

**Trade Policy Review Body
12 and 14 March 2003**

TRADE POLICY REVIEW

CANADA

Minutes of Meeting

Addendum

Chairperson: H.E. Mrs. Mary Whelan (Ireland)

This document contains the response from Canada to a question raised by the discussant at the TPRB Meeting of Canada.¹

**Organe d'examen des politiques commerciales
12 et 14 mars 2003**

EXAMEN DES POLITIQUES COMMERCIALES

CANADA

Compte rendu de la réunion

Addendum

Présidente: S.E. Mme Mary Whelan (Irlande)

Le présent document contient la réponse du Canada à une question soulevée par le présentateur à la réunion de l'OEPC concernant le Canada.¹

**Órgano de Examen de las Políticas Comerciales
12 y 14 de marzo de 2003**

EXAMEN DE LAS POLÍTICAS COMERCIALES

CANADÁ

Acta de la reunión

Addendum

Presidenta: Ecxma. Sra. Mary Whelan (Irlanda)

El presente documento contiene la respuesta del Canadá a una pregunta formulada por el ponente en la reunión del OEPC sobre el Canadá.¹

¹ In English only./En anglais seulement./En inglés solamente.

QUESTION BY THE DISCUSSANT AND REPLY BY CANADA***Question 9***

On federal and provincial financial assistance to businesses, what are Canada's views as to the circumstances that warrant the granting of government assistance and whether this may not impair efficiency in an economy otherwise largely free of policy-induced distortions?

Response

In response, we are reproducing a section of a Department of Finance publication:

Agenda: Jobs and Growth: A New Framework for Economic Policy

Canada: Department of Finance Canada, October 1994, pages 50-51

Business

The issue of government assistance to business is not black or white. Assistance can sometimes be justified: for example, to counter subsidies by governments of competitor nations; or where public "spillover" benefits may be very high (e.g., early stage R&D); or where the short-term cost, in terms of local job and income losses, of deferring to market forces is judged to be unacceptably high.

The right action will therefore always depend on striking a balance in the particular circumstances. But too often in the past, the presumed economic benefits flowing from various forms of business subsidy have been overestimated and the broader job and income costs significantly underestimated. Among prominent examples have been a number of ill-conceived industrial megaprojects.

Inappropriately designed assistance to business can be far more damaging to the economy, over time, than a simple static accounting of costs and benefits might suggest. This applies particularly to those forms of assistance which help to sustain, or to subsidize investment in, activities that are not competitive. As the OECD Jobs Study concluded: Subsidies tend to operate in exactly the opposite way from what is needed: they slow rather than stimulate adjustment; they discourage rather than encourage innovation; and they tend to become permanent.

There are two major ongoing costs in these circumstances: (i) people and capital become locked in dead-end situations, and (ii) the public resources required to sustain these dead-ends are not available to support constructive initiatives elsewhere or to reduce the deficit and, eventually, to lower taxes. For these reasons, reducing the kind of business support that inhibits economic adjustment can lead to *increasing* net job creation and income in the economy over time. And with the help of well-designed worker adjustment programs, the human cost of adaptation to necessary economic change can be minimized (Box 8).

Box 8 A model of industrial adjustment: The steel industry

Canada's steel industry has had to grapple with all the challenges faced by many mature sectors in the industrialized world: i.e., overcapacity, low product prices and the emergence of new technology. These pressures forced Canadian steel makers to restructure, including significant lay-offs. Employment in the industry has declined by about 25 per cent since 1988, with layoffs totalling approximately 11,000. Assistance to laid-off workers has been provided through the Canadian Steel Trade and Employment Congress (CSTEC), a co-venture between the United Steel Workers of America and Canadian steel producers. Both federal and provincial governments have also provided resources to CSTEC to assist steel workers through training and worker adjustment programs. By early 1994, CSTEC had helped about 90 per cent of the laid-off workers. Approximately 70 per cent have now found new jobs with, on average, no loss of pay.

In light of these considerations, the 1994 budget announced reductions in business assistance. Further steps should be taken to determine whether the redesign of certain subsidies and other supports in, for example, transport and agriculture could lead to a more efficient transportation system and to a more internationally competitive agri-food industry, better adapted to Canada's inherent advantages.

In a similar vein, regionally-targeted assistance should be focussed on genuine economic opportunities – tourism, for example – that have high potential to become self-sustaining. This implies a continued shift away from support of industrial megaprojects and toward creation of a supportive environment for small local enterprise, as well as increased use of repayable contribution or loans rather than grants.¹

¹ The support of public infrastructure is a separate matter, which, if wisely targeted, can yield significant regional economic benefits. See, for example, the subsequent discussion of the information highway.