MASTER'S THESIS

M-1078

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CROWN CORPORATIONS AND RESPONSIBLE GOVERNMENT, WITH SPECIAL REFERENCE TO: INDUSTRIAL ESTATES LIMITED, POLYMER CORPORATION, THE CANADIAN BROADCASTING CORPORATION, THE BANK OF CANADA.

Carleton University, M.A., 1966
Political Science, general

University Microfilms, Inc., Ann Arbor, Michigan

CROWN CORPORATIONS AND RESPONSIBLE GOVERNMENT

with special reference to:

Industrial Estates Limited

Polymer Corporation

The Canadian Broadcasting Corporation

The Bank of Canada

by

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A thesis submitted to Carleton University
in partial fulfilment of the requirements for the
degree of Master of Arts in Political Science

Department of Political Science

Carleton University

Ottawa, Ontario

August 1966.

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Introduction

This thesis is a study of four Canadian Crown corporations and inquires into their origin, evolution and present functions, as well as the question of the effectiveness of public control over their operations. The particular Crown corporations were chosen in order to include as diverse a range of companies as possible, especially with regard to the role they play in affecting Canadian economic, political and cultural life.

The first Crown corporation considered is Industrial Estates Limited, a Crown corporation of the Province of Nova Scotia. This corporation was originally set up to assist industry in locating in Nova Scotia. To outward appearances it appears to be fulfilling the role of an entrepreneur, but in fact its responsibilities and methods of operation indicate that it is a very important arm of the government of the Province and it has a significant impact on the economic fortunes of Nova Scotia. It is a unique corporation in that it combines several functions, including orthodox functions of government (i.e. stimulating economic development) but it also fills a role usually assigned to private enterprise. There is a dearth of objective information about Industrial Estates Limited, although the officers of the corporation have been most helpful in providing background material.

The proposed Canada Development Corporation will likely bear

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some resemblance to Industrial Estates Limited and some of the problems which may be encountered with regard to it are also discussed in this thesis.

The second Crown corporation discussed is the Polymer Corporation. This corporation fulfils basically an entrepreneurial function and has achieved considerable commercial success in its operations. It does not cause problems for the government nor create controversies; likely many Canadians would be surprised to learn that this Corporation is publicly owned. It operates in the business world, as does Industrial Estates Limited but unlike the latter, its purposes seem to be limited to the making of a satisfactory profit for the owners.

The Canadian Broadcasting Corporation is definitely not a commercial success and operates more in the field of culture and entertainment than in the business and economic sphere. Over the years the influence of the Canadian Broadcasting Corporation has increased greatly, even though its regulatory powers have almost completely disappeared. The cultural impact of its operations and the delicate problem of censorship make it a very distinct type of corporation and at the same time make it difficult to bring it under adequate control.

The final Crown corporation, the Bank of Canada, does not function on a straight commercial basis nor does it directly affect Canadian culture. It is a regulatory body which has a great deal of influence on the Canadian economy, the profits

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it earns are not the primary reason for its existence.

Thus it may be seen that the four Crown corporations discussed in the thesis are all different from one another. They share one common trait in that they are owned by the people of this country who must have some means of controlling them. The matter of making these corporations responsible to their owners through their elected representatives is considered in each case and some suggestions for improving the present situation are offered at the conclusion of the thesis.

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CHAPTER 1

Crown Corporations and Responsible Government

Government involvement in economic activities is a well established tradition in Canada. Even before Confederation " a number of harbour boards were set up as crown corporations,"¹ and after Confederation the Federal Government became deeply involved in such economic undertakings as the construction of railways and canals. Later, provincial governments also took on economic responsibilities such as the production and sale of hydro-electric power, telephones etc., and almost every municipality in Canada operates some type of business enterprise such as street railways, water works etc. The trend seems to be for governments to become increasingly involved in such activities and the role extends now far beyond economic functions to those of a cultural and social nature as well. The Canadian Broadcasting Corporation and the Canada Council are two examples of a non-economic type of enterprise under government control and which have a profound effect upon the lives of Canadians.

The Crown Corporation has proved to be one of the favorite devices of both Federal and Provincial governments by which the state brings certain activities under public administration and control. The number of such bodies has increased

1. Ashley, C.A. and R.G.H. Smails, Canadian Crown Corporations, (Toronto 1965) P.5.

rapidly over the years and there are now at least 38 at the federal level alone.¹ The Rt. Hon.C.D.Howe was very much impressed with this type of organization and while he was a minister was personally responsible for the setting up of many of the Crown Corporations now existing under the federal government.

For the purposes of this thesis a Crown Corporation is defined as an institution providing a service of an economic, social or regulatory nature on behalf of the government, having the legal and corporate attributes of a commercial enterprise, largely autonomous in its management, but technically responsible to the public through government and parliament, and subject to some governmental direction.

As the number of Crown Corporations has increased, many of the privileges and immunities they once possessed have disappeared and a few of them, such as the Canadian Broadcasting Corporation and the Canadian National Railways are constantly under the scrutiny of parliament and the public. Others, operating in areas scarcely known to the public or in highly technical fields receive very little attention. While parliament in the past has proved itself to be noticeably jealous of its rights in some cases, it has tended to ignore other Crown Corporations with the result that some are over controlled to the point where parliament may be said to be interfering, while others, neglected by parliament have developed a mentality which suggests that they are in effect laws unto themselves and are quite independent of any public authority.

1. Canada, Dominion Bureau of Statistics, Canada Year Book, (Ottawa 1965) p.115-116

The Crown Corporation as a distinct form of enterprise is favored for a variety of reasons. Mr. Howe said on one occasion that " One of the inducements for adopting the crown company plan was that it permitted men with business responsibilities of their own to give a good deal of their time to the government in executive positions associated with a form of administration with which they are wholly familiar."¹ This was especially true in World War II when there was a pressing need for qualified executives by the government but it is still felt that freeing a Crown Corporation from the restraints imposed on ordinary governmental departments, such as those of the Civil Service Commission, will bring about a more efficient administration and attract better qualified people. At a time when it is generally agreed that the standards and wages of the Civil Service Commission, on the Federal level at least, have been built up to a level comparable with private industry, this argument seems to be of questionable merit.

Another reason for the popularity of Crown Corporations is that this form of organization provides freedom from political pressure and interference. In effect this argument states that while Parliament and the government may be competent to decide what the public interest is, and the method by which the public interest will be protected, they are not competent to administer the appropriate agency necessary to service the public interest. It is also argued that to be effective the Crown Corporation requires "a measure of business secrecy and unity of purpose"², and that

1. Canada, Parliament, House of Commons, Official Report of Debates
May 14, 1946, p. 1512.

2. Ibid

June 5, 1946, p. 2212.

the Crown company form of organization is essential if this is to be achieved.

The purpose of this thesis is to inquire into several aspects of specific Crown Corporations. The first problem to be discussed is to determine why these Crown Corporations have been established in the first place. It has been suggested that Canadian Crown Corporations are established "in response to the needs of the moment rather than on the basis of long range plans or considerations of organizational symmetry."¹ The question of whether or not any ideological basis underlies their formation or whether they are created simply for pragmatic reasons is examined in some detail.

The question of whether or not governmental responsibilities can be adequately served by autonomous agencies one step removed from the political environment of responsible parliamentary government is also examined. The question of the ultimate responsibility of crown corporations is a vexing one. One would assume that since Parliament or the legislature creates the corporation that the ultimate allegiance of the corporation is to its creator. If this is the case however, then many Crown Corporations have at times shown a cavalier disregard for their creator. The question as to why this situation came about is considered, especially to see if some of the fault lies in unsatisfactory legislation under which the corporation must operate. It may be that the functions

1. Lloyd O. Musolf, Public Ownership and Accountability, (Cambridge, Mass, 1959) p.1.

and methods of the Crown Corporations have evolved over the years so that in effect, the functional characteristics of the corporation have outgrown the constitutional characteristics, so that the corporation has become independent as a result of natural evolution. If this is the case then the situation can be corrected by Parliament or the legislature. Corporations may have, over the years, assumed a spirit of absolute independence simply because government and parliament have neglected their responsibilities and have given the corporation too free a hand, especially if it happens to be a profitable operation. In some cases the officers of the corporation may have acquired an arrogant and intolerant attitude towards the question of responsibility and if this is the case, then again Parliament may take action. The system of responsible government enjoyed by Canadians was achieved after a long and difficult struggle and it would seem absurd that these rights so painfully acquired would be given up simply through indifference, neglect or even for the sake of a more efficient method of administration.

If however, it can be determined that Crown Corporations are in many instances the best way of serving the public interest then the question of the type of control under which they operate should be examined. The difficult problem here is to achieve a balance between independence of action for the Crown Corporation with responsibility to the appropriate political authority. The thesis delves into the failure or success of the various methods of control used over the Crown Corporations under examination to see if this delicate balance has been achieved. If Crown

Corporations have excessive freedom then they in effect negate the concept of responsible government. If, on the other hand, they receive too much direction then the purpose of the Crown Corporation is repudiated. The question as to whether or not the traditional lines of authority as they now exist, through the cabinet to parliament to the people, are sufficient to ensure responsible administration is considered. It may be that as Crown Corporations have increased in number and influence, restraints upon them have disappeared and that in fact, politicians are being held responsible for the acts and policies of organizations over which they have no control or influence. If policy decisions are being made without the knowledge or approval of responsible ministers then one wonders if it is reasonable to bring them to account.

Finally, the question of reform and improvement is considered. The question of what changes can be made to bring about a more satisfactory relationship while still maintaining independence for the Crown Corporation and authority for the government and the parliament is examined and some suggestions are offered to help correct the situation.

Chapter II

Industrial Estates Limited

History and Background

Industrial Estates Limited is a Crown Corporation of the Province of Nova Scotia. It was incorporated on September 25, 1957 under the Nova Scotia Companies Act with an authorized capitalization of 100 common shares of \$100.00 par value each. Eighty-seven shares have been issued and all are owned by the Province of Nova Scotia. At the time of its incorporation, Premier Stanfield said that Industrial Estates Limited "...will act as an autonomous Corporation subject only to general policy provisions held to be in the public interest."¹ It will "...operate independently of governmental direction and interference".²

Purposes and Powers

The purposes of the Corporation were set out in an agreement between the Province and the Crown Corporation dated the same day as the Company's incorporation. The Agreement stated the desire of the Province "...to encourage the promotion, expansion, diversification and the development of industrial activity in Nova Scotia".³ The Province

"has caused the Company to be incorporated to act as an autonomous corporation with the view that the Company may be used as the vehicle to implement such desire..It is proposed that the Company shall borrow money from the Province on the terms hereinafter set out for the purpose

1. "Nova Scotia Crown Firm Builds, Lends to Industry", Financial Post, (October 5, 1957) p.22.

2. "Province Launches New Company", Halifax Chronicle-Herald (October 5, 1957) p.1

3. Province of Nova Scotia, Registrar of Joint Stock Companies, Memorandum of Agreement between Province of Nova Scotia and Industrial Estate Limited (Sept. 25, 1957) Part II, p.2-3.

of buying and developing lands and erecting buildings or factories thereon to be occupied by Industrial Tenants and to generally carry on the business of an Industrial or Trading Estate, and in addition to erect buildings for occupation by industries apart from such estates."¹

The Company may also "...negotiate with an industry housed in Nova Scotia with a view to rehousing the same in a building owned or to be built by the Company."²

In order to enable the Company to achieve its objectives the Province agreed to provide it with a maximum of \$12 million in loans, to be made available as required, as well as to guarantee the Company's operating budget. This agreement was ratified and confirmed by the House of Assembly in May 1958 through the Industrial Estates Act. According to the Act, the Minister of Trade and Industry was delegated to be the Province's representative on the Board of Directors of the Corporation and he was "empowered to expropriate..."" any land he deemed necessary for the purpose of implementing an obligation assumed by the Province."³ with reference to its agreement with Industrial Estates Limited. Any city, town or municipality was authorized to enter into agreements with Industrial Estates Limited or one of its tenants in order to grant a fixed assessment or special rate or exemption from municipal taxes for a maximum period of twenty years. Subsequent amendments to the Act altered the amounts to be made available to \$18 million (1963, \$50 million (1964) and in 1966, \$60 million. To March 31, 1965, \$26,827,103.⁸⁶⁴ had been advanced to the Corporation by the Province and in addition the Corpora-

1. Ibid, Part II, P.2-3.

2. Ibid, Sec.IV, P.4.

3. Province of Nova Scotia, Legislative Assembly, Statutes, 1958, Eliz.II, Chapter 5:VIII(1),

4. Industrial Estates Limited, Annual Report for Fiscal Year Ending March 31, 1965.

tion has made additional commitments exceeding \$60 million.¹

During the brief debate on the Industrial Estates Limited Act in 1958 the Minister of Trade and Industry, explained that the Company would be operated by a Board of Directors nominated by the government. Although the Board, composed of eleven prominent businessmen plus the Minister, was to be appointed by the Provincial Government it would be "Free to act on matters coming before the Board without reference to the government."² The only obligation on the part of the Company insofar as accounting for its activities is concerned is that it must present annually to the Minister as soon as possible after the close of the Company's financial year an audited annual report, including a balance sheet and statement of "expenditures and income...Such report will list the attendances of all Directors of the Company at all meetings of the Board or any committee thereof."³

In effect, then, Industrial Estates Limited is a corporation guaranteed financing by the Province of Nova Scotia to the extent of \$60 million. It is run by a Board of Directors appointed by but not responsible to the Provincial Government. Obviously the Board enjoys tremendous autonomy. "...the group of businessmen who are the directors of Industrial Estates Limited enjoy a measure of autonomy which would arouse the envy of many private business executives."⁴ The Corporation has, through the Minister of Trade and Industry the power to expropriate any land it deems necessary and it can enter into special (and secret) tax agreements with the

1. "Industry Hunters Going Great Guns", Financial Post, (June 25, 1966) p.m.3.

2. Province of Nova Scotia, Legislative Assembly Journals and Debates April 15, 1958.

3. "Memorandum of Agreement" Part V, P.8.

4. Nova Scotia: Pacemaker of Maritime Industrial Growth, Canadian Business (August, 1965) Vol. 8 #8, p.38

municipalities. "Municipal tax concessions which limit the tax rate to a maximum of 1% of the assessed value of the building are available to Industrial Estates clients."¹ The corporation is not "...expected to be profit making but eventually it is hoped that the company will be able to charge rents and leases equal to its expenses."²

Industrial Estates Limited can be considered to have been formed for a purpose far beyond the usual reasons for forming Crown Corporations in Canada. Frequently such corporations are created without a long-range objective under consideration. In the case of Industrial Estates Limited however, the government had very definite long range plans in mind. The purpose of the government was to stimulate the growth of a secondary manufacturing industry in the Province and Industrial Estates Limited was "...to devote itself primarily to the development of light or secondary industry."³ In this respect the Provincial Government showed considerable foresight and anticipated a later report which pointed out that

"...the difference in cost which deters a manufacturer from putting a plant in an area like the Atlantic Provinces is also frequently a small element in the total and may be offset by some compensating advantage of a similar order of magnitude financed out of public funds. Moreover, it is not uncommon to find, that if not one but several firms can be induced to locate branches in a similar area, they offer mutual support to one another."⁴ "The most profound immediate attractions to business contemplating production in the Atlantic Provinces are likely to be a modern factory ready for occupation, offered at less than an economic rent for a limited period of years."⁵

Another report came to the same conclusion and justified efforts

1. Ibid, p.45.

2. "Head for Crown Agency will place Sites in N.S.", Financial Post, (Nov.9, 1957) p.39

3. Undated Press Release (Approximately Sept 24, 1957).

4. A.K. Cairncross, Economic Development and the Atlantic Provinces, (Fredericton: Atlantic Provinces Research Board, 1961) p.26.

5. Ibid p.34.

in this respect. It was pointed out that experience confirms the contention of economists and specialists that in order to encourage the growth of secondary industries in Nova Scotia and the Atlantic Provinces in general that "The provincial governments can help to attract industry by the provision of factories for rent or sale on both isolated sites or in factory parks".¹

Achievements

Since its inception Industrial Estates Limited has met with considerable success. According to its officials, over forty different firms have been assisted by the Company since 1957, including eleven previously established businesses which have expanded into Industrial Estates buildings. The Company is very assiduous in publicizing its successes and its buildings provide very concrete proof of its achievements. "The real testimonial is the business which is moving in. New Business. Old businesses expanding with new facilities and new ideas. Over 4000 new jobs created. Projects ranging from the Volvo car assembly plant to carpet manufacturing, the first Canadian aluminum can factory, cement manufacturing, the multi-million dollar Clairtone Sound Corporation plant."²

Evolution

Over the years there has been a very marked change in the role played by Industrial Estates Limited and its activities now extend far beyond the mere construction and leasing of buildings.

1. Thomas Wilson, Financial Assistance with Regional Development (Fredericton :Atlantic Provinces Research Board, 1964) p.71
 2. "Premier With The Chairman Touch", New Commonwealth, (May, 1965) p.12

"Industrial Estates Limited has on a number of occasions departed from its official policy by supplying equity capital, by underwriting bonds instead of buildings and leasing back a plant and by shouldering a client's moving costs."¹ It has provided plants for such wealthy companies as Reynolds Aluminum, Swift Canadian Limited, Canada Cement and in effect has become a method whereby not only are companies persuaded to locate in Nova Scotia when they could go elsewhere, but also companies which would likely locate in Nova Scotia anyway receive subsidization. By underwriting bonds and investing in common stock, Industrial Estates Limited has become a holding company and these large scale investments have completely altered the scope of the Company's activities. These changes have been accomplished without any substantial changes in the legislation governing the Company's operations or its agreement with the Province.

Two cases may be cited to illustrate the change in the Company's activities. In the case of Clairtone Sound Corporation Limited, Industrial Estates Limited underwrote \$8 million in Clairtone bonds, and part of this was used by Clairtone to retire an old debenture issue. An additional sum was later advanced to Clairtone which was used to purchase a 51%² interest in Canadian Motor Industries Holdings Limited which had plans to assemble Japanese made automobiles at Point Edward. The Company to date has not become active and its future is uncertain. In the case of Deuterium of Canada Limited, for whom the Corporation

1. "Nova Scotia-Pacemaker", Canadian Business (August, 1965) p.38

2. "Success Quickens Hunt for Industry", Financial Post, June 26, 1965, p.47

is constructing a plant at Glace Bay, Industrial Estates Limited owns 50.02% of its common stock, purchased for \$12 million.¹ Thus it is evident that the role of the Corporation has changed greatly since 1957. This role is likely to become more complicated as time goes on and the Corporation will have increasing influence on the economic health of the Province.

Such an evolution involves a very complicated role for Industrial Estates Limited, the cabinet and the legislature. If, for example, Canadian Motor Industries Limited do not produce automobiles, what will become of the Province's investment, made through Clairtone? Will the government assume responsibility for the loss and for the decision not to produce, or will the Directors of Industrial Estates Limited? What will the role of the government be in Deuterium of Canada Limited? If it abstains from influencing policy as it does with Industrial Estates Limited how will the investment of the Province be protected? If, as has been suggested, the Deuterium plant in Glace Bay is equipped to produce heavy water using a process already out of date, what becomes of the Province's investment, and again where does responsibility lie?

Responsibility

It is not the purpose of this thesis to inquire into the necessity of governmental action along the lines taken by Industrial Estates Limited and the Provincial government. The question which is pertinent however, is whether or not the method.

1. "How Nova Scotia Promotes Industrial Development", Financial Post, June 27, 1964, p. 56.

used via Industrial Estates Limited is the best way? Can the responsibilities of the Provincial government be best served by a completely autonomous Crown corporation or is there an alternative method available?

Premier Stanfield has never publicly regretted the use of a Crown corporation. He said in 1957 in a remarkable statement which deserves to be quoted at some length that the Province decided to use a Crown corporation in the hope that:

"...If a new corporation can be made to appear independent and autonomous it could hope to have the support of all persons and bodies working within the Province...An independent body would appear less likely to encounter opposition and criticism through making its first start in one part of the Province than would some direct agency of the Provincial government...an independent body quietly created might hope to start operations free from the glare of unwanted publicity...In the unlikely event that a lesser degree of success crowned its efforts than was anticipated or if the pace of development was slower than had been hoped for then an autonomous body would have less to suffer by way of criticism than an agency under government control. On the other hand the government which had been responsible for creating an independent body would be rightly able to claim full credit for the successes which followed...There are things which an independent commercial concern can rightly do which are, and should be outside the scope of a governmental department...risks which can rightly be taken and small tasks which should be beneath the level of governmental operations...Experience has shown that industrialists like to deal with industrial and commercial bodies in negotiations in preference to dealing with governmental departments. Rightly or wrongly they feel they can negotiate and bargain with another commercial concern while in dealing with governments the scales are weighed¹ against them by the powers which the government wield..."

These reasons for creating a virtually autonomous Crown corporation demonstrate several curious attitudes towards responsible government, towards the state of party politics in Nova Scotia and towards the general public. It suggests that party politics in Nova Scotia are at such a pitch that opponents

of the government would not support its efforts to stimulate the economy. In view of the fact that all parties and the general public seem to support all the other measures used by the government to assist the economy the suggestion is not reasonable. It would seem that in creating the Crown corporation the government is seeking to evade its responsibilities by turning over to Industrial Estates Limited the power to make key decisions such as with regard to the locating of plants in the Province. There is a strong suggestion that the government was somewhat apprehensive of the idea behind Industrial Estates Limited and tried to avoid taking any responsibility in the event the Company failed, although at the same time there was a willingness to take full credit for its achievements. In effect such an idea negates the principle of responsible government for it arranges matters so that the government can take responsibility for favorable actions and decisions and assume no responsibility for unfavorable ones. Thus the Crown corporation can be used as a shield for the government which could disdain any responsibility for the Company's errors and take full credit for its achievements. The suggestion that the Crown corporation may take risks outside the scope of a government is ludicrous since in any case it is the taxpayer who is taking the real risk.

There are two valid reasons for the use of a Crown corporation in this particular case. The first is that by using a Crown corporation, the organization would be freed from some of the restraints operating upon governmental departments. The first

General Manager of Industrial Estates Limited was paid a salary of \$30,000.¹ per annum, far in excess of any salaries paid in the Nova Scotia Civil Service, but likely a reasonable salary for the calibre of man required to fill the position. When Mr. Essey, the first General Manager did not perform adequately in the view of the Board, he was quietly dismissed and replaced, a procedure which would have been difficult to follow under Civil Service regulations. Although the Crown corporation would appear to be a useful device for overcoming such limitations this should in no way be construed as justification for absolving the government of any responsibility for the acts of such high-salaried personnel.

The chief justification however, for using an agency one step removed from the political environment of a responsible legislative assembly seems to be that in order to fulfill its functions and attract new industry into the Province, negotiations and terms of agreements must be kept secret. It would appear that Industrial Estates Limited treats some clients differently from others but if the more favorable arrangements were made public then those less favored would clamor for equal treatment. Given the depressed, stagnant conditions of the economy of the Province it is argued that the public interest can only be served adequately through the secret operations of Industrial Estates Limited. It is contended that political control and full public accountability would have an adverse effect on the Company's operations and concomitantly on the public interest. The Minister of Trade and Industry has said that "Every effort is made to keep

¹. Nova Scotia, Legislative Assembly, Journals and Debates, March 4, 1959.

Industrial Estates Limited on a non-partisan basis and as far away from politics as possible...We don't think that Industrial Estates Limited could function in that kind of (political) atmosphere."¹

One argument used by Premier Stanfield, that business and industry is more favorably disposed towards dealing with independent bodies than with governmental departments, is often heard in connection with Crown corporations. It is frequently assumed "...that procedural routinization and bureaucratic forms of organization are in some way peculiar to public as opposed to business administration, what is system in business organization becomes red tape in government."² A speaker in the House of Commons once remarked in support of the idea of Crown corporations that "Private Industry runs its business on a business like basis. Governments cannot."³ Since however it is public knowledge that Industrial Estates Limited is owned by and receives all its capital from the Government of Nova Scotia, it is dubious if any businessman would be under any illusions as to whether or not he is dealing with an agency greatly influenced by the Provincial Government when he is negotiating with Industrial Estates Limited.

Public Control

Efforts to keep Industrial Estates Limited's activities secret and to keep the organization out of politics have developed to the point where practically no information is available to the public. While some comfort may be taken from the fact that

1. Halifax Chronicle Herald, March 7, 1966, P.15.
2. T.H. MacLeod, Administrative and Constitutional Problems Peculiar to Crown Corporations, Proceedings of 8th Annual Conference of the Institute of Public Administration of Canada, (Toronto, 1956) P.155
3. Canada, Parliament, House of Commons Official Report of Debates, Jan.16, 1943, P.3709.

there is a strong ministerial link from the cabinet to the Corporation in that the Minister of Trade and Industry is ex-officio a member of the Company's Board, he has only one vote and no veto power. His influence may be considerable (although there is no evidence to either prove or disprove this) but there is sufficient discretion left to the Company to enable the Minister to disclaim knowledge of or control over various corporate activities. The Legislative Assembly then, seems to have no control over Industrial Estates Limited and the cabinet only limited control. Thus the principle of responsible government whereby governmental agencies are responsible to the cabinet, the cabinet to Parliament and Parliament to the people, this fundamental principle is negated. The government tends to regard Industrial Estates Limited as an isolated, completely autonomous entity and consequently refuses to account for its actions except in the most general terms. Senator Urquhart, leader of the Liberal Party in Nova Scotia until 1965 stated to the writer: "I really don't have enough information about Industrial Estates Limited to be of any help, So little information is released or made available about its operations that it is hard to assess its effectiveness. The government takes full credit for its successes and no one knows about its failures."¹ In one case, when the Leader of the Opposition asked in the House if Regent Aluminum Company, a firm which had been assisted by Industrial Estates Limited "had paid up capital of \$60.00 only at the time it went

1. Private Conversation, June 15, 1966.

bankrupt"¹ his question was not answered on the grounds that the Minister knew nothing about it.

The refusal of the government to assume full responsibility for the actions of Industrial Estates Limited has made it very difficult for the Opposition to criticize its operations. It has been unsuccessful in obtaining detailed information regarding the operations of the Company and to be generally critical would not likely sit well with the electorate who are more impressed by the sight of new and expanding industries than the technical or constitutional implications of the methods used to produce these results. Thus the Opposition is in a very frustrating position, it suspects that there is much to criticize in Industrial Estates Limited but it is not sure and to voice such suspicions seems to be much like opposing Santa Claus, as far as the public is concerned.

Certainly the Official Opposition has tried to obtain information regarding the Company's operations, but to little avail. During one meeting of the Industry Committee of the House, the General Manager of Industrial Estates Limited refused to reveal the salaries paid by the Company to its employees. He felt that he did not have to do so, or indeed to answer any questions put to him by committee members. "I thought I was responsible to the Board."² This response provoked an editorial in the Halifax Chronicle-Herald which stated that "...To succeed it (Industrial Estates Limited) must have the whole hearted

1. Halifax Chronicle-Herald, Feb. 16, 1961. P. 3.

2. Ibid, March 4, 1959. P. 1.

backing of everyone. This, one may be certain, will not be secured if there continues to exist an atmosphere which deplores the publication of pertinent information on its operations."¹ When, on another occasion, committee members expressed their annoyance at the fact that the General Manager of the Corporation did not appear before them because he was on holidays in Florida, the Minister of Trade and Industry said that he had "...no say about Mr. Blair's holidays. Mr. Blair is not an employee of the Province."² In this particular year the Committee, and thus the House of Assembly was unable to learn anything about Industrial Estates Limited at all because no one was present to testify on its behalf. The frustration of the Opposition was evident in the statement of one Liberal member of the Committee when he said: "I think there is a lack of control and poor management of many loans. But until we get the details we can't point out the facts."³ On still another occasion a Liberal motion calling for a return showing the amounts of advances made by Industrial Estates Limited to individual businesses and rentals paid by these businesses was defeated. At that time the Assembly approved an amended motion submitted by the Minister of Trade and Industry which gave the total advances made, total returns and total arrears in rent. The Minister further offered to provide the information requested by the Leader of the Opposition in confidence, on the understanding that such information would remain private, an offer which the Opposition Leader quite properly rejected.

1. Ibid, March 11, 1959, P.5.

2. Ibid, March 16, 1961, P.22.

3. Ibid, March 17, 1961, P.3.

Industrial Estates Limited seems to function on the basis of Professor Friedrich's theory of responsibility.¹ It is his contention that the responsibility of an administrative agency can best be assured by developing a healthy esprit de corps and a meticulous code of professional conduct among the agency's staff. Thus the legislature and the general public must rely on the public servant's sense of moral obligation to preserve the public interest. The theory assumes that these public servants know what the public interest is without having to answer to the public for their interpretation. Political responsibility is replaced by "... a sense of responsibility in the bosom of the official..."² In the case of many Crown corporations including Industrial Estates Limited there is obviously no sense of responsibility to any superior person or group and this theory of responsibility seems to be incompatible with a theory of responsible government. Parliamentarians often find this theory unacceptable, especially those in opposition, and have protested against it. One member of the House of Commons in discussing who actually controlled the Crown corporations said "... the operation of these companies depends on the honesty and honor of those operating them."³ Responsibility in our system of government however "... must depend on more than a sense of obligation to the public on the part of every public official."⁴ Industrial Estates Limited, as presently set up, is not responsible to any--

1. Carl Friedrich, Constitutional Government & Democracy (Revised Edition; New York 1964) Chap. XIX.
2. H. Finer, "Administrative Responsibility in Democratic Government" Public Administration Review, Vol. No. 4 (Summer 1941) P. 345.
3. Canada, Parliament House of Commons, Official Reports of Debates Feb. 15, 1943, P. 416.
4. J. E. Hodgetts, "Responsibility of the Government Corporation to the Governing Body", Proceedings of the 5th Annual Conference of the Institute of Public Administration of Canada (Toronto 1953) P. 391.

one other than its Board of Directors, all of whom, as businessmen affected by the economic climate of Nova Scotia may be said to have a vested interest in the results of the Company's operations which may or may not be identical with the public interest.

The question arises then, why is it that in Nova Scotia the cradle of responsible government in Canada, no large scale outcry has been raised against the existence of such an extraordinarily independent body having access to such substantial amounts of money? To be sure there have been some criticisms but they are usually founded on assumptions and suspicions rather than facts:"... Critics both in and outside the Provincial legislature claim that Industrial Estates Limited in its zeal to produce results sometimes pays too high a price for the industry it attracts."¹ "... Industrial Estates Limited is charged with the fact that the Province subsidizes industries which would be economically viable."² This type of criticism is not likely to be meaningful to the employee of an Industrial Estates Limited client or to the citizens of the area in which it is located, or to those who supply the firm with its raw material and other supplies." The climate of opinion would ultimately determine the degree of autonomy and the degree of interference at the ministerial or cabinet level."³ Public opinion seems to agree that there should^{not}/be political interference of any kind with regard to Industrial Estates Limited. The frustrated attempts of the Opposition to obtain information on its activities have made

1."Nova Scotia-Pacemaker", Canadian Business (August, 1965) P.38

2. Ibid, P.43.

3. Remarks by Prof. J.H. Aitchison, Proceedings of 5th Annual Conference of the Institute of Public Administration of Canada (Toronto, 1953) P.427.

no impact on the public as evidenced by the massive majorities of Premier Stanfield's government.

This is a situation analogous to that existing in many large corporations. The average shareholder will not seek to restrain management or inquire into management's methods as long as satisfactory profits are made and adequate dividends are paid out. The public of Nova Scotia is far more concerned with the economic problems of the area and the remedies applied by Industrial Estates Limited seem to be satisfactory and there is no pressure being exerted to change the situation.

Canada Development Corporation

Some of the problems posed by Industrial Estates Limited could reappear in the proposed Canada Development Corporation. Since The Canada Development Corporation is to be an investment media for the public the profit motive will be more important and it will devote its efforts to reducing "Canada's dependence on foreign equity capital and help diminish the drift of ownership of Canadian businesses into the hands of foreign investors."¹ Industrial Estates Limited, as has been pointed out, is not expected to show a profit and has no qualms about encouraging foreign investment in Nova Scotia. (Over 25% of the firms assisted by Industrial Estates Limited are foreign owned) but like the Canada Development Corporation, Industrial Estates Limited fills an important gap in the Nova Scotia economy."...In Central Canada there are firms building factories and leasing them for industrial purposes. Nova Scotia must be prepared to offer the same

¹ L.E.P. Newfield, The Canada Development Corporation, Canadian Trade Committee Publications (Montreal, 1966). P.1.

service and the only organization prepared to fill this role in the Province is Industrial Estates."¹

The Canada Development Corporation, like Industrial Estates Limited, is to be managed by a Board of Directors appointed initially by the Federal government. Government spokesmen have already emphasized that these directors will be quite independent. "The Corporation will stand on its own feet...free of government control."² A Liberal backbencher stated "...it would not be desirable to have too great a degree of government participation and control."³ An opposition spokesman complained: "We shall be asked to stand by with the buckets to bail the Corporation out of trouble...But we are not going to control it."⁴ Obviously, then the seeds of the same problem are present in The Canada Development Corporation, how will a satisfactory balance be achieved between independence of action for the Crown corporation and responsibility to some political authority? The problems in this regard for The Canada Development Corporation are even more complex for there will be a dual problem. The shareholders will expect some authoritative source of appeal and this will naturally be the government since it will be at the government's urging that these people will buy their shares. At the same time the government will be vitally concerned with the management of the Canada Development Corporation and the companies it controls, both as a large shareholder itself and as the underwriter and guarantor of the shares owned by the public. There has been

1. Halifax Chronicle-Herald, March 1, 1960, P. 27

2. Canada, Parliament, House of Commons, Official Reports of Debates, April 26, 1965, P. 435.

3. Ibid, May 3, 1965, P. 876

4. Ibid, May 3, 1966, P. 703.

little mention of the fact that the type of investment to be made available to Canadians via the Canada Development Corporation is already available to them via mutual funds, especially "no-load" mutual funds¹ sponsored by trust companies. These funds have not been accepted by the public at large mostly because they are not guaranteed. One reason why much of Canadian industry is in foreign hands is that the Canadian investing public is highly conservative and quite adverse to taking risks, thus it is likely that in order to encourage the Canadian public to transfer their investments from guaranteed bonds, etc., to shares of the Canada Development Corporation, the government will have to provide a form of guarantee for the shareholder. If this is not done the government will be by far the major shareholder in the Corporation and thus in many important industries in Canada. We may then have a situation where the Canadian government owns businesses and has no say in their direction, nationalization without responsibility. Too much independence will result in many large businesses being run by men who are laws unto themselves, a situation hardly better than absentee ownership.

Reforms

While Crown corporations continue to exist there will always be some frustration over the problem of their accountability and responsibility to the representatives of the people but the problem posed by Industrial Estates Limited in this regard is far more serious than those in relation to other Crown

1. A "no-load" mutual fund is one where there is no sales charge to the investor.

corporations. It is submitted that the Corporation is far too independent and that the possibility for conduct detrimental to the best interests of Nova Scotia are very much present.

Several reforms suggest themselves. The financial arrangements now existing, whereby the province has a blanket commitment of \$60 million to the Company, thus avoiding the necessity of an appropriation as funds are required, should be abolished. The Corporation should be required to come before the Legislature for money each year, enabling legislators to have some theoretical control at least over the Corporation's finances. Surely it can be expected that in the debates and questions that are bound to arise before such appropriations are made, the good sense and judgment of the legislators can be relied upon so that matters which must be kept confidential will not be publicly revealed. It should be the legislature however, or at least the cabinet which decides what is to be kept secret and what is to be public knowledge, not the directors or officers of Industrial Estates Limited.

The second suggestion is that the financial year of the Corporation be altered so that the financial report may be made available in good time to the House of Assembly. At present the House usually sits from January to March each year. The fiscal year of the Corporation ends on March 31st and thus the audited annual report is not available until after the House is adjourned.¹ As a result the information available to the

1. The 1966 Annual Report was still not available in August, 1966.

members is over a year old before they have a chance to discuss it in the House of Assembly or in committee. If the Corporation's fiscal year coincided with the calendar year and if there was a statutory requirement similar to that in the Federal government's Financial Administration Act which governs most Federal Crown corporations, that the annual report be presented to the Minister within ninety days and tabled fifteen days after that, more current information would be available to the legislators. In the case of Nova Scotia a sixty day limit would assure that the report reached the Legislature prior to the adjournment of the House.

It is also suggested that meetings of the Committee on Trade and Industry be held in camera from time to time when members desire confidential information and that the committee have the authority to recommend what matters be revealed in camera and what in public. That there are dangerous possibilities in such a suggestion is admitted but at least there would be full knowledge of the Company's activities available to the Legislature and only then could it assume full responsibility for the Company's actions.

Finally, since the government is becoming a shareholder in various business enterprises, it should have representation on the Board of every company in which it holds a large interest. This should be either a Minister or his deputy and the minutes of all meetings should be forwarded to the Minister so that he is always aware of what the Company is doing. In adverse times the Minister, the Cabinet and the Legislature are bound to be

called to account by the electorate and it would seem to be in the interests of all that this close contact be established.

CHAPTER III

POLYMER CORPORATION

History and Background

Polymer Corporation Limited is a Crown corporation of the Federal Government. It was formed in 1942 for a definite, specific, practical purpose. The entry of Japan into World War II and her rapid conquest of Malaya and the East Indies had cut off North America's supply of natural rubber. In order to overcome the shortage of this strategic war material it was decided by the Canadian government to produce synthetic rubber in co-operation with the United States (which possessed the only available knowledge and processes necessary for the task). The Canadian government undertook to build a plant at Sarnia, Ontario which would produce not only synthetic rubber but several of the chemical components necessary for its manufacture as well. The plant was rushed to completion under the stress of wartime conditions and was brought into production in 1944, in about one half the time construction would have taken in a time of peace. Built at a cost of \$48.5 million it was a fully integrated plant "...the only plant turning out not only the two principal types of man-made rubber, but also the principal components..."¹

Polymer was always a favourite child of the Rt. Hon. C.D. Howe who took intense pride in its achievements. "I believe

1. J. de M. Kennedy, History of the Department of Munitions and Supply: (Ottawa, 1950) P. 394.

it has been perhaps the most interesting project of the war and one which will make a contribution to Canada's future as great as any we have undertaken."¹ The difficulties so successfully overcome in its early years plus Polymer's later commercial successes in the post-war period contributed to the strong feeling of pride which he had for the Company.

"I have never undertaken a war project which has caused me as much worry and concern as did that of synthetic rubber. At the time we undertook the project no synthetic rubber had been made on the continent outside of laboratories. We were very much in the dark as to costs and we were not at all sure that sufficient engineering data was available to allow us to work out the process...it was...a race against time with the possibility of disaster if the project did not turn out well. I believe that not only will the plant continue in the future to make rubber but it will be the centre of a great industry and the source of a great variety of other products."²

The majority of Crown corporations formed for war purposes were quickly wound up after the war ended. Polymer Corporation however, remained in business as a Crown corporation and gradually expanded its activities and operations to the point where it is now a major international business organization. Research was substantially increased and for many years there seemed to be an insatiable demand for its products. Even friends of private enterprise have commented favourably on the achievements of the Corporation. "The Company has chalked up a greater measure of all-round success since the end of World War II than any other free world firm. In all but one of the last twelve years Polymer has been recording consecutive annual sales increases."³

1. Canada, Parliament, House of Commons, Official Report of Debates, March 23, 1944, P. 1775.

2. Ibid, P. 1775.

3. "Exciting Developments by Canada's Polymer", Financial Post, June 15, 1962, P. 31.

In 1945 sales volume for the Company was \$29.5 million and in 1965 it had grown to \$117.5 million. In 1965 the Company paid to the Canadian government income taxes of over \$8.8 million as well as a dividend of \$4.5 million. Since the Company began to pay income taxes and dividends the Canadian government has received a total of over \$147 million while in the same period the Company has managed to build up its assets to over \$163 million before depreciation, over \$60 million after depreciation, without using any further government money,¹ All of Polymer's post-war expansion has been financed out of its own earnings, it has received no financial help from the government. In 1961 the President of the Corporation advised the Public Accounts Committee of the House of Commons that at that time Polymer produced 10% of the world's synthetic rubber. 70% of the Corporation's products are exported and these bring in over \$50 million in foreign exchange each year. Because of its integrated operation and large capacity Polymer's products are sold at a price far below U.S. prices for the same product.

Purposes

Obviously the reason originally justifying the government ownership of Polymer has long since disappeared. According to its President, the Corporation is now run according to three fundamental precepts:

- (1) To maintain a strong organization of highly trained and skilled people with sufficient facilities to produce products capable of being marketed at a profit.

1. Polymer Corporation, Annual Reports, 1945-1965.

- (2) To operate in accordance with sound commercial practices, measuring performance by the high standards normal to business and industry in Canada.
- (3) To discharge efficiently its responsibilities towards customers, employees, shareholders and maintain a proper balance among them.¹

The question as to why the government has retained ownership in the post-war period has never been satisfactorily answered by government spokesmen. Mr. Howe was not consistent in his views as to the Company's future once the war-time emergency had passed. He once indicated that the original \$48.5 million would be the only amount invested by the government "... when this programme is finished the government's expansion in that direction will be finished also. If any private industry cares to carry on then we shall have no objections."² Later, when asked if the government intended to retain ownership of Polymer, Howe replied, "Yes, the government does."³ Still later he said: "We would be glad to sell the Polymer Corporation to private industry if private industry would buy it."⁴ It was thought that when the Progressive Conservatives came into power in 1957 that the Company would be sold but this was not done. Mr. O'Hurley, the Minister responsible for the Corporation said in the House of Commons: "... Polymer is a very successful Crown company... I have no views as far as the future of Polymer is concerned. The Company has been very successful, it is under very good management... But the government will look into the future development and the capital expenditures and any other questions that might pertain to it."⁵

1. Canada, Parliament, House of Commons, Standing Comm: on Public Accounts, Minutes of Proceeding and Evidence, May 9, 1961, P. 332.

2. Canada, Parliament, House of Commons, Official Report of Debates June 16, 1943, P. 3702

3. Ibid, Nov. 20, 1945, P. 2333

4. Ibid, May 14, 1945, P. 1517.

5. Ibid, July 28, 1960, P. 7123.

In fact, the government at that time set up a cabinet committee to consider the future of Polymer. According to one report the purpose of the committee's investigation was "...to determine whether public ownership is an insuperable barrier to the development of the all important export trade. If the cabinet committee concludes that these sales cannot be maintained and expanded under government ownership Conservative ministers will be ready to sell the Corporation to private owners."¹ The committee decided against selling the Company apparently, although several offers were made to purchase, including one by Polymer's former President, Mr. J.D. Barrington, acting on behalf of Macintyre Porcupine Mines Limited.

Several reasons have been advanced as to why Polymer has not been sold. One reason is that the government is so satisfied with its investment and with the operation and income derived from the Corporation that it really sees no need for selling it. The second advanced is that it is feared sale to private enterprise would mean that the Company would lose its distinctive Canadian character. Even though it is believed that some offers to purchase have been made by Canadian investors, it is feared that there would always be a possibility that the Company would eventually pass into the hands of foreign interests, a potentially explosive political question and one affecting Canadian pride. It has also been suggested that the Canadian government has been using Polymer Corporation as an example for Canadian business of a Canadian enterprise which has been able to compete successfully

1. "Crown Ownership Cripples?" Financial Post, June 11, 1960.

in world markets. Whatever the reason for retaining the Corporation, there is little ideological basis for doing so, the reasons are always very practical. There seems to be little difference between the attitude of either major party, when the committee of the Cabinet mentioned above was investigating the Company and the possibility arose that it might be sold, the Liberal spokesman merely expressed the hope that if the Company was sold it would be "to interests whereby the earnings of the Company will be retained in Canada for the development of Canada."¹ If however, the Company was not in a monopoly situation in Canada there is a possibility that under either major party it would be sold for ideological reasons. In the United States, the several synthetic rubber plants owned by the government were sold to private industry immediately after the war and the industry there is highly competitive. --

The C.C.F.-N.D.P. group are firmly opposed to the sale of the Corporation, maintaining that it is a prime example of successful socialism. This party has however taken exception to the fact that the government appointed Board of Directors is almost exclusively made up of business men, and, possibly as a result of the criticism raised by them, the Board of Directors has had a labour union official among its membership in recent years.

The point raised by the C.C.F.-N.D.P. group is an interesting one with regard to Crown corporations. What is to be the

1. Canada, Parliament, House of Commons, Official Report of Debates, July 28, 1960, P. 7123.

primary function of a Board of Directors? Is it to assist in managing the Company and to provide expert advice or is it there primarily to protect the interests of the shareholders? If the Board is set up for the first reason then one wonders what possible special value there would be in having a labour representative on the Board. The workers' interests are protected through their unions and it is dubious if there is a labour viewpoint of any particular value on the question of how to produce and sell synthetic rubber. If however, the Board is there simply to protect the shareholders interest then the question is raised as to where does Parliament fit into the scheme of things. Has it delegated its responsibilities completely to the Board and has it the right to do so? If the Board is to represent special interests should not the farmers, the educational institutions, etc, all be represented as well. Surely the function of the Board is to assist in managing and to determine policy on behalf of the shareholders. If this is the case then the best qualified men should be asked to sit on the Board on the basis of their ability and knowledge, not as representatives of certain interests. The situation is different in the case of some other Crown corporations such as the Canadian Broadcasting Corporation, which has an effect on cultural and social institutions and where special viewpoints may be useful.

Control

The use of a Crown corporation as the vehicle for providing Canada with its own source of rubber was resisted originally by both the Progressive-Conservatives and the C.C.F. The Progressive-

Conservatives opposed it because of the difficulty of Parliament controlling the Company and because, according to Mr. Diefenbaker "... It is actually the first move along the road to socialization."¹ The C.C.F. opposed the use of a Crown corporation because it was feared that the government would sell it off to private enterprise after the war without consulting Parliament and the profits from the venture would not accrue to the public.

Mr. Howe however insisted on the use of a Crown corporation, and at the same time assured the House of Commons that it would be controlled by the Canadian government. "... There are no private strings on the Polymer plant at Sarnia which is wholly owned by the government. It is a government owned corporation responsible to the government."² He felt strongly that a massive undertaking of this kind required a corporate form in order to attract competent men to run it and also so that the government (and Parliament) would have an appropriate measuring rod of its own efficiency. "No one would suggest that Polymer Corporation... would be operated by a man with a civil service salary."³ "The Company maintains its records in the same way as well conducted commercial companies... it is in fact a commercial plant operating in a commercial way."⁴ Mr. Howe maintained that by using a Crown corporation Parliament had more control over it because it would report to Parliament in a more orderly, meaningful way than the average government department.

In 1957 Polymer was sued by the Dow Chemical Co., of the

1. Ibid, March 21, 1944, P. 1715.

2. Ibid, June 16, 1943, P. 3702

3. Ibid, June 4, 1946, P. 2176.

4. Ibid, March 31, 1952, P. 953.

United States and by its Canadian subsidiary, charging that Polymer was infringing on patents owned ~~by Dow~~. It was claimed that technical information was provided by Dow to help Canada's war effort at a time of great national emergency on the good faith of Polymer and on the understanding that this assistance in a time of national emergency would not be used later to give commercial advantages to a competitor. This case highlights some of the advantages and disadvantages of Crown corporations. An advantage arose in that no reflections were cast upon the Canadian government per se but rather upon the management of Polymer. At the same time there is a disadvantage apparent in that it is possible for a Crown corporation to get involved in extra-legal activities without any effective check upon them by the government or Parliament. Thus in effect a Crown corporation which determines policy on its own has within itself the possibilities of actually following a policy contrary to the public interest. This problem is intensified when, in a case such as that of Polymer, the Company sets up foreign subsidiaries on its own initiative.

It was hoped that the passing of the Financial Administration Act of 1951 would bring about a substantial measure of Parliamentary control over Crown corporations such as Polymer. This Act defines Polymer Corporation as a "Proprietary Crown Corporation" which is one that is (1) responsible for the management of lending or financial operations or for the production of or dealing in goods and the supplying of services to the public and (2) is ordinarily required to conduct its opera-

tions without appropriations!"¹

As a Proprietary Corporation Polymer is not required to receive government approval of its operating budget. It must however, receive approval of its capital budget from the Governor in Council, who approves it on the joint recommendation of the appropriate Minister and the Minister of Finance. The Corporation must present its annual report within three months after the end of the financial year (which is the calendar year) and this must also be tabled in the House.

In fact the Act has not helped Parliament to retain any substantial control over the Polymer Corporation. Its freedom from government control and direction is frequently referred to by its critics and its admirers. "Much of Polymer's success has been attributed to the fact that the government has kept its fingers pretty well out of Polymer's affairs."² "In the case of Polymer...consultation-(between government and management) is said to be rare."³ "...an important contribution to Polymer's success has been the freedom from what I might call 'political pressure'."⁴ To Mr. Howe, freedom from government control was always of great importance with regard to Crown corporations, and, knowing his attitude to Parliament in general, freedom from detailed Parliamentary scrutiny would be even more important. He appeared to be an advocate of Friedrich's theory of responsibility.

1. Statutes of Canada, 1951, (Second Session) 15-16, George VI, Chapter 12, Part VIII.

2. "Exciting Developments by Canada's Polymer", Financial Post, June 15, 1963, P. 71

3. Musolf, Public Ownership and Accountability, P. 62.

4. Canada, Parliament, House of Commons, Official Report of Debates, May 10, 1961, P. 327.

5. See P. 22 above.

which permitted administrators of government bodies considerable latitude in determining policy. "Many policies are not ordered with a stroke of the legislative or dictatorial pen but evolve slowly over long periods of time and administrative officials participate continuously and significantly in this process of evolving policy."¹ Howe had unbounded faith in both the ability and the integrity of the men he selected to run the Crown corporations. "If this company tends to operate as a public trust, I think we are well advised to let businessmen run it..."² "To me one of the discouraging factors of public life is the objection that certain members have to using the experience of men who have gained that experience in the hard way and have emerged as successful men of business."³ In this case, responsibility is sacrificed to efficiency and while in theory the basic principle of responsibility remains unaltered, in practice it is drastically changed, indeed, it is negated.

There is no question but that great efforts are made to keep the Cabinet informed of Polymer's activities. This was emphasized by Polymer's officials before the Public Accounts Committee in 1961 and verified by the testimony of the Assistant Deputy Minister of Defence Production, who was asked if areas of policy which are controlled by the Company were "subject in any way to the scrutiny or appraisal and approval of the Minister and his Deputy Minister?"⁴ "We receive copies of the minutes of all

1. C.J. Friederich, "Public Policy and the Nature of Administrative Responsibility", in C.J. Friederich and E.S. Mason ed., Public Policy, (Cambridge, 1940) P. 7.

2. Canada, Parliament, House of Commons, Official Report of Debates, June 16, 1943, P. 3717.

3. Ibid, P. 3712.

4. Canada, Parliament, House of Commons, Standing Committee on Public Accounts, Minutes, May 10, 1961, P. 356.

board meetings...and if I see anything I feel ought to be reported to the Minister or should be referred back to the Company we do so. But I think that before/^{the}Company takes action it usually seems that the ministers are favourable towards it."¹ This type of control however, is not adequate for either policy or finance insofar as responsible government is concerned. "Parliamentary control of finance assumes a close liaison between the legislative and executive branches of government."² In the case of Polymer this liaison is very weak and the average member of Parliament knows little about the Company's operations. While it is true that the Company's capital budget must be tabled each year, this does not make possible any meaningful discussion to take place regarding the Company's activities since it has been able to finance all its capital expenditures out of its own earnings, rather than asking Parliament for money. Even when it was necessary to borrow money to finance Polymer's French subsidiary, this money was borrowed in France by the subsidiary without Parliamentary knowledge or approval. If Polymer had an annual deficit which had to be covered by a Parliamentary appropriation or if Parliament was required to vote funds to capital purposes then there would be an opportunity for discussion in Parliament but this does not happen. "It is true that all corporations are required to report to Parliament through the responsible minister. But rarely does the legislature discuss the reports in 'shareholders meetings'".³

There is some evidence to suggest that even the Cabinet is not informed of certain events until well after the fact. During

1. Ibid, P. 356.

2. Norman Ward, The Public Purse, (Toronto, 1962) P. 6.

3. J. E. Hodgetts, The Control of Public Enterprise in Canada, Proceedings of International Political Science Association (Geneva, 1958) P. 12.

the 1961 meetings of the Public Accounts Committee it was revealed that it was the Board of Directors of Polymer, on their own initiative, that had rejected the offers to purchase the Company. The Cabinet was presumably made aware of the offers and their rejection but it was never suggested that any governmental views were officially presented to the Board. Another case where it can be assumed the Cabinet was unaware of the Company's activities took place when Mr. Diefenbaker was castigating South Africa for her racist policies while at the same time Polymer was setting up a South African subsidiary under the laws of that country. In both of these instances policies were being determined and major decisions being made without reference to any body above the Board and the significance of such freedom on terms of Parliamentary control is of great importance. If no one in the government knew that the Corporation was going to set up a subsidiary in South Africa, is it really fair to the Minister to hold him responsible for such a decision, and if he cannot be held responsible, to whom do the shareholders, the citizens of Canada turn for an accounting and explanation?

One of the reasons advanced for the intervention of the government into business is that the public interest is promoted in cases where private enterprise is unlikely to do so or in a manner uncongenial to private enterprise. There is strong evidence to suggest that the government has never attempted to use Polymer in this way. For example, in spite of the fact that Polymer consumes a great deal of coal (500,000 tons annually) the government has never insisted that it use Canadian coal and consequently the less expensive American coal is used exclusively. One member of Parlia-

ment suggested to the President of Polymer that "perhaps national considerations should enter your purchase policy as well as straight economic ones. In other words you should be prepared to pay a premium for Canadian goods in your operation, a reasonable premium."¹ The President replied: "We have conscientiously tried to operate on straight economic principles....I can only suggest that it (i.e. non economic considerations for Canadian material) cannot help but cause a deterioration in our competitive position."² Another suggestion that the Company build its plants in various parts of Canada rather than exclusively in Sarnia or abroad was also rejected on the grounds that such a procedure would not be economical.

Crown Corporations and Foreign Subsidiaries

For many years it was believed that it would be impossible for a Crown corporation to establish subsidiaries abroad. It was felt that this would bring the Canadian government into a situation where the possibility of later embarrassment would be quite acute. It was contended that no foreign government would permit a company owned by the Canadian government the right to compete either with privately owned or government owned corporations. The necessity of constructing a large plant by Polymer in Europe would place "the government in an untenable position"³ "...and if this became essential then the government

1. Canada, Parliament House of Commons, Standing Committee on Public Accounts, Minutes, May 10, 1961, P. 351.

2. Ibid, P. 352.

3. "Why They Say Ottawa Should Sell Polymer", Financial Post, June 11, 1960, P. 3.

would be forced to sell the Corporation. Nevertheless the Corporation has proceeded to establish manufacturing subsidiaries in France, Belgium and South Africa, as well as a sales subsidiary in Switzerland. In addition, Polymer holds a 40% interest in a Mexican Company, the other 60% being owned by agencies of the Mexican government. The French subsidiary is 95% owned by Polymer and 5% owned by a French bank. At no time was Parliament consulted as to whether this was the correct policy to follow.

The difficulties and complexities inherent in government ownership of plants operating in foreign countries are substantial. It has been argued that an autonomous Crown corporation is the best and indeed the only method for making this possible in that, in the event of difficulties and disagreements, government to government confrontations are avoided and international goodwill preserved. If the Crown corporation is truly responsible to Parliament however and difficulties arise, they must involve the Canadian government indirectly, if not directly so that the validity of this argument is dubious. The fact is that the foreign subsidiaries were set up with but one objective in mind, that of enhancing Polymer's competitive position and increasing its profits. The question arises then as to why the Canadian people should be involved in such a situation. There is no question as to protecting the public interest by assuring a supply of synthetic rubber for this is already available through the facilities of the Sarnia plant, which was in fact operating at a profit before the foreign subsidiaries were

established. These subsidiaries were set up to make a profit, but it could be that the motive in this case is contrary to the public interest. It is difficult to see how Parliament as a whole can assume any responsibility for such acts when it is not consulted beforehand or indeed if Parliament is not officially aware of some decisions until after they have been executed. The financial returns of these subsidiaries are consolidated with those of the parent Company in the report made to Parliament and as a result no one outside Polymer, with the exception of the Minister and his officials and the auditor general, can tell if these were wise decisions or not, from a financial and sales point of view.

Parliamentary Control

In spite of the fact that Parliament knows very little about Polymer's activities, there has been little controversy over its operations. This is likely because of the fact that the Corporation consistently shows a profit. The majority of questions asked in the House of Commons have had to do with labour conditions, payments in lieu of taxes to the City of Sarnia, etc., rather than questions of a constitutional nature. There have been complaints about a lack of knowledge on the part of Parliament and members of the government. A member of the C.C.F. once inquired if Mr. St. Laurent and Mr. Howe were aware that the then president of Polymer was also on the Boards of several private companies, some of which did business with Polymer and both replied in the negative.¹ This caused a storm

1. Canada, Parliament, House of Commons, Official Report of Debates,
April 9, 1957, P. 3297.

of criticism in the House. "What worries me as a businessman", said one Member "Is when I look at the figures is how I can arrive at some intelligent answer without having a great deal more information."¹ During the 1961 hearings of the Public Accounts Committee Mr. Drysdale, a Progressive-Conservative member remarked that "...if we are going to examine the (crown) companies adequately we have to know why they are making some of these decisions."² A Liberal, the Hon. Paul Hellyer said "It must be remembered that this is not a private company, this is a public company. The public put up the money to put it into operation and keep it in operation and they are entitled to know as much as is reasonably possible about its affairs."³

The inquiry conducted by the Public Accounts Committee in 1961 was the only time that Parliament had an opportunity to examine Polymer's activities and to question its officers since the end of World War II. If such inquiries were conducted ~~annually~~, then Parliament would be fairly well informed of the Company's activities and would be able to make reasonably sure that its will was being followed. During the 1961 proceedings, for example, it was found that Polymer, in compliance with French law, had appointed a French auditor for its new French subsidiary. By law, the Auditor General of Canada is the auditor of Polymer and the situation had been created where, once the French subsidiary became operational, the Auditor General would either have

1. Ibid, May 17, 1946 P. 1918.

2. Canada, Parliament, House of Commons Standing Committee on Public Accounts, Minutes, 8.399-400.

3. Ibid, p. 400.

have to certify the correctness of the accounts of the subsidiary without ever having seen them (which would be contrary to professional ethics) or refuse to certify the statements, thus depriving Parliament of a completely audited consolidated annual report. The Committee insisted that the Auditor General be appointed co-auditor of the French subsidiary and this was done immediately.

Even during the committee meetings however some members were not satisfied that sufficient information was being made available to them. The committee could not obtain voluntarily from the officials of the Corporation details of any offers to purchase the corporation and it was finally decided that the terms of reference of the Committee were not broad enough to force the information from them. It can be seen however here and in other instances that it is too frequently officials of the Company and not duly elected representatives of the people who decide what is confidential and what can safely be made public.

"In the last analysis, since Parliament creates the corporation it might be assumed that the ultimate allegiance of the corporation is to that body."¹ Too often however officials, including those of Polymer corporation, have taken the attitude that assertion of the shareholders' rights by Parliament is

1. J. E. Hodgetts, "The Control of Public Enterprise in Canada", P.13.

harmful intervention in the affairs of the Corporation. Rarely, if ever, does Parliament get the opportunity to discuss the Company's affairs in detail, yet in the last analysis it is responsible for everything the Company does.

Reform

To correct the situation it is suggested that the following steps be taken:

(1) The Minister under whose jurisdiction the Company falls or his representative should be ex-officio a member of the Board of Directors. This assures complete government knowledge of all the policy decisions of the Company, in theory at least. This does not assure actual knowledge, as will be shown later in the case of the Bank of Canada, but it does definitely establish responsibility. This principle of having a minister or a delegate on the Board has been criticized on the grounds that in the event the minister was outvoted on an issue he could exercise a veto. It is also argued that a strong Minister, such as Mr. Howe, would dominate the Board or inhibit discussion, but this need not be so. It is also argued that a minister's effectiveness as a Director would be adversely affected by the fact that his first loyalty would be to the Cabinet and not to the Corporation. None of these arguments are very impressive. Surely the minister who is responsible should have a veto, (assuming that the veto represents the Cabinet's opinion, not merely his own). Having one's first loyalty to the Cabinet would not necessarily be harmful to the public interest and would make the link from the Corporation to the Cabinet to Parliament more credible.

(2) The Company should be required to pay over to the Receiver General all of its income after taxes. Thus it would have to apply to Parliament for assistance in making capital expenditures and Parliament would thus have an opportunity to inform itself of the Company's activities.

(3) A special committee of Parliament should be set up to examine the affairs of the Company each year. The terms of reference for it should be broad enough for members to have access to all information. When members of the Committee agree it would be in the public interest it would be possible to have some meetings in camera.

Canada has been very fortunate with Polymer Corporation. It has been well run by conscientious and capable men, but there is little point in waiting until the day comes when management becomes inefficient or indifferent to the public interest before the rights of Parliament's authority over all aspects of its policies and operations are restored.

As to the question of whether or not the Corporation should be owned by the Crown, it would seem that ownership now is mainly due to a measure of national pride. It would seem unfortunate that Polymer be used as the instrument of the policy of another country, but if this possibility could be avoided and a good price realized from its sale no harm would be done to the Canadian economy by taking it away from government control and selling it to private industry.

CHAPTER IV

The Canadian Broadcasting Corporation

Introduction

The story of the Canadian Broadcasting Corporation¹ is the story of a constant battle: a battle against economic, geographic and racial odds, against the constant north-south lines of contact between Canada and the United States, against private broadcasting and members of Parliament, a battle against the typically Canadian problem of high costs, vast distances and a small population. The C.B.C. was correctly characterized by its president, Mr. Ouimet as "The most damned, slurred, supported, inquired into, ignored, blamed, upheld, detested and praised organization that I know."²

History

In order to put the problem of the C.B.C. in perspective a brief outline of its history is essential. The first landmark in the development of a national broadcasting system in Canada was a Royal Commission, set up in 1928 to examine the broadcasting system in Canada and to make pertinent recommendations regarding its future. This Royal Commission, called the Aird commission after its chairman, Sir John Aird, recommended that "...a national company which will own and operate all radio broadcasting stations located in the Dominion of Canada...be set up in order to ensure an adequate Canadian national broad-

1. Hereinafter referred to as the C.B.C.

2. Time, Vol. 88, #3, July 15, 1966, P. 12.

casting system."¹

On May 26, 1932 Parliament passed the Canadian Radio Broadcasting Act (1932) which provided for the appointment of the Canadian Radio Broadcasting Commission² to carry on the function of broadcasting in Canada. When he introduced the bill in Parliament, Prime Minister Bennett pointed out that the C.R.B.C. was to have two main purposes: (1) To serve as an agency of national unity (2) to serve all Canadians equally well. "...Under this system there is no need for discrimination, all may be served alike."³ To fulfil these purposes the C.R.B.C. was assigned two specific functions, to regulate and control all broadcasting in Canada and to carry on national broadcasting under its own auspices. Thus the government deviated from the original recommendation that there be a government monopoly of broadcasting and in doing so laid the foundations for many problems in the future. The C.R.B.C. was a compromise and an analogy was drawn between it and the railway system in Canada with a privately owned and a publicly owned system existing side by side. The analogy however was not quite correct as the C.R.B.C. had regulatory powers over its competitor, a power the C.N.R. lacked. There was no doubt at the time but that the C.R.B.C. was to have supreme authority in the broadcasting industry.

The C.R.B.C. functioned much like a department of government and enjoyed very little independence. It was dependent

1. Canada, Report of Royal Commission on Broadcasting, (Ottawa, 1929) P. 9.

2. Hereinafter referred to as the C.R.B.C.

3. Canada, Parliament, House of Commons, Official Report of Debates, May 18, 1932, P. 3035.

for its finances on a Parliamentary appropriation and its personnel were subject to the Civil Service Act, although in 1933 legislation was enacted removing all but clerks and minor employees from the jurisdiction of the Act. The C.R.B.C. was never very popular, a foretaste of things to come was a remark made about it in the House of Commons in 1933: "I do not know of any organization in this country that is as unpopular as this radio commission."¹

In 1936, following the recommendations of a special Parliamentary committee, the C.R.B.C. was abolished and a new act was passed setting up the C.B.C. which was designed "...to operate in the public interest, responsible to Parliament in terms of carrying out its trust effectively, but free from interference in its general operation."² Direction of policy was entrusted to a Board of Governors, appointed by the government and the responsibility for day to day management and operation of the Corporation was assigned to the General Manager and the assistant General Manager, appointed by the Governor in Council on the recommendation of the Board of Governors. The Corporation was permitted to borrow from the government up to \$500,000 for capital expenditures and also received the fees derived from the sale of radio receiving set licences (\$2.50 per set) which was expected to cover the Corporation's operating expenses. The Corporation was also expected to seek an unspecified amount of advertising revenue but it was apparently not expected that

1. Ibid, May 11, 1933, P. 4859.

2. Canadian Broadcasting Service, Broadcasting in Canada, (Ottawa 1962), P. 14.

the Corporation was to concentrate on becoming a strictly commercial operation. None of the employees of the C.B.C. were to be under the Civil Service Act. In addition to the responsibility of offering a broadcasting service itself, the C.B.C. was given substantial regulatory authority over private broadcasting stations.

The purposes of the C.B.C. remained substantially unaltered over the years, as evidenced by the statement of the Chairman of the Corporation before the Massey Commission in 1951. He stated at that time that the general aims of the C.B.C. were "...to provide the best possible national service; to develop Canadian programs and to bring in suitable programs from other countries; to make the service available to all Canadians that can possibly be reached, and to bring to all Canadians as nearly as possible the same, or the same quality and amount of service..."¹

The Massey Commission subsequently recommended:

"that the control of the national broadcasting system continue to be vested in a single body responsible to Parliament, that the Canadian Broadcasting Corporation as now constituted be that authority and continue to provide directly by its operations and indirectly by its control of the operations of others a national radio broadcasting service free from partisan control."²

The Massey Commission also recommended that the C.B.C. be provided with a statutory grant of \$6.25 million per annum for five years to be used in sustaining the sound broadcasting system. The government accepted the suggestion and at the same time repealed the receiving set licence fee and levied a 15% excise tax on radio and television sets and parts, the proceeds being turned over to the C.B.C.

1. Ibid, P.21.

2. Canada, Report of Royal Commission on National Development in the Arts, Letters and Sciences, (Ottawa, 1951) P.287

In 1952 the C.B.C. inaugurated a regular Canadian T.V. service and entered a new era of activity and became involved in a new set of problems. The addition of television to the C.B.C.'s product was responsible for an enormous increase in expenses and in the size of the Corporation and a corresponding increase in problems arising from relations with Parliament and with personnel.

In August 1958 after investigation and recommendations by another Royal Commission on Broadcasting (Fowler) a new Broadcasting Act was passed. The main feature of the new legislation was the creation of a Board of Broadcast Governors to regulate all broadcasting in Canada, both public and private. Responsibility for operating the national broadcasting service was vested in a newly created C.B.C. Board of Directors, which replaced the old Board of Governors and was made up of a permanent president and vice president and nine part time governors, all appointed by the Governor in Council and all, at that time, true blue Conservatives. Thus it is now that the regulatory and operative functions of the former B.B.C. Board of Governors are split between the two Boards. The new Broadcasting Act provided that the operating and capital funds required from public revenues by the C.B.C. should be provided for by an annual vote in Parliament. The new Act stated that the C.B.C. is established "for the purpose of operating a national broadcasting service...to maintain and operate broadcasting stations and networks of broadcasting stations: establish, subject to the approval of the Governor in Council such broadcasting stations

as the Corporation considers necessary and desirable, make agreements with broadcasting stations for the broadcasting of network programs.¹

As a result of a White Paper on broadcasting published by the Federal government on July 4, 1966, it is expected that legislation will shortly be brought in making additional changes with regard to the C.B.C. The 1958 legislation was not clear as to the actual relationship between the C.B.C. and the B.B.G. This lack of clarity brought about a dramatic crisis in 1962 involving a dispute over the Grey Cup telecast. At that time the B.B.G. ordered the C.B.C. to accept the private network's terms, the C.B.C. refused and thus challenged the B.B.G.'s authority and the matter was never clearly settled.

Under the new legislation the C.B.C. will be "subject to the regulatory powers of the Board of Broadcast Governors in all matters affecting general broadcasting policy in Canada."² (The regulatory powers of the B.B.G. will be strengthened and increased). At the present time the President of the C.B.C. acts as Chairman of the Board of Directors, thus in effect assuming responsibility for both policy and administrative matters. Under the new legislation the Board will appoint, subject to the approval of the Governor in Council the chief executive officer who will be responsible to the Board for all the operations of the Corporation. The President and Chairman of the C.B.C. will be appointed by the Governor in Council as well

1. Statutes of Canada, 1958, 7 Elizabeth II, Chap. 22, Part II, 29(1).
 2. "White Paper's Question: How Can Broadcasting Control Strengthen Canada?", Globe & Mail, July 5, 1966, P. 8. (Note: Since it was not possible to obtain a copy of the White Paper, all quotations are taken from the Globe & Mail which printed the entire text).

as the other Directors. The C.B.C. will be financed by means of a statutory five year grant based on a formula, and will also receive borrowing authority.

Ideology

There is an ideological reason for the creation and existence of the C.B.C. and indeed for the government taking a definite and prime role in the broadcasting industry. The reason is not a straight question of public versus private ownership in terms of capitalism versus socialism but rather there is widespread belief that national purposes would not be served well by privately owned broadcasting. Every major political party, every Royal Commission and every parliamentary committee have reaffirmed the basic ideological reason, which is based strictly on the necessity for maintaining Canadian nationalism. "In the early days of broadcasting Canada was in real danger of cultural annexation to the United States. Action taken on radio broadcasting by governments representing all parties made it possible for her to maintain her cultural identity."¹ Prime Minister Bennett remarked: "...this country must be assured of Canadian control of broadcasting from Canadian sources, free from foreign influence or interference...without such control it (broadcasting) can never be the agency by which national consciousness may be featured and sustained and national unity still further strengthened."² The recently released White Paper

1. Canada, Report of the Royal Commission on the National Development in the Arts, Letters and Sciences. (Ottawa, 1951) P. 280.

2. Canada, Parliament, House of Commons, Official Report of Debates, May 18, 1932, P. 3035.

began with these words: "The determination to develop and maintain a national system of radio and television broadcasting in Canada is an essential part of the continuing resolve for Canadian identity and Canadian unity."¹

Much of the opposition to the government's taking an active role in broadcasting has originated among the private broadcasters. They originally protested against the dual role of the C.B.C. which was not only a competitor but also acted as the regulatory and licensing body for all broadcasting. "In practice, the corporation was a pretty indulgent papa...re-fraining from rules or regulations that would seriously interfere with any private operator in pursuit of happiness or his profits."² Now the objection is to the authority of the B.B.C. which can afford to be less circumspect than the C.B.C. and has imposed some fairly stringent rules on the private broadcasters, especially those dealing with the matter of Canadian content. The private broadcasters find that such rules are quite costly and difficult and they would prefer not to be regulated to this extent. This would confirm the suspicion that private broadcasting, in search of profits, would not act as an instrument of national unity and justifies the government's taking a leading role in the field. It is also argued that the airways are public property and that as a result government intervention and control is necessary to protect the public interest.

1. White Paper, Globe and Mail, July 5, 1966. P. 9.

2. Dennis Braithwaite, "Old Vendettas", Globe and Mail, July 13, 1966, P. 25.

Evolution

The C.B.C. then was originally set up and continues to exist to promote Canadian nationalism. In the beginning, however, its role was of a negative nature; it was to protect Canadians against influences considered detrimental to a sense of Canadian identity. The early supporters of both the C.R.B.C. and the C.B.C. envisaged the existence of a sole broadcasting agency in Canada, with private stations serving local needs only and occupying a relatively minor role in the overall broadcasting field. The system which has actually developed however, "has significantly departed from the original carefully studied concept, accepted in 1932 by a unanimous House of Commons."¹ The advent of television has likely been responsible to a large extent for this change so that now in Canada we have a unique combination of public and private enterprise operating side by side. This changed concept of broadcasting received the official stamp of government approval in 1949 when the government announced its plans with regard to television broadcasting: "The development of radio broadcasting in Canada through a combination of public and private enterprise in a manner which a vast majority of disinterested Canadians approve and support has shown the feasibility of this method of procedure... This procedure will be adopted with suitable adjustments for the development of television."²

1. Graham Spry, "The Costs of Canadian Broadcasting", Queens Quarterly, LXVII, (Winter, 1961) P. 512.

2. Canada, Parliament, House of Commons, Official Report of Debates, March 28, 1949, P. 2051.

The C.B.C. is also expected to play an increasingly aggressive role in promoting Canadian culture. A minister formerly responsible for the Corporation said a short time ago

"In cultural matters I think we have adhered much too closely to the American tradition of non-intervention by government...I am convinced that our cultural life needs both protection against impoverishment and stimulus to improvement and that a deliberate effort to these ends, in which government must have a large role, is not only justified but is most urgently required."¹

In attempting to fulfil such a role and play a leading part in establishing and maintaining a distinctive Canadian culture the C.B.C. inevitably invites a great deal of criticism. The C.B.C. must not only reflect Canadian culture, it must develop it and to do so requires initiative, daring and experimentation.

"One of the essential tasks of a broadcasting system is to stir up the minds and emotions of the people and occasionally to make large numbers of them uncomfortable."² In filling this role the C.B.C. often brings down upon itself a great deal of criticism that is based more on emotion and ignorance than on knowledge. As the C.B.C. tries harder to fill its role in this respect and as the possibility of American influence in broadcasting increases and expenses rise, more and more criticism is bound to result.

Financing

The concept of financing the C.B.C. has also changed radically over the years. The 1932 Parliamentary Committee on

1. Hon. Maurice Lamontagne, Speech to Canadian Association of Broadcasters, Quebec City, April 6, 1966.

2. Canada, Report of Special Committee on Broadcasting, (Ottawa, 1965)
P. 4.

Broadcasting endorsed the idea of a nationally owned system of radio broadcasting but also stated that it should "...be financed from the revenues accruing through the business of broadcasting without expense to the public treasury."¹ In 1944 however, the Parliamentary Committee recommended that the capital expenditures of the C.B.C. be met out of moneys granted by Parliament or by borrowing and this suggestion received widespread support. "The C.B.C.'s obligation is to the public at large and it is justified in depending for maintenance and extension on the public treasury."² At the present time Parliament is called on each year to make up the Corporation's deficit, which for the fiscal year ended March 31, 1966 amounted to \$97 million.³ In spite of the fact that in the past the C.B.C. has been urged by Parliamentary committees to increase its revenue from commercial sources and the acceptance by the Corporation of this responsibility as shown by this statement: "...it is C.B.C.'s understanding that Parliament requires the national service to obtain the maximum possible commercial return consistent with the primary objectives and the dictates of good programming, good taste and overall objectives..."⁴, It would seem that the Corporation will become less interested in commercial revenue after the new legislation is passed. "...it should seek to retain but not increase its...share of the television advertising market and...of the corresponding radio market."⁵

1. Canada, Parliament, House of Commons, Official Report of Debates, May 11, 1932, P. 2819.

2. Canada, Parliament, House of Commons, Report of Special Committee on Broadcasting, 1944, P. 8.

3. Globe and Mail, July 5, 1965, P. 9.

4. Canadian Broadcasting Corporation, Annual Report, 1962, P. 17.

5. White Paper, Globe and Mail, July 5, 1965, P. 9.

The cost of the C.B.C. has been a continual source of criticism both inside and out of Parliament. While radio broadcasting was comparatively inexpensive, the chief source of funds for the C.B.C. during its early years, the radio licence fee, was an irritating tax, collected in an annoying and expensive way and a tradition for dissatisfaction with the costs of the C.B.C. was firmly established. The vast sums required for television and the abuse and criticism poured upon the Corporation and the government by the Opposition each time the sums are voted on have stimulated discontent throughout the country and have tended to overemphasize in the public's mind the financial aspect of the C.B.C.'s operations. It would appear however, that if the Corporation is to fulfil its role it will require large grants of money from the public treasury, especially if it is not aggressively ^{to} seek funds from commercial activities and still be an instrument of Canadian culture. "The C.B.C. insists that it could make plenty of money, wipe out all its deficits and operate at a handsome profit if that's what Canadians really want it to do. The trouble is, it can only make money by abandoning its main purpose in life, the provision of Canadian programmes."¹

Thus it may be seen that the C.B.C. has been set up to perform a certain function, but while its basic purposes have remained unchanged, the conditions under which it must function have altered considerably.

1. Blair Fraser, "Backstage at Ottawa", MacLean's Magazine, Vol. LXIX, No. 2 (Jan 21, 1956) p. 46.

Responsibility and Control

Even as there has been unanimity among Canadian political parties and among the Canadian people in general that the state has a definite role and responsibility in broadcasting, there has also been agreement that this role and responsibility must be filled in a manner free from partisan political control.¹ "All Canadian political parties, whether in or out of office, have accepted as a matter of faith that there must be no political interference with the broadcasting system." A problem arises however, because of the unique and costly function the C.B.C. must fulfill and politicians are faced with a dilemma consisting of the dangers of political interference with an agency of public information and communication which, under a democratic system ought to be free, and the need to retain sufficient supervision and control to ensure that public moneys are wisely spent and governmental responsibilities fulfilled.

The necessity for an organization divorced from political control is reinforced by the fact that neither members of Parliament nor Cabinet ministers are necessarily qualified to direct the activities of such an organization, even if they were able to refrain from using it for political ends. This was emphasised by the Fowler Committee which pointed out that "Parliament is an unsuitable and ineffectual instrument for the detailed supervision of artistic and cultural media."² Under normal circumstances one would expect Parliament to express the

1. Canada, Report of Special Committee on Broadcasting, (Ottawa, 1965) P. 88.

2. Ibid, P. 93

will of the state and then turn responsibility for executing this will over to the Board and management of the C.B.C. This would confirm the fact that while Parliament is capable of determining that the existence of a national broadcasting service is in the public interest, it is not capable of determining how the system ought to operate on a day to day basis. In the case of the C.B.C. however, Parliament has been inarticulate as to what the will of the state is and interpretation of what should be done has been left mainly to the C.B.C. In our system of parliamentary democracy the situation is complicated by the dominance of the Cabinet for both expression and execution of the will of the state. Regardless of the intensity of the desire of Cabinet members to refrain from direct intervention in the affairs of the C.B.C., it is a fact that the C.B.C., in whatever corporate form it may be, is the result of the partisan character of Cabinet direction and supervision. Thus while there has always been in the C.B.C. a hyper-sensitivity to charges of political influence, its management must always be aware that to a certain extent it depends to a very considerable extent on the favor of politicians in order to be able to function well. "Common sense tells us that the Corporation will get better treatment from pleased than from displeased politicians."¹ While the establishment of a Crown corporation in the case of the C.B.C. may assist a great deal in protecting the public interest from the incursions of responsible government, it is likewise inevitable that the C.B.C. will feel some political

1. Blair Fraser, "Backstage at Ottawa", MacLean's Magazine, Vol. LXXI, No. 21 (Oct. 11, 1958) P. 2.

pressure from time to time.

Interference versus Supervision

In fact, the record of successive Canadian governments has been most commendable as far as undue interference in the affairs of the C.B.C. is concerned. The vast majority of ministers who have had to answer to Parliament for the operations of the C.B.C. have been especially careful to refrain from bringing undue pressure to bear. Most of them have insisted on acting only as a conduit of information between the C.B.C. and Parliament rather than as a source of pressure or influence. As mentioned earlier, the C.R.B.C., the predecessor of the C.B.C. was operated much like a department of government but even then the government was reluctant to assume full responsibility for all its actions. "The Radio Commission is under the Minister of Marine but his responsibility will not go the length of covering all the acts of the Commission."¹ Mr. Howe, who answered to Parliament for the C.B.C. for many years said. "I might remind hon. gentlemen that the Canadian Broadcasting Corporation is an autonomous body, set up by the Parliament... every effort was made to divorce the Corporation from the government of the day."² On another occasion Mr. Howe remarked "...The minister in charge of the department is the channel of communication between Parliament and the Board of Governors and the management of the broadcasting corporation has been vested in the Board of Governors."³

1. Canada, Parliament, House of Commons, Official Report of Debates, May 11, 1933, P. 4868.

2. Ibid, Jan 20, 1939, P. 192.

3. Ibid, June 13, 1941, P. 3994.

The emphasis is continually on the fact that the C.B.C. is responsible to Parliament as a whole, not that section of it comprising the government, thus illustrating the non-partisan aspect of its operations. Dr. McCann, who reported to Parliament for the C.B.C. after Mr. Howe said: "We are voting money to a corporation which is responsible to parliament. The vote is made by parliament and the corporation is responsible to parliament and not to the government."¹ A later minister in a Conservative government emphasized that he did not interfere with the C.B.C. at all. At the time of a controversial strike of French Canadian producers he said in the House of Commons: "I have reported to Parliament that I would not interfere in any way, shape or form with the management of the corporation... If we establish a precedent now of interfering with the C.B.C. in the labour field then there is a precedent established for interfering with it in some other way."² The present minister told the House of Commons when questioned if the C.B.C. was going to extend services to a certain area: "It is not my place to tell the C.B.C. where they should extend service."³

It can be argued however, that even if cabinet ministers, etc., did attempt to influence the C.B.C. or to bring pressure to bear, the Corporation would resist. Several years ago Prime Minister St. Laurent protested, as a private citizen, against certain remarks made by a commentator and was told by the Chairman

1. Ibid, June 29, 1951, P. 4934.

2. Ibid, Feb. 6, 1959, P. 777.

3. Ibid, March 9, 1966, P. 2454.

of the Corporation that the C.B.C. was a vehicle for the free expression of opinion and the commentator continued his series of programmes.¹ This action by the Prime Minister raised a storm in the House of Commons and charges of political interference were raised but in this case interference, if there was interference, was unsuccessful. On another occasion the minister was questioned about certain controversial views being publicly expressed by a high C.B.C. official and he stated: "I questioned him as to why he had made such statements and he said it pleased him to do so."²

It would seem then that generally the method of having a Crown corporation has served to insulate the C.B.C. from undue political influence and interference and thus the public interest has been protected. Occasionally however, the C.B.C. has reacted in a manner which seems to confirm a suspicion that it would be difficult "...to keep a genuine independence of mind and spirit among men who know they must depend on the politicians favor for what they are about to do."³ Thus when the Progressive-Conservative party, which had been generally hostile to the C.B.C. when in opposition, came to power and considerable criticism was levelled in 1959 at the program, "Preview Commentary", the Corporation abruptly and clumsily cancelled the program. In this case, public and parliamentary reaction forced the C.B.C. to reinstate it within a few days.

1. Ibid, March 28, 1956, P. 2769

2. Ibid, May 7, 1943, P. 2500

3. Blair Fraser, Backstage at Ottawa, MacLean's Magazine, Vol. LXXI, No. 21, (Oct 11, 1958), P. 2.

In 1964, for reasons not specified, the C.B.C. refused to show a film on Prime Minister Pearson, presumably because it was feared that the film would offend members of the Liberal party. Nothing is to be gained by irritating political parties, especially those which form the government. "While Parliament has the power of approval, it is the party in power that controls money bills and determines the size of the annual grant to the C.B.C."¹

The perennial problem with regard to control of the C.B.C. is distinguishing between interference and proper supervision. At the time of the controversy over "Preview Commentary" it was suggested that so many of the commentators were hostile to the government that interference was justified. It was argued that even if the C.B.C. could not and should not be used by the government of the day for its own purposes, the government could not allow the C.B.C. to conduct itself in such a way as to defeat these purposes. It was argued that the least a government could expect would be objectivity on the part of the C.B.C. and it is expecting too much of members of Parliament to tolerate a constant barrage of criticism from a publicly owned body.

Parliamentary Policy

To a large extent this inability to distinguish between interference and supervision is due to the failure of successive governments and Parliaments to lay down a clear cut policy for the C.B.C. to follow. It must be admitted that the nature of

1. Albert A. Shea, Broadcasting the Canadian Way, (Montreal, 1963) P. 9.

the functions of the C.B.C. render such a task very difficult, much more difficult than for other Crown corporations. As one member of Parliament said: "...the C.B.C. is not a Crown corporation like the others, precisely because it operates in the field of minds and consciences. Each of the services it provides cannot be appraised solely by administrative and financial standards."¹ Some guidance is essential however, but various governments have refrained from providing a firm policy, maintaining that the Corporation is responsible to Parliament, not to the government, and any policy direction must come from Parliament. Since the government normally initiates legislation and policy on other matters and always controls the business of the House, its failure to take the lead in this regard with the C.B.C. has deprived the Corporation of the type of policy guidelines normally available to some other Crown corporations and to private businesses.

The C.B.C. Mandate

This lack of policy has brought about a situation where the C.B.C. itself must interpret what its responsibilities should be. "In the absence of any statutory or authoritative definition of that phrase (national broadcasting service) the Corporation has over the years made its own interpretation and then proceeded to create the sort of service which it considered appropriate."² This interpretation of what C.B.C. officials euphemistically refer to as the "C.B.C. mandate" has been the

1. Canada, Parliament, House of Commons, Official Report of Debates, July 8, 1960, P. 5966.

2. Canada, Report of the Royal Commission on Government Organization Vol. 4 (Ottawa, 1963) P. 25.

source of numerous problems from the very beginning. Too often this mandate seems to include freedom from criticism either from Parliament or from the public. In 1939 the Chairman of the Board of Governors, Leonard Brockington said before the Parliamentary Committee on Broadcasting: "We are not part of the government of Canada. We are not civil servants, nor part of the Civil Service...We are trustees for the...listeners."¹ If this statement is correct then an earlier remark by the Chairman of the C.B.C. can be more readily understood when he said that "...anyone who criticized the radio commission on the ground that it was not functioning properly was either a liar or a fool."² Other officials and employees of the C.B.C. have been even more outspoken with regard to the responsibilities of the Corporation, Patrick Watson, one of the principals in the recent C.B.C. controversy remarked: "If we do our job really well, then the Liberals will hate us as much as the Conservatives do."³ The C.B.C. Times, the official voice of the C.B.C. published a letter stating: "C.B.C. television, through its shows of the journalistic type is doing a great deal to deflate the exaggerated respect in which public figures, businessmen, politicians, scientists and experts of all kinds have been hitherto held and this is all to the good."⁴ At times it would be very easy for Members of Parliament to gain the

1. Canada, Parliament, House of Commons, Official Report of Debates, June 13, 1941, P. 3992 (Referred to by Mr. Caldwell).

2. Ibid, May 11, 1933, P. 4878 (Referred to by Mr. Brown).

3. MacLeans Magazine, Vol LXXVII, #9, May 2, 1964, P. 4.

4. C.B.C. Times, May, 1956, P. 6.

impression that a Corporation, in theory responsible to them, has deliberately set out to embarrass and ridicule them, and the frustration caused by their seeming inability to do anything to bring the Corporation to heel has increased their anger and given rise to continued criticism. While one would not advocate that Parliament or parliamentarians be considered sacrosanct, it would seem that some firm guide lines regarding this institution and other controversial bodies, originating in Parliament, would be useful and would give a clear indication to anyone in doubt as to who, in that last analysis, is responsible for the C.B.C.'s activities. This is not to suggest censorship etc., but merely to suggest that it is neither wise nor practical for the C.B.C. and especially its creative personnel, to take a stand perpetually antagonistic to Parliament.

The President of the C.B.C. was asked by a member of the 1961 Parliamentary Committee on Broadcasting what he considered the C.B.C. mandate to be. He replied that "What we call our mandate is the sum total of all the prior decisions of parliament and recommendations of parliamentary committees and of royal commissions."¹ He felt that votes of parliament for appropriations constituted an endorsement of this interpretation, but if this is so, then Parliament is being led in its views of the C.B.C. by the Corporation itself, it is not establishing on its own initiative what the C.B.C. should do. Since party discipline prevails on C.B.C. appropriation votes, there is a strong case for

1. Canada, Parliament, House of Commons, Special Committee on Broadcasting, Minutes of Proceedings and Evidence, May 30, 1961, P. 679.

arguing that approval of such a bill does not imply approval of all the C.B.C. does. If the cabinet had some discretion regarding the C.B.C.'s policies, since it recommends acceptance of the appropriation then possibly it could be argued that approval was implicit in the vote. The evidence is to the contrary however, as shown by the following exchange before the 1961 Committee. "Is it not true that the fundamental decisions insofar as carrying out your mandate is concerned are made by the executive branch of Parliament rather than by the Committee or the House as a whole?" Mr. Ouimet replied: "...there have been no occasions where our mandate or our obligations as we understand them have been materially changed by the executive government."¹

Thus it can be seen that while a Crown corporation is ideal for fulfilling functions similar to those of the C.B.C., some firm direction on policy must be given by Parliament or by the executive. If this is not done, the Crown corporation becomes a law unto itself, frustrates Parliament and completely destroys the fundamental principles of responsible government. A delicate balance of control must be achieved and with the C.B.C. this balance has been lacking. The recent Fowler committee report described the situation aptly: "The intent to delegate has been clear enough but the statutory provisions have been remarkably unclear in defining the continuing relationship between the agencies of control and Parliament."²

1. Ibid, P. 682-3

2. Canada, Report of Special Committee on Broadcasting, (Ottawa 1965), P. 88.

Parliamentary Control

While there is a lack of balance between independence and responsibility to Parliament there are several ways in which Parliament does exercise control over the C.B.C. It cannot be said of the C.B.C. as it can of Polymer Corporation that Parliament or the public is unaware of the C.B.C.'s activities. The C.B.C. has received more Parliamentary scrutiny and had more public investigation of its activities than any other Crown corporation in Canada. There have been sixteen Parliamentary committees, three Royal Commissions (Fowler, Massey and Glassco and one special committee (Fowler) which have inquired into the affairs of the C.B.C. "One wonders whether the C.B.C. could not get on with its considerable tasks more efficiently if it were not so often called to account before the committees."¹

The formal devices now available to Parliament for control are:

- (1) A minister is assigned the responsibility for reporting to the House of Commons for the C.B.C.
- (2) Annual appropriations to cover the C.B.C.'s deficit must be voted each year.
- (3) The Auditor-General² audits the books of the C.B.C. and submits a report to Parliament.
- (4) A Special House of Commons Committee on Broadcasting is frequently set up to investigate the Corporation.

Ministerial Responsibility

The role of the Minister has been outlined to some extent above. He usually acts as a conduit between Parliament and the

¹ Wm. Hull, "The Public Control of Broadcasting, Canadian and Australian Experience, Canadian Journal of Economics and Political Science, Vol XXVIII, No. 1. Feb. 1962, P. 122.

² The present Auditor General was formerly Comptroller of the C.B.C.

Corporation and takes pains not to attempt to specifically direct the Corporation. He answers questions in the House but from the beginning he has been frequently obliged to invoke the doctrine of management privilege with regard to many matters. One of the later ministers, Dr. McCann described the situation well when he told the House of Commons "...it is run entirely by a commission or a corporation which is independent of the government and my position is that I report from the corporation to parliament and to the government."¹ The minister usually passes on inquiries to the C.B.C. and replies from the Corporation to Parliament. Programming tends to be the subject matter of many questions and frequently the questions and comments made in the House regarding the C.B.C. do not need a reply. One member protested against the practice of broadcasting popular programmes on Sunday evening when people should be in church. Another asked if the minister agreed that the C.B.C. was "...dedicated not only to the spreading of pornography and perversion but also Liberalism."² Frequently the minister will pass on questions to the C.B.C. which are ignored but this in itself does not necessarily mean that the C.B.C. is in contempt of Parliament or is deliberately ignoring Parliament. This attitude may only indicate a realistic appraisal of the nature and importance of such criticism. Since these questions go unanswered (possibly because they are unanswerable) the frustration and discontent

1. Canada, Parliament, House of Commons, Official Report of Debates June 29, 1951, P. 4923.

2. Ibid, Oct 26, 1964, P. 9446.

of Parliament is increased. Frequently the minister is unable to answer questions because he is uninformed of the Corporation's policy, again increasing the sense of frustration. The Minister recently stated: "I do not normally receive copies of the minutes of the C.B.C. meetings. Only such items as require governmental or parliamentary action are normally conveyed to me through the normal channels."¹ It would seem that it is only with regard to money matters then, that the Minister is kept informed.

The minister is in a position to exercise some influence however, but it is more in the nature of exhortations and urgings than specific directions. Dr. McCann said: "I am continually admonishing the C.B.C. that they are too expensive, that they are employing too many people... that their spending program ought to be curtailed as much as possible."² Sometimes pressure is more blunt as in 1959 when the Minister in effect admitted "... that the C.B.C.'s plan to air the rebel side of the Algerian civil war and to bring an ex-Nazi paratrooper to Canada was blocked through Cabinet advice."³ In the main however, it may be assumed that the Minister has acted discreetly and cautiously in dealing with the C.B.C. and it has been relatively free of ministerial influence or pressure. As an agency of control then, the use of a minister to report for the C.B.C. has not done much to strengthen the hand of Parliament.

1. Ibid, June 30, 1966, P. 7087.

2. Ibid, Apr 17, 1956, P. 3005

3. D.M. Fisher, "Commons Comment", Canadian Forum, Vol. XXXIX, No. 463 (August 1959) P. 97-98.

Votes on Appropriations

The White Paper on Broadcasting issued by the government in July 1966 would seem to indicate that this avenue of Parliamentary control available through an annual vote on C.B.C. funds will disappear, to be replaced by a statutory five year grant based on a formula. These annual debates have served as a forum in which all members were able to ventilate their grievances against the C.B.C. and again much of what was said was ill-informed and of little value. The recent decision however, highlights one of the few clear cut differences between the Liberals and the Progressive-Conservatives with regard to broadcasting. The Progressive-Conservatives have traditionally insisted that the C.B.C. go to Parliament each year for funds rather than receive a statutory grant, while the Liberals have tended to avoid having an annual vote, likely in order to escape a great deal of criticism and debate. While it is generally agreed that the C.B.C. is responsible to Parliament as a whole, members of the Opposition have been inclined to place responsibility for the unfavorable aspects of the Corporation on the government of the day. Naturally enough, the Liberals, who have been in power most of the time since the C.B.C. was formed have tried to avoid these highly partisan debates on C.B.C. appropriations. The Progressive-Conservatives in 1953 rejected the proposal to give the C.B.C. the proceeds for the 15% excise tax on T.V. sets and parts. Mr. Fleming said that this idea:

"...has the effect of setting up continuing legislation under which revenue will be paid over out of the consolidated revenue fund by the Minister of Finance year by year, without any reference to parliament, and without need

of any further authority of Parliament. That is a fundamentally unsound procedure."¹

The bill was passed but Mr. Flemming's dire predictions were not realized for the next year the government had to request an additional \$3 million loan for the Corporation, which afforded an opportunity for another debate on all aspects of the C.B.C.

The Progressive-Conservatives have also objected to the use of a formula for the same reason, namely that this deprives Parliament of effective control. "Even if you had a formula within which (the C.B.C.) could operate I doubt that you would find that it could be preserved in our modern parliamentary practices as carried on."² It was a Progressive-Conservative government which instituted the present system requiring an annual vote and the Liberal position was indicated by Mr. Pearson at the time it was introduced:

"We fear that using this system of annual appropriations and nothing else under a government not too enthusiastic about the C.B.C...the activities and the necessary expansion of the corporation could be prejudiced and the power of the purse used annually could be used to impose views of the government."³

This method of requiring an annual appropriation has produced some curious anomalies as revealed by the testimony of the Auditor General before the Public Accounts Committee of 1964. At that time a member of the Committee asked if his understanding of the current method of financing the C.B.C. was correct.

1. Canada, Parliament, House of Commons, Official Report of Debates, Apr. 22, 1953, P. 4215.

2. Ibid, July 18, 1959, P. 6331.

3. Ibid, Aug 25, 1958, P. 4053.

"In other words you are going to get a loan from the Dominion government to build these things, then you are going to get a grant from the Dominion government with which to pay the interest and then you are going to get a grant subsequently to pay off the loan."¹ The Auditor General replied: "I thought it a rather remarkable exercise in financing."²

The annual debates on financing the C.B.C. have produced a great deal of criticism of the Corporation and have certainly served to remind management of its responsibility. It is questionable however, if, in view of the other devices of control available, debates of this nature are really necessary or useful. The formula method of financing seems to be a more effective system, makes planning easier for the Corporation and can help the public image of the C.B.C. by cutting down this annual emphasis on the cost involved in the C.B.C. and possibly as a result, more attention can be paid to some of the more positive non-monetary aspects of its operations. The system of annual appropriations, as Mr. Pearson pointed out, can bring the Corporation too much under the influence of the party in power.

Auditor General

Under the terms of the Financial Administration Act the Auditor General is empowered to audit the books of the C.B.C. His report is tabled and also discussed before the Public Accounts

1. Canada, Parliament, House of Commons, Standing Committee on Public Accounts, Minutes of Proceedings and Evidence, July 7, 1964, P.473.

2. Ibid, P.473.

Committee and the Broadcasting Committee. While his criticisms are related to financial matters, he does draw to the attention of Parliament any practices he considers undesirable and recommends changes. The C.B.C. has usually been quite prompt in effecting these changes. "The Auditor General has been doing for members of Parliament what the statutory auditor of a small company does for the directors of that company-that is, offering interpretation of the financial statements."¹ The reports made by the Auditor General regarding the C.B.C., as well as with other Crown corporations have been most useful.

Parliamentary Committee on Broadcasting

One of the most active committees of the House of Commons has been the Committee on Broadcasting. There have been sixteen such committees and each has enjoyed wide terms of reference. The 1965 committee was empowered "to consider radio and television broadcasting together with the annual report of the C.B.C. and to review the operations, policies and aims of the corporation and its revenue, expenditures and development."² The Committee however, has not been as effective as one would hope. Too often the greater portion of its time is taken up with trivial, local matters and with personal vendettas against various C.B.C. personalities and programs. "To read the hearings of the 1961 Parliamentary Committee is to read a chronicle of mutual irritation...it indicates it is no less than a miracle if the executive of the C.B.C. are not permanently nervous, irritable, timid"³

1. Ashley and Smalls, Canadian Crown Corporations, P.37, .

2. Canada, Parliament, House of Commons, Special Committee on Broadcasting, Minutes of Proceedings and Evidence, 1965, p.807

3. Toronto Star, Nov. 1961, P.36.

and mean spirited men."¹ The hearings are a tremendous ordeal to those testifying before the Committee on behalf of the C.B.C. and the conduct of many Committee members during the hearings is truly astonishing.

During the Committee hearings the members have been more successful in eliciting information from the C.B.C. than they have been in the House of Commons, confirming the role of the Minister as a conduit between the C.B.C. and Parliament, powerless to force the C.B.C. to reveal information it felt should be kept confidential. Thus in 1944 the Committee forced the Corporation to provide it with a list of persons employed by it earning over \$25,000 per year even though the Acting General Manager considered this detrimental to the C.B.C.'s best interests. At that time Mr. Diefenbaker said that the refusal to provide information because it was not in the public interest was "...a very serious trend, one that goes a long way towards establishing bodies which although created by Parliament are not answerable to Parliament."² In 1950 he stated "The committee should be free to examine the activities of the Corporation. Indeed it should not be stifled in any way. It should be able to secure all information necessary regarding finances and expenditures to be made by the Corporation."³ This has been exactly what has happened, no area of the Corporation's activities is exempt from the committee's scrutiny. In 1950 the Corporation was forced to reveal its advertising rates, even though the President and the Board of Governors strongly objected. In

1. Toronto Star, Nov. 1961, P. 36.

2. Canada, Parliament, House of Commons, Special Committee on Broadcasting, Minutes of Proceedings and Evidence, 1944, P. 89-90.

3. Canada, Parliament, House of Commons, Official Report of Debates March 3, 1950, P. 1465.

1966 the Committee investigated the dispute over the program "This Hour Has Seven Days" and turned in a report which was quite unfavorable to the management of the Corporation, a report which undermined management's authority within the Company considerably.

This lack of restriction on the Committee's activities and power has reduced its effectiveness considerably. The Committee members lack the expertise to investigate some matters and the Committee itself is not designed for intensive studies and lacks adequate finances and staff. It tends to interfere too much in matters clearly the responsibility of management, as it did this year. The Committee is too large, members are not regular in their attendance and the hearings frequently lack continuity. No minority reports are issued and the impression that the Committee's reports are unanimous is incorrect. Usually the reports are merely tabled, not debated or concurred in. Too often the basic approach of Committee members tends to be partisan rather than constructive and there is much arguing and pettiness involved in Committee hearings. Occasionally committee members demand information from the Corporation for partisan purposes only, rather than for the sake of the public interest. It would appear advisable to delimit the areas of inquiry somewhat to prevent the Committee from experiencing the fate of a similar one in Australia, which eventually became a national joke and was abolished.¹

In spite of these shortcomings, the Committee has done some

1. Wm. Hull, "The Public Control of Broadcasting", P. 122.

useful work in terms of maintaining Parliamentary control over the C.B.C. In 1942 the Committee turned in a report critical of the General Manager and he was replaced. In 1959 the Committee complained in its report that it "...was unable to ascertain that there is any intelligent formula or pattern used in determining the annual budget of the C.B.C."¹ As a result of this criticism the budget of the C.B.C. is prepared more carefully and presented in a more meaningful way. In 1961 the President was able to show to the Broadcasting Committee that the C.B.C. had faithfully initiated every one of the recommendations made by the previous committees except for those which were clearly impractical.

In addition to the Parliamentary committees there have been several Royal Commissions and other investigations into the C.B.C. The Glassco Commission was especially critical of the internal management of the Corporation and several changes were made in this regard subsequent to the Commission's report. The numerous investigations must have an adverse effect on the operations of the Corporation, it has been estimated that 30%² of the time of senior people is taken up by preparing for and attending such hearings. In fact the C.B.C. is almost continuously on trial before the Canadian people. These constant hearings and investigations into the C.B.C. tend to make management apprehensive and over-sensitive and at the same time encourage insubor-

1. Canada, Parliament, House of Commons, Special Committee on Broadcasting, Minutes of Proceedings and Evidence, 1959, P. 809.

2. C.B.C. executive to author.

dination among the lower ranks who seem to have developed the feeling that they can always be afforded a sympathetic hearing from politicians when management makes decisions unfavorable to them. This recently occurred with regard to the dispute over the "This Hour Has Seven Days" program during which the government and the Parliamentary committee both circumvented the management of the Corporation. In a normal business one would expect management and the Board of Directors to handle problems of this nature and if the owners were not satisfied with the way things were being done, management would be replaced. In this case although two reports were submitted, neither favorable to management, no direct action was taken and the net result was that the C.B.C. lost several employees who may be desirable people from the point of view of the public interest and the management of the C.B.C. is thoroughly discredited. Until Parliament, led by the government, formulates a distinct policy with regard to matters of this nature, the C.B.C. will be hampered and harmed by disputes of this type.

Reforms

The recently released White Paper goes a long way in clarifying some of the problems which have beset the C.B.C. Further clarification is necessary however, and some areas of management should be declared off limits to Parliamentary committees. The responsible Minister should be permitted to issue directives to the Corporation so long as they are made public immediately. This would set up a more realistic chain of responsibility and eliminate much of the frustration which members now feel when

they are held responsible for matters over which they have no control. This would be similar to the practice in Australia where the Minister is given the power by the Broadcasting Act to require the A.B.C. to broadcast material which he considers to be in the public interest or to refrain from broadcasting any material he feels is not in the public interest. Provided such directions were published then this method would likely be useful in Canada.

There are some matters of policy affecting the C.B.C. which are best decided by Parliament and this should be made clear to the C.B.C."...it is a wise corporation that knows its own limitations, and on certain issues the responsibility for making decisions should go back to the partisan political arena for a direct decision by the responsible party agent, the Cabinet. When intervention becomes necessary it should be on behalf of the whole community, not a particular group or party."¹

The nature of the role of the C.B.C. makes it unlikely that Parliament will ever be able to be fully comfortable with it. In some matters, such as programming, Parliament should leave the Corporation free, recognizing that the C.B.C. evades its responsibilities if it provides only programmes having mass appeal. It is inevitable, however, that the C.B.C. will always be subject to political influence and it is best if this is clearly recognized and some legitimate avenues of control and inter-

1. J.E. Hodgetts, "Administration and Politics: The Case of the Canadian Broadcasting Corporation", Canadian Journal of Economics and Political Science, Vol. XII, No. 4 (Nov. 1946), P. 468.

ference be opened to the government and to Parliament in general. In the long run it is wise to keep control in the hands of Parliament and the government for at least then the listeners and taxpayers can call these people to account via the ballot box.

CHAPTER IV

The Bank of Canada

History and Background

The Bank of Canada Act was passed in 1934 and the Bank itself began operations on March 11, 1935. It was established largely as a result of recommendations of a Royal Commission on Banking and Currency (the MacMillan Commission) which issued its report in 1933.

With the establishment of the Bank of Canada one sees a very concrete example of today's universally accepted idea that the government has not only the right but the duty to intervene in the business and commercial life of the nation. Keynes' General Theory had not yet appeared but some of the economic principles he articulated, which encouraged and required government intervention as a normal aspect of economic life, were beginning to influence the Canadian government. As a result there is more than a hint of ideological outlook apparent in the origins of the Bank of Canada.

The MacMillan Commission had noted that insofar as the ordinary functions of banking were concerned, the Canadian banks had up to that time provided security, efficiency and convenience, but it was also apparent to most members of the Commission that there were certain banking functions which were not being adequately performed by the existing system. The Commission concluded that what was needed was a single banking authority, a central bank "...which while linked by its

activities with national finance and commerce, is nevertheless detached by its constitution and the temper of its administration from the ordinary pursuits of commercial banking."¹ Constitutional difficulties were implicit from the beginning, as illustrated by the Commission's emphasis on the fact that "...the new institution must be free of narrow political interference with its operations although of course, it was recognized that the State must retain ultimate sovereignty on all matters affecting credit and currency."² The dilemma which was to later plague Mr. Coyne and Mr. Flemming was apparent in this concept, for it raises the problem of what are the limits of the Bank's independence, and when and how does the State exercise its sovereign authority.

Original Form of the Bank of Canada

The debates which took place in 1934 and later regarding the Bank of Canada have reflected considerable confusion over the limits of the Bank's independence and have also illustrated changing views over the role of the State in economic matters. The original Bank of Canada Act followed closely the recommendations of the MacMillan Commission and provided for a privately owned institution. The Minister of Finance stated at the time he introduced the Act in Parliament: "...the endeavour has been made to retain the advantages of private ownership without its

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1. Canada, Report of the Royal Commission on Banking and Currency in Canada, (Ottawa, 1933), P. 61-62.
 2. R.C. McIvor, Canadian Monetary, Banking and Fiscal Development (Toronto, 1961), P. 53.

disadvantages. Thus the Bank of Canada, though privately owned, will operate as a public trust."¹ The shareholders' profits were to be limited to a maximum of 6% on the Bank's capital (\$5million) and provision was made to prevent the Bank from coming under the control of banking or other financial interests. No one was permitted to own more than \$5000 worth of shares and the first Governor, Deputy Governor and Board of Directors all were appointed by the Government. In later years the shareholders were to elect the Directors and these, in turn, would appoint the Governor and the Deputy Governor for a term of seven years, but only after the approval of the Governor-in-Council had been obtained. The whole arrangement was described as one designed "...to enable the bank to pursue its legitimate ends unhampered on the one hand by the urge to make profits and on the other by undue political interference."²

There was widespread agreement among the political parties that a central bank was necessary. All seemed to recognize that the role of the State in economic affairs was to be enhanced. The Minister of Finance at the time said: "The central bank should be regarded as another stage in the natural evolution of our banking system."³ Opposition to the Bank came mainly from outside Parliament. The chartered banks were very strongly

1. Canada, Parliament, House of Commons, Official Report of Debates, Feb. 22, 1934, P. 827.

2. Ibid, Feb. 22, 1934, P. 827.

3. Ibid, Feb. 22, 1934, P. 824.

opposed, claiming that such a bank was unnecessary, that it would be costly to maintain and would cause political interference with the chartered banks, and generally have an adverse effect on the banking situation in Canada. The fact that the Canadian banking system was highly centralized was illustrated by the source of the opposition to the idea of a central bank. "Business opinion in the West and in parts of the Maritimes was generally favourable while in Central Canada it was predominantly opposed."¹ There were however, some Members of Parliament who, like the banks, feared that too much power would be placed in the hands of the new bank. One member said that "This bank is going to have more power than the government has, once we turn over to it the sole right to issue legal tender in this country."²

Public versus Private Ownership

There was disagreement however, over the question of public versus private ownership of the Bank. The Conservatives took a stand in favour of private ownership, albeit insisting on adequate safeguards so that Prime Minister Bennett could say "...to all intents and purposes the bank itself is a publicly owned bank...the operation of the bank must be subject to the approval of the government of the day."³ Mr. King, as might be expected, came down neatly on both sides of the question and pointed out that ownership was not too important, what really mattered was control:

1. McIvor, Canadian Monetary, Banking and Fiscal Development, P. 144.

2. Canada, Parliament, House of Commons, Official Report of Debates, Feb. 22, 1934, P. 833.

3. Ibid, June 21, 1934, P. 4151.

"If a government or a political party has placed certain policies before the people and the people have endorsed those policies, returning the party to power in order to enforce them, it seems to me that no institution should be created by the state which could interfere with the will of the people as expressed through their representatives in Parliament."¹

This endorsed a view taken by one of the members of the Mac-Millan Commission, Mr. Brownlee (a former Premier of Alberta), who stated in a Memorandum attached to the report of the Commission: "The source of capital is in itself of little significance. The control of the bank is of great significance... I believe the selection of directors and executive officers by a Government would be as wise as that of a body of shareholders..."² Mr. Woodsworth was quite dissatisfied with the scheme put forward by the government, he wanted complete government ownership. "In this legislation we are doing nothing to take the control from the hands of the financial interests and put it under the power of this Parliament."³

When the Liberals assumed office in 1935 a change was made in the Bank of Canada Act. Additional capital was subscribed by the government so that it held a majority interest in the Bank and changes were made with regard to the Board of Directors so that the Governor-in-Council was able to assume direct control. A further amendment to the Act in 1938 pro-

1. Ibid, June 21, 1934, P. 4195

2. Canada, Report of the Royal Commission on Banking and Currency in Canada, (Ottawa, 1933), P. 93.

3. Canada, Parliament, House of Commons, Official Report of Debates, Feb. 22, 1934, P. 836.

vided for the compulsory acquisition by the government of all shares of the Bank of Canada. The matter of public versus privately ownership had been the subject of lively political debate ever since the MacMillan Commission had issued its report, and continued to be so even after the government had assumed effective control of the Bank of Canada. This debate was brought to a head when the Canadian Chamber of Commerce sponsored a list of candidates to be elected as directors of the Bank. A campaign was conducted among the shareholders and this slate was elected. It was then realized that under such a situation an inordinate amount of influence could theoretically be placed in the hands of one private group in the country."...most Canadians would probably prefer their monetary managers to be nominated by the government rather than by the Canadian Chamber of Commerce."¹ At the present time the Minister of Finance holds all the shares in trust for the Crown. The Board of Directors consists of the Governor, Deputy Governor and twelve citizens appointed by the government. The Deputy Minister of Finance or his delegate is ex-officio a member of the Board, but cannot vote.

At the time the Bank of Canada was organized, only six of the thirty-six existing central banks in the world were government owned and the most famous, the Bank of England was privately owned. The trend has been, however, for the central banks to be nationalized and thus the Canadian experience has

1. A. F. W. Plumptre, Central Banking in the Dominions, (Toronto, 1947), p. 190.

not been unique. No party took a strong stand against nationalization and government ownership seems to reflect the generally accepted view that "...the primary function of a central bank is to regulate the volume of currency and credit in use and this is so vital a national function that it should not be left to the control of private interests".¹ Thus while at the beginning there was a difference of opinion among political groups over whether or not the Bank should be privately owned, this has disappeared and the question of ownership appears to have been settled.

Evolution of the Bank of Canada

There has been a considerable change in the role of the Bank of Canada in the Canadian economy since 1935. As governments have recognized that they have a highly significant role in the economy, the Bank of Canada has become a very important agency whereby the government exercises control and influence. Mr. Rhodes, the Minister of Finance foresaw this when he piloted the original legislation through the House of Commons. He remarked then that: "changed and changing conditions demand constant supervision and an active rather than passive mechanism of control. To meet these demands is the main purpose for which the central bank is created."² The Bank was to have four main functions:

- (1) To regulate internal control
- (2) To regulate foreign exchange

1. Canada, Parliament, House of Commons, Official Report of Debates, June 1, 1936, P. 3257-58.

2. Ibid, Feb. 22, 1934, P. 825.

- (3) To mitigate fluctuations in the levels of production, trade, employment and prices as far as may be possible.
- (4) To give expert and impartial financial advice to the government of the day.

These functions have not altered greatly over the years but the Bank has acquired many more powers to assist it in fulfilling its role. As the bank has acquired more and more power, its role has become significant in the economic life of the nation. Mr. Abbot, the Minister of Finance in 1951 pointed out that new knowledge and techniques in economics had become available since 1935 and that the powers of the Bank of Canada reflected these new concepts.

During the first few years of its existence however, the Bank of Canada did not take an aggressive role in the economic life of Canada. Its chief duty was with regard to the regulation of credit by altering the reserves of the chartered banks and by open market operations and other devices, so that most of its influence was of an indirect nature. "It is intended that the Bank should have a definite measure of control over the total volume of credit and thus be in a position indirectly to exert an influence over the general price level."¹ By 1962 the Bank's own concept of its role as presented in its Annual Report was far more sweeping. While discussing the fact that the Bank of Canada was responsible for implementing monetary policy in the economy, the Report stated:

1. Ibid, Feb. 22, 1934.

"The broad objectives of monetary policy are those of public economic policy generally...they may be said to include:sustained economic growth at high levels of employment and efficiency,internal price stability and the maintenance of a sound external financial position,an equitable sharing of economic benefits and burdens and the maintenance of a high degree of economic freedom."¹

This is a far cry from the mere regulation of credit and there is general agreement that the Bank of Canada has a very important role to play as the nation works towards these goals.

In fact the Bank of Canada now fulfils a dual role. In certain areas,subject presumably to government veto, the Bank operates on its own initiative,in other areas, it acts solely as agent for the government of the day. There have been attempts made in the past to neatly divide responsibilities so that the Bank of Canada is responsible for monetary policy and the government is responsible for fiscal policy,but the lack of a clear cut dividing line between the two areas makes this difficult "...all commentators are agreed that monetary,fiscal and debt policies must be operated in a fully integrated fashion if they are to function effectively..."² The Bank functions in such a way so that it not only implements policies determined by others,it makes and implements policies on its own which have a profound influence on the country. Prof.Jewett described the situation as follows:"...The Bank of Canada is involved in the creation,formation and implementation of public policy.Its functions really are functions of high economic policy and must

1.Bank of Canada,Annual Report,1962,P.62.

2.H.S.Gordon,"The Bank of Canada in a System of Responsible Government,Canadian Journal of Economics and Political Science,Vol.XXVII, No.1,(Feb.1961),P.7.

be therefore integrated closely with other aspects of economic policy."¹

It is important to remember however, that conditions outside the Bank of Canada made it unnecessary for it to exert itself strongly until after 1950. During the first years of its existence, the depression and then the war, followed by a post war boom, all created conditions where it was not necessary for the Bank to take highly controversial stands and it was able to function quietly in a time when its objectives were clear cut and obvious. Over the years, however, the Bank's responsibilities were increased and became more complex and it slowly acquired instruments of authority whereby it could affect the economy in many more ways than were envisaged in 1935. Only when it finally became necessary for the Bank to adopt a restrictive policy did it encounter opposition.

The first significant change occurred in 1936 when the Bank was empowered to become involved to a limited extent in the long term securities market, which could have a potentially significant effect on the Canadian bond market. In 1938 the Bank took over the management of the public debt from the Department of Finance and in 1941 it became responsible for the Foreign Exchange Control Board. Later the Bank was instrumental in developing a Treasury Bill market, regarded by some as a useful device for regulating certain aspects of the economy. The Bank has since its inception played a leading role in

1. Canada, Parliament, House of Commons, Official Report of Debates, May 14, 1965, P. 1307.

establishing a money market in Canada and this has aided its operations considerably. The MacMillan Commission "noted the fact that the new central bank would be handicapped by the lack of a money market in Canada..."¹ The Bank has also developed a call loan market and has experimented with a floating bank rate. It has displayed frequently the virtues of a "...disposition to discover novelties and to be versatile in technique."² In 1944 the Industrial Development Bank was set up as a wholly owned subsidiary of the Bank of Canada "...to provide credit or other financial resources for business that would not otherwise be able to obtain them on reasonable terms and conditions."³ All types of businesses are now eligible for assistance and the Corporation may either make loans or invest in shares. The Governor of the Bank of Canada is President of the Industrial Development Bank which has proved to be quite influential in the private enterprise sector of the Canadian economy. The Bank of Canada can also make short term loans to the chartered banks on mortgages as security, another method of enhancing its role in regulating the economy.

It may be said now that the Bank of Canada has at its disposal the full complement of monetary techniques which are employed by central banks in most countries: open market operations, a variable cash reserve ratio and an effective bank rate. It is now well equipped technically to deal with problems confronting the Canadian economy. It also has one very important

1. Graham F. Towers & E. P. Neufeld ed. Money and Banking in Canada, (Toronto, 1964), P. 272.

2. R. S. Sayers, "Central Banking in the Light of Recent British and American Experience", Quarterly Journal of Economics, (May 1949) Vol. LXIII No. 2, P. 211.

3. Ashley & Smail, Canadian Crown Corporations, P. 177

non-technical technique available to it, the use of moral suasion on the banks and financial institutions of the country. This is a very important method of operation. One Minister of Finance, Mr. Abbot said that: "...the function of a central bank such as the Bank of Canada...is to consult from time to time with the commercial banks and to express to them such views as may seem appropriate to government policy."¹ The effectiveness of this technique of moral suasion depends to a large extent on the prestige of the Bank and its governor with the financial community. As will be shown later, when the Bank falls into disrepute, its role is severely curtailed and its purposes foiled.

It can be seen then that as the notion of governmental regulation of the economy became more accepted, the Bank of Canada became more important in the Canadian economic system. It now performs an essential role and the reasons to justify its existence have become more numerous. Under the monetary system existing prior to its establishment "...no one authority was responsible for the monetary policy of the country, and if anyone had been responsible, the inflexibility of the existing mechanism would have tied the hands of that authority."² If the Bank's operations prior to 1950 were unspectacular they were nevertheless valuable, for they demonstrated the superiority of the new arrangements and also provided the Bank with timely experience which was put to good use in the more difficult later periods. As a result of its evolution and the changes in economic thinking —

1. Canada, Parliament, House of Commons, Official Report of Debates, Feb. 12, 1951, P. 298.

2. Canada, Parliament, House of Commons, Committee on Banking and Currency, Minutes of Proceedings and Evidence, March 30, 1939, P. 23.

which have taken place since the Bank of Canada was first incorporated, the Bank plays a profound role as it influences "...the decisions which determine the mix of policies in the financial and economic fields."¹

Political Interference and the Bank of Canada

The Bank of Canada originated as a compromise between private and public ownership. It was considered "...a quasi-public institution, which can best be defined as a public trust ...if through an institution of this kind an abuse should arise it would always be open to Parliament to correct it."² It was felt by the Conservative government that the Bank should be kept away from political considerations. Mr. Rhodes was quite clear on this point when he told the House of Commons that "...the bank should not be subject to dictation by the government, for at times the exigencies of public finance might not be wholly in harmony with banking policy that might be considered wise and essential in the public interest."³ It was felt that by placing the Bank under private ownership and control it would be able to take a more independent and detached position vis a vis the government. The Bank would then be in accord with a recommendation of the International Finance Committee made in 1920 that the central bank "...should be free from political pressure and should be conducted solely on lines of prudent

1. Bank of Canada, Submission to the Royal Commission on Banking and Currency, May 31, 1962, P. 10.

2. Canada, Parliament, House of Commons, Official Report of Debates, March 8, 1934, P. 1302.

3. Ibid, Feb. 22, 1934, P. 827.

finance."¹ With the Bennett government prudence and private ownership were almost synonymous and it seemed to be the natural thing to have a central bank with private ownership.

As envisioned in 1934 however, the Bank of Canada was to be a very unorthodox business enterprise. A ceiling was placed on the profits available to the shareholders and profit making was not to be its principal aim. "No purely profit making institution operating in a competitive system can afford to place social interests before its own in regard to credit policy."² Thus the Bank of Canada was set up by the Conservative government as a privately owned institution expected, presumably, to place social interests before profits and if Mr. Bennett and his colleagues saw a contradiction in terms in this regard they failed to make it known.

The question of the Bank of Canada's ultimate responsibility came up several times during the 1934 debates. A Progressive member asked the Finance Minister which view would prevail in the event a clash arose between the government of the day and the Bank. The Minister replied: "Unquestionably the authority of the governor and the board of directors would prevail."³ Later he had second thoughts about the matter and said that in such a situation Parliament would always be supreme. He quoted approvingly a witness who testified before the Mac-Millan Commission that "...in moments of emergency the central bank is almost bound to be subordinated to wider considerations

1. International Finance Committee, Report, (Brussels, 1920), P. 18.

2. Canada, Parliament, House of Commons, Official Report of Debates, Feb 22, 1934, P. 826.

3. Ibid, Feb 22, 1934, P. 840

4. Ibid, June 21, 1934, P. 4195

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of national safety...Since the government of the day possesses sovereign legislative power it must necessarily have the last word in disputes..."¹ The idea was to have an institution subordinate but not necessarily dependent on the government of the day.

A privately owned institution could hardly be expected to assume this role. Furthermore, no government could be expected to tolerate for long a situation where its policies could be superseded by those of the Bank. It was a natural move to bring the Bank under complete government ownership so that "...the government will be assured that the direction of the Bank is in the hands of men in whose judgment it has confidence..along continuance of a policy that might conflict with the government's view becomes impossible."²

Crown Corporation or Governmental Department

Once the idea of a government controlled central bank was established two choices were open to the government insofar as organization was concerned. One alternative would be ~~to make~~ to make the Bank merely a department of government, the other would be to make it a Crown corporation and the latter alternative was decided upon.

The chief reason for establishing a Crown corporation was to insulate the Bank from undue political influence. This was the same fear which motivated the Conservatives to set up a privately owned institution and from the very beginning.

1. Ibid, June 21, 1934, P. 4195

2. Ibid, June 1, 1936, P. 3263.

politicians have been afraid of being accused of meddling in the affairs of the Bank of Canada. The MacMillan Commission had described the functions of a central bank very cogently as follows: "A central bank is at the same time an instrument and a force. As an instrument it is the means by which the state- which must necessarily retain ultimate sovereignty in matters affecting the currency can give effect to the national policy."¹ It is to the credit of Canada's politicians that they foresaw the possibility of the Bank's being used as an instrument, not of national policy, but as an instrument of party policy, and a force to achieve particular party objectives. The rise of the Social Credit movement in the West in the late 1930's with its peculiar economic theories likely strengthened this feeling. Certainly the debates in the House of Commons from 1936 to 1957 indicate that the Social Credit members had more to say about the Bank of Canada than any other party, and their suggestions as to the changes which should have been made, in its operations are startling, to say the least.

It was not only fear of political influence which motivated the government to set up the Bank of Canada as a Crown corporation. It was recognized that as a Crown corporation the Bank would have a special status in dealing with the government, a status no ordinary governmental department

1. Canada, Report of Royal Commission on Banking and Currency, (Ottawa, 1933), Para. 207, P. 63.

could have."...It is not the intention of the government by the introduction of this measure (i.e. nationalization of the Bank) to make the Bank of Canada merely a department of government. It must have a sufficient independence of judgment to be able at all times to talk on equal terms to the government of the day."¹ A Crown corporation seemed to be the logical way to combine the essential factor of public control with the very desirable factor of managerial responsibility.

In addition, while it would seem logical that the overriding economic position and the broad methods of attaining these be within the purview of political decisions, the day to day operations of the Bank in helping to achieve these objectives are so technical and esoteric that the average politician would not be competent to direct them. The principle of a Crown corporation combines the idea of subordination with independence in a way not possible through a governmental department. "Central bank policy is in part a day by day matter and involves many considerations of which the outside observer must be ignorant."² It is wise to have a method available which prevents the government of the day from overruling the Bank's management in finding ways and means for effecting the government's policies and a Crown corporation is admirably suited for that purpose. The gap, for example, which occurs between the time when credit conditions actually change and

1. H.S. Gordon and L.M. Read, "The Political Economics of the Bank of Canada," Canadian Journal of Economics & Political Science, Vol XXIV, No. 4, (Nov. 1958) P. 465.

2. W.T.G. Hackett, A Background of Banking Theory, Canadian Bar Association, (Toronto 1965), P. 17.

when the full impact of the change is felt by the average taxpayer makes it difficult to form an objective opinion of what ought to be done to moderate the fluctuations brought about by such a change. The public likely requires some protection under such circumstances against the impulses and notions of politicians more interested in short term, politically attractive measures, than in long run measures which are more effective, and thus some independence is necessary to the Bank "...the only safeguards against excessive use of bank credit ...are the wisdom, moderation and restraint displayed by the government in the exercise of its monetary authority."¹ A Crown corporation helps provide some of this necessary restraint.

When the central bank is removed to some extent from the political process, it is less likely to feel compelled to cater to special groups. It can thus be not merely politically orientated as a government department would have to be, but orientated to the market as well. The Porter Commission said regarding the Bank's relationship to the government that "Its partial independence of the government is essential to the role it has to play in relation to the domestic financial community and the international financial world."²

There is a danger however, inherent in Crown corporations, especially one such as the Bank of Canada which is involved in duties and responsibilities which are technical and remote from the public. This is the possibility that

1. W.T.G. Hackett, A Background of Banking Theory, Canadian Bar Association, (Toronto 1965), P.17.

2. Canada, Report of the Royal Commission on Banking and Currency, (Ottawa, 1964), P.29.

a strong esprit de corps will be created which will cause the Bank to mistake its narrow interests for those of the general public. This must be avoided at all costs, and one way of doing so is to clearly establish the line of responsibility and authority from the Bank to the government and to Parliament.

Responsibility of the Bank of Canada

Since ownership of the Bank of Canada is vested in the Crown through the Minister of Finance it would seem that there should be little question as to whom the Bank and its Governor is responsible. The situation differs, in a formal sense, from that of the C.B.C. where there are no common shares and thus in the case of the Bank, responsibility should be easier to pinpoint. Over the years, however, members of Parliament and governments have shown a bewildering array of attitudes on the source of the ultimate responsibility of the Bank and on the actual independence it enjoys. Some Ministers have indicated that they have little or no control, that the Bank is quite independent, while others have suggested that the Bank is responsible to Parliament only, not to the government of the day and thus there is nothing the government can do when it becomes dissatisfied with the Bank's conduct. Only recently have steps been initiated to establish definitely the relationship of the Bank to Parliament and the government.

It is difficult to understand why it has taken over thirty years to resolve the problem of responsibility. It was made clear in 1936 by Mr. King that the main purpose in

nationalizing the Bank was to "...establish an effective government control which will govern the Bank in all its actions."¹ It was also intended that the Bank would be free to exercise judgment and discretion only insofar as it did not conflict with the policies of the government in doing so. The government had no wish to meddle with the internal affairs of the Bank, the Bank was to have discretion up to a point, but it was to fill more of a managerial role than a policy making role in the economy. A later Minister, Mr. Ilsey clarified the matter further when he said that "The monetary policy which the Bank carries out from time to time must be the government's monetary policy but the government must leave the carrying out of that policy...to the management of the Bank in whose judgment it has confidence."²

The next minister, Mr. Abbot was not clear in his conception of the role of the Bank vis a vis the government. "The governor and the management of the Bank of Canada have certain clearly defined rights under the Bank of Canada Act. It is open to Parliament at any time to change these rights and responsibilities."³ Thus there seemed to be a shift of responsibility to Parliament as a whole rather than to the government, leaving the government technically absolved of all direct responsibility. Mr. Harris, Mr. Abbot's successor, adopted an even more curious attitude, He told the House of Commons

1. Canada, Parliament, House of Commons, Official Report of Debates, June 17, 1936, P. 3817.

2. Ibid, June 13, 1941, P. 3936.

3. Ibid, June 2, 1954, P. 5385.

when discussing certain actions taken by the Bank of Canada that "...duty and responsibility is imposed upon the Bank and not upon the government...(the governor) has statutory authority to make his own decisions in such matters as changing the bank rate but this action is the action of the governor of the bank and his responsibility."¹ Mr.Fleming, the opposition financial critic denounced this attitude"...the government cannot shed its responsibilities for full fiscal policy in the broadest sense of the word and that must include the actions of the Bank of Canada..."² When Mr.Fleming became Minister of Finance he made an abrupt about-turn and refused flatly to accept responsibility for the actions of the Governor of the Bank. He was as decisive and righteous in 1960 as he was in 1956 (when he took the opposite view) when he told the House of Commons that "The Minister of Finance has no control over the governor of the Bank of Canada.His duties are fixed by law by this parliament."³ The Minister of Finance "...does not propose to take unto himself responsibility for matters when parliament has placed responsibility in other hands."⁴

Several factors made the question of responsibility an academic one before 1959. The fact that the Bank was under the leadership of a capable, diplomatic and respected Governor had a great deal to do with avoiding the problem. Mr.Towers had an attitude toward his responsibilities which

1.Ibid,Aug 10,1956,P.7351.

2.Ibid,Aug 11,1956,P.7459.

3.Ibid,March 23,1960,P.2353.

4.Ibid,March 23,1960,P.2354.

made a clash between the Bank and the government all but impossible. He told a committee of the House of Commons that in the event of a dispute between the government and the Bank that "The opinion of the government might be right and that of management might be wrong. But if the government was firm in its opinion, it would get implemented."¹

It would seem that there is a high degree of correlation between the need for active intervention in the economy in a more technical and direct sense by the Bank and the reluctance of various Ministers to assume responsibility for what the Bank was doing. As the Bank's powers increased, Ministers seemed to be wary of accepting any responsibility with regard to what it was doing. This is likely due to a large extent to the fact that the original Act and subsequent amendments did not fully anticipate the complex methods which the Bank would be forced to use in fulfilling its role and also because Ministers were reluctant to assume responsibility for technical action that they know little about. Conflict was avoided however, because the governor had the confidence of the government and the respect and approval of the business and financial community. It was a happy arrangement for the government for it was able to avoid any embarrassment. "In general, when the Bank of Canada's decisions have been popular government have gladly accepted the responsibility for helping to formulate them, when they have caused controversy the politicians

1. Canada, Parliament, House of Commons, Committee on Banking and Currency, Minutes of Proceedings and Evidence, March 18, 1954 P. 883.

have sternly pointed to the Bank's "antiseptic independence".

This ideal situation could not last. Mr. Tower's successor, Mr. Coyne, had no modest concept of his responsibility to the government. He began to publicly disagree with the Diefenbaker government and made many speeches which were critical of the policies of that government. He also operated the Bank of Canada in a manner contrary to government policy and, in the judgment of many economists and businessmen, contrary to the real needs of the economy. One of the most important methods of exerting influence available to the Bank of Canada, that of moral suasion, became useless, largely due to the controversial actions of the Governor of the Bank of Canada, Mr. Fleming, the Minister of Finance did not act promptly or effectively before the glare of publicity made action inevitable and, as a result, the Bank of Canada was engulfed in a tawdry and embarrassing controversy in which the conduct of Mr. Coyne and Mr. Fleming and the Progressive-Conservative government brought shame on Canada. The government and the Directors of the Bank asked Mr. Coyne to resign, he refused and a bill was introduced in Parliament declaring the office of the Governor of the Bank of Canada to be vacant. After passing the House of Commons the bill went to the Senate where, after a semi-comic committee hearing during which Mr. Coyne felt himself vindicated, the bill was allowed to die and Mr. Coyne resigned.

At first glance it would seem that the Coyne affair did settle the matter, for the new governor, Mr. Rasminsky, promptly issued

1. Peter Newman, "James Coyne and the Great Debate—Is Canada Possible?", MacLeans Magazine, Vol. LXXIV, # 13, July 1, 1961, P. 44.

a statement setting out his views on the matter of responsibility."If the government disapproves of the monetary policy being carried out by the Bank it has the right and the responsibility to direct the Bank as to the policy which the Bank is to carry out."¹

While this statement was commendable, no legislative action has been taken to date to establish responsibility quite clearly. In 1965 however, Mr. Gordon, the Minister of Finance introduced a bill in Parliament which would authorize the Minister of Finance to issue directives to the Bank as to the monetary policy it is to follow. The directive is to be specific, in writing and applicable for a specified period. It must be published in the Canada Gazette and tabled in the House of Commons. According to Mr. Gordon the objective of the bill was "...to remove any doubt which may ever have existed about the responsibility of the government and the bank for monetary policy. As this bill is drafted, the government can never shirk its ultimate responsibility for the monetary policy which is followed any more than it can for any field of national policy..."² Parliament was dissolved before this bill was passed, but a similar one was introduced by Mr. Sharp in 1966. Parliament adjourned before this second bill was passed but it is likely that it will be re-introduced and the line of responsibility for the Bank of Canada will finally be clearly established.

Thus it would seem that the concept regarding responsibility -

1. Bank of Canada, Annual Report 1961, P.3.

2. Canada, Parliament, House of Commons, Official Report of Debates, May 6, 1965, P.975.

has changed greatly since the project for a central bank was first seriously considered. Discussion began when it was thought that the Bank was under only the ultimate supremacy of Parliament but has developed to the point where the Bank of Canada is now not only considered subject to the government of the day but also the instrument for implementing the policies of that government.

Methods of Control

It was not until the Coyne affair that it was realized how independent the Bank of Canada actually was. The fact that over the years Parliament had little real knowledge of the Bank's activities did not cause much concern and criticism of the Bank of Canada was a rarity in the House of Commons. Prime Minister Bennett however, was aware of the problem of control and felt that a privately owned company would be under more satisfactory control, than a public owned one." ...the wit of man has not yet been able to devise a suitable authority by which the real shareholders of publicly owned enterprises can take their directors, as can the shareholders of a private enterprise at their annual meeting and examine them and ascertain from them every detail connected with the administration of the business."¹ It was thought by the King government that by making the Deputy Minister of Finance ex officio a member of the Board of Directors that this would ensure the government at least being aware of the Bank's activities. The Coyne affair revealed that this was not the

1. Ibid, Feb 22, 1934, P. 839.

case, that the Board was taking action of which the Minister of Finance was unaware and also that it was not usual for the Minister to receive copies of the minutes of the meetings of the Board of Directors."...I received no report, I received no copy of the minutes."¹ Since the Board meets only five or six times a year however, the governor has obviously a great deal of independence in directing the Bank's activities. The Board of Directors is also ineffective because of the tendency of the government to pack it with party stalwarts who may be competent businessmen but who are not likely to be economists or expert in the matters in which the Bank of Canada must deal. As a result the Board can be manipulated by the Minister in times of political crises, as during the Coyne affair when the Board was instructed to ask for the Governor's resignation.³ Aside from providing assistance in directing the internal "housekeeping" aspects of the Bank of Canada it is unlikely that the Board has any great influence over the monetary policies of the Bank of Canada and neither serves to help inform the Minister of the Bank's activities or to insulate the Bank from political influence.

The usual devices of control have not been available to Parliament over the years. The very large profits made by the Bank, \$143 million in 1965², precludes the necessity for its budget being approved by Parliament and the Bank has never

1. Ibid, June 14, 1961, P. 63.

2. Bank of Canada, Annual Report 1965, p. 55

3. Canada, Parliament, Senate, Committee on Banking and Currency, Minutes of Proceedings and Evidence, June 10, 1961. P. 16.

been called to account regarding its own expenditures. The Governor has appeared from time to time before various Parliamentary committees, but not on a regular basis. The Annual Report of the Bank is not referred to any committee of the House as a matter of course and there have been occasions, as in 1961 when the government blocked the referral of the report to the House Committee on Banking and Currency, presumably because consideration of the report would have revealed how badly relations between the Bank of Canada and the government had deteriorated. The Bank of Canada is exempt from the Financial Administration Act (1951) and its books are not audited by the Auditor General so that another possible avenue of control is blocked.

The question period in the House has not provided the inquisitive member with much information regarding the Bank of Canada. In 1937 the Minister refused to give Parliament any information regarding the costs of the Bank's new head office building, saying that he knew nothing about it. In 1941 he refused to even ask the Bank how many employees it had. Mr. Ilsey said that "This question relates to the Bank of Canada which is not a government department. The information asked for is not of government record."¹ One of the most persistent critics of the Bank, Mr. Pouliot, after being frustrated in his efforts to learn something of the Bank's activities remarked that "We should get rid of all these people of the

1. Canada, Parliament, House of Commons, Official Report of Debates, May 5, 1941, P. 807.

Bank of Canada."¹ Another member complained in 1958 that "...it is high time that we in this parliament brought the directors before us and made them answerable for the policies they have inflicted on this nation."² Mr.Fleming,when he was Minister of Finance maintained that all communications between the Minister and the Governor were privileged and could not be tabled. Mr.Coyne did not share this feeling and released their correspondence to the public and in doing so highlighted one of the disadvantages of creating too much of an independent climate for the Bank of Canada. Mr.Coyne indicated by his actions that he had assumed himself to be wholly independent of any government direction at all,both with regard to policy formulation and administration. No doubt he had been encouraged over the years to adopt such an attitude by such statements as that of Mr.St.Laurent who said that "The Prime Minister will not undertake to have Parliament or the members of the Opposition act as a court of appeal from the decisions made by the Governor of the Bank of Canada."³ Mr.Fleming revealed much about Mr.Coyne's attitude when he told the House of Commons that "...from time to time the Governor made it clear to me that he took no direction,dictation or indeed,requests from the government in relation to monetary policy...".⁴ Shortly after taking office Mr.Fleming had asked Mr.Coyne to ease the requirements respecting the liquidity reserves of the

1.Ibid,March 23,1943,P.1509

2.Ibid,Nov.12,1957,P.1027

3.Ibid,Aug 10,1956,P.7352

4.Ibid,July 4,1961,P.7525.

chartered banks and the suggestion "was rejected by the governor, firmly and angrily".¹ The amazing part of it is of course, that Mr. Fleming did not take action forthwith to clarify the problem. Testifying before the House Committee on Banking and Currency in 1957 Mr. Coyne told the members that "The Bank is not in the position of daily receiving instructions-or indeed receiving instructions at all-from the government in matters which by statute are assigned to the responsibility of the management of the Bank."² The hands off policy became ridiculous and it seemed there was nothing the Governor could not do. He mobilized the resources of the Bank to present his side of the case and no one was able to stop him and it was apparent that Mr. Coyne felt that he and the Bank were laws unto themselves. As Mr. Lewis pointed out recently: "We have frequently taken the position that, because the technical operations of the Bank must necessarily be left to technicians, the making of policy by the Bank of Canada should be an independent process."³

Reforms

It has been pointed out that the system of directives advocated by Mr. Sharp and Mr. Gordon will have a profound effect on the Bank's relations with the government and with Parliament. It would also seem advisable to formalize the informal arrangements now existing between the Bank and the

1. Ibid, June 26, 1961, P. 7040

2. Canada, Parliament, House of Commons Committee on Banking and Currency, Minutes of Proceedings and Evidence, May 22, 1956, P. 374.

3. Canada, Parliament, House of Commons, Official Report of Debates, June 13, 1966, P. 6334.

government. While it is a good thing that "The Minister and the Governor shall consult regularly on monetary policy and on its relation to general economic policy."¹ it would be wise to make this practice obligatory. This would avoid the incredible situation existing in 1961 when, according to Mr. Fleming, Mr. Coyne could not be critical of what the government was going to propose in its budget because the Governor was not aware of what the budget speech contained. This was stated one week before the budget was due to be presented. In addition, the Annual Report of the Bank should be referred every year to a committee of Parliament. The Auditor General should become auditor for the Bank of Canada since it would seem no unique auditing ability is required to fill this role. All of these devices would restore to those accountable to the voters a method of obtaining information and a method of control over the Bank's actions.

In the past, excessive reliance has been placed on informal, ad hoc arrangements which work well only in the event there is no clash of personalities. The government, Parliament, the Bank and the public interest all need to be protected from the problems arising as a result of such clashes. More, stringent legislative guidelines will not avoid personality clashes but will provide for ultimate responsibility and a solution to the problem consistent with the principles of responsible government. —

1. Ibid, P. 6324, June 13, 1966.

The chairman of the Porter Commission suggested action along these lines when he said "The difficulty appears to me to be that the Bank of Canada Act would indicate that the intention of Parliament was to set up an independent institution in the Bank of Canada and now we have recognized the position which results in perhaps cutting down to some extent the original concept of independence."¹ It would seem advisable then to revise the legislation affecting the Bank of Canada to take into account its evolution since 1934.

1. Bank of Canada, Evidence of the Governor Before the Royal Commission on Banking and Finance, (Ottawa, May 1964),

CHAPTER VI

Conclusions and Reforms

During the discussion on the four Crown corporations with which this thesis is primarily concerned, several specific reforms were suggested. In this chapter an attempt will be made to see if these can be generalized and made applicable to other Crown corporations and additional suggestions will be made as well.

It must be recognized that there is a danger in generalizing and treating Crown corporations per se as a uniform, homogenous collection of entities. There is a tendency to treat them simply as commercial organizations and to apply the standards of private business to them and thus assure not only efficiency but accountability as well. The problem is much more complex, however, than this approach suggests. The procedure followed with respect to Polymer Corporation, for example, will not in all respects be suitable for the C.B.C. or the Bank of Canada. There is also the danger of considering the question of responsibility as merely one of personal responsibility, that is, to consider the problem as one of making the General Manager, the President or the Chairman of a Crown corporation personally responsible to Parliament and to the government. Thus if Mr. Ouimet of the C.B.C. is made to understand that he is personally responsible to Parliament, once this is clearly and firmly established, then the question of accountability and responsibility is solved.

This question of personal responsibility, while always pertinent and necessary (as with Mr. Coyne) is transcended in many Crown corporations because the officers of the Corporation must have technical knowledge which is not at the disposal of their superiors, i.e. Parliament and the government. Thus the official, in fulfilling his role must be guided to a large extent by the function he fulfils and he must follow a set of standards established either by himself or by his profession. He must feel responsible not only to his nominal superiors but also to these professional standards of craftsmanship. The possibility of his sense of responsibility to these standards coming into conflict with his responsibility to Parliament and the government can be increased if he is expected to adhere to a rigid set of general standards which may have no relationship to his specific function. Over generalization then can make it difficult for the officer of a Crown corporation to reconcile the dual concept of standards under which he must operate.

The heterogeneous nature of the Crown corporations discussed earlier illustrates the problem of personal and functional responsibility. It is comparatively easy to set down a policy regarding the duties and responsibilities of the President of Polymer Corporation: he is to see that Polymer makes and sells synthetic rubber at a good profit and in a manner which would not embarrass the government. His performance can be measured by easily definable standards and he can be called to account simply if his superiors are displeased with the Corporation's balance sheet and statement of profit and loss or if he does something to embarrass the government, such as following

an anti-labour policy among the Corporation's employees. These same standards cannot be applied to the General Manager of Industrial Estates Limited, a semi-entrepreneurial organization but nevertheless some commercial standards may be applied to his functions as well. In the case of the Bank of Canada, which functions in a very technical field there are some generally acceptable standards by which its performance may be measured and compared with other central banks, but these are not commercial standards nor are they similar to those by which Industrial Estates Limited can be judged. In the case of all three, however, the point is that some judgment may be made on the basis of experience (hindsight) and there are some objective ways of measuring performance and bringing them to account. There is a fairly generally agreed view as to what is sound.

This is not true of the C.B.C. however, where many decisions must be made by officials based on a subjective opinion. There is no sure way to gauge the accuracy of these opinions, either by commercial standards or by hindsight. One of the most dismaying experiences one can have is to read in Hansard the opinion of various members of Parliament over the years on the matter of programming. One can only conclude that the opinions of members of Parliament on what should be broadcast on radio and television make the opinions of Mr. Ed. Sullivan almost ethereal by comparison. For Parliament to attempt to fulfil this role would be disastrous, it must be left to others. The sense of craftsmanship of creative personnel is however, far more difficult to control and to appraise than that of the Governor of the Bank

of Canada. This will be a perpetual dilemma between Parliament and the C.B.C, the delicate balance of freedom and control is far more difficult to achieve with this Crown corporation than for the others.

In spite of all this, the people through Parliament and the government must be supreme. The rule that "Experts must be on tap but not on top"¹ is a sound one if democracy is to mean anything. The problem of maintaining sovereignty is becoming more serious as time goes on. The current controversy over integration in the armed forces, the problems with regard to the C.B.C. etc. all point to the fact that Parliament is in danger of losing some of its sovereignty to its own creations and agents. Some reforms then are necessary.

The Province of Saskatchewan has made a definite attempt to ensure full control and responsibility of Crown corporations. Under the Crown Corporations Act of Saskatchewan, the Boards of Directors of most Crown corporations are subject to the control of the Cabinet and the Government Finance Office. The Government Finance Office is in effect a holding company for all Crown corporations except the Saskatchewan Power Corporation, Saskatchewan Government Telephones and the Saskatchewan Insurance Office. The Board of Directors of the Government Finance Office consists of six cabinet ministers, the Deputy Provincial Treasurer and the Secretary of the Economic Advisory and Planning Board, thus it is much like a cabinet committee on Crown corporations. The

1.C.J.Friedrich, "The Dilemma of Administrative Responsibility" in C.J.Friedrich ed. Responsibility, (New York, 1960) P.195.

Provincial Treasurer (at the present time the Premier) acts as chairman of the Board. The Government Finance Office also has a staff of civil servants and this department, plus the cabinet make all "...the top decisions on Crown corporations."¹

Most control over policy is exercised through financial controls. The Crown corporations are required to turn over their entire annual profits to the Finance Office and all the financing for Crown corporations is carried on through advances from the Finance Office. Thus the Crown corporations are deprived of control of their surpluses, from which they could otherwise finance capital expenditures. The Finance Office annually approves operating and capital budgets and in doing so passes on the general policies being pursued by the various Crown corporations. The individual budgets are then combined and passed on through the Treasury Board to the Cabinet to the Legislature, as the budget for the Government Finance Office. Thus there is a single legislative vote on the budget instead of individual votes for each corporation. There are other financial controls as well, including authority on the part of the Finance Office to control bank borrowings and the establishment of bank reserves. Through the permanent staff of the Finance Office a pool of experts on such matters as accounting, industrial relations, etc. is available for the use of the Crown corporations and the storehouse of knowledge and experience gained through the use of this staff has proved to be of great value in terms of keeping Ministers informed,

1. A. E. Blakeney, "Saskatchewan's Crown Corporations, A Case Study," Proceedings of the Fifth Annual Conference of the Institute of Public Administration, (Toronto 1953) P. 416.

in bringing about standardization of such matters as wage policy and in providing a useful training ground for personnel later assuming positions in Crown corporations.

The Saskatchewan system has several disadvantages. In the first place it introduces an additional level of responsibility which is hardly necessary if the Boards of the various Crown corporations are functioning properly and have some discretion. On the federal level, it is difficult to see how any cabinet committee could offer guidance or direction superior to that now provided by the cabinet through a responsible minister, especially when the large number and divergent functions of all the federal Crown corporations is taken into account. By establishing another level of responsibility and by having an omnibus budget for all Crown corporations, the system tends to make the Corporation even more remote from the legislature and the ordinary member. Uniformity among Crown corporations in such matters as industrial relations policies, accounting practices, etc. may be desirable in a limited area such as Saskatchewan but would not be desirable on the national level where, for example, the Federal government might be embarrassed if it had to pay all employees in all places the same wages. The Saskatchewan system tends in some respects to put Crown corporations in a straitjacket by insisting on a great deal of standardization when in fact a considerable degree of flexibility may be desirable. Although Saskatchewan has made extensive use of Crown corporations in the past, the number is far smaller than those on the Federal level and the system possibly works well because of the close personal contacts which exist among

the ministers, deputy ministers and the heads of various Crown corporations. This would not be possible at the Federal level. Recently Saskatchewan has been attempting to sell some of its Crown corporations and possibly the system will not work as well when it is applied solely to non-commercial ventures.

One very great advantage, however, in the Saskatchewan system is that of having a permanent staff of civil servants familiar with the operation and policies of Crown corporations. A similar staff would be very useful in other provinces and in the Federal government as well.¹

The Financial Administration Act of 1951 filled a very important need in clarifying the financial aspects of Crown corporations of the Federal government. Possibly what is required is a law akin to the Financial Administration Act covering the non-financial aspects of operations. The suggestions which are to be made to ensure responsibility include both financial and non-financial aspects of Crown corporations and in some cases would establish in law ad hoc practices which have developed over the years. It is submitted that the following suggestions will help assure complete sovereignty by Parliament while at the same time preserve for the Crown corporations the degree of independence necessary for them to fulfil their purposes.

Financial Aspects

(1) Capital Expenditures Large blanket commitments should not be made by the Legislature or Parliament to a Crown corporation, for this procedure tends to limit opportunities for debate and investigation into the Corporation's affairs. By the same token

1. See page 127 below.

Crown corporations should not be permitted to make large capital expenditures without reference to Parliament. To forestall this the method used in Saskatchewan should be followed and all profits transferred to the Receiver General¹ each year, rather than paying over only some of the profits and retaining the balance for capital purposes. This is not to suggest, however, that every Crown corporation be required to go to Parliament each year for its capital needs, but rather a program for a specified period of years should be submitted and approved by Parliament and an amount voted to cover these expenditures over that period. This is to be done in the case of the C.B.C. under the new legislation and the votes will cover a period of five years.

In the case of Industrial Estates Limited however, a year to year vote is desirable because of the very special function it performs. The question of accountability here is no longer academic for there are some indications that the Company is, becoming involved in difficulties with Deuterium of Canada Limited. "Deuterium has found it difficult to dispose of the \$18 million of its bonds being used to finance its portion of the undertaking."² It is expected that by the time the plant is completed the province, through Industrial Estates Limited will have contributed the bulk of the total cost and quite possibly Industrial Estates Limited will own the Company entirely.

1. In fact in Saskatchewan all profits are turned over to the Government Finance Office, not to the Receiver General, but the effect would be the same as far as any Crown corporation would be concerned.

2. "Heavy Water Project Has Cash Problems", Financial Post, August 20, 1966, P. 2.

The Company has also lost one important contract, and if it turns out to be an unprofitable investment using an obsolete process, who is to be held accountable for the error in judgment? If there had been a vote and debate on the matter some accountability would be ensured and the people of Nova Scotia would be clearly able to bring the members of the Legislature to account. Since it is difficult to forecast Industrial Estates Limited's requirements over a lengthy period of time an annual vote is warranted. Since it is impossible for Polymer or the C.B.C. to function effectively on a year to year basis, a five year period would seem more suitable, with provision for period reviews by Parliament if necessary. The Bank of Canada turns over all but a small portion of its profits to the Receiver General at the present time, so that no problem would arise in this case.

(2) Auditor General In the case of federal Crown corporations, the Auditor General should be required to audit all of them. Auditing is not a function which requires such highly trained and specialized people that only certain auditors are qualified to audit the books of the Bank of Canada, for example. Given adequate staff the Auditor General could handle all corporations and by doing so in his capacity as an agent of Parliament the ties of responsibility would be strengthened considerably.

Provincial governments have now reached the point in size where their operations in most cases warrant a full scale auditing staff and the adoption of the Auditor General method of control by the Legislature should be adopted by the provinces as well. It should be pointed out, however, that the chief function of the Auditor General is to examine and comment on the books of account, not necessarily the policy, of the Crown

corporation. His comments on the Polymer Corporation then will likely be much more meaningful in terms of policy than his comments on the Bank of Canada or the C.B.C. In the case of a corporation such as Industrial Estates Limited however, the Auditor General, if he was to do his duty thoroughly would be bound to look at the investments carried on the Company's balance sheet and his observations and criticisms in this regard would be invaluable.

(3) Financial Reports The financial reports of all Crown corporations should be made available to members of the Legislature or Parliament in good time so that they may be reviewed and discussed while the information contained in them is reasonably current.

Non-Financial Aspects

(1) Representation Any enterprise, either a Crown corporation or a semi-public one in which the government has a substantial interest should have a representative of the government present at all Directors meetings. This could be the minister, the deputy minister or a senior departmental official. It would not likely be convenient for the minister personally to attend but he could delegate a senior official to represent him. These Boards meet infrequently and the duty of attending the various meetings could be divided among several officials so that no one person would be unduly burdened. In the case of Crown corporations it would not be necessary for such delegates to be voting representatives except in the case of a tie when they could vote on the instructions of the minister. It is not suggested that as a result of having this tie-breaking vote that the

government representatives be chairmen of the various Boards. These representatives would be present at Board meetings as delegates of the government and the responsible minister and should be prepared to present government views on questions as they arise, such as the matter of selling Polymer Corporation or the pension of the Governor of the Bank of Canada. In all cases the minister should receive copies of the minutes of every meeting of the Boards of Crown corporations for which he is responsible. As a result of these suggestions the debacle of 1961 regarding Mr. Coyne would not be repeated and ignorance of a Board's actions could not be used to evade responsibility.

(2) Directives The system suggested by Mr. Gordon and Mr. Sharp in relation to the right of the Minister of Finance to issue directives to the Bank of Canada should be adopted for all Crown corporations and every responsible minister authorized to issue such instructions, provided they are published and become public knowledge immediately. It can be argued that this could pose a very serious threat to the C.B.C. and that the matter of controlling the Bank of Canada via directives is far different from that of controlling the C.B.C. Since the C.B.C. works in the field of men's minds it might be claimed that such authority could lead to brainwashing, restriction of freedom of speech, etc. In view of the criticism which followed over the incidents of alleged interference cited earlier¹, any government foolhardy enough to attempt such action and interference could expect to

1. See pages 64 and 65 above.

be severely censured by the Opposition and the Press. On the other hand when an impasse has been reached in matters such as those between Mr.Coyne and Mr.Flemming or between Mr.Oimet and some of the employees of the C.B.C.,the government should be prepared to intervene and receive credit or blame for the decision. The directive would provide for this type of action.

It should be pointed out that the opportunities for political interference are always present and dangerous, but public directives are likely far less dangerous than those of a clandestine nature. Directives will eliminate the possibility of a clash or a contradiction in policy. If, for example, a government representative had been present at the meeting of the Board of Polymer when it was decided that a plant should be constructed in South Africa, he would have advised them of the government's opposition. If the Board still felt that the plant should be built and voted to do so (for reasons important to them), the minister could then issue a public directive instructing the Corporation not to do so. If this decision on the part of the minister had an adverse effect on the fortunes of Polymer Corporation then the minister and the government, not the Board of Directors would be called to account. A minister in Nova Scotia would hesitate to instruct Industrial Estates Limited to build a plant in a politically advantageous area if he had to do so publicly, for the province-wide political ramifications of such a directive would likely far outweigh the local advantages. As a result, the opportunities for unwarranted political interference could actually be reduced by the use of such a method.

(3) Committees Three of the four Crown corporations discussed in this thesis come under the scrutiny of committees of Parliament, only Polymer Corporation is exempt from such specific control, although it has been investigated by the Public Accounts Committee. Several writers have urged more use of committees in Parliament for a variety of reasons. Specifically with regard to Crown corporations it has been suggested that "...an emphasis on committees as the principal tools for advancing systematic accountability seems appropriate because they offer the best opportunity for expanding present efforts."¹

It has been suggested that the use of committees gives the backbenchers a much more interesting and rewarding task and that a great deal of time in the House of Commons could be saved by referring more matters to committees rather than debating them in the House. It is argued that, in the case of Crown corporations, use of committees will restore parliamentary control over them and serve to more firmly establish principles of responsibility. Both Parliament and the Crown corporation would likely benefit from such an arrangement since the corporation would have a public forum in which to reply to some of the criticism they receive and Parliament would have a channel of communication available between itself and the corporations.

During the last session of Parliament a standing committee on Crown corporations was set up, but it was not given any terms of reference and did not meet. The chairman, Mr. Perry Ryan, M.P.

1. Musolf, Public Ownership and Accountability, P. 137

is not sure of what the committee's function will be. It is likely however, that the Committee will look into the affairs of those federal Crown corporations not traditionally investigated by other standing committees. It is believed "...that the Committee will have referred to it the annual reports of some thirty-four or thirty-five Crown corporations for detailed examination and investigation."¹ It is difficult to see how the committee will be able to function well with such a large number of corporations to consider, even with an adequate staff (which few committees have). It is likely that some corporations will be examined each year or that possibly the Committee will set up sub-committees to examine various Crown corporations simultaneously. This could be a useful method of control, especially if there were continuing members of the sub-committees who over time would become experts on specific corporations. "It is not infrequently that one of the main tasks of the committee is the education of its members."² If the proposed committee had a permanent committee to assist it, as the Government Finance Office has in Saskatchewan, it could prove to be a very useful instrument in restoring Parliamentary control over Crown corporations.

There are several disadvantages to the use of committees, however. One of the greatest problems is to avoid having the committee interfere with the management of the Crown corporation and become involved in trivia and in details which may be politically useful but have little real significance in terms of the public interest. "It is always possible to appoint a committee

1. Perry Ryan, M.P. Letter to author, July 5, 1966.

2. R. MacG. Dawson, The Government of Canada, (Toronto 1947), P. 292.

to harrass the management but this device seems to be one of the terrors of democracy rather than an instrument of control."¹ The question of the size of pensions paid by Crown corporations, for example, would not really seem to be a matter of concern to a committee and only vaguely in the public interest. It is a detail which should not take up a committee's time, it should be left entirely to management and the Board of Directors.

The Broadcasting committee is a prime example of a committee interfering in the internal management of a Crown corporation. The recent intervention of this committee in the dispute between the C.B.C. management and some of its employees was either unwarranted interference with the responsibilities of management or an ineffective attempt to discipline management. In any event, the main effect of the intervention was to weaken the position of management in the eyes of the public and, more important, in the eyes of the employees of the C.B.C., even though the committee's report did not go to the extent of recommending the dismissal of any of the officials involved. If the situation is as serious as the committee seems to think it is, then the report did not go far enough and should have recommended the dismissal of some of the senior employees. (One wonders why, in the face of all this criticism, Mr. Ouimet does not resign, although there is no actual reason for his doing so since no authoritative body will ask for his resignation). Criticism

1. J. A. Corry, "The Fusion of Government and Business", Canadian Journal of Economics and Political Science, Vol. II No. 3, P. 302.

without specific recommendations for some changes is surely interference, not constructive advice. If a clerk or a non-public figure had been treated by the C.B.C. in the same way as Mr. Watson and Mr. Lapierre it is unlikely that a Parliamentary committee would have concerned itself with the matter. In this particular case, however, some political capital was to be made by intervention, or what is more likely, some political status lost by non-intervention.

The effect of such interference can have serious effects on the Crown corporation. Speaking of this with regard to the C.B.C. the Glassco Commission pointed out that all the investigations which the Corporation had undergone in the past had tended to make officials very reluctant to assume responsibility. It was discovered that a great deal of the ordinary business of the C.B.C. was undertaken by a profusion of committees which took up a great deal of time and which enabled responsibility to be shared, or, what is more likely, avoided. "Too many policies are made and decisions taken by groups, not individuals and ultimately the President assumes all responsibility, an unhealthy situation in any large organization."¹ If such a system operated in the Bank of Canada where decisions must be made quickly at times, the whole country would soon suffer. There is a danger of over control and exceedingly inquisitive committees can bring such a condition about.

In order to avoid undue interference, some specific guidelines should be established with regard to what management's responsibilities are. Committees should then be permitted only to inquire

1. Canada, Report of the Royal Commission on Government Organization, Vol. 4, P. 39.

into broad policies followed by management in fulfilling its responsibilities, they should not become involved in specific situations, such as the "This Hour Has Seven Days" controversy. In practice, however, it must be recognized that this would be very difficult to carry out if Parliament is sovereign it must be sovereign in all things and some interference will have to be tolerated by officials of Crown corporations as a matter of course, and as a basic feature of their employment. /Being highly realistic about the matter, if the principle of ministerial responsibility is fully established then the government can, by using its majority, curb over-zealous members and thus limit interference.

There is an additional problem with committees which ought to be considered. There have been some complaints that committee hearings plus attendance in the House of Commons are making too many demands upon members' time, even at this stage. "The new committee system has attracted the most criticism from M.Ps. With a larger number of meetings scheduled simultaneously, many M.Ps find it impossible to attend all the committees of which they are members."¹ This is especially true of members who belong to smaller parties. It may be that committees are too large and a reduction in their size would make the system more satisfactory. "There have been over three hundred committee hearings in the last few months, which must be some kind of a

1. Ottawa Citizen, August 12, 1966, P.1

record."¹ If committees are over-worked then little is to be gained by using them, but if they were given adequate staff and research facilities some of the work load would be transferred to civil servants and the committee system made more effective.

Some of the problems with respect to membership on committees etc, would also be reduced if such committees were made joint committees with the Senate. The Senate is part of Parliament and the Senators could be very useful in committees examining Crown corporations, especially with those operating primarily as commercial concerns, such as Polymer Corporation. The Senate has traditionally been a haven for many men experienced in business who could bring a great deal of knowledge to the task of supervising and investigating Crown corporations. Except for the Coyne affair however, Senate committees have not generally been effective in the past and to date "...committees of the Senate have contributed little to the supervision and control of Crown corporations by Parliament."² Possibly if more opportunities were afforded to Senators, working with members of the House of Commons, a considerable contribution could be made.

(4) Secrecy One final suggestion to be made is that the legislature or Parliament, not the Crown corporation or its officials, should decide what matters regarding the Company's operations are to be kept secret and what is to be revealed. When certain information must be kept away from the public it should be made available to members in "in camera" sittings of the House or the

1. Perry Ryan, M.P. Letter

2. Ashley and Smalls, Canadian Crown Corporations, P.96

appropriate committee. There is no question that this can lead to abuses and that such a procedure could be detrimental to efficiency and possibly even to the public interest. The concern of this thesis however, is with the question of responsibility and one questions if any legislative body can justly be made responsible if they are uninformed about the agency in question. The problem arises as to which is the more serious matter for responsible democratic government: (a) Holding politicians responsible for matters of which they have scant or no knowledge or (b) Permitting some members of society (i.e. Members of Parliament) to be privy to some important matters which cannot be made available to the public at large. Assuming that politicians are responsible, (possibly a very generous assumption) the former alternative is far more dangerous in the long run for it gives extraordinary power to public agencies and places them to a considerable extent beyond the reach of the public. It could also tend to discourage competent men from entering public life if they believe that by doing so they may be held responsible for agencies over which they have little or no control. Just as the matter of some political interference must be considered as normal in a Crown corporation it must also be expected that the officers of such public companies must be expected to be placed more in the public view than their counterparts in private industry. It should also be acknowledged that some information which, while it is generally agreed must be kept confidential, should be made available to Members of Parliament, in spite of all their foibles and weaknesses. Having all knowledge available to Members of Parliament could work to the advantage of Crown corporations

in that criticism would then be based more on fact than on unconfirmed suspicions. Furthermore, Parliament must provide some guidance for policy decisions and from time to time, determine policy itself, but no legislative body can provide intelligent assistance or "participate in the decision making process and contribute [their] talents to the formation of policy and legislation if that process is hidden from view".¹

In 1965 a private member's Bill was introduced in Parliament which, while not clearly specifying Crown corporations did provide for making a great deal of knowledge available to the public. This bill could be revised and used to cover the rights of Members of Parliament with regard to Crown corporations. According to the terms of this bill, every "administrative or ministerial commission, power and authority shall make its records and information available to any person at his request in reasonable manner and time."² The bill sets out certain exceptions and also provides that in borderline cases the courts would decide whether a matter is to be made public or not. This latter provision could result in the procedure being useless if great delays were experienced in awaiting court decisions. It would seem more sensible with regard to members of Parliament and Crown corporations to let Parliament decide the matter itself and take the responsibility for having made the decision. It is suggested that there are few matters which should be kept

1. D.C. Rowat, "How Much Administrative Secrecy", Canadian Journal of Economics and Political Science, Vol. XXXI, No. 4 (Nov. 1965). P. 480.

2. Canada, Parliament, House of Commons, Official Report of Debates, 1965 P. 92.

away from Members of Parliament as far as Crown corporations are concerned, although there may be quite a number that should not be made known to the general public.

The fusion of government and business in the independent public corporation "...is an obvious attempt at a combination of the aims and some of the powers of political government with the method of economic government or business."¹ It is essential in doing so that the powers of political government are not subordinated to the methods of efficient and economical business. Possibly Burnham is correct in saying that there is a "shift in the locus of sovereignty"² If this is the case then the trend must be stopped and an essential part of this will be to ensure that Crown corporations are responsible, through Parliament, to the public weal.

1. Corry, The Fusion of Government and Business, P. 303.

2. James Burnham, "The Managerial Revolution", in D.C. Rowat ed. Basic Issues in Public Administration, New York, 1960 P. 475.

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