

# Study of Canada's Economic System from a System Thinking Perspective

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**Abstract:** This article analyzes Canada's economic system from a systems thinking perspective. The content includes patterns of public choice (party system and power distribution), organizational framework of decision-making arrangements, information provision and coordination mechanisms, property rights system, incentive system, and welfare system. Canada's economic system significantly influences the development of the Canadian economy, and its economic system arrangements hold reference significance for other developed and developing countries.

**Keywords:** Canada; Economic system; Party system; Power distribution; Property rights system

**Online publication:** July 10, 2024

## 1. Introduction

Canada is one of the most developed economies in the world and a member of the Group of Seven industrialized nations. In 2022, Canada's Gross Domestic Product (GDP) was 2.17 trillion Canadian dollars, ranking ninth globally. Its manufacturing, high-tech, and service industries are well-developed, while the resource industry, primary manufacturing, and agriculture account for a smaller share of the economy. Canada has a high dependence on foreign trade and is heavily influenced by the United States economically. Canada is a member of the United Nations, International Monetary Fund, World Bank, World Trade Organization, Group of Seven (G7), Group of 20, and Asia-Pacific Economic Cooperation. Despite its vast territory and population of less than 50 million, Canada has achieved a high-ranking total economic output worldwide. The role played by its economic system has attracted widespread attention from scholars. Against this background, this article explores Canada's economic system to uncover the institutional paradigm of its economic system for other developing countries to learn from.

## 2. Literature review

The economic system is a country's system of economic institutions, encompassing various institutional features such as the organizational framework for economic decision-making arrangements, information

provision and coordination mechanisms, property rights system, incentive system, and patterns of public choice (power distribution and rule of law). Many scholars have conducted detailed studies on various aspects of Canada's economic system. Yinpeng Wang studied the historical formation process of Canada's federal system and the internal structural characteristics of its party system <sup>[1]</sup>; Jianguo Chu studied Canada's political system <sup>[2]</sup>; Hongyan Zhang studied Canada's party system and governing methods <sup>[3]</sup>; Longjiang Wang and Jianping Yang studied the Canadian government's main approaches to handling government-business relations and administrative reform <sup>[4]</sup>; Jingjuan Liu studied Canada's land expropriation procedures and compensation system <sup>[5]</sup>; Quanhong Liu inspected a detailed analysis of Canada's corporate incentive system <sup>[6]</sup>; Yan Li studied Canada's pension system <sup>[7]</sup>; Ziqi Xu reviewed Canada's past 100 years of enterprise development process and characteristics <sup>[8]</sup>.

### **3. Introduction to the Canadian national conditions**

#### **3.1. Geographic location**

Canada is located in the northern part of North America, with the Atlantic Ocean to the east, the Pacific Ocean to the west, the northwest bordering the U.S. state of Alaska, the south connecting to the contiguous United States, and the north facing the Arctic Ocean.

#### **3.2. Basic situation**

As of June 2023, the total population of Canada is 40 million, primarily of European descent, including English and French. Both English and French are official languages. The climate is mostly subarctic coniferous forest climate and humid continental climate, with the northern polar region having a polar long cold climate. The national topography is higher in the west and lower in the east, rich in mineral resources, with reserves of both metal and non-metal minerals ranking among the top in the world. The total area is 9,980,000 square kilometers, with a coastline of approximately 240,000 kilometers, divided into 10 provinces and 3 territories.

#### **3.3. Historical evolution**

In the mid-18th century, Canada was a colony of both France and Britain in North America. The Industrial Revolution in Europe brought significant social progress but also triggered intense social upheaval. European countries, in their quest for economic resources and overseas colonial control, engaged in a seven-year war. After the war, the two major groups, England and France, signed the Treaty of Paris in 1763. England emerged as the biggest winner, while France suffered the most significant loss, ceding its North American colonies. Canada's "New France" was renamed "New England." One hundred years later, on July 1, 1867, the British Parliament passed the "British North America Act," allowing both English and French colonists to rule jointly. They merged "Upper Canada" and "Lower Canada" to establish the autonomous territories of Ontario, Quebec, and the southern part of Quebec near the Atlantic. The ultimate goal of establishing these territories was to form a federation. In 1931, the British Parliament granted Canada the power to establish a federal state, and in 1982, the Canada Act laid the foundation for its status as an independent nation <sup>[1]</sup>.

### **4. Characteristics of Canada's economic system**

An economic system refers to the sum of various mechanisms for formulating and implementing economic decisions within a certain area (usually a country). It typically encompasses the management system and operation mode of a national economy, organizing production, circulation, and distribution. It defines relationships between the state and enterprises, enterprises and enterprises, and enterprises and households,

regulating or influencing the scope, content, and methods of social and economic activities through certain management means and methods. Essentially, an economic system is the specific way or institutional model of resource allocation.

The economic system reflects the fundamental institutional arrangements of a country and is influenced by factors such as the political party system. The characteristics of an economic system involve many aspects, including the pattern of public choice (political party system and power allocation), the organizational framework of decision-making arrangements, information provision and coordination mechanisms, property rights system, incentive system, and social welfare system.

## **4.1. Pattern of public choice**

### **4.1.1. Political party system**

Canada's political party system is integral to its political system. The main components of Canada's political system include federalism, a parliamentary system, and an electoral system. The political party system in Canada is centered around the decision-making of the governing party caucus, primarily embedded in the parliamentary and electoral systems.

The Canadian federal parliament consists of the Governor General, the Senate, and the House of Commons. The Governor General is the personal representative of the British monarch, symbolizing national power, and acts as the "seal" of the Prime Minister and Parliament. The Senate follows the model of the British "House of Lords" and operates on a quasi-lifetime basis - senators can serve until retirement. The legislative power of the House of Commons embodies the supreme power of the federation, and the term "parliament" generally refers to the House of Commons. The parliament is composed of several major parties.

In Canadian parliamentary politics, political parties are key forces maintaining political operations. The structure of Canadian political parties is a "two-party system" or a "two-and-a-half-party system." Before 1921, Canada had a classic two-party system, and after 1921, a third party began to rise. However, until 1961, Canada still mainly had a two-party system. After 1961, the third party became strong enough to prevent any party from winning an absolute majority, but not strong enough to form a government or lead a coalition government, leading some to describe the current party system as a "two-and-a-half-party system." Despite this, Canada continues to have two dominant parties <sup>[2]</sup>. The main federal parties include the Conservative Party, the Liberal Party, the New Democratic Party, and the Bloc Quebecois. The Conservative Party's political agenda is center-right, representing the interests of major business owners, farmers, large resources, and major capital owners, and tends to support economic policies of monopolies and trade barriers. The Liberal Party's political agenda is center-left, representing the interests of small and medium-sized businesses and free trade. Other parties represent various interest groups. The long-term control of federal politics by the two major parties and the presence of a third party movement reflect the stability and flexibility of the Canadian party system <sup>[3]</sup>.

### **4.1.2. Power division**

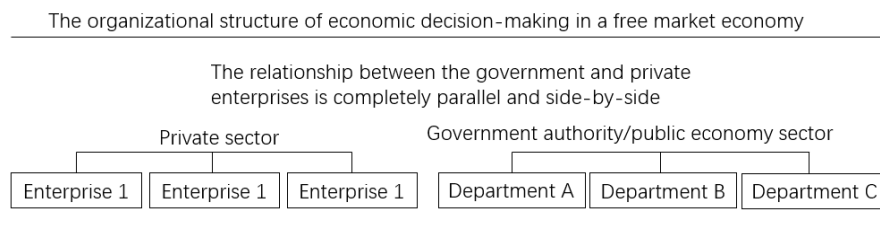
The foundation of power division between the federal and provincial governments is the "British North America Act" of 1867. Federal powers include 29 items, with powers in economic, financial, and monetary aspects such as public debt, federal taxation, federal property, banking, interest rates, insurance, and securities; social aspects such as postal services, surveys, statistics, marriage, and immigration; and other aspects such as military, defense, and criminal law. Provincial powers mainly include 16 items, such as local taxation, natural resources, local businesses, transportation, hospitals, and civil law. Fiscal taxation clearly demonstrates the powers of the federal and provincial governments. Personal income tax, corporate tax, and consumption tax are the main sources of federal fiscal revenue, along with revenues from important minerals, energy resources, and state-

owned enterprises controlled by the federal government. The main sources of local finance also include personal income tax, corporate tax, and consumption tax, as well as the management of land, natural resources, and business taxes within the province. Municipal finance mainly relies on provincial financial allocations, property taxes, and business taxes within the city area, which are used for municipal public facilities construction and primary and secondary education funding. Powers not listed are generally under federal jurisdiction, as the Act also authorizes the federal parliament to exercise ultimate authority.

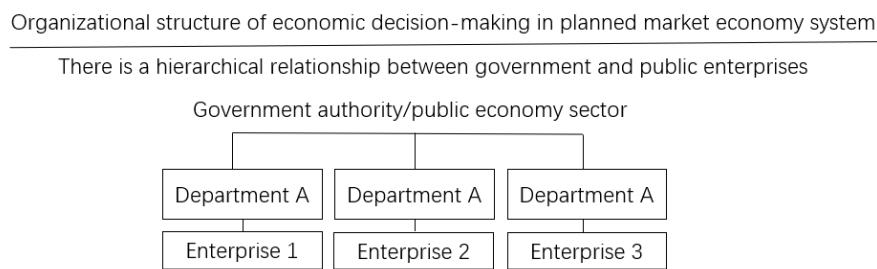
Conflicts between local and federal authorities, especially regarding economic interests, are resolved through coordination and negotiation, legislative and interpretative measures, or litigation arbitrated by the federal Supreme Court <sup>[1]</sup>. The power division indicates a reasonable and well-coordinated mechanism for power allocation in Canada.

## 4.2. Organizational framework

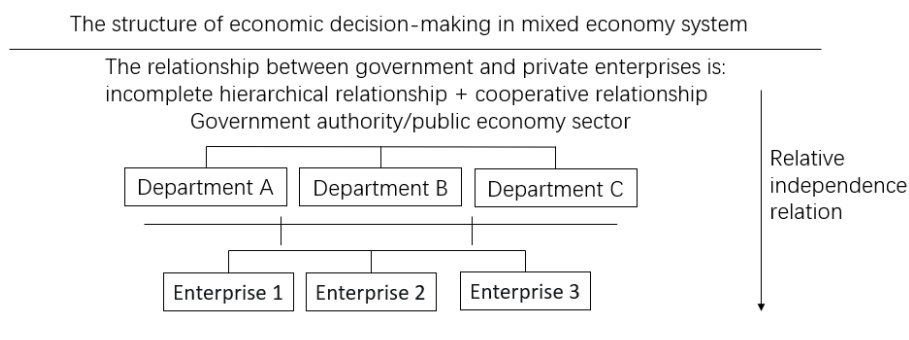
Canada’s economic system is primarily a free market system, with the majority being private enterprises. However, to achieve certain government objectives or in areas where the private sector cannot provide, public enterprises have been established, along with some mixed enterprises. The government and public enterprises have a hierarchical relationship, which does not exist in private enterprises. In mixed enterprises, there is an incomplete hierarchical and cooperative relationship between the government and enterprises. These relationships can be illustrated in the following diagrams (Figures 1–3).



**Figure 1.** The relationship between government and private enterprises under a free market economic system



**Figure 2.** The relationship between government and public enterprises under a planned economic system



**Figure 3.** The relationship between government and private enterprises under a mixed economic system

In Canada, multiple business forms coexist, with the cooperation between government and private enterprises allowing for the free development of private enterprises. The hierarchical relationship between government and public enterprises helps achieve government goals, while the incomplete hierarchical relationship and cooperation within mixed ownership promote enterprise autonomy and social goals. These diverse business forms and good government-enterprise relationships provide a solid institutional foundation for Canada's economy.

### **4.3. Information provision and coordination mechanism**

The Canadian government has a comprehensive set of regulations and methods for managing public enterprises. These regulations effectively address the contradiction between corporate autonomy and government control, continuously improving the management of private enterprises and mixed economies. This can be summarized as follows:

First, the property relationship between the government and public enterprises is clearly defined. According to the law, Crown corporations (government-owned enterprises with 100% government shares) are owned by the government. The disposal of assets by enterprises must be approved by the government to prevent undervaluation when selling assets or overvaluation when acquiring assets, which could lead to government debt. The government also decides whether the profit-generating part of the assets of profitable enterprises is fully transferred, partially transferred, or retained by the enterprise. The ownership belongs to the government, while the enterprises only have the right to operate.

Second, the basic principle of government management of enterprises is to focus only on results, not on the process. This principle has become an important guarantee for the autonomy of enterprise management. The Canadian government regards public enterprises as one of the means to achieve policy goals, therefore, it only assesses whether the enterprise has achieved the established goals. How to achieve these goals is up to the enterprise to decide. This goal management principle not only ensures the interests of the government as the owner but also allows the enterprise as an independent operator to have full autonomy over internal affairs such as production, supply, sales, labor, personnel, and wages, and to choose flexible and favorable business strategies according to market conditions.

Third, effective control over enterprises is achieved through strict and diversified means. How can the government "control the results" while giving enterprises full autonomy? The Canadian government has five strict control measures:

- (1) Legal control: Every Crown corporation is legislated by Parliament, detailing the purpose, responsibilities, and powers of the corporation, and providing guidelines for the corporation.
- (2) Personnel control: All members of the board of directors of Crown corporations are appointed by the government, which has the right to remove directors at any time. The salaries and rewards of directors and senior management of the corporation are also determined by the government. By controlling the board of directors, the government controls the direction of the corporation's development while avoiding direct intervention in the corporation's daily affairs.
- (3) Financial control: Financial control is the most effective control, including approving the annual plan and annual financial report of Crown corporations, as well as establishing standardized corporate financial records, subject to government queries at any time.
- (4) Audit control: The government appoints auditors to audit each Crown corporation every year, auditing not only the finances but also various aspects of operations.
- (5) Administrative directive control: The Financial Administration Act allows the government to issue

directives to public enterprises at any necessary time, and public enterprises must promptly comply. If the government is dissatisfied with any decision of a public enterprise, it can veto or change it through directives.

The above five measures, combined with public scrutiny and parliamentary oversight, form a relatively tight control network, ensuring that enterprises achieve the government's policy objectives<sup>[4]</sup>.

Fourth, the connection between government departments and public enterprises is simplified to avoid administrative intervention. According to the law, the Federal Finance Commission is the ultimate employer of all public enterprises, responsible for supervising and inspecting them. The Enterprise Guidance Office within the commission is the only institution for the Canadian government to maintain daily contact with public enterprises, understand the situation, and provide suggestions. However, even the Finance Commission cannot directly intervene in the operation of enterprises. When there are disagreements between it and public enterprises, they can only be resolved through consultation between the Cabinet and the responsible minister. These measures cut off the direct leadership relationship between government departments and public enterprises, avoiding multiple interventions from above, which is also an important condition for ensuring the operation of enterprises.

Fifth, the number of mixed-ownership joint-stock enterprises is increasing, which may become a trend in the development of public enterprises in Canada. For mixed-ownership enterprises, the government controls them through holding shares and adjusts the degree of control over the enterprises by adjusting the ownership of shares. For those mixed enterprises that are not controlled by the government, the government can also influence and guide the enterprises by providing preferential policies, government loans with additional conditions, or guarantees. This form of mixed ownership enterprise is flexible, easily accepted by the government and the public, and has relatively strong vitality.

Sixth, for most private enterprises, Canada is mainly constrained by laws and regulations. The relationship between the government and private enterprises is completely parallel and cooperative.

#### **4.4. Property rights system**

The property rights system refers to the institutionalized property relations or the institutionalization of property rights. This system includes a series of rules for defining, determining, delineating, protecting, and exercising property rights. Property rights are both an ancient concept and a developing concept. From the perspective of institutional economics, property rights mainly refer to private property, which includes ownership, use rights, disposal rights, and income rights.

In a market-oriented economy, the most basic and representative private property right is land property rights. Canada, being a federal state, has a land system consisting of two traditions: the Roman law tradition established in Quebec based on the Civil Code, and the common law tradition in other provinces and regions. This article primarily examines the common law tradition. In provinces belonging to the common law system, although their land systems may differ in detail, they are generally similar.

Historically, land in Canada was owned by the king, and individuals or public institutions needed the king's authorization to obtain land under royal ownership. However, according to the tradition of common law, once the king or government's authorization decision is made, it cannot be arbitrarily revoked unless the authorization decision includes the right to revoke. In the common law tradition, the government cannot expropriate private personal or real property without compensation. If property is to be expropriated without compensation, there must be clear parliamentary legislation<sup>[5]</sup>. Individuals are granted full freedom of disposal and inheritance rights over private land, which can be freely bought and sold. Anyone can acquire new land from the government

through buying, selling, and leasing, and obtain excess profits through investment, development, and transfer of the acquired land. The government must purchase private land when using it. The federal government operates nationwide and may expropriate provincial public land, but it must be compensated.

Canada's current land ownership system consists of federal public, provincial public, and private ownership. Federal and provincial public lands together account for 90% of the country's land area, while private lands account for 10%. However, urban lands, prime agricultural lands, pastures, and other economically valuable lands are mostly privately owned. Provincial public lands are generally transferred to private ownership after planning. There are three ways of land transfer: (1) land ownership transfer, i.e., sale (permanent transfer); (2) land use rights transfer, i.e., lease (short-term transfer); and (3) land easement transfer, i.e., not altering the surface but granting underground pipeline easement rights.

It can be seen that Canada has established a clear and reasonable property rights system to promote economic development.

#### **4.5. Incentive system**

The incentive system in Canada includes both state-owned and private enterprises, encompassing both spiritual and material incentives.

This system can be summarized as follows:

- (1) Incentive mechanism that matches compensation and benefits: The compensation of senior executives in Canadian state-owned enterprises typically comprises a base salary, with an additional 10% to 25% performance-based pay, and in some cases, up to 50% performance-based pay. As a high-welfare country, Canada places significant emphasis on the welfare benefits of senior management, with both the government and enterprises prioritizing these aspects.
- (2) Competitive compensation incentive system: Non-state-owned enterprises in Canada have designed competitive compensation incentive systems that emphasize a combination of material and spiritual incentives.
- (3) Diverse performance evaluation and supervision constraint system: Non-state-owned enterprises in Canada also implement unique systems for supervising and constraining senior management. For instance, the Canadian Aluminum Company has an internal network system where employees can question management about various aspects of the company at any time.
- (4) Training system that combines individual development with corporate development: Emphasizing training is a key feature of human resources management and development in Canadian companies. Many non-state-owned enterprises in Canada prioritize the close combination of individual and corporate development in their employee training programs <sup>[6]</sup>.

#### **4.6. Welfare system**

The social welfare system in Canada is primarily reflected in the provision of elderly care. The pension system is a crucial component of a country's social and economic framework, providing essential life security for retirees. This system ensures social stability and development, symbolizing social civilization and progress. Every government has the responsibility to establish a comprehensive pension system to ensure that the elderly maintain an independent economic status and receive proper care in their old age. Canada's pension system effectively addresses the issue of elderly care, providing a high level of life security for all elderly people, and allowing the majority to live comfortably in their later years.

Canada's pension system is built on three main pillars:

- (1) Old age security program: This pillar consists of federal government-provided old age security, income guarantees, and spouse and survivor benefits. The government legislates to ensure pension security for the elderly. These programs, funded by national finances, are based on the applicant's age and income, with no restrictions or differences based on work experience, occupation, or status.
- (2) Quebec Pension Plan and Canadian Pension Plan: The Quebec Pension Plan is a retirement pension funded jointly by businesses and individuals, based on historical earnings with upper and lower limits, and is implemented only in Quebec. Additionally, the federal government implements a contributory pension system covering all provinces and territories except Quebec. Both plans have the same conditions, standards, allowances, and funding, and are mandatory government social pension plans. They require all employees and self-employed individuals over 18 to participate and pay corresponding fees to ensure all workers have a pension upon retirement. This plan covers 88% of Canadian workers, including mothers without careers, disabled individuals, widows, and recipients of death benefits. The replacement rate for retirement pensions is 25% of the average industrial wage, representing a significant reform and supplement to the pension system implemented by the government.
- (3) Private pensions, savings plans, and other income sources: Also known as registered pensions, these include two types: Registered Pension Plans (company pensions) and Registered Retirement Savings Plans (individual retirement savings plans). About 40% of companies in Canada offer Registered Pension Plans, which are paid by companies based on their financial performance for employees, usually including all full-time workers. Employees who are not part of a Registered Pension Plan can voluntarily join a Registered Retirement Savings Plan, with contributions capped at 18% of wages and an annual maximum limit. These savings can only be withdrawn upon retirement. Both plans enjoy tax-free contributions from employers and employees, and the income generated from investing these funds is also tax-free. The government's tax incentives encourage higher-income workers to save for their retirement, promoting individual awareness of pension security and encouraging workers to include themselves in the government's pension income security system <sup>[7]</sup>.

These three parts constitute Canada's pension system. Additionally, there are other similar pension models to address any shortcomings of the three main schemes. Canada's welfare system is comprehensive and clear, allowing people to work with peace of mind, thereby promoting economic development.

## **5. Historical changes and implications of Canada's economic system**

In Canadian history, from the early days of French colonial rule (the period of New France), the state has been used as a tool for capital accumulation. In fact, in the early days of French colonial rule, the government and businesses were essentially the same, embedded in the institutional structure of monopolistic trade and colonial companies. This model of government-business unity persisted throughout the period of French colonial rule until after 1663 when the government and businesses were officially separated.

In the 1840s, with Britain relaxing its control over colonial political processes and the advancement of responsible government, the indigenous business class in Canada had the opportunity to enter the national power structure. They thereby controlled government revenue and expenditure, used national credit for private enterprise financing, manipulated currency, and formulated and promulgated banking laws. At this time, all economic decisions in Canada were made and implemented at the national level, resembling a planned economic system.

In the late 1840s and early 1850s, with the investment boom sweeping through British North America, there was also a railway investment boom. Especially in Canada, its railway investment plans far exceeded



its canal construction stage 20 years earlier. During this first wave of railway construction, the Canadian government played a dual role. It controlled the distribution of franchise rights and directly financed railway construction through cash assistance, using its tax and borrowing capabilities. It also indirectly provided mortgage credit to private investors and guarantees to prevent the risk of private sector bankruptcy<sup>[8]</sup>. At this time, Canada's economic system was a hybrid of planned and market economies. This mixed economic system continued until after World War I.

After World War I, Canada became an independent country and successfully entered the circle of Western capitalism. From World War I to the present, Canada has gradually evolved from a mixed economic system to a predominantly market-based economic system.

Studying the socio-economic development of Canada leads to a clear conclusion: the reason why Canada's economy has remained at the forefront of the world for over 100 years is due to a relatively rational and effective economic system. This system includes the stability and flexibility of the party system, a reasonable power distribution system, a rational decision-making organizational structure, information provision and coordination mechanisms, a sound property rights system, incentive systems, and a comprehensive social welfare system.

This insight suggests that choosing an economic system that aligns with a country's development and is rational and effective plays a crucial role in national development. This has important implications for developing countries.

## Disclosure statement

The authors declare no conflict of interest.

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