needs the framework for the efficient functioning of a system within which private initiative thrives, democratic governments are also called upon almost daily to make decisions. Like military intelligence, economic intelligence provides the information that enables the policy maker—whether he be the chief executive of a business faced with changing markets, or the prime minister of a country threatened with changes in external conditions—to decide how to tackle the enemy most successfully.

## What Is Economic Intelligence

Both private individuals and governments aim at making their decisions on the best judgment of the situation and the means at their disposal to handle the problems at hand. This judgment can be formulated simply on the basis of a hunch. Or the judgment can be arrived at on the basis of experience, i.e., those making the decisions use the knowledge which they themselves or others have gained in the past. The judgment can also be made as a result of thorough investigation of the facts of the situation, the outlook for the future, and the probable impact of various decisions on the situation. If the last procedure is adopted, and if the decision reached is one belonging to the realm of economics, the activity which precedes the decision can be covered by the phrase "economic intelligence."

Knowing the facts of the situation, the outlook and the probable impact of various policies does not necessarily make it easier to arrive at a decision. There is a great deal of truth in the observation that "where ignorance is bliss, 'tis folly to be wise." But it is also true that it would be folly to act in ignorance if wisdom were within reach. An execu-

1. This article is dedicated to the memory of the late Dr. L. Richter, whose thirst for economic knowledge was only matched by his passionate service to the social sciences in Canada.—O.J.F.

tive who can obtain all the pertinent facts of a situation, arrive at a clear picture of the problems on hand, and be aware of the implications of well-thought-out measures he might adopt, will also know the dangers of the situation and the risks involved in following a particular course.

Events of the last century suggest that in advancing democratic countries the choice between blissful ignorance and the knowledge of truth which may not always be comforting has been made in favour of the latter. This has led on the North American continent, particularly in the last three decades, to a great deal of research activity. It has involved market analysis and economic investigations to cater to the needs of business. It has meant economic research, surveys, inquiries and analysis, all forming part of the economic intelligence which helps to provide democratic governments with the basic knowledge required to arrive at political, economic and social decisions best suited to the environment, tradition and temperament of the people in whose interests elected representatives act.

This article deals with one phase of the Canadian situation only—the increased importance of economic intelligence as an aid to formulating government decisions.

### **Economic Impact of Government Decisions**

Economic decisions by government affect the everyday life of most Canadian citizens. The impact of such decisions is felt by the housewife purchasing low priced bread, the unemployed person who finds a job through the employment service, the farmer who is kept from bankruptcy in periods of drought by crop insurance, the business man who is assisted in selling his goods abroad, the individual who is enabled to purchase a house through a government-supported low interest loan, the recipient of an old age pension and other security benefits, the income taxpayer who through his

payments contributes to the cost of meeting government expenses, and many others.

Some of these decisions, dealing with broad national policies, are made by Parliament; others, more restricted in nature, are made by the executive, which in Canada is known as the Cabinet. Still other policy decisions are made by Cabinet Ministers, either individually or in groups sitting as Cabinet Committees.<sup>2</sup> Finally, there is a host of detailed and specific administrative decisions made by the Civil Service within the framework of the policies and general decisions determined by Parliament and Ministers of the Crown.

### **Growth of Economic Knowledge**

The practice of basing government decisions on facts is as old as Canada's history. This country has the proud record of being the first in modern times to have taken a census of its people and its assets—the census of 1665. That census was taken in New France (Quebec) by Jean Talon, the French intendant who wanted to advise his superiors in France of the best ways and means of developing this distant colony into a thriving settlement which would reflect French industriousness and cultural achievements.

From this early and modest beginning there has developed in Canada over the last three centuries a tradition which led to the regular taking of decennial and quinquennial censuses, and the collection of records at annual, quarterly, monthly, or even shorter intervals, of almost all phases of economic activity. Such information ranges from data on population and employment to statistics on the creation and distribution of goods and services, from national income and gross national product estimates to statistics on Canada's economic relations with foreign countries through exports

2. For an example of the formulation and administration of national policies in a special field, see "Industrial Development in Canada," by the Rt. Hon. C. D. Howe, *Public Affairs*, December, 1948, p. 212

and imports of goods and through tourist traffic, shipping services and financial transactions.

Every day adds new knowledge about Canada's economic achievements and her relationship to the rest of the world. As the existing gaps in economic knowledge are filled new gaps appear. It is a sign of civilization inherent in a democratic country like Canada that the thirst for new knowledge is never satisfied.

### **Application of Economic Knowledge**

Obtaining economic knowledge is one thing. Making use of it is another. Until about ten years ago the economic information collected and appraised appeared of limited practical value to policy makers. There were several reasons for this.

First, the role of government in economic affairs was then much more limited. Such measures as export credits, floor prices for agricultural and fish products, industrial development loans and unemployment insurance may have had their origin in the conditions of the 'thirties, but it was not until more recently that they were put into effect on an important scale. With fewer economic decisions to be made, less economic information was required.

Secondly, even where economic decisions had to be made, it took some time for policy makers to appreciate the usefulness of economic data and analysis. It was against such a factual background that good judgment and common sense could be most effectively applied.

Thirdly, in instances where the policy maker was interested in obtaining relevant economic information on a particular problem on hand, he found it difficult at times to get what he wanted when he wanted it. The analyst or fact gatherer, who may have had no advance warning, either would not have the information ready when required, or would not have it in the form needed. On other occasions the analyst or fact gath-

erer would have the information available, but knowing the inadequacies of the evidence he would qualify his conclusions—at times considerably. The resultant vagueness would prove to be of little help to the policy maker, who wanted information and not hedging.

Fourthly, there was still another, perhaps more basic gap, that separated the policy maker from the analyst and fact gatherer. The policy maker had to make his decisions looking towards the future; the analyst and fact gatherer could give him advice based on the more or less distant past. The feeling of those who had to reach actual decisions that an adviser of this type was often more academic than practical was therefore at times not without foundation.

For these and similar reasons, economic knowledge accumulated in universities, business and the Federal service was used only to a limited extent by Government before 1939. When World War II broke out the Canadian Government felt an increasing need for economic knowledge to formulate important decisions. It also appeared desirable that the gap between the needs for technical knowledge of modern and scientific government and the provision of advice based on the best possible up-to-date and forward-looking economic knowledge should be bridged. It was realized that this was essential not only if Canada was to make a maximum contribution to the prosecution of the war but also to assure that after the war was won, the peace would not be lost. The latter aim meant preparing the ground for the development of economic policies in the post-war period which would aim at high levels of employment, income and standard of living for the Canadian people.

Out of these considerations there developed in government a realistic approach to economic knowledge. Time became an essential factor. Summary results when needed were preferred to lengthy historical investigations. Sample

surveys yielding approximate results appeared to be preferable to time-consuming inquiries involving a great deal of detail, not all of which was necessarily essential. Appraisal of the immediate past, the current situation and the outlook for the future became more important than the analysis of the distant past. Presentation of alternative possibilities and their implications for the problem on hand were considered more helpful than suggestions for a single solution. Special emphasis was placed on brevity, conciseness and the reduction of hedging. Those making the decisions needed from their advisers the best available knowledge of the facts, the outlook and the probable impact of policies on the problems on hand—*when* the problem was faced and *not after* it had been solved. It was in this climate of realism and necessity that the economic intelligence service of the Federal Government developed.

#### **Federal Economic Intelligence Service**

Some economic intelligence work had been done in Canada before the war by the Department of Finance and the Bank of Canada as a basis for formulating fiscal and monetary policies, and by the Departments of External Affairs and Trade and Commerce on matters pertaining to Canada's foreign economic relations, particularly her search for markets abroad. Also, the Dominion Bureau of Statistics devised a system for the unified collection of economic statistics which in concept and breadth of approach was second to none in the world.

With the commencement of World War II some of this work was intensified and new fields were entered. The number of departments participating increased in the attempt to anticipate and meet war needs on a broad front. As the war was drawing to a close the Canadian Government, looking forward to its post-war economic problems, proceeded to frame broad and integrated

economic policies. Some of this endeavour was reflected in the extensive legislative proposals submitted to Parliament in the 1944 Session. The intent and purpose of the economic program were brought together in a White Paper, placed before Parliament in 1945, outlining the Government's policies with respect to the maintenance of high levels of employment and income in the country. To implement this objective there was need for a continuing central group responsible for national economic forecasting, which would provide the necessary forward-looking information required by the Government to formulate its policy. This task was entrusted to the Economic Research Branch of the Department of Reconstruction (and Supply), now the Economic Research and Development Branch of the Department of Trade and Commerce. Since 1945 this branch has been preparing annual and shorter interval statements on the economic outlook in the form of national economic forecasts.

As indicated later, a number of government departments and agencies concerned with economic problems contribute to the economic intelligence work of the Economic Research and Development Branch of the Department of Trade and Commerce. The efforts of all units are coordinated by means of an Interdepartmental Committee on Economic Forecasting. Most of the departments and agencies involved have economic sections, each concerned with that phase of economic activity which represents the primary function of the department. In some instances, where the department's function touches upon almost all phases of economic problems, as in the case of the Department of Finance and the Bank of Canada, the economic sections are correspondingly concerned with the broad aspects of national economic intelligence. Because of the small number of officials involved in each department, regular exchange of the results of economic intelligence work

and labour-saving division of assignments have become accepted practice. Great emphasis is placed on speed and efficiency, with little regard to claims for authorship or "vested interest."

### National Economic Forecast

The national economic forecast is a statement on the economic outlook, presented within the framework of the national accounts, and showing separately the various components of the gross national product and gross national expenditures. The national forecast is arrived at to a large extent by a direct survey method. Such direct surveys include, on the demand side, surveys of capital expenditures by business and non-business private groups (housing and institutions), and surveys of export possibilities based largely on returns of Canadian Trade Commissioners abroad and on informed business opinion in Canada. On the supply side, surveys include the anticipated availability of basic and building materials produced, exported and imported, and general imports covering broad commodity groups. A great deal of the information is obtained directly from industry and supplemented by the specialized knowledge of commodity officers of the Department of Trade and Commerce. A large amount of information is collected from sources both inside and outside the Government on such items as the labour force, immigration and emigration, strikes, government expenditures, invisible exports and imports (tourism, shipping, etc.), savings habits, productivity changes, consumer behaviour, inventory changes, profits, floating of securities, and last but not least the "mood" of the business community. Since this information comes from different sources of varying degrees of reliability, the material is surveyed and weighed carefully in the process of fitting it into the familiar concept of the national accounts. Components arrived at by the direct survey method are supplemented by derived estimates for other

components, e.g., consumer expenditures, wages, salaries and supplementary labour income. The national forecast is then supported and checked by two supplementary forecasts, one a regional forecast and the other an industrial forecast. The regional forecast examines the national forecast in terms of what it would mean for the five major economic regions in Canada and whether these five regions have the resources and can count on the demand to make their contribution to the gross national product forecast for the coming year. A similar job is done for the major types of industry in Canada, covering wood and paper products, mining and mineral products, iron and steel and their products, construction materials, fuel and power, and consumer goods industries. Because of the importance of primary commodities for the Canadian economy, special attention is also paid to agriculture and fisheries.<sup>3</sup>

To develop further tests of national economic forecasts derived primarily on the basis of direct surveys, a certain amount of research work is being done in the econometric field. This work is primarily concerned with an examination of the relationship between the various components of the national accounts, with projections based on past behaviour, and with an appraisal in quantitative terms of the probable impact on economic activity of various government policies.

The national forecast is prepared twice a year. A preliminary draft of the first forecast is usually available in December and finalized in February of the succeeding year. The second forecast is a mid-year review of the first forecast, and is usually completed by June. It is primarily designed to review the developments in the first six months and to examine whether the economic outlook as ascertained at the beginning of the

3. For a more detailed description of the work involved, see "Government Forecasting in Canada", by Stewart Bates, *Canadian Journal of Economics and Political Science*, August, 1946, pp. 361-378.

year still holds for the remainder of the year. Each month current economic conditions as they affect the national economic forecast are reviewed, with emphasis in some months on a particular phase of the economic outlook, e.g., a review of the effect of supply bottlenecks, or an appraisal of the effect of management-labour disputes on the anticipated national output.

### **Procedure in Arriving at National Economic Forecast**

The preparation of the national forecast draws on the best knowledge available on the subject inside and outside Government. Within the government service, cooperation is assured through the Interdepartmental Committee on Economic Forecasting, comprising persons from the Departments of Finance, External Affairs, Trade and Commerce, Labour, Agriculture, Fisheries, and Mines and Resources, together with the Bank of Canada, Foreign Exchange Control Board, Central Mortgage and Housing Corporation and the Dominion Bureau of Statistics. The Director-General of the Economic Research and Development Branch of the Department of Trade and Commerce is the Chairman of the committee, and the same Branch provides the secretariat and the research staff which sees the forecast through from the exploratory stage to the final product. When the forecast is completed, it is kept under constant review until with the passing of time the outlook document becomes an analysis of the immediate past and the present, on which a new forecast is formulated.

In the preparation of the forecast, account is also taken of the knowledge available on the subject within the business community, through regular and informal consultations with a number of business economists who are familiar with particular phases of economic developments as they bear on the economic outlook as a whole. Business

economists are drawn from industry, both primary and secondary, retail trade, financial institutions and organized labour. The business economists consulted provide a very useful liaison between the Government economic forecasting group and the business community by helping to promote understanding of economic issues and factors affecting the outlook. They also give the benefit of their advice to the Economic Research and Development Branch in the undertaking of special surveys relating to expectations of the business community. Other special groups are consulted on specific occasions, e.g., the construction industry, building material suppliers and machinery and equipment producers, with regard to their productive capacity, or exporters with regard to export prospects for particular commodities or countries.

### **Limitations and Use of National Economic Forecast**

A great deal of statistical and background research is involved in preparing the national economic forecast and its continuing review. In assembling the material, emphasis is placed on judgment and discretion in the light of the needs of those who use the results. The central task of the forecast is not to state with any claim to detailed accuracy what will happen during the year, but to anticipate the effect on employment and income that economic forces discernible at the end of one year are likely to have in the following year and to appraise the impact which alternative Government policies may have on the level and composition of economic activity foreseeable for the immediate future.

The economic forecasting work has necessarily been experimental in character and the preliminary results obtained have been tentative. The results were made available on a confidential basis for the use of Ministers of the Crown and senior government officials. As

the techniques in collecting basic data were developed and tested it became possible to make available for general use some of the results obtained, particularly those arrived at in cooperation with the business community.<sup>4</sup> The results of the national economic forecast have also figured in Parliament in the discussion of the state of the domestic economy in the debate on the Speech from the Throne and on other occasions.<sup>5</sup>

4. The first document published was *Capital, Repair and Maintenance Expenditures of Business Enterprises in Canada: Forecast 1946*. It was followed by *Forecast of 1947 Investment by Canadian Business, Production of Basic and Building Materials in Canada: Outlook 1947, Private and Public Investment in Canada: Outlook 1948*, and *Production of Basic and Building Materials in Canada: Outlook 1948*, all published by Department of Reconstruction and Supply, Ottawa. More recent publications include *Private and Public Investment in Canada, Outlook 1949; Supply of Building Materials in Canada, Outlook 1949*; and *Investment and Inflation, With Special Reference to the Immediate Post-War Period, Canada, 1945-1948*, all published by Department of Trade and Commerce, Ottawa.
5. *House of Commons Debates*, Vol. 88, No. 3 (January 28, 1949), p. 63; No. 21 (February 23, 1949), p. 817; No. 25 (March 1, 1949), p. 1014; and No. 40 (March 22, 1949), p. 1789.

The development has been for Government, as soon as conditions permitted, to share with the public the best knowledge available on the course of economic events. Much still remains to be done to bring the results of economic intelligence in simple language within easy grasp of the average citizen. The process is slow but as it continues the public at large should gradually achieve a deeper insight into the economic problems it faces. This in turn should promote free and intelligent public discussion of the best means that can be adopted to cope with the economic situation of the day and of the immediate future. In such a manner economic knowledge—developed and shared by Government with universities, business and the public at large—has a contribution to make to the Canadian way of life and its democratic institutions.

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## TO OUR SUBSCRIBERS

TO ENSURE that this Memorial Issue of PUBLIC AFFAIRS would fulfil the intentions of the Editorial Board, publication has been delayed somewhat. Adjustment is being made accordingly in the expiry dates on subscriptions.

Our regular readers will notice that certain modifications have been made in the appearance of the Journal. The front cover and the Contents page have been redesigned, and illustrations have been introduced into the text pages for the first time. Libraries and other subscribers who bind each volume of four numbers will note that most of the advertising pages are numbered now with roman instead of arabic figures; as a result, these pages may be removed without breaking the sequence of text pages in bound volumes. The Editorial Board invites the comments of our subscribers on the redesigned PUBLIC AFFAIRS.

The policy of the Journal on editorial matters remains unchanged. Our purpose is to bring to our readers responsible comment and reliable information on public problems, with special reference to Canada. It would be appropriate at this time to acknowledge the generous co-operation of our contributors who, without remuneration, continue to support the Editorial Board in its program of public service.

*John F. McVittie*

Acting Editor, PUBLIC AFFAIRS