

THE LIMITS OF CONSULTATION
A Debate Among Ottawa, the Provinces and
the Private Sector on an Industrial Strategy

A Discussion Paper
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FOREWORD

Industrial policies cannot be separated from the political and institutional setting in which they are developed and implemented. They involve coordination of a large number of diverse views, and the deployment of many different policy instruments. The policy-making framework through which this is done, and the actors present in the debate, have crucial implications for the kinds of strategies developed, and for the likelihood of success.

In most advanced countries, the central focus of industrial policy making is the relationship among government, industry and labour. In Canada, however, the federal system adds another crucial institutional layer which has often overshadowed the public-private process. With two levels of government controlling many of the tools necessary for forging industrial policy, such policy must reflect a balance between national and regional interests.

During 1978, Canadian policy makers conducted what has so far been the most concerted effort to solve the country's economic problems. These efforts consisted of both federal-provincial bargaining and business-government consultation. The former was focused on two large-scale First Ministers Conferences on the Economy, accompanied by a large number of official and ministerial consultations. The latter was an extended exercise by the federal Department of Industry, Trade and Commerce to seek new industrial policy proposals from twenty-three industrial sectors. The

conjunction of the two sets of events provided a unique opportunity to explore the character and implications of each dimension of consultation, and to examine the links between them.

This study was conducted jointly by the Science Council, which has been concerned with the problems which industry-government and federal-provincial relations pose for an effective industry and technology development strategy,¹ and by the Institute of Intergovernmental Relations at Queen's University, which is equally concerned with the impact of federalism on Canadian public policy. This interest converged in the events of 1978, and the Council commissioned the Institute to expand its own work into the present study.

The detailed case studies which follow describe the participants, the issues and the results from the two sets of events in 1978. They underline the institutional and political challenges and opportunities which confront efforts to formulate and carry out integrated industrial strategies for Canada.

The study was carried out by Douglas Brown and Julia Eastman, of the Institute's staff, with the assistance of Ian Robinson.

On their behalf, we would like to thank the many businessmen and public servants who generously gave their time to discuss the 1978 events and to comment on preliminary drafts. Special thanks also to Nicholas Sidor for helpful editorial assistance, and to Patti Candido and Cher Daley for typing.

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1. See, for example, Science Council of Canada Report no. 29, Forging the Links: A Technology Policy for Canada, Supply and Services Canada, Ottawa, 1979, pp. 39-40, and The Politics of an Industrial Strategy: A Proceedings, Science Council of Canada, Ottawa, 1979.

PART A: PROLOGUE

INTRODUCTION

Between late 1977 and the close of 1978, the federal and provincial governments of Canada undertook two new exercises in economic policy formation. The first was a venture in achieving federal-provincial cooperation in developing economic strategies. Two First Ministers Conferences on the Economy (FMC) took place in Ottawa, in February and November 1978, under the gaze of television cameras and the media. These conferences were an umbrella for several other meetings of federal and provincial ministers responsible for economic portfolios. The second innovation was the most elaborate and ambitious attempt at consultation between government and private interests to occur in Canada up to that time. The federal Department of Industry, Trade and Commerce (IT&C) initiated twenty-three Task Forces (Tier I), organized by sectors of the manufacturing industry, chaired by business with labour representatives, and with federal and provincial officials in the role of observers. The twenty-three committees presented their reports by August 1978, when the "Second Tier" Committee, also composed of business and labour representatives, was called upon to distill cross-sectoral concerns and recommendations from the 860 individual recommendations of the "First Tier" reports.

It was clear from the beginning that these processes were related; in fact, the sector Task Forces were announced at the close of the February First Ministers Conference. However, they dealt with two

distinct yet complementary dimensions of economic policy. The FMCs attempted to deal with the intergovernmental dimension of the problem of coordinating economic policy, while the IT&C exercise created a new mechanism for dealing with the public/private sector dimension. In the first, the debate centred chiefly on regional and provincial differences of interest. In the second, differences among industrial sectors and between business and labour resulted in diverging recommendations. Both dimensions are central to the development of effective economic policy in Canada.

Both exercises reflected the same concern: the necessity for a re-evaluation, if not a restructuring, of the role of the Canadian state in the economy. Many of the major themes were the same: reductions in the rate of growth of government spending and deficits, public sector wage restraint, deregulation, and reduced corporate taxation. Both exercises too, placed very strong emphasis on the necessity for greater collaboration on, and coordination of, federal and provincial economic policies and policy instruments - the "rationalization" of the federal state. There was, finally, an overwhelming sense that structural changes in the economy, energy shortages, trade and tariff changes, transportation problems, regional disparities and general competitiveness and productivity, had to be addressed in a more comprehensive and long-term manner.

Such common themes are not surprising. The 1978 exercises coincided with the approach of the end of more than three years of wage and price controls, and therefore with fears of stagnation, or an escalation of inflation. Policy makers were questioning old assumptions. Most major economists were convinced that the kinds of policy changes required to deal effectively with Canada's economic problems could only be developed by increasing cooperation and coordination between Ottawa and the provinces, and between government, industry and labour. Dirigiste strategies were ruled out by Canadian federalism and the decentralized structure of the Canadian private sector.

The issues raised by the exercises can be viewed from many perspectives. For the student of Canadian federalism the questions are primarily those of the structure and problems of collaborative decision making. Can a more collaborative approach to policy formation, in which national policies are developed through the coordination of federal and provincial activities, lead to a more satisfactory resolution of some of the structur-

al problems besetting the Canadian economy? Can the competing interests of different regions be reconciled? If so, were the 1978 exercises a genuine move in this direction? Would the type of solutions developed in a collaborative process differ from those evolving from alternative systems, and if so, in what way? Are some kinds of problems more amenable to collaborative solution than others? Do the 1978 conferences provide a model for future shared policy making? What do they tell us about the potential for collaboration?

While the student of federalism focuses more on process, the political economist is more concerned with issues and directions. What sorts of issues were raised by the participants; how were they resolved? How many of those issues could be traced to problems of economic structure, as opposed to institutional complications? How intractable are structural problems when considered independently of the institutions through which they are articulated? Is a national industrial strategy a potential reality given the regional divisions in the Canadian economy and the sharing of responsibilities between federal and provincial governments? Should the general conservatism of the 1978 exercises be considered a step toward or away from an industrial strategy?

Clearly the distinction between process and substance breaks down if examined in detail. A particular type of process may actually generate, or at least push into prominence, certain types of substantive issues. For example, it is often argued that a federal system tends to articulate structural problems in regional terms; some see it as a corollary that a collaborative federalist approach exacerbates this problem. Thus, many argue for strongly centralized decision making at the national level to assert a single industrial strategy for Canada. Conversely, some structural issues may play a strong role in defining the type of process that develops. This is the basis for the assertion that the economic problems now confronting the Canadian political system, given the existing constitutional division of power, are such that a more collaborative approach between governments is the only hope for successfully addressing them. The alternatives seem to be a politically unacceptable return to de jure and de facto federal dominance; or the delegation of most industrial policy making to the provinces, with the attendant dangers of balkanization and destructive competition.

The public/private process has arisen from increasing discussion of "tripartism", the sense that effective economic policy making can only develop from close consultation between government and the major producer groups in society. Such mechanisms have long played a prominent role in Western Europe but have seldom been tested in Canadian policy making.¹ In the aftermath of the 1975 wage and price controls program, with the realization of deep structural problems in the Canadian economy, business and labour leaders and government spokesmen increasingly began to advocate various consultative mechanisms. The Tier I and Tier II exercises have been the most elaborate to date.

Following our analysis of federal-provincial relations, we will examine both the process and the substance of the discussions. What prompted the initiative, who participated, how was it structured, what alternatives were debated, and how did governments respond? Does this process also suggest a model which might be developed in the future?

Both the First Ministers Conferences and the IT&C Task Forces arose from a set of common concerns about the direction the Canadian economy was taking; both ultimately concerned the role of the state in the economy, but they involved two very different sets of participants. The former involved the federal government and ten provincial governments, and was therefore organized around the territorial basis of Canadian politics. This territorial collaboration² is perhaps the dominant feature of Canadian policy making. Since World War II, an elaborate structure of federal-provincial negotiation has developed, and an increasing number of national issues have been dealt with in the arena of "executive federalism".

The latter much less developed dimension involving governments, business and labour might be called "functional collaboration". Here the issues and the participants are defined not primarily in territorial terms, but in terms of the interests of business, labour and agriculture, or in terms of the needs of industrial sectors, and so on.

Our objective is to compare these two processes. Each had a different framework for decision making, a different set of participants, and a different set of issues and concerns.

Functional interests in Canada tend to be regionally concentrated, for example, manufacturing in Ontario, oil and gas in the West, so the

two dimensions (territorial collaboration, and functional collaboration) tend to overlap. Moreover, if there is to be a greater emphasis on functional consultation, there is the question of whether it will be organized through the federal government, the provinces, or both. Here we will examine the links between the two 1978 consultation processes, and ask whether it is possible to integrate the two dimensions further.

Taken together, these two processes can give us an indication of how an industrial strategy, if it is to exist at all, must be developed in this country. We will see which groups must be involved in the process, and how they interact. Their successes and failures, the limits of consultation, will illustrate the problems confronting the development of such a strategy for Canada, and suggest some changes, both institutional and constitutional, which might enable governments and private interests to grapple more effectively with the economic challenges they face.

Our paper begins with an assessment of the economic and political context within which these debates took place. Part B then provides a detailed examination of the federal-provincial conferences on the economy. Part C makes a parallel analysis of the Tier I and Tier II process. In Part D we make some comparisons and draw our conclusions.

Our findings are drawn from diverse sources. There is copious documentation on both processes. Papers tabled at the First Ministers Conferences were made available to us by the Canadian Intergovernmental Conference Secretariat. The various reports of the industry consultation exercise were provided by the Department of Industry, Trade and Commerce, Ottawa. To these we have added conference transcripts, briefing notes and other papers provided by various governments or individual participants. The most important source of information was a series of interviews conducted by the authors in 1979. Over 70 senior public servants, business and labour executives were consulted. We have drawn from a varied literature on economic policy making in Canada,³ federal-provincial relations, and industrial strategies in western societies; however the balance of our study, we believe, breaks new ground.

II THE POLITICAL AND ECONOMIC BACKGROUND TO THE POST CONTROLS PERIOD

The experiments in economic decision making of 1978 were a response to a series of fundamental changes affecting the Canadian economy and Canada's political approach to economic problems. In most cases the changes have their roots in the international economic climate in which Canada has lived since the second world war. Since 1973, that international context has been dramatically transformed. On the domestic scene, there has been a steady change in the role of the state in the economy, in the relationship between the federal and provincial branches of the government, and among Canada's regions. This chapter examines some of the background to the vital national debate on the economic and industrial health of the country by tracing some broad national and international developments to 1973, by closely examining the series of events surrounding the imposition of wage and price controls and the post-controls period to 1978, and finally by summarizing the current state of intergovernmental relations.

The Long-Term Context: 1945-1973

The post-war period can be broadly characterized by the re-establishment of a degree of "openness" in the international economy that had not been in existence since before World War I. As one historian has observed, "it became a central aim of United States foreign policy to prevent the emergence of national capitalist experiments and to gain widespread cooperation in the restoration of an open world economy."¹ This policy was successfully pursued through the creation of a series of new international organi-

zations and agreements. Prominent among these were the seven General Agreements on Tariffs and Trade (GATT) from 1947 to the Tokyo round signed in 1979.

The corollaries of increased interdependence were an increasingly specialized international division of labour, and, at the corporate level, a resumption of corporate concentration. The first phenomenon was characterized by the exodus of low level technology and labour intensive industries to less developed countries, such as Korea, Taiwan and Brazil.² The second phenomenon has been the growth of multinational corporations, vast organizations that developed and thrived in the open international environment. Statistically, these structural changes were reflected by the increasing percentage of GNP represented by the service sector, and the declining contribution of the manufacturing sector to total employment in some western industrial nations.³

Accompanying these structural economic changes has been the changing role of the state in modern industrial economies. By the end of the Second World War there was general acceptance of Keynesian macroeconomics as the theoretical complement of the social service and economic stabilization policies which collectively became known as "the welfare state." The state became a major economic force, both by attempting to smooth out business cycles with fiscal and monetary adjustments, and by restructuring demand across income and regional lines by means of transfer payments. Finally, as the government bureaucracy grew to accommodate these new functions, the state itself became a major source of demand, even in peace time; together these resulted in a general increase in the percentage of GNP represented by the state's current expenditure.⁴

As the GATT process steadily whittled away at tariff barriers, the problems created by an open national economy which had originally encouraged recourse to tariffs did not wither away. Vulnerability to fluctuations in international supply and demand, and the threat of large scale displacements of industries and populations remained. All nations might receive equal benefits from free trade in theory, but from the practical perspective of maintaining social and economic stability in a democratic political system, some nations are more equal than others.⁵

Consequently, nation states developed new, more subtle and less easy to regulate means of accomplishing "protectionist" ends. These means were more appropriate to an interdependent world than the disastrous policies of the inter-war years.⁶ The economic role of the state in the post-war period increasingly became that of another principal agency, as opposed to an outside intervenor in the activities of others. Nations tended to evolve a set of more or less explicit priorities about which national industrial sectors should receive the most state support, whether for reasons of national security or on the grounds of perceived international competitive advantage. Support was extended by explicit government policies on purchasing and procurement, infrastructural development, looser antitrust laws, and aid in export markets.

These developments were naturally most pronounced in those nations whose industries had been shattered by the Second World War,⁷ but all nations developed at least the rudiments of what are popularly called "national industrial strategies", a set of priorities regarding national industrial development, defined by the dual constraints of domestic and international factors, and with an active state role in supporting those priorities.⁸

The above outline of structural economic changes roughly applies to the Canadian economy. The weight of the government sector in our economy had grown through the 1960s. In 1974-1976, total government expenditures averaged 39.8 per cent of GNP, thus surpassing the United States, which had public sector spending of 35.1 per cent of GNP in the same period.⁹ The tertiary, or "service", sector also expanded in Canada as a percentage of overall employment and GNP growth, as it has in other nations, though it is somewhat larger in Canada than elsewhere. In other words, the manufacturing sector has been declining as a percentage of overall employment and economic growth, though it has continued to increase in absolute terms.¹⁰ Canada's tariff levels are slightly lower than those of other industrial nations for all trade, and considerably lower for most finished products, reflecting Canada's high dependence on importing manufactured goods and exporting raw materials.¹¹

This last point brings us to some more disquieting trends in the post-war Canadian economy. As the Third World has developed its primary resources, the Canadian share of international markets and the rate of

growth of Canada's primary resource production have declined.¹² Increasing international competition in manufactured goods led to a drop in Canada's share of world exports from 5.6 to 3.8 per cent between 1970 and 1975.¹³ Consequently, trade deficits in end products rose from \$3 billion in 1970 to \$11 billion in 1976.¹⁴ Canada ranks among the lowest of industrial economies in terms of the percentage contribution of "invisibles" to overall trade receipts. This has been linked to the unparalleled level of foreign ownership of Canadian industry; almost half of the deficit on invisible trade was "due to the remission of profits, dividends and interest to foreign firms and individuals." Finally, a large proportion of the payments for services from abroad (over \$1.4 billion in 1976) was due to the import of services by subsidiaries of foreign-based corporations.¹⁵

Whatever its consequences for export performance, foreign ownership has risen dramatically since 1945. Recently, the growth in foreign investment has tended to level off; however in comparative terms Canada's dependence on external capital remains significantly greater than that of other western industrialized countries.¹⁶

The Federal-Provincial Context

Canada's political situation is different from that of other western industrialized countries. The growth of the state and its involvement in the national economy has been characterized by the expansion of both the federal and provincial levels of government. Regional differences in economic growth, wealth, and industrial mix have contributed to continuing inter-regional conflict over economic policy and the geographical location of economic activity.

The most significant change in fiscal power has been with the provincial governments. Charged by the constitutional division of powers with responsibility for health, education and social services, three of the largest growth areas in public spending, the provinces' share of gross national expenditure rose from 5.2 per cent in 1947 to 12.4 per cent in 1977. When combined with local and hospital expenditures this total becomes 24.3 per cent, compared to the federal government's share of 16.1 per cent of GNP.¹⁷ From the early 1940s until the early 1960s, however, the federal government consolidated its power partially by fiscal dominance over the provinces through conditional grants or shared cost programs, and

later by equalization payments, to help meet the provinces' fiscal needs. From the late 1950s until 1977, the provinces slowly but inexorably shook off the conditional aspects of many programs and, with the lion's share of expanding natural resource revenues, took on a great deal of fiscal autonomy.¹⁸

The fiscal capacity of individual provinces is not equal, however, but reflects disparities in provincial tax bases arising from regional differences in wealth, economic development, and location of natural resources. Ottawa has sought to reduce these inequalities through transfers of funds both to individuals and to provincial governments to maintain basic standards of living and public services in the underdeveloped regions of the country.¹⁹

The regionally differentiated structure of industrial activity is one of the main causes of regional disparities. The national economy is dominated by Quebec and Ontario, where 80 per cent of the manufacturing sector is located. Ontario, in particular, has the healthiest and most sophisticated industrial economy while Quebec is more dependent on low technology, tariff protected sectors. The provinces of British Columbia, Manitoba, New Brunswick and Nova Scotia have significant manufacturing bases but much of their secondary industry is directly linked to resource processing. The resource industries of agriculture, fishing, forestry and mining are the mainstays of the regional economies of the western and Atlantic provinces. These resource producing economies have traditionally existed in a metropolis-hinterland relationship with the central Canada economy, particularly following the dominant economic trends reinforced by the National Policy of 1878. This situation has been mitigated somewhat since the 1920s by increased direct export of resources to the United States; a development which has done nothing to increase the relative integration of the national economy.²⁰

The massive growth in importance of natural resources, especially petroleum, together with their physical location in the West (and now perhaps in Atlantic Canada) has profoundly threatened this central-Canada dominated political economy. The newly-rich provinces contain the most dynamic and rapidly growing sectors, and seek to use this power to challenge centralized control. On the other hand, Ontario, threatened by the impact of high energy prices and by transfers of wealth from its consumers

to those in the western provinces, seeks to preserve federal power to keep prices down and redistribute the huge revenues. This basic and intensifying conflict of interest is a fundamental barrier to the development of nationwide industrial strategies.

In short, the regional dimension can hardly be underestimated in setting the climate for economic decision making in the 1970s. At the political level, it has assumed two interrelated characteristics: first, the federal government has had to respond to demands for regionally sensitive policies, and second, there has been a growth in aggressive industrial policies by provincial governments, especially in the wealthier provinces.

It has recently been observed that,

"the reasons for the growing strength of the provinces are many and complex, and there is considerable debate among political scientists about the extent to which it grows out of the aggressive search for power by political elites, or conversely is a product of strong regional identities, disaffection from Ottawa and the regionalization of economic elites."²¹

Whatever the cause, rising provincial power has not always been at the expense of federal government power; there have usually been two aggressive levels of government with competing political interests and policies, not least of which have been in industrial strategy.

Thus, the challenges that Canadian federalism poses to the development of a coordinated economic policy operate at two distinct, but interwoven levels: the interregional and the intergovernmental. Regionalism implies that policies suited to the needs of one area may be unsuited to the needs of another; such conflicts would exist in Canada whatever its political regime.

The existence of the two levels of government reinforces this perception of regionalism, by providing regional interests with powerful spokespersons. It also leads to conflicts about which level of government is chiefly responsible for economic development policies. Intergovernmental debate is not only about what policies should be pursued, but about who is best placed to pursue them.

Finally, in a federal system, the instruments of economic policy making are constitutionally divided between the two levels of government. Equally important, the division of responsibilities is not clear-cut. The

growing provincial share of taxation and expenditure allows the provinces to engage in their own fiscal policies, and undermines Ottawa's flexibility. Both orders of government can use their tax systems to offer incentives and tax subsidies; both can do the same through direct spending. Both can create Crown corporations in many areas. Both can use a variety of regulatory powers in fields such as consumer protection. Both have a role in the operation of financial markets and in research and development. Both can, and do, use procurement policies to favour national or provincial suppliers. Moreover, some important elements of any industrial strategy remain predominantly in provincial hands. The most notable of these is the provincial ownership and management of natural resources, but provincial responsibilities for labour relations, education and other areas are also important. Thus, both levels of government are able to do much to shape economic activity. By the same token, both have extensive opportunities for mutual frustration and for the pursuit of contradictory policies.

The process of policy making has also been rendered much more difficult by the limited ability of the central government to understand and respond to regional needs. There has been a steady erosion in recent years of an effective national party system in the federal House of Commons. The Liberals have seen their support west of Ontario diminish to fewer than a dozen seats in recent years, and to only two after the 1980 election. The Progressive Conservatives suffer a chronic inability to elect members in Quebec, and the New Democratic Party has also been unable to find strength in all regions of the country. The cabinet, the judicial system, the Senate and central regulatory agencies have all been the focus of regional complaints about inadequate representation, which has eroded some of the legitimacy of the federal government.

This phenomenon has led to the increasing tendency of provincial political leaders, rather than members of the federal government, to consider themselves as the sole spokespersons for their regions. While this has taken place across the country, it has been more salient in the western provinces, particularly British Columbia and Alberta, and in Quebec. Thus, as political leaders in Canada have tried to come to grips with economic problems since the 1950s the traditional constraints of the federal division of powers have been exacerbated by provincial demands for input into national economic policy making. Many provincial leaders now view

"national" decision making as a federal-provincial process, not as a monopoly of the federal government.

The economic consequences of the division of powers and of regional differentiation of the economy has also made national policy making more difficult. As provincial governments have become more powerful, the number of policies designed to favour local capital, protect local markets and sustain the local population have also increased. Barriers to the mobility of labour, goods and capital are too numerous to catalogue here,²² but they include procurement policies, public works contracts favouring local firms, industrial subsidies, agricultural products marketing boards, securities, regulations, pension plan differences, professional and trades licensing, and construction labour codes. Economists in particular have become concerned with the importance of protecting the common market from such interprovincial barriers.

The more recent rise in provincial industrial strategies presents an even greater challenge to national economic policy making. Although only some provincial governments possess clearly articulated comprehensive blueprints for economic development,²³ most have been pursuing a series of industrial objectives designed to enhance the comparative advantages of their territories, often in direct contrast to the actual or perceived set of federal policies for industrial assistance, tariffs and transportation, and to the policies of other provinces.

Thus, the long-term trends since the second world war have left Canada with considerable regional economic and political decentralization, and an economy much more open to international forces. Let us now review the most recent developments in economic decision making in order to understand how the way was paved for the experiments in policy making of 1978.

Medium Term Trends and Events: 1973-1977

The most spectacular economic development of the 1970s was the rise in oil prices induced by OPEC in late 1973. The impact of this change did not come until 1974; in the interim, the volume of world trade increased by 13 per cent and its value by 20 per cent, and there was a continued high rate of general economic growth. However spiralling commodity prices, with concomitant domestic price increases (and later with increased wage demands) and higher food prices in the wake of poor harvests and supply problems,

all combined to create a recession by late 1974, the worst experienced in most western economies since the 1930s.²⁴

By 1975, the Canadian economic picture was grim: real GNP growth had fallen to 1.4 per cent from its 1973 level of 7.1 per cent. For the same years, new jobs created fell from 430 000 to 179 000, and unemployment rose from 5.6 to 7.0 per cent. Inflation rose from 7.6 to 10.8 per cent, and the Canadian dollar was beginning to waver, though its plunge did not begin until 1977. The trade deficit in end products rose from \$3.6 billion in 1971 to over \$10 billion in both 1975 and 1976. While considering part of this trade deterioration cyclical, the Department of Finance saw the major cause as "the recent period of more rapid wage and price inflation in Canada [which] has made it much more difficult for Canadian manufacturers to compete with foreign firms at home and abroad... ."25

The effect of this economic crisis on the financing of the Canadian welfare state was powerful. Between 1974 and 1975, the budget balance of the total government sector went from a surplus of \$1.9 billion to a deficit of \$4.6 billion, or a swing from 1.4 per cent of GNP to minus 3.0 per cent.

The federal case illustrates what happened at all levels of government as the governments were called upon to increase social service payments while, at the same time, the falling economic growth rate drastically reduced the rate of growth of the tax base. It was a vicious circle:

"In contrast to the sharp reduction in revenue growth from a rate of 29.7% in 1974 to a rate of 4.8% in 1975, expenditure growth slowed from 28.3% in 1974 to 22.6% in 1975. There was a further large increase in subsidies, most importantly the subsidy on petroleum imports. Transfer payments to persons increased at close to the 1974 rate, but in 1975 the most important factor in the increase was the higher level of unemployment insurance benefits caused by the higher level of unemployment... ."26

Canadian output, employment, and real income per person all fared much better than the average of the OECD countries in 1974 and 1975. This was partly a result of Canada's particular import-export structure, which meant that international recessions affected the economy differently, and partly a result of the increased levels of government expenditure, and tax cuts, noted above.

Paradoxically, the relative mildness of the Canadian recession sustained import demand, while the greater external impact of the recession weakened export demand for Canadian goods. Of greater lasting importance, though, was the fact that the slowdown in inflation which occurred in the latter half of 1975 in the United States, Germany and Japan, came later in Canada, and then it was less pronounced. Collective bargaining both reflected and reinforced this trend toward particularly high inflation rates in Canada.

Major negotiated wage agreements settled in 1975 provided for annual average increases of 16.8 per cent, compared with 14.3 per cent in 1974. In the non-commercial sector of the economy, too, wages increased. Overall labour costs jumped by more than 12 per cent while average productivity, reflecting the recession in output, declined in 1975. Thus for the third year in a row, increases in labour costs per unit of output were substantially higher in Canada than in the United States.

From the perspective of understanding the background to the 1978 exercises, the federal government's response to these events constitutes the single most important political development. The anti-inflation program was announced on October 14, 1975, and the necessary legislation was passed by Parliament, and regulations issued, late in December. Inflation rate targets were set at 8, 6 and 4 per cent respectively for the first, second, and third program years.

The Anti-Inflation Board's (AIB) focus on controlling labour, an area of provincial jurisdiction, meant that the federal government required provincial agreement on, and cooperation with, the plan. It acted under the "Peace, Order and Good Government" clause of the BNA Act, arguing that inflation constituted a national emergency. This justification was later sustained by the Supreme Court of Canada. Although the program involved a massive federal intrusion into provincial jurisdiction, most provincial governments took part willingly, as they were in the same fiscal "squeeze" as the federal government. Agreements to apply the new regulations directly to provincial public sector employees were signed with eight of the provinces, while Saskatchewan and Quebec established parallel programs to cover their public sector employees.

The coordinated federal-provincial policy did reduce inflation (from 10.8 per cent in 1975 to 6.2 per cent in 1976) for one year,²⁷ but, in retrospect, its more important effects were probably on public sector-private sector relations. Wage and price controls were met with vociferous opposition from the labour movement, chiefly because the AIB's demonstrated ability to control wages was not accompanied by effective control of price and profits. The Canadian Labour Congress (CLC) and the Confederation of National Trade Unions (CNTU) in Quebec pulled out of federal advisory agencies such as the Canada Labour Relations Council and the Economic Council of Canada. The CLC organized a widespread public campaign and staged a national day of protest in October 1976.

As early as May 1976, however, the CLC began to reject its more negative approach to controls in favour of a more positive position on tripartite alternatives to the control mechanisms.²⁸ The CLC's national convention approved the text of Labour's Manifesto for Canada.²⁹ As stated in the manifesto, labour was convinced that the free collective bargaining process was ending and that price and income policies were the harbingers of formal tripartite structures for economic policy. While aware of the "danger in being coopted," the CLC made it clear that it wanted to be in the forefront of national planning initiatives that were based, not on what it termed the institutions of "liberal corporatism" (which "would mean... labour would function to ensure the acquiescence of workers to decisions taken by new institutions in which their representatives have no real power") but rather on the basis of "social democracy" in which labour would gain bargaining power to deal effectively with business and government managers.

In September 1976 the Economic Policy Committee of cabinet met with business leaders for discussions focusing on the state of the economy and "decontrols." Labour, represented by the CLC, and business represented by the Business Council on National Issues (BCNI) also met for discussions in late 1976. In March 1976 the BCNI, the CLC and the Economic Policy Committee held a joint meeting to discuss these same issues. Meanwhile the federal government released The Way Ahead³⁰ and labour minister John Munro embarked on a cross country tour to explain and promote the document's 14-point plan for the "reconstruction" of industrial relations, including tripartite boards.

The tripartite meetings of the CLC, the BCNI and top federal officials and ministers continued until July 1977. At that point, Finance Minister Donald MacDonald tabled a "specific written proposal contemplating phased decontrol starting October 14, 1977."³¹ According to labour and business participants, the federal attempt to get voluntary agreement on post-control guidelines broke down, and with it, the tripartite process. Labour, in particular, balked at what was perceived as a "take it or leave it" approach by the federal government. The CLC rejected the proposal and refused to enter into a bargaining process to decide on a more acceptable set of post-control guidelines. The BCNI, while not as much opposed to the process, also had its reservations.

Business and labour's rejection of a continuing tripartite forum on economic issues in the post-control period were derived in part from the inability of the BCNI and the CLC to freely represent the private sector. The Canadian Labour Congress does not represent the majority of the work force, and is only an aggregate of member affiliates; a significant number of unions, especially in Quebec, remain outside the CLC. The BCNI has potentially superior financial resources, but it is composed of the chief executive officers of 140 of Canada's largest corporations and it can only speak for these firms. It is also, therefore, not representative of the total business community. Neither the BCNI nor the CLC feels comfortable with a truly responsible role in a tripartite decision forum. Federal proposals for a formal consultative body, as outlined in their May 1977 discussion paper Agenda for Cooperation,³² were still-born as an attempt to restructure national economic relations.

By mid-1977, the federal-provincial alliance on controls was also splintering. It was becoming increasingly clear that the program had been relatively ineffectual as anything beyond a "band-aid measure." Hope that the 1976 economic upturn would represent the beginning of the climb out of recession was disappointed. The growth in real output for OECD countries fell from an annual average of 6 per cent in 1976 to about 3 per cent in 1977 and that of Canada sank from 4.9 per cent to 2.6 per cent.³³ Though Canada's economy did not fall so far as most in 1974-1975, neither did it rise as fast as most in 1975-1976.

Canada's international competitive position had not shown much improvement. And, although there was a substantial improvement in 1977 in

Canada's position in relation to all its major trading partners, the Economic Review stated that:

"All of the improvement... came from the depreciation of the Canadian dollar, and the appreciation of other major currencies vis-à-vis the U.S. dollar. While progress was made in bringing down the rate of increase of Canadian labour costs, they still rose faster than in any of Canada's four major trading partners in domestic currency terms."³⁴

In short, it became increasingly apparent by 1977 that Canada's declining competitiveness was not a short-term phenomenon due solely to the international recession, and that it could not be cured by short range palliatives such as the AIB or currency devaluation, however drastic they might seem.

In this context, most provincial governments called for an early end to the AIB program. The federal government, too, had recommended, in Agenda for Cooperation that it cooperate with the provinces on an orderly and rapid decontrol by midsummer. The federal tune was soon to change, and the October 1977 "mini budget" announced that controls would remain in effect for most firms and employers until the end of 1978. Several provinces balked: in Quebec, the Parti Québécois government had pulled its public sector employees out of controls shortly after its election in 1976. Saskatchewan decided to pull out after October 13th, 1977, and Alberta by the end of December.³⁵

The perception that Canada's competitive problems were more deeply embedded in economic structures, and the numerous federal-provincial and private-public discussions in 1977 about what was to follow controls, reinforced a consensus that longer range economic policy formation was necessary and would require a more collaborative forum. As one federal official close to the process argued, while the problem of intergovernmental interdependence had been around for a long time, it had taken the AIB, and its impending end, to really bring home the recognition of this fact. The AIB, he argued, had provided a concrete example of how cooperation was necessary to deal with economic problems, and, at the same time, had impressed upon participants the enormity of the constitutional/jurisdictional complications raised by any unilateral attempt to address such problems.³⁶

Governments were not alone in realizing that Canada's economic problems required more than traditional fiscal, monetary, and price and incomes policies. Economic advisory groups, business groups, labour and political parties all began to put forward blueprints for structural change in the economy, and for mechanisms to bring about what they have called a "national industrial strategy."³⁷

Thus by late 1977 the economic and political climate was ripe for some kind of comprehensive policy response to economic problems. The Canadian economy became profoundly vulnerable to international economic change and faced serious challenges to its position as a competitive trading partner among the western industrial countries. Viewed from within, the economy was regionally divided and unevenly developed. Decentralization of political power had tended to reinforce the economic regionalism and required a joint federal-provincial approach to economic policy making. The usual post-war mix of fiscal and monetary "demand management" policies seemed to be inadequate to meet the challenge of growing structural problems; and structural, industry solutions have more and more come to depend upon the consensus of the key economic actors: business, labour and governments.

Thus, growing demands were heard for a comprehensive approach, an "industrial strategy" for Canada. The debate was organized around inter-governmental and the public/private consultation. We look first at the more traditional Canadian model: federal-provincial policy making.

I. Introduction

1. Leo Panitch, "Corporatism in Canada", Studies in Political Economy, Spring 1979.
2. We use the term collaboration here, but "consultation" might also be used in the text of the study. We have tended to avoid the term "corporatism", even though in many analysts' view it would be more precise, because corporatism in the Canadian case has too many confusing connotations. See Panitch, op. cit., and for an explanation of the various ranges of corporatism see Phillippe C. Schmitter and Gerhard Lehmbruch ed. Trends toward Corporatist Intermediation, Sage Publications, London and Beverly Hills, 1979.
3. As we were revising this text, a valuable new analysis of economic policy making by the federal government has been published. See Richard D. French, How Ottawa Decides - Planning and Industrial Policy-Making, 1968-1980. Canadian Institute for Economic Policy, Ottawa, 1980. It critically analyzes the mix of policy goals and bureaucratic politics in Ottawa, many of which contributed to the pattern of events we describe in 1978.

II. The Political and Economic Background to the Post Controls Period

1. F.L. Block, The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War Two to the Present, University of California Press, Berkeley 1977, p. 9.
2. This gave rise to a body of literature on "product cycles," beginning with: Raymond Vernon's "International Investment and International Trade in the Product Life Cycle," Quarterly Journal of Economics, 1966, vol. 80, pp. 190-207.
3. For a comparison of Canada's position in these trends, see John Britton and James Gilmour, The Weakest Link: A Technological Perspective on Canadian Industrial Underdevelopment, Science Council of Canada, Background Study 43, Supply and Services Canada, Ottawa, 1978, esp. Chapt. III.
4. A.T. Peacock and Martin Ricketts, "The Growth of the Public Sector and Inflation," in The Political Economy of Inflation, eds. Fred Hirsch and John H. Goldthorpe, Harvard University Press, Cambridge MA. 1978.
5. Compare, for example, the impact of the two major OPEC price increases on Europe in 1974 and 1979: "In 1974, a heavy dependence on the United States export market meant that changes in the American economy automatically affected the economy of Europe. Some 12% of all the European Community's exports were going to the United States in 1970. But by 1978, the United States' share of Europe's exports had fallen to only 7%. This lessened dependence gives Europe a much better chance of staying afloat during an American recession." J.M. Geddes, "Why Europe Still Prospers," New York Times, August 19, 1979, pp. F1 and F7. This

analysis gives us some idea of the incredible power of the US economy over the Canadian, which continues to have much closer ties with the US than Europe has ever had.

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7. Peter Katzenstein, ed., Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States, University of Wisconsin Press, Madison, WI 1978, chaps. on Japan, Germany and France.
8. Roderick Oram, "Manufacturers Cry 'Enough' to Tariff-wall Reductions," Financial Post, December 17, 1977, p. 3.
9. Canada, Department of Finance, Economic Review, April, 1979, Minister of Supply and Services, Ottawa 1979, Table 10.3.
10. For national data, see Industry, Trade and Commerce, Manufacturing Performance; Discussion Paper, I.T. & C. Ottawa 1977 pp. 6, 7, 11 and 14; for a regional breakdown, see Industry, Trade and Commerce, Canadian Manufacturing Prospects from a Regional Perspective. I.T. & C., Ottawa 1977.
11. Science Council of Canada, Report No. 29, Forging the Links: A Technology Policy for Canada, Supply and Services Canada, Ottawa 1979, and B.W. Wilkinson, Canada in the Changing World Economy, C.D. Howe Research Institute, Montreal, 1980.
12. Science Council of Canada, Report No. 29, op.cit., p. 32.
13. Ibid., p. 16.
14. Financial Post, December 17, 1977, p. 36.
15. Science Council of Canada, Report No. 29, op. cit., p. 24.
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17. Richard M. Bird, Financing Canadian Government: A Quantitative Overview, Canadian Tax Foundation, Toronto 1979, p. 15, Table 5.
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32. Government of Canada, Agenda for Cooperation: A Discussion Paper on Decontrol and Post-Control Issues, Ministry of Supply and Services, Ottawa, 1977.
33. Canada, Department of Finance, Economic Review, May, 1978, p. 1.
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PART B

The First Ministers Conferences on Economy, 1978

A SUMMARY OF EVENTS

The federal-provincial First Ministers Conferences on the Economy were held in February and November 1978. The televised debate among the political leaders, and the months of behind the scenes activities before, during and after the conferences were related, but they had some fundamental differences. The issues in the debate likewise had a common thread but were treated in different ways in the various stages of the intergovernmental process. This chapter, and the following two, analyze both the process and issues or substance of the 1978 conferences.

The process includes the behavioural and institutional motivations of the governments, the role of ministers conferences leading up to the first ministers meeting, the setting of the agendas, the impact and importance of the publicly televised "media event" and the methods by which decisions were taken and relayed to the governments involved. The issues of the debate include the role and size of the state in the economy, the structural problems faced by economic policy makers, and the manifestation of interregional tensions.

First, however, it is important to describe the sequence of events so that a larger picture of the 1978 exercises as a whole can emerge.

Organization

Prime Minister Trudeau put the idea of a first ministers conference on economic issues before the premiers during a tour of the provinces in the fall of 1977. The reaction of the premiers was mixed, but none expressed unwillingness to participate. It was mid-December, however, before a firm commitment was made to hold a federal-provincial First Ministers Conference on the Economy in February 1978.

The agenda and general approach of the conference resulted from meetings of a steering committee of intergovernmental affairs officials from the ten provincial governments, chaired by Marcel Massé, then federal deputy secretary to the cabinet for federal-provincial relations.

Several preliminary conferences of federal and provincial ministers responsible for various economic sectors were convened. In some cases, for example, the meetings of finance ministers, the ministers conferences represented the continuation of an established pattern of federal-provincial consultation at the ministerial level. In other policy areas the meetings were more innovative and specifically geared to the first ministers conference. The ministerial meetings were held so that federal and provincial ministers could review policy, and, if possible, arrive at a consensus on future directions which could then be submitted to the first ministers. For some meetings, that of the energy ministers for example, confusion existed among provincial ministers about whether they were, indeed, to arrive at a consensus for the February First Ministers Conference. Seven of the nine ministerial conferences forwarded reports on their discussions to the first ministers. For the other two, the premiers made statements on behalf of the ministers concerned at the First Ministers Conference.¹

At the federal level, responsibility for organizing and coordinating participation in the ministerial conferences and the first ministers conference was divided between the Federal-Provincial Relations Office (FPRO) and the Committee of Deputies on Economic Issues (commonly known as "DM-10") chaired by Thomas Shoyama, Deputy Minister of Finance. Although the division of tasks between the two bodies was not clearcut, FPRO's responsibilities appear to have involved primarily coordination of the conference agenda and arrangements with the provinces, while the DM-10 committee was concerned with coordination of the substance of the federal position.

The federal effort was massive and decentralized. All line departments whose mandates concerned conference agenda items were asked to prepare background papers and reports of the proceedings of the ministerial conferences. The committee of deputies then met with departmental officials to review their papers, and sent them to FPRO to be re-examined and prepared for cabinet approval. The cabinet either approved the papers of the federal position concerning that policy area, or asked for revisions.

Provincial governments organized their input according to two basic criteria. The first hinged on the priority attributed to the premier and his cabinet to the first ministers meeting. This, in turn, depended upon whether or not the conference was seen as an effective forum for expounding the provinces views concerning the policies which should be pursued to improve Canadian economic performance in the short and medium term. Those governments that considered the conference as a good opportunity to express their views arrived at their provincial positions in a more centralized manner than did the others.

The second criterion may be termed institutional: the size and sophistication of the bureaucratic resources at the disposal of the provinces. Where there were limited bureaucratic resources, the economic departments had relatively little input into the preparation of the provincial position, responsibility for which often lay with intergovernmental affairs officials in the Executive Council office. By contrast, economic departments in the larger governments were generally involved in the preparation of their provincial positions, even if they did not always determine its policy thrust. Their involvement was coordinated by intergovernmental affairs offices with responsibility for overseeing the coordination and content of the provincial position.

The February Conference

The First Ministers Conference was held from February 13 to 15, 1978, with full television and radio coverage by the CBC. It received massive advance publicity and generated high expectations; business and other interest groups took a close interest in the proceedings, although several newspapers urged their readers not to expect too much and emphasized the electoral stakes for the Liberal government.

Table II.1 - First Ministers Conference on the Economy, 13-15 February 1978, Agenda

February 13th	<u>Opening of the Conference</u>	<u>General Outlook and Objectives</u>	<u>General Economic Policies</u>
	Prime Minister Trudeau	Chairman: Jean Chrétien, Finance Minister Opening Statements by provincial premiers Discussion of federal paper "Canada's Economy-Medium Term Projects and Targets"	Growth and cost of the public sector Chairman: Premier Bennett, BC Government economic regu- lation Chairman: Premier Lyon, Manitoba Labour relations Chairman: M. Johnson, Minister of Labour, Quebec
February 14th	<u>General Economic Policies (cont'd)</u>	<u>Regional Aspects of Economic Development</u>	<u>Sectoral Policies</u>
	Commercial Policy Chairman: Premier Davis, Ont. Energy Chairman: Premier Blakeney, Sask.	Debate led by Premier Hatfield, NB	Mining Chairman: Premier Hatfield, NB Agriculture Chairman: Premier Lougheed, Alberta
February 15th	<u>Sectoral Policies (cont'd)</u>	<u>Follow-up Arrangements</u>	<u>Conclusion</u>
	Housing Chairman: André Ouellet, Fed. Minister for Housing Fisheries Chairman: Premier Campbell, PEI Forestry Chairman: Premier Moores, NFLd. Tourism Chairman: Premier Regan, NS Industry Chairman: Jack Horner, Fed. Minister, IT&C	Chairman: Marc Lalonde, Fed. Minister for Federal Provincial Relations	

The stars of the show were the Prime Minister and the ten premiers, but with so much on the agenda, each was accompanied by a large entourage of ministers and officials. A total of 281 persons participated, 78 ministers and 203 officials. By far the largest delegation was from Ottawa: 33 ministers and 80 officials, many of whom, however, were present only for brief periods. From the provinces, Ontario and Quebec each sent 26 delegates, New Brunswick sent 21 and Alberta 20. The smallest delegations were Manitoba with nine and Saskatchewan with eleven. Many of the ministers and officials sat in serried ranks behind the first ministers while others worked in offices in various parts of Ottawa. Leaders of the federal opposition parties and other Members of Parliament, perhaps symbolically, sat with the other observers behind the cameras. One member of the Canadian Intergovernmental Conference Secretariat (CICS) estimated that there were no less than 400 accredited members of the press present. Prime Minister Trudeau chaired the conference, but separate agenda items were co-chaired by the premiers, and federal and provincial spokesmen alternated in leading the discussion, an innovation in federal-provincial conferences.

The topics on the agenda (see Table II.1) can be divided in two categories, often referred to as "horizontal" and "vertical" economic issues. The "horizontal" issues concerned the framework of the economy as a whole, such as labour and commercial policies; the "vertical" issues dealt with specific sectors of the economy: manufacturing, fisheries, mining, etc.

Progress on the rather lengthy agenda was mixed and tended to fluctuate with the mood of the participants. At the end of the first day, the atmosphere was almost collegial and a mood of cooperation and harmony prevailed. With the discussion of regional development and transportation issues on the second day, however, a more confrontationist attitude emerged, particularly between provincial spokesmen and federal cabinet ministers. This reached its climax on the Wednesday morning in a heated exchange between Quebec Premier René Lévesque and federal housing minister André Ouellet, ending when the premier stormed out of the conference hall.

During the morning of that third day, February 15th, federal and provincial officials prepared a draft communiqué based on the discussions of the first ministers at a private dinner the previous night. The

premiers approved the communiqué over lunch which Lévesque also attended. The Quebec premier later left the conference early, holding a press conference to denounce the entire event as a complete waste of time and "a pre-election extravaganza." Undeterred, the other first ministers proceeded with the remaining items of the agenda and finished their discussions late on February 15.

"We certainly have not made miracles," said Prime Minister Trudeau when he presented the closing communiqué, "but we have made a start." A glance at the communiqué leads one to agree at least with the first part of that statement. The medium-term objectives agreed upon by the first ministers remained at the level of platitudes, calling for "expansion of jobs from the private sector," "increased investment," and then "restoration of price stability." As the Montreal Star put it: "Motherhood looms large." More progress was made with respect to demand management and prices and incomes policies. In these fields, it was agreed to keep the growth of government expenditure below the growth of GNP or gross provincial product, to accept the Bank of Canada's tight monetary policy, and to ensure that the level of total compensation of public sector employees did not lead that in the private sector. The agreed upon prices and incomes monitoring agency within the Economic Council of Canada was much more anaemic than that which had been proposed by federal officials in the months preceding the conference.² It was also proposed that the Economic Council should examine the effects of economic regulation on the private sector and monitor price and cost changes in the economy in the post controls period.

In another attempt to improve the business environment, federal and provincial Finance and Resource Ministers agreed to undertake a review of taxation of the mineral and petroleum industries. The statements in the communiqué concerning trade and industrial policy were primarily an expression of good intentions. Ottawa promised to "continue to keep provinces informed on progress of GATT negotiations," and indicated that a priority at those talks would be to increase Canadian exports, particularly of "processed raw materials."

The conclusions on manpower policies, regional policies, agriculture, tourism, fisheries, forestry and manufacturing were much more tentative and lacking in substance. With respect to housing, the federal

government agreed to reconsider the provinces' proposal for block funding of housing programs.

The most concrete commitments in the communiqué were in proposals for specific energy projects. The federal Minister of Energy, Mines and Resources and the Premier of Newfoundland announced an agreement in principle to establish the Lower Churchill Development Corporation, which would be responsible for the engineering, marketing, financing and construction of the Gull Island Hydro project. The federal government agreed with Saskatchewan to proceed with the development of a heavy oil upgrading facility in the province. Attached to the communiqué was a list of twelve further projects which were to be given "priority attention" by the federal and provincial governments. Nine of these projects were in the energy field. The others concerned maximizing the benefits from the 200-mile fisheries limit, expanding grain storage facilities at Prince Rupert and ensuring increased investment in the automotive industry. All these decisions show how the conference allowed provinces to seek specific project support from Ottawa.

However ephemeral the substance of the "communiqué," most participants came away with the general consensus that increased intergovernmental collaboration was a prerequisite for an effective economic strategy for the country. The Minister of State for Federal-Provincial Relations, Marc Lalonde, put it this way: "The real condition for the success of this conference in leading the way toward a better economic future is that it marks the beginning of a process of more complete and purposeful intergovernmental consultation."³

It was however only a tentative beginning. Most of the premiers, with the notable exception of Mr. Lévesque, were pleased with the results. The communiqué had included most of their "pet" items. They welcomed the commitment to meeting again in November, and the feeling that the provinces would play an important role in future federal economic policy making. Officials in intergovernmental affairs agencies were generally enthusiastic; those in more substantive line ministries were more likely to be frustrated by the seemingly endless talk and little action. For them substance was more important than process.

The press was cautiously approving. In general, there was support for the apparent commitment to restraint and the encouragement of investor confidence. Many journalists felt that there was a new foundation of cooperation which could be built on in the future, but that the mēlange of items in the communiqué represented a "lowest-common-denominator" grab-bag of generalities and specific projects, and that there was not much substance underneath the rhetoric. Some papers, like the Financial Times, also argued that too little attention was given to the immediate and short-term problems facing the economy.

The Interlude: February to November, 1978

The events between the two first ministers conferences demonstrate both the promise and the limitations of federal-provincial cooperation over economic policy. Many officials and political leaders were disillusioned by the speed with which the individual governments returned to earlier habits of not consulting and of acting alone; yet there were policy initiatives following the February conference that enabled some progress to be made.

Some of these events were designed specifically to follow up the first ministers initiatives in February, while other policy and political decisions had a bearing on the climate of federal-provincial relations.

The most important initiative following the First Ministers Conference was the creation of twenty-three industry Sector Task Forces. The groups, composed of business and labour representatives, with federal and provincial observers, each met approximately four times between March and June and submitted their final reports to a meeting of deputy ministers of industry on October 23, 1978. The federal government presented a preliminary response to the sector reports and to a coordinating overview committee at a November 7 ministers meeting.

Other programs launched in this interim period were a federal-provincial mineral taxation review, presented to a meeting of resource ministers on November 3, 1978; the establishment within the Economic Council of Canada of the Centre for the Study of Inflation and Productivity to monitor price and income trends; a study, also delegated to the Economic Council, to investigate the effects of government regulation on economic activity; federal-provincial meetings to exchange information on public sector compensation; a ministerial conference to review the current state

of research and development funding; and meetings of industry officials and ministers to discuss industrial adjustment and development programs.⁴ Discussion on conference issues continued with meetings of deputy ministers and ministers of finance in June, July and November, of manpower ministers in October, and of fisheries ministers in May and November. Provincial and federal governments also consulted on the progress of multi-lateral trade negotiations, tourism development and block funding for housing programs.

Despite this activity, other federal actions had greater significance for continuing federal-provincial relations.

In the federal budget of April 10, Finance Minister Jean Chrétien proposed a measure whereby the federal government would partially compensate the provinces for lowering their retail sales taxes. To stimulate the economy, Chrétien called on the provinces to reduce their sales taxes by three percentage points for a six-month period, and said Ottawa would compensate them for the loss of revenue from two of the points. Alternative arrangements for compensation would be made with provinces that preferred to lower their taxes by two per cent, but extend the period for a further six months.

This measure had been discussed at finance ministers meetings, and Chrétien, when he presented the budget to the House of Commons, appeared to believe that it was acceptable to the provinces. Quebec, however, opposed it and argued first, that the measure represented federal intrusion into provincial jurisdiction; and, second, that it would primarily benefit the Ontario manufacturing industry. After much wrangling the federal government finally accepted the Quebec proposal to compensate the province for conducting its own sales tax reduction program. Quebec eliminated the entire sales tax on only four commodities, clothing, textiles, shoes and furniture, for which manufacturing is concentrated in Quebec. The federal government, however, paid \$186 million in compensation directly to Quebec taxpayers, not to the provincial treasury as the government had requested.

The Western provinces followed Quebec's lead in criticizing the proposal but did not opt out of the sales tax measure. On April 14, the Western premiers issued a statement saying that they were not debating the principle of the sales tax cut as a fiscal measure but that they were

"sharply critical of the unilateral and intrusive way in which it had been put forward." The premiers claimed the federal budget which arrived as they completed new budgets "contradicts the spirit of federal-provincial cooperation and consultation, which the February conferences had been intended to foster."⁵ Other provincial governments, particularly the Atlantic provinces and Ontario, were much more supportive of the measure.⁶

A second federal move which some provinces interpreted as contradicting the February spirit was the expenditure restraint program announced by the Prime Minister on August 1, 1978. This was a series of measures designed to pare \$2 billion from current and planned federal expenditures. Together with earlier cuts and others which came later, public spending would be reduced by \$4.2 billion. Given the high degree of interdependence in federal and provincial finances, there was no doubt that provincial revenues would be affected, both directly and indirectly. In a telex to the premiers on August 18, the Prime Minister promised to "fully discuss with you before deciding to make changes to federal-provincial contractual or legislative arrangements presently in effect." While the federal government maintained that cuts were in keeping with February commitments to reduce the growth in expenditures, the details of various restraints on jointly funded programs, particularly unemployment insurance and fiscal arrangements, dominated federal-provincial finance discussions throughout the fall of 1978.

Other measures also affected the next First Ministers Conference on the Economy, scheduled for November 27-29. Although Finance Minister Chrétien considered postponing a fall budget until after the first ministers conference, he chose to bring one down on November 16, claiming that it would concern short-term measures while the conference would focus on the "medium-term." With a federal election pending, and the Liberals losing all but two of fifteen by-elections held on October 15, Chrétien was in a difficult position. He chose what was regarded as a responsible middle path between the advocates of stimulus and restraint. The budget's key measure was a 3 per cent reduction in federal sales tax at the manufacturing level. It also reduced unemployment insurance premiums and increased the automatic employment expense deduction in wage and salary income. To promote industrial growth, Ottawa increased the investment tax

credit (from 5 to 7 per cent, and from 10 to 20 per cent in the Atlantic provinces and the Gaspé), doubled the research and development tax credit (from 5 to 10 per cent, and to 20 per cent in the Atlantic provinces), and implemented measures to stimulate investment in mineral exploration and development and new mining ventures. In addition, a 25 per cent tax credit would apply to research and development undertaken by small Canadian-controlled businesses. As the total tax reduction slightly offset the impact of the August restraint program, the budget would provide only mild stimulation to the economy.

One final policy measure announced a few weeks before the November conference demonstrated the federal desire to be perceived as responding to the challenges of economic policy. In November, Prime Minister Trudeau announced the creation of the Board of Economic Development Ministers. Under the presidency of Robert Andras, former president of the Treasury Board, the Board's members included the ministers of Industry, Trade and Commerce; Employment and Immigration; Regional Economic Expansion; Energy, Mines and Resources; Labour; Small Business; Revenue; and Science and Technology. The Minister of Finance and President of the Treasury Board sat ex officio. According to Andras, the Board would review every proposal and the associated funds for economic development, before they were approved by the cabinet and Treasury Board. The new Board would also be responsible for coordinating federal industrial policies with the provinces and the private sector.

Despite the federal activity, and the joint follow up in several policy areas, the general climate on the eve of the November conference was less optimistic than it had been in February. With the lost by-elections in October and the defeat of the Liberal government of Nova Scotia in September, the federal Liberals were on the defensive. Moreover, the rather dramatic and controversial undertakings on the economic level were coupled with significant efforts at constitutional review; the federal government convened a first ministers conference on the constitution on October 30, 1978. Having the two conferences to close together strained the institutional resources of all governments and may have diluted the attention of the politicians. Thus there was much less enthusiasm for the second conference on the economy.⁷

The November Conference

The federal government's position was clear when the conference opened on November 27. As Le Droit analyst Fay La Rivière put it: "Le ministre fédéral des Finances a fait sa part depuis février dernier, à votre tour de faire la vôtre... ."8 The federal bureaucracy had invested a tremendous amount of time and effort unmatched by any of the provinces, except perhaps Quebec, in preparing a mountain of material for the conference, as it was determined to demonstrate its steadfast follow-through on the February conference.

In his opening remarks, the Prime Minister stressed the inseparability of the constitutional and economic problems facing Canada. He noted that the issues of greatest concern in the economic realm were unemployment and inflation. Nevertheless, he cautioned the premiers:

"Last February's conference owed its great success to the collaborative spirit with which we approached it and to our determination to keep our sights upon the medium-term. Our purposes are not to dwell upon our past mistakes, nor yet our immediate difficulties, except as they both may be instructive in pointing to the directions we must travel."9

Mr. Chrétien then opened the discussion on the "Economic Overview." The Finance Minister was forced to admit that the economic targets of the previous February had not matched actual trends, but he argued that this simply meant that the finance department projections required a more extended time frame, not that they were invalid.

In the premiers' statements which followed Mr. Chrétien's remarks, it became evident that the aura of cooperation the federal government wanted to project was not forthcoming. The November conference took on a more familiar pattern of provincial complaints of recent federal policy and more open interprovincial conflict, than had the previous conference.

The Atlantic provinces focused on regional development policy, the impact of federal cutbacks, and on energy and fisheries, although their positions were by no means identical. The Quebec government launched an aggressive attack on the alleged "asphyxiation" of the provincial economy by federal fiscal and economic policy, laying the blame largely on the federal system itself. Ontario's Premier Davis singled out the fiscal "drag" of the Alberta Heritage Fund and the diversion of funds to regional

development as impediments to national economic growth. Finally, the Western premiers, again without complete unanimity, focused on trade negotiations, foreign ownership, transportation, and the role of the public sector. Despite some interregional squabbling, the dynamics of the conference soon became a sustained criticism of federal economic policy from the provincial premiers.

The November conference, the agenda for which is given in Table II.2, was much less productive and considerably more fractious than its predecessor. The events of the intervening months contributed to the combative mood, and a closed session lunch on the second day added a parallel conflict to the proceedings. In August, the federal government had unilaterally delayed the January 1979 increase of \$1 per barrel on the price of crude oil. Alberta and Ottawa had managed to agree on the postponement provided there would be a further price increase of \$1 per barrel on July 1, 1979 and January 1, 1980. Prime Minister Trudeau attempted to secure the agreement of the other premiers to this arrangement at the closed luncheon sessions. The federal government did not get the unanimous approval it wanted, and this contributed to a souring of the mood of the conference.

The traditional dinner on the second day was cancelled, and the discussions ran behind schedule. The last agenda item on the "economic coordination process" was omitted, underlining the prevailing demoralization. Electoral considerations, bureaucratic overload, the large and unwieldy agenda and the more aggressive mood of the provincial governments had all taken their toll.

As in February, the November communiqué consisted primarily of tentative and general statements. As an editorial in the Ottawa Journal noted:

"The final communiqué reveals to the world that the first ministers welcomed, emphasized, re-emphasized, affirmed and re-affirmed, noted, agreed, stressed, reviewed, recognized, urged, and acknowledged."¹⁰

In the communiqué¹¹ the first ministers reaffirmed their commitment to the principles of private sector led growth and a reduced role of government in the economy. They stated that attempts to develop both general industrial and specific sectoral policies, in consultation with

Table II.2 - First Ministers Conference on the Economy, 27-29 November 1978, Agenda

November 27th	<u>Opening of the Conference</u>	<u>Economic Overview</u>	<u>Labour Market and Employment Issues</u>
	Prime Minister Trudeau	Statement by Jean Chrétien, Finance Minister Opening Statements by provincial premiers	Chairman: Mr. Cullen, Federal Minister of Employment and Immigra- tion
November 28th	<u>Progress Report</u>	<u>Specific Items</u>	
	Overview tabled by P.M. Trudeau Discussion on progress of agriculture, R&D, and public sector compensation Government regulation discussion led by Premier Lyon, Manitoba Lunch, closed session, discussion on oil pricing	Industrial development Discussion led by Premier Davis, Ont.	
November 29th	<u>Specific Items (cont'd)</u>	<u>Specific Items (cont'd)</u>	<u>Conclusion</u>
	Energy Discussion led by Premier Blakeney, Sask. Minerals Discussion led by M. Bérubé, Quebec Minister of Energy and Resources Fisheries Discussion led by Premier Campbell, PEI Lunch - closed session on the Communiqué	Regional development Discussion led by Premier Moore, Nfld. Transportation Discussion led by Mr. Lang, Federal Minister of Transport Economic Coordination Process (not discussed)	Presentation of Communiqué

industry and labour, would continue. They agreed to hold another conference on the economy in late 1979.

They agreed that "employment and labour market policies and programs should be oriented towards the support of permanent employment growth in all regions," and that "direct job creation programs will continue to play an important role in high unemployment areas."

On agriculture, they noted that work would proceed on the federal proposal for the harmonization of stabilization programs. The statements in the communiqué on research and development, public sector compensation, and tourism and fisheries indicated that little progress was made in these fields. The first ministers suggested that the Economic Council include FIRA's operations in its inquiry on regulation.

On industrial development, it was agreed that Canada's position at multilateral trade negotiations should place special emphasis on opening foreign markets for Canadian fish products, agricultural products, resource based industrial products and high technology exports. The first ministers also "affirmed that governments should work to ensure that the Canadian market is not unnecessarily fragmented through government purchasing practices." They agreed to respond concretely to the task force reports.

Major energy projects were to be pushed forward; the most significant agreement was the development of new gas markets east of Alberta. An Ottawa/Alberta task force was to be established to investigate these markets in consultation with other provinces. The need for the rationalization of refinery surplus capacity in Eastern Canada and equitable treatment of gas relative to other energy forms was acknowledged.

The only announcement of importance on mineral policy was that "there was general agreement that where one level of government moves to reduce taxes on resource industries, the other level would not act to offset those tax relieving benefits."

The first ministers "stressed that regional development should be based on viable economic opportunities resulting from natural strengths." This may have been an attempt to reconcile the Atlantic premiers' opposition to "transfer payment palliatives" with the fears of Ontario and British Columbia that firms would be artificially diverted from their "natural locations."

On transportation, the first ministers agreed that the federal government should proceed with Bill C-20¹² and announced that a meeting concerning the grain transportation and handling system would be held.

Finally, the first ministers "agreed that it is essential to continue to discuss and coordinate federal and provincial approaches to Canada's economic problems through an improved federal-provincial framework for consultations, discussions and concerted decisions," but no specific mechanisms or timetables were spelled out.

Both participants and observers felt that the November conference had been much less useful than the February one. Even the press was arguing that "gavel-to-gavel" television coverage was inhibiting the kind of flexible negotiation which was necessary. The complex agenda and the massive flow of position papers were also believed to have inhibited the debate. Columnist Geoffrey Stevens suggested that delegates should be equipped with wheelbarrows. Eighty-one separate documents were distributed: 30 by Ottawa, 13 by Quebec, 10 by Ontario and smaller numbers by the other governments. The political debate between Prime Minister Trudeau and Premier Lévesque intruded into economic discussions, and the highly charged pre-election atmosphere also inhibited progress. This made any attempts to focus on the mid- to longer-term issues instead of immediate problems virtually impossible. The general reaction can be summed up as: "We must have federal-provincial conferences to coordinate economic policy, but there must be a better way than this."

In the following chapter we explore the anatomy of the process to see if, in fact, this form of federal-provincial consultation can be effective.

II THE PROCESS OF THE DEBATE

This chapter analyses the work behind the scenes, the behavioural and institutional constraints on the process, and the political and policy reasons underlying the events. Five elements in the conduct of inter-governmental discussions are especially important: 1) the motivations and objectives of the political leaders and their public servants throughout the conference period; 2) the way the agenda was set and how this affected debate at the conferences; 3) the significance of the underlying tier of ministers meetings before the first ministers conferences; 4) the special problems created by the public character of the process and massive coverage by the media; and 5) how decisions or consensus were relayed to the participating governments and incorporated into their own decision making.

Motivations and Objectives

Let us first look at the political and policy objectives of the participating governments.

The Federal Government

The decision by the federal government in the fall of 1977 to convene a First Ministers Conference on the Economy arose from a complex mix of motivations. One set was overtly political and electoral: to be seen to be doing something effective to promote economic development. This dictated an open, public process. The other set of motives was more substantive:

to respond to the economic challenges emerging from the economic policy background of the previous few years.

By late 1977 it was realised by economic policy makers that traditional stabilization policies were not adequate to address Canada's economic problems, particularly the problem of the international competitiveness and productivity of Canadian industry, and that the policy instruments shared between federal and provincial governments must be used in concert. This is illustrated in the Government of Canada's discussion paper of May 1977, Agenda for Cooperation.¹

The dilemma was whether the federal-provincial dimension of these questions could be dealt with, as in the past, by the long established liaison between the ministers of finance and the Continuing Committee of Officials of Finance?² The answer appeared to be negative.

Responsibility for economic management within the federal bureaucracy has continued to spread:

"Prior to the early 1960s the key economic departments had scarcely changed over the previous few decades. Since the early 1960s, however, in quite rapid succession, new departments of Industry (later merged with Trade and Commerce), Regional Economic Expansion, Consumer and Corporate Affairs, and Manpower and Immigration have been established, thus widening the range of ministerial and departmental participants in the process of economic management."³

Throughout the late 1970s, the responsibility for structural framework policies for trade and tariffs, taxation, regional development, energy, labour markets, industrial relations, transportation, competition and environmental protection were spread over several more or less autonomous federal departments. Central agencies such as the Privy Council Office (PCO), and the Prime Minister's Office (PMO), rather than the Department of Finance coordinated the policies. Many provincial officials, and some federal officials, attributed part of the motivation for the 1978 conferences to the desire of central agency policy makers to better coordinate the federal bureaucracy's management of economic problems. And, in fact, the idea for the conferences originated in PCO and PMO.⁴

The need for a coordinated approach, given the fragmentation of economic decision-making at the federal level, led the federal government to recommend a conference with a broad multidepartmental input. Together,

the conferences involved even more departments than had the constitutional review of 1968-1971. The key conferences, however, would have to be at the first ministers level, as one senior official noted: "once you depart from the attitude that you leave the economy to the ministers of finance; once a high proportion of government concerns are with the economy, then the first minister has to take a leading role."⁵

Finally, the conferences in 1978 were designed to address what had come to be called "medium-term economic issues." While the temptation to stress short-term solutions to problems such as unemployment and inflation could not be entirely suppressed, in general the federal conference planners were determined that the structural problems facing the economy demanded more than a shortsighted discussion and would respond only to longer term solutions.⁶

A second set of motivations were the electoral fortunes of the Liberal government. Throughout the entire period from late 1977 to the end of 1978, political observers, politicians and the media expected an election to be called almost at any moment. The Liberals were widely perceived to be neglecting the economy in their obsession with the issue of "national unity." As the months passed, the opposition in the House of Commons became increasingly vociferous in their condemnation of the government's economic management. For the Prime Minister's advisers, and for the government in general, the need to be seen to be responding to economic issues was vital.

There was also the question of business confidence. In the private sector it was widely believed that government was too large, too interfering, and that federal-provincial conflict had increased the burden of government. Many officials noted that this view is borne out by the responses of 5000 Canadian businesses to the Department of Industry, Trade and Commerce "Enterprise Canada" exercise in 1977. Thus a key objective of the public conferences, in the eyes of many federal public servants and politicians, was to "give a signal to business" that governments could "get their act together" to come to grips with the state's role in the economy and to improve conditions for private sector investment. One federal official said:

"There was a general perception by the end of 1977 by both the Prime Minister and the Premiers that the [February] conference

was going to be very important as a signal to business and the private sector that governments could come together and grapple with the problems facing the country."⁷

Nova Scotia

Officials here believed that the Liberals intended to use the conferences for political ends, though federal officials were felt to be genuinely committed to formulating a medium-term strategy for the Canadian economy. It was also believed that, by late 1977, Ottawa had become more willing to listen to the concerns of the provincial governments.

Thus, despite the strain on provincial government resources that would be involved, Nova Scotia reacted positively to the proposal for a First Ministers Conference on the Economy. Premier Regan, one of only two Liberal provincial premiers, and also facing an election, hoped to use the February conference to initiate his campaign. By contrast, the Buchanan Conservative government, which defeated the Regan government in late September, found itself plunged into preparation for the second conference without having had time to formulate a considered approach. Consequently, the organization of provincial efforts for the two conferences differed substantially. The Nova Scotia position for the February meeting was prepared primarily within the Premier's Office; for November, a committee of deputy ministers was set up to organize the provincial effort.

The positions put forward by Nova Scotia were dictated by the economic problems of fisheries, energy and regional development confronting the province, not by the political affiliation of the government.

None of the officials interviewed in Nova Scotia had expected concrete decisions on matters of concern to the province. The objective was simply to get other governments to agree on the importance of their concerns, and to have them noted in the communiqué. This, in turn, would make it difficult for the federal government to ignore them.

New Brunswick

With the possible exception of the Department of Finance, little attention was devoted to the conferences on the economy. The resources of the

provincial government were severely strained by the simultaneous constitutional negotiations of 1978, which took precedence over the economic conferences.

New Brunswick officials did not have high expectations of the economic meetings. They were just another opportunity for the provincial government to make its concerns known. The major issues for the province were energy and regional development, but the province's approach was not so much to present a "shopping list" but to slow the momentum of certain developments and ideas that they saw as not being beneficial for the province.

Newfoundland

While some Newfoundland officials saw the conferences' goals as primarily political, the Newfoundland government welcomed the idea. It hoped to realize two objectives: first, to secure a commitment to developing hydro-electric projects in the province, and to make some progress in resolving the dispute with the federal government over fisheries management; second, as explained by one official:

"Newfoundland's role [is] to put forward what we see as the main issues, from the point of view of a very small province...to bring an appreciation of what we have, and what we are and can become, to the other provinces and to the federal government... So from a policy formulation standpoint, I think it's important that we have [the] kind of national forum, where our views can be made known."⁸

The Atlantic provinces reflect a familiar pattern. Lacking the bureaucratic numbers and the economic and political clout of the larger provinces, they see federal-provincial conferences as opportunities to put forward requests for federal assistance on a small number of issues of immediate benefit to their provinces. They do not try to develop expertise in all areas; nor do they see themselves as economic decision makers on the national stage. They use their limited resources to best advantage in a system where they are forced to depend on the goodwill of Ottawa.

The officials interviewed did share the view that a medium term approach to Canada's economic problems was necessary. While few thought that the federal government was attempting to deflect attention away from such issues as unemployment, all felt that the economic difficulties facing

the country were deep rooted and structural, and therefore not amenable to short-term solutions. This view which may have resulted from their analyses of the sources of the chronic economic problems of their own region, made them sympathetic to the federal government's medium-term approach. Nevertheless, there was a prevailing sense that one could never be entirely certain of what the federal government was up to.

Finally, few officials in the region regarded the 1978 conferences as a major innovation. Most saw them as simply another step in an ongoing process of federal-provincial consultation on the economy.

Quebec

The Quebec government perceived Prime Minister Trudeau's motivations for holding a first ministers conference as primarily, if not entirely, political. While the general inclination of the political leadership in Quebec was not to participate, they saw that they had no choice as they had not held their referendum and therefore had no legal mandate to act as a separatist government.

Quebec's objectives were to protect its jurisdiction from Ottawa's encroachment, to ensure that federal activities in the province would be in line with provincial priorities, and, like the Atlantic provinces, to demonstrate how federal programs hurt the province.

Officials felt that they were rushed in their preparations for the February conference; consequently, their expectations going into it were low, and the delegation as a whole experienced frustration with the exercise. This was not the case, however, for the second conference in November. Buoyed by what they saw as a "victory" in the sales tax dispute, the Quebec delegation was more aggressive and better prepared. As a result, Premier Lévesque made a more impressive political performance, with a convincing demonstration of the way in which federal policies hurt Quebec. The communiqué, perhaps as a result, gave more recognition of Quebec's substantive concerns.

Ontario

Ontario has traditionally pressed for greater federal-provincial consultation on the economy, so it welcomed Trudeau's proposal for a first minis-

ters meeting. Ontario officials interpreted Ottawa's political motives in a favourable light believing that the federal government had a strong desire to get results from the conference, and was in the mood to listen to the provinces. The Ontario strategy was to put forward forceful and clear cut arguments in an attempt to make the maximum possible impact on federal policies.

Ontario was perhaps the most optimistic about the ability of provinces to have an effect on national economic policy, and officials saw the dynamics of the conferences as placing Ottawa on the defensive.⁹

Ontario's approach to the conferences was also shaped by its concern with the low level of public and business confidence in government. Ontario officials were convinced that the public and the business community would react positively to the conferences only if they resulted in action on specific economic problems. They therefore opposed the federal government's emphasis on the medium-term, which would be seen as too esoteric. They also wanted the debate restricted as much as possible to the first ministers themselves, and objected to the speeches made by federal cabinet ministers. Similarly, Ontario participants feared that the large number of documents tabled by the federal government would have a stifling effect.

The substance of Ontario's position was also largely a response to the demands of the business community. As one official explained:

"The Ontario government's economic stance was very clearly consistent with the demands of the private sector at the time. The central themes of Ontario's position were striking a pretty responsive chord with the private sector."¹⁰

Ontario officials were enthusiastic about the results of the February conference, primarily because of the commitments to public sector restraint and to returning impetus for economic growth to the private sector. They were also pleased that many of Ontario's proposals, such as the "Buy Canadian" advertising campaign, had been accepted.

Ontario politicians and officials were, however, very much aware that their province is regarded by many other provincial governments as the prime beneficiary of national economic policies. Queen's Park was therefore very careful not to appear to be pushing the province's own economic interests to the detriment of those of other regions of Canada. A conscious effort was made in February to include among Ontario's proposals

some which were obviously designed to benefit other provinces. They were not always successful in this. The controversy surrounding the retail sales tax cut for example resulted from the view that the sales tax cut was something done for Ontario, to help Ontario's manufacturing to the detriment of the rest of the country.

Saskatchewan

In contrast to Ontario, the Saskatchewan government did not consider increasing business confidence as a major goal. Government officials contended that relations with the private sector were good, despite a high level of public intervention. Rather, Saskatchewan sought an alternative to the prevailing climate of "fiscal reaction." Several officials said that while their government was somewhat ideologically isolated at the conferences, its fiscal responsibility lent weight to its positions.

Nevertheless, the Saskatchewan government did share the federal government's "medium-term" approach. As one official put it, "part of our strategy (was) to put forward a very positive view of what we thought could be done to deal with our structural problems."¹¹ In particular, Saskatchewan emphasized a single message: that Canada needed to invest in large energy projects immediately, to use surplus labour and, more importantly, to meet the structural demand for plentiful energy resources in the years to come. While of particular importance to resource development in Saskatchewan, it was hoped that the first ministers could launch projects in all regions of the country. Thus Saskatchewan approved of the conferences as meeting the "very real need for coordination of policy between governments," and singled out specific areas where joint policy was required.

Alberta

Alberta was the first province visited by Prime Minister Trudeau in his tour of the provinces in late 1977 to propose the February conference. Realizing the prevailing mood in the provincial government that federal policies had not been working to Alberta's advantage, the federal government was anxious to ensure that Premier Lougheed attended. According to one Alberta official, Trudeau's symbolic gesture of treating Alberta first contributed to a positive meeting with the Premier.

Alberta's participation in the First Ministers' Conference on the Economy seems to have been guided by two different, and perhaps contradictory, sets of objectives. First, the Alberta government felt a high degree of commitment to the process. Since 1976, Premier Lougheed had been advocating federal-provincial partnership in fiscal and economic policy. The government believed that great progress could be made on many fronts, especially those involving agreement among governments on broad objectives rather than specific decisions. In contrast to Saskatchewan, Alberta officials saw the restoration of private sector confidence as a major goal of the 1978 process. These objectives might have led Alberta to become one of the most constructive and vigorous participants in the 1978 exercise. This did not happen, however, because these objectives were offset by the government's extreme reluctance to be seen to be working in partnership with the Trudeau government. Alberta did not want to appear to be sanctioning the efforts of the federal Liberals to deal with the economy, and therefore it refused to commit itself to many new initiatives, so that Trudeau could not realize political gains from the conference.¹² Regional tensions, coupled with partisan considerations, went a long way towards shaping Alberta's motivations about the 1978 conferences.

British Columbia

Of all the provinces, BC alone looked upon the first ministers conferences as an opportunity to present a detailed and comprehensive statement of economic policy. The policy papers tabled at the conference, Towards an Economic Strategy for Canada,¹³ were part of a set of economic and industrial policies which had been developed in the province since 1976. Prepared by the Ministry of Economic Development, the papers involved analysis of the structural characteristics of the provincial economy and its current and long term problems. They emphasized that many of the policy instruments crucial to the promotion of BC's economic health were in federal hands.

Thus, one official described his government's objectives concerning the February conference in the following terms:

"To give them our perspective on national problems. This is not only the prerogative of the federal government. We are concerned with concrete actions too being the provinces into the national decision making process, and are quite prepared to subject provincial policies to the same constraints as we would ask of the feds."¹⁴

The BC effort was more like that of the federal government than those of the other provinces, whose objectives were much more limited. This initiative, along with a similarly detailed set of comprehensive constitutional proposals presented at the First Ministers Constitutional Conference in October 1978, represented something of a departure from BC's traditional operating style in federal-provincial relations.

The BC position did not, however, receive as much attention as the provincial delegation expected. In part, this was because the position papers were not made available far enough in advance for conference participants to analyze them and formulate a response. It was also thought that BC had misjudged the dynamics of such conferences, and had made a great mistake in presenting its position as a comprehensive package which had to be considered in its entirety. This corresponded neither to the sectoral agenda of the conference nor to the way in which the communiqué was drafted.

The cool reception of their proposals led BC officials to be critical of the organization and results of the conferences. However, all felt that they represented a step in the right direction.

Despite many common economic grievances, the Western provinces took markedly different approaches. Ideological and policy differences about fiscal restraint, redistribution and interventionism in the regional economy, together with different styles of intergovernmental relations, resulted in the provinces having varying goals for the 1978 exercise.

In a sense, the 1978 exercise took place on two levels: that of intergovernmental economic decision making on specific issues (involving the ministerial sectoral meetings, the intergovernmental committees formed in February to address specific matters, etc.) and the political level. This led to some crosscurrents within each government between those oriented primarily to the political exercise, and those mainly preoccupied with negotiations with their counterparts in other governments concerning specific programs and policies.

An illustration of this difference was the debate on whether or not the conferences should be open to the media. At issue was not whether open conferences could result in specific economic decisions (all agreed that they could not) but rather whether the first ministers conferences

should be decision making exercises in any case. Some politicians and bureaucrats generally felt that open conferences served a purpose other than decision making, as for example, public information. However some officials felt that efforts to grapple with the economic problems facing the country were being thwarted by the political leaders' attempts to score political points and some complained that it was impossible to prepare coherent economic statements for their premiers, when what the latter really wanted were votes:

"The massive televised exercise is something one wouldn't want to see continue. How can one not be cynical when the whole thing was designed for prime time TV and everybody was trying to get their speeches scheduled so that they would catch the evening news or so that more people would be watching?"¹⁵

A second but related cleavage within governments was between finance officials and the growing bureaucracy specifically organized to conduct intergovernmental relations. According to a finance official from the Maritimes, there were quite different perceptions between on the one hand the PCO and its provincial counterparts, and on the other hand the federal Department of Finance and its provincial counterparts. Perhaps because finance officials had been grappling with many of the issues to be addressed at the 1978 conferences, throughout the controls period and after, they appeared to be more highly committed to the process of intergovernmental economic consultation than were people from other branches of government. In some provinces, finance officials said that they had expended a lot of effort in attempting to persuade their colleagues in other departments to take the conferences seriously.

While intergovernmental officials may also have been committed to a consultative process, their approach differed from that of finance officials. One finance official explained:

"When finance ministers meet, they usually have eleven budgets staring them in the face, and they have pretty hard, specific "macro" decisions to be made, and they're concerned with the general outlook of the Canadian economy for the next 12-18 months. That's a decision making milieu which operates with real deadlines and specific economic decisions (in terms of instruments if not impact). Whereas my perception of intergovernmental affairs is that you're hardly ever getting down to that kind of specificity or that kind of deadline, and you're dealing more often with very general issues."¹⁶

These differences in orientation led to friction. In almost every provincial capital, we were told that there was conflict on the conferences at the federal level between PCO and the Department of Finance arising chiefly from PCO's attempt, in conjunction with the Prime Minister's Office, to restrict the mandate of the Department.¹⁷

Similar conflict also existed within provincial governments. Some provincial finance officials wished to restrict the role of intergovernmental officials to "carry[ing] other peoples' bags."¹⁸ Different explanations were advanced for this type of tension, such as confusion of responsibilities or the growing role of intergovernmental agencies in economic consultation, at the expense of departments of finance. In the words of a western official:

"The battle is raging between Finance and FPRO. To a lesser extent we have the same kind of tensions in this government. Finance has traditionally had broad responsibilities in this area, but it's inevitable that the intergovernmental bureaucracies, with even broader mandates, and a political sensitivity, will play a greater role. Economic development policies are broad in their scope and intergovernmental people have a better grasp of this than Finance traditionally has had."¹⁹

It is undoubtedly true that many intergovernmental officials possess a high degree of "political sensitivity." However with respect to a meeting in preparation for the November conference, one provincial bureaucrat was shocked by the "politicization" of the provincial intergovernmental officials, and attributed much of the contentiousness of the meeting to those attitudes.²⁰

The conflict may be seen as an example of a larger division between those officials who were oriented primarily toward the political aspect of the conferences and those who were interested mainly in economic decision making. The politicized objectives of many officials going to the 1978 conferences may be explained by at least two factors. First, these were first ministers conferences, almost by definition less involved in administrative and policy detail and more involved in political bargaining and showmanship. Secondly, the wide-ranging agenda necessitated a comprehensive and holistic approach, an approach which only intergovernmental officials, in many governments, are equipped to provide.

Another way of expressing this difference is to suggest that these officials are professionally dedicated to the maintenance of the process of intergovernmental discussion itself. The substance is often less important. Moreover, because of their jaded familiarity with the drawn out nature of intergovernmental discussions, they have more patience than the program officials. They know that the issue will return again and again. "Success" is not in resolution, but in keeping the lines of communication open.

Program officials, especially in the economic field, are likely to be more result oriented. Moreover, their own professional discipline and training is impatient with political discussions.

Agenda Setting

The process of setting the agenda for the series of federal-provincial conferences in 1978 illustrates some of the more difficult procedural problems in the organization of such an exercise. The agendas were set by a steering committee of federal and provincial intergovernmental affairs officials.

Setting the agenda is a highly political process, for establishing the terms and subjects of debate predetermines the range of possible results. Governments will seek to place on the agenda items of particular interest to them, and to block the placing of unfavourable items. In recent years, federal domination of the agenda setting process has considerably weakened. In 1978, provinces were able to get their chief concerns onto the agenda. This was facilitated by the very imprecise statement of the conferences' purpose, under which almost anything could easily be included. One result was a long, unwieldy agenda at both conferences; few items could be discussed in great depth.

From the beginning there was initial consensus on two aspects of the agenda: that the first ministers conferences would be open to the media and that agenda items would stress structural problems in the economy. The most fundamental disagreement was on how these structural problems would be dealt with. Federal officials proposed that the first ministers focus partly on vertical, sectoral policies (i.e., mining, fishing, manufacturing) and partly on horizontal, framework policies (such as inflation monitoring, public sector spending and tariff policy.) Signi-

ficant opposition to the sectoral approach came from British Columbia which thought government should concern itself with setting the economic environment. BC also saw the conferences' medium-term focus as partly a concession to them, although they had wanted a macro rather than a micro approach to economic problems.

Ontario and Quebec both objected to the medium-term emphasis because of what they saw as the public's negative reaction to such an orientation:

"We didn't want to participate in an exercise that would be seen by the private sector and the public as another talk session... There was a feeling in Ontario that the country was looking for action and a concern that the conference, as it was being prepared, was not going to lead to it... Remember we were sitting there with over a million unemployed..."²¹

Quebec officials also attempted to shift the agenda toward specific short-term issues such as housing, forestry programs, and the dairy quota.²² Probably Quebec's objections to having the first ministers seek medium-term solutions to Canada's economic problems sprang from the provincial government's resistance to the concept of national solutions or strategies, and its related objective; to ensure that federal economic activity was in accord with provincial priorities.

Attempts to get short-term issues on the agenda were generally unsuccessful, although housing was added at Quebec's urging. Despite the agenda, Premiers Davis and Lévesque used their opening speeches to raise their immediate concerns. Thus an agenda, even one agreed to well in advance, does not necessarily determine the direction of the discussion.

Only two other agenda items continued to provoke federal-provincial disagreement: housing and transportation. The Western provinces insisted over federal objections that transportation policy be placed on the agenda. The item was finally made part on the discussion on the agriculture sector in February, and placed as a subheading of regional development in November.

Agenda discussions preceding the conferences covered not only those of first ministers, but also the meetings of various groups of federal and provincial ministers leading up to the summits. One of the more notable aspects of many of those meetings was that they were "co-chaired"

by a federal and a provincial minister. This was repeated at the First Ministers Conferences themselves, when provincial premiers or ministers shared the role of chairman with the federal government; each province took its turn at chairing individual agenda items. The co-chairman concept was one means of demonstrating the federal government's commitment to provincial involvement and altering its confrontationist image. In Ottawa, apparently there was resistance from line departments who wanted to dominate the ministerial meetings. But the steering committee was able to insist on the co-chairman device.²³

This concept symbolized the formal equality of the two levels of government and was a tangible indication of a collaborative form. While it implied that provinces could lead discussion even on areas largely in federal jurisdiction, it had some advantages for Ottawa too. Ottawa was less of a target, and it was more difficult for the provinces to "gang up." Nevertheless, some provincial governments, Ontario in particular, were not overly impressed by this "symbolic" gesture. In contrast, officials from at least one of the Atlantic provinces viewed the concept as much more than symbolic, and saw the device as part of the erosion of the position of the federal government as "the government which represents the country and therefore the natural chairman."

There was considerable debate about which premier should chair which agenda item. Although regional interests tended to prevail in the choice, the limitations on a chairman's ability to speak for a clearly regionalist position did deter some provinces from leading off on topics of specific regional concern to them (e.g., Alberta did not chair the energy session).²⁴

Regional variations existed, therefore, in officials' views of the agenda setting process. The Atlantic provinces did not attempt to alter the agenda to fit strong conceptions of the form which first ministers discussions should take, although they did play an initiating role with respect to policy areas of particular concern to the Atlantic region.

In contrast, officials in Ontario and Quebec said that their governments had attempted both to add specific items to the agenda and to alter its medium-term orientation. These governments apparently were not greatly disturbed about the generally unsuccessful nature of these

attempts, because they could use the premiers' opening statements to raise the issues of concern to them.

Officials of the Western provinces, unlike those in eastern and central Canada, saw the agenda setting process as strongly biased in favour of the federal government. With the exception of one official, they were dissatisfied with the lack of provincial input into the agenda. The resistance of the federal government to making transportation an agenda item probably accounts in large part for the dissatisfaction expressed by officials in Saskatchewan, Alberta and British Columbia.

British Columbia was the most critical, because its approach to the conferences stressed the development of a comprehensive economic strategy. The agendas which were finally adopted for the first ministers' discussions ran counter to such an approach, and, in the eyes of BC officials, "tended to breed ad-hockery."²⁵

Finally, many participants argued that a negotiated agenda was likely to be far too long, because of having to include everyone's pet projects. More progress would have been made if the first ministers had limited themselves to discussion of two or three items. It is highly unlikely, however, that these same officials would have agreed among themselves to reduce the number of agenda items. The conferences, after all, were to be televised and the premiers wished to be seen as defenders of their provinces' interests in key policy areas.

The joint approach at agenda setting, in any case, appeared to dwindle somewhat by the second conference. Provincial officials met prior to an agenda setting meeting in October 1978 to discuss a common stance for November, but were unable to deter the federal government from its insistence that the second agenda be essentially a follow-up of the February conference.

Ministerial Meetings

Another innovative aspect of the 1978 exercise was the preliminary round of meetings of federal and provincial ministers responsible for various economic sectors or aspects of economic policy. Each group reviewed the policy in their portfolios and had to submit recommendations for further study by, or approval of, the first ministers. At a minimum it was hoped that the

ministers would identify the most outstanding issues necessary for the first ministers to address.

The vast majority of officials interviewed agreed that the ministerial meetings did not fulfill their intended function. There were two separate analyses of the meetings: the first that such events could have provided the basis for policy formulation by first ministers, but did not do so in 1978 because of hostile attitudes of participants or of organizational defects; a second analysis contends that such meetings can not be expected to contribute to hard policy decisions without a clear direction and mandate from the first ministers.

Those adhering to the first analysis pointed to several problems in the process. First was the reluctance of some federal line departments to consult their provincial counterparts. Provincial officials were convinced that recalcitrant ministries were "forced" to talk with the provinces by the Prime Minister and senior bureaucrats. In any case, for many of the federal-provincial groups of ministers, genuine dialogue had never taken place before. Two examples illustrate the problem.

Officials in the Atlantic provinces repeatedly cited the meetings of fisheries ministers as an example of federal inflexibility at the departmental level which prevented fruitful dialogue or the development of consensus. A meeting of the federal and Atlantic fisheries ministers was held prior to the February conference, but, probably because the ministers were unable to reach consensus, they did not submit a communiqué to the first ministers. Instead, Premier Campbell made a statement on their behalf, in which he outlined the issues in dispute: resource management, the replacing and overhauling of vessels, licensing arrangements, joint ventures with foreign firms, and vertical integration within the industry.²⁶

The first ministers were able to resolve none of these issues in February, and by November the situation had deteriorated, possibly because it had become evident at the October constitutional conference that the federal government was not willing to concede a greater provincial role in fisheries management. In addition, the divergence of the interests of the Atlantic provinces themselves had become more apparent. It was significant that at the November conference Premier Campbell, felt able to speak only

for PEI.²⁷ The subsequent debate on fishery policy was quite antagonistic: Premier Buchanan, for example, accused the federal government of contributing to "unnecessary uncertainty" in the industry because of its "antipathy to the private sector."²⁸ Federal Minister of Fisheries Romeo Leblanc in turn accused the Nova Scotia government of defending the interests of the large integrated fishing and processing companies and implied that it wished to distribute licenses according to the principle that "them as has, gets."²⁹

Western officials also regarded federal attitudes as a major problem, citing as an example, the mines ministers meetings. Despite agreement that the provinces would not move to take up tax room resulting from a reduction of federal resource taxation, the Ministers meetings were not considered a success, because they did not resolve the dispute over the non-deductibility of provincial royalties.

The atmosphere surrounding the mines ministers conferences was illustrated by an exchange which, according to one official, took place at the meeting on January 20, 1978:

"Non-deductibility was the first item on the agenda. I remember Gillespie leading off with a few introductory comments, followed by the Saskatchewan minister who expressed the desire for a return to deductibility and referred to the confounding of tax structures which the unilateral federal decision had caused. Gillespie tried to engage in a debate, saying, 'I don't think other provinces feel that way.' It had been a fairly common federal strategy to try and divide the provinces by picking out particular interests. Again they tried it. Don Getty from Alberta said, 'Let me just poll the group here on return to deductibility.' Every province said 'Yes.' Getty then turned to Gillespie, saying 'Well, I guess we have a consensus, don't we?' Gillespie said, 'No, I don't think we do.' Getty replied: 'Oh, so we have it nine to one and we'll call that a tie, is that right?'"³⁰

Thus, provincial officials generally agree that the federal government must abandon its rigid approach to interaction with the provinces if ministerial meetings are to build the foundation for economic policy making by first ministers.

A lack of direction was a second problem besetting the ministerial conferences. Especially at the outset, participants were unsure of what they were to achieve. This was regarded as a product of the haste in which the conferences were organized. Prior to the February conference,

there were too many meetings in a very limited space of time, with no clear direction as to what was wanted; for some deputies and ministers it was a frustrating experience. This problem was not resolved before the second conference, because a firm commitment to hold the conference was not made until mid September, and because of the close scheduling of the October constitutional conference and the ministerial meetings.

Perhaps a more critical problem lay in the limited ability or inclination of provincial and federal ministers to make decisions on their own. As one official put it:

"There's a tendency, when you have all these ministerial meetings leading up to the first ministers conferences, to say, when you come down to the 'hard nut,' 'Well, we'll leave it to the first ministers' or 'I don't have further instructions.' That's bad. If they need more instructions, why can't they get on the telephone and get their cabinets' opinion? That would let more 'give and take' take place at that level. Then you would have a focusing effect. Instead, you come to the first ministers conference and you still have a whole broad range of issues to be addressed."³¹

The failure of the ministerial conferences resulted not only from the failure of some groups of ministers to come to grips with outstanding issues, but also from the lack of a mechanism which would have permitted the first ministers to digest the issues addressed to them.³²

The first ministers were unable to cope with the volume of issues submitted to them. Discussion over agriculture in general (and the price stabilization program in particular) was a case in point. Differences over a proposed national stabilization program had persisted for at least two years. The agriculture ministers discussed the question at their meeting in January 1978, and pushed the problem up to the first ministers, "who just tossed it back to them."³³

The open, televised first ministers conferences may have aggravated the problems of addressing complicated policy questions. Several participants remained convinced that issues such as agricultural stabilization should be dealt with only at the ministerial and official level, leaving broader horizontal policy matters for consideration by first ministers. Nevertheless, the difficulties in discussing the medium-term and the broader issues was not discounted; as one official contended:

"The real success [of these conferences] will be whether governments are interested in identifying common goals in the country, and common needs. To what extent are the first ministers prepared to accept certain constraints on economic policy? Are you prepared to give up some of your autonomy to move in this direction because we think it holds the best chance for economic recovery? It's very difficult, I would suggest, to have politicians talk in that framework."³⁴

Many officials said that it would be necessary to develop mechanisms to focus the first ministers' attention on key issues if the problems resulting from the submission of too many, and inappropriate, questions to them, were to be overcome:

"Looking at the First Ministers Conference as an umbrella for that kind of activity, [the ministerial meetings] were useful. If they had a weakness, it was that the central organisms didn't have an adequate capacity to marshal and digest the work in these subgroups. We failed to bring it all to a focus at the first ministers' level. Departments of intergovernmental affairs are not highly developed enough yet to cope with the massive amount of work, to give it direction. As a result, a lot of paper was churned out, but nobody, to my knowledge, has read it all, certainly no first minister or other minister."³⁵

In summary, those who felt that ministerial meetings could provide the basis for economic policy formulation by first ministers saw four principal flaws in their organization: lack of direction, resulting from the haste in which they were organized; the negative attitude of some federal officials towards consultation with the provinces; the limited mandates of the ministers; and the excessive volume and inappropriate nature of some of the issues submitted to the first ministers. Most thought that these problems could be overcome if the process was regularized.

A few officials argued that ministerial meetings are inherently incapable of laying the groundwork for economic decision making at the first ministerial level. In essence this view contends that economic policy can only be made "top-down" rather than "bottom-up."

Some of the issues emerging from the ministers' conferences were unsuitable for discussion by first ministers. The role and capabilities of ministers and officials in respect to economic policy are different from those of first ministers; bureaucrats and line ministers were regarded as oriented primarily to the translation of principles and ideas into detailed programs. They could not, however, formulate these principles and goals.

Thus, a prerequisite for effective economic decision making is consensus among first ministers that action must be taken to overcome problems facing the country: "What is essential is the will to do something, not necessarily extensive preparations."³⁶

Some provincial officials suggested that the federal government should assume greater leadership in economic policy making. They said that consultation is necessary, but eventually it must lead to the adoption of firm national policy positions.

Two provincial officials saw the anti-inflation program as a successful example. Rather than referring the matter to a ministerial or officials committee, the Prime Minister held a closed meeting with the premiers, at which he elaborated the proposed federal action. Confronted with the same problems of inflation, the first ministers were able to reach a consensus, and instructed their officials to devise plans for the implementation of the program.³⁷

In contrast, the consultation which occurred at the first ministers conferences in 1978 was regarded as a substitute for policy:

"[Consultation] has to be a part of any effective policy, but the problem is that consultation can so easily be an alternative to policy. I think that the frame of mind of the federal government was such that, in practice, the consultative process was a substitute for policy, not a means for getting a policy."³⁸

The organization of the 1978 exercise was seen precluding the formulation of economic policy, and impeding officials in the exercise of their true functions. Assessing the bureaucratic mood after February one provincial official said:

"Exhaustion itself is in part an effect of the lack of basic decision making on broad policy. The federal bureaucracy is not exhausted because there's too little of it. It's exhausted because it's thrashing around in far too large numbers, precisely because the basic policy framework isn't there. No amount of thrashing around is a substitute for that."³⁹

Whereas some participants called for a refinement of the mechanisms linking the ministerial meetings to those of the first ministers, a distinct minority recommended that closed meetings between first ministers be held in isolation from other intergovernmental arenas to formulate economic policy.

Finally, although both groups of officials felt that the ministerial conferences in 1978 had not provided the basis for economic policy making at the first ministerial level, many did not deny that these meetings had other merits. In particular, they noted a valuable increase in communication between line departments. And several federal civil servants said that preparing for the ministerial meetings had been a worthwhile exercise for federal line departments. Indeed, rather than being an unintended byproduct of the 1978 exercise, the better coordination of the federal departments had been one of Ottawa's objectives in initiating the ministerial sectoral process.

The Open Conference

To achieve some of its objectives, a first ministers conference must be open to the public through the communications media. Nevertheless, the conferences became something of a "media event"⁴⁰ which imposed significant constraints on other objectives of the exercise, and raised unique problems and opportunities for the participants.

Prime Minister Trudeau and some provincial premiers looked on the conferences as key public exposure before election campaigns. Another important public relations objective was to demonstrate that governments could jointly and effectively deal with the economic problems confronting the country and to show that Canadian federalism was working. Conferences could also educate and inform citizens about the broad issues in economic development and the range of conflicts and alternatives.

Interviews with participants show that there was no consensus on the appropriateness of open conferences, either in successfully achieving political goals, or for policy making. Fewer journalists attended the November conference, reflecting its lack of novelty and the lower expectations for it. Most commentators regarded total CBC coverage as unnecessary and ultimately boring. In November, the issues were more concrete and more detailed, and even the most ardent advocates of openness wondered whether privacy might not be warranted. Approximately one-third of the officials interviewed recommended that future economic summit conferences be closed, because the disadvantages of the media event outweighed the benefits. Those who supported open conferences agreed that only certain kinds of topics should be allowed media coverage.

The most frequently cited benefit resulting from media coverage of the conferences was public information; educating the public about the functioning of governments, the constraints on government action, the economic difficulties facing the country, and the major issues and problems of regions other than their own. A small minority of officials focused on accountability; the conferences would allow the public to evaluate their first minister's performance, and give them more information on which to base electoral decisions.

Open conferences also make it easier for politicians to make public commitments that force unpopular changes on their governments. According to officials, first ministers are also more likely to abide by publicly made commitments than by those made in closed sessions. It was suggested, for example, that Prime Minister Trudeau might not have followed through on his promise to keep the provinces informed of developments at the GATT negotiations, had the commitment not been made in public.⁴¹

Some officials said open conferences are valuable because they expose the first ministers to political pressure, which may ultimately produce policy change. This works in two ways. First, public expectations which escalate prior to an open conference give first ministers a strong incentive to accomplish something. Officials from Newfoundland cited the agreement to establish the Lower Churchill Development Corporation as a case in point.

Second, open conferences may result in policy change if there is a negative public reaction to a position adopted by one of the governments. One official illustrated his point with respect to federal fisheries policy:

"If for example, after an open conference, the federal cabinet said to the minister, 'You looked absolutely pathetic putting forth our position, and we think that's going to have a major effect on voters in BC and in eastern Canada, and we just can no longer tolerate this position,' you might find that three months later at a fisheries ministers' conference or at an officials' conference, that the federal Fisheries Minister is suddenly starting to change his mind. Now that's as a result of the political pressure, and that's the slow process, which does work and which comes from these conferences."⁴²

On the negative side of the balance sheet, the disadvantages of open conferences can be placed into two categories, one respecting the

behaviour of first ministers, and the other in the media's interpretation of the events.

Live coverage by television and radio was said to have a very significant effect on the discussions. It inevitably evoked "an overwhelming tendency to play to the gallery, to the folks back home."⁴³ Negotiations may become irresponsible, because first ministers cannot indicate willingness to compromise or to deviate from positions that are popular with their electorates. The overwhelming tendency, according to officials, was for their political masters to want to repeat established positions.

Some officials were disappointed that political posturing destroyed a cooperative and constructive spirit; officials in finance departments regretted that televised coverage shifted the focus away from the medium term. But the public eye can also contribute to "cooperative spirit." Clearly, premiers cannot be seen as being too parochial or self serving, particularly if they are seeking to project a national image or to present a regional case in a more favourable light. The goal of appealing to investor confidence may also have led some participants to downplay their differences.

Whether this was the case in February or November is open to question. One Alberta official said that cooperative efforts of his government collapsed in February through the Premier's fear of being seen as capable of working with the Trudeau government. In November, however, the first ministers clearly avoided discussing the oil pricing issue out of a reluctance to fight in public. During both conferences many of the most hostile exchanges took place behind closed doors. In spite of this, many officials felt that the media overemphasized the divisive and negative aspects of the conference.

A more serious concern was that media coverage gave Canadians a distorted image of the role of the first ministers conferences. There was an overwhelming consensus among the officials that such conferences are not discrete events, but that,

"They have to be viewed as part of the continuing process. Where the public of this country is let down a bit is when these conferences are characterized as main departure points, from which radical changes will be made."⁴⁴

Not only do the media raise public expectations concerning the conferences, but they also portray the repetition of established positions as negotiation. According to a Newfoundland participant, while public expectations may cause governments to come to the conferences with "something to show," such progress is made prior to, rather than at, first ministers conferences. Yet the press tends to give the impression that the gestures, speeches and posturing at the open sessions either do or do not constitute "progress."⁴⁵

The Communiqués

The process of drafting the conference communiqués, while seemingly a mechanical task, has in reality come to be a critical negotiating phase. This is as close as a federal-provincial conference can get to "legislating." How are conference discussions translated into acceptable and workable conclusions, agreements, or guidelines for the future? As already noted, the concluding documents of the February and November conferences were not inspired. Although evaluation of the contents of the communiqués may give them more significance than they deserve, as distillations of decisions, however weak, they are the critical link between substance and process.

Part of the problem with communiqués is that there is no agreement on their function. A distinct minority of participants look upon conference communiqués simply as statements to the press, no more, no less. A larger number of participants view the "conclusions" of the conference as guidelines for future policy. They provide a record of agreements to be used in future intergovernmental relations and notices of intent which commit each level of government to certain policy objectives or initiatives. Second, communiqués are increasingly used as a policy guide for federal and provincial bureaucracies, especially for central agencies to use to coordinate the policies of line departments, and to evaluate progress between intergovernmental conferences.

Regardless of how conference participants viewed the communiqués, all seemed anxious that their positions and concerns be reflected in them. Thus the bargaining process behind the scenes appears to animate most officials to the same degree.

Given these varying criteria of conference communiqués, many participants did not think the conclusions of the 1978 conferences performed their function adequately. They were perceived as too broad and vague to serve as guidelines, partly because of the breadth of the agendas and partly because the wording of any agreement had to be heavily qualified to be acceptable to all parties. One finance official remarked that:

"We go to these conferences and we're supposed to be dealing with the national economy and one comes out with a weak, general communiqué which is the most that all first ministers can agree on. They say we must reduce unemployment and inflation and that everybody agrees that the private sector must be the engine of growth. That can't provide direction to any government or department! What one must ask is: To what extent do governments turn general statements into specific actions?"⁴⁶

The principles in the communiqués were so general that almost any policy could be justified by referring to them. For example, federal officials argued that the August 1978 cutbacks were in line with the commitments to restraint made by Ottawa in February, whereas provincial officials said that they violated the commitment to economic coordination.

It was also alleged that the pressure to be seen to be dealing with Canada's economic problems led the federal government to make commitments which it did not intend to pursue. A common example was Ottawa's commitment to accelerating the development of major energy projects on the February communiqué list. One Maritime official said that by February 1978, Ottawa had already started to back down on Fundy tidal power⁴⁷ and similar complaints were made in the West.⁴⁸

Finally, many Quebec and Western officials felt that the communiqués were biased towards the federal government's view. Following the First Ministers' Conference on the Constitution in October 1978, provinces felt that a federal draft communiqué had greatly overstated the amount of consensus, and it had to be abandoned at the last minute.⁴⁹ The planners for the November economic conference thus devised a complex joint drafting technique to be used to produce the concluding document. This effort was not entirely successful, but it was a genuine attempt to turn communiqué production into a collaborative exercise in itself.

Problems in the mechanism could be worked out, but the mechanisms by themselves could not diminish the suspicions of provincial participants

that the federal government was being manipulative. It is not coincidence that those most dissatisfied with the communiqués are those governments which have become most antagonistic toward Ottawa. It also becomes very difficult to separate evaluation of communiqués from evaluation of other aspects of the conferences. The more amorphous and dispersed the discussion, the less detailed and coherent is the communiqué. If the governments of Canada decide to regularize the 1978 exercise, critical attention will have to be given to the drafting of communiqués.

Conclusion

General conclusions about the efficacy of the process just described must await the final chapter. As we have seen, participants' views about the process as a whole, and about specific aspects of it, were decidedly mixed. For some, the conferences were a promising, if flawed, new departure. They foreshadowed a new era of collaborative policy making, marked by close consultation and the meshing of federal and provincial activities in pursuit of economic development goals which no single government, under the existing or future division of powers could achieve. The conferences also seemed to be a way in which regional interests might be built into federal decision making.

At the other extreme were those who felt that there was little new in the process that developed in 1978. The conferences, they felt, were much like traditional federal-provincial conferences, and suffered from many of their weaknesses. They were a valuable forum for the advocacy of the interests of each government, and perhaps even for mutual education. But they remain a far cry from formal decision making bodies. Nor was there much evidence that real negotiation took place, in the sense that positions were altered and compromises reached. Their structure and procedures are simply not geared for such a role.

Even more critical were those from outside the process, the line departments that felt that the first ministers had not risen to the challenge of developing more effective economic strategies. They felt that the process was a substitute for policy or that concerns for political gain and the expressions of parochial interests stood in the way of real cooperation. They pointed to the vagueness and generality of the communiqués and the absence of real trade-offs. The result was a "lowest common denomina-

tor" pooling of differences, not a new consensus which transcended earlier differences.

Certainly, the pessimism after November contrasted sharply with the optimism which had prevailed after February. But the process did involve some important innovations. The subject of both conferences, a more national approach to economic issues, differed from most previous first ministers conferences. Preliminary ministerial conferences had not previously been convened so systematically. This represented a step towards making the first ministers conference the pinnacle for a hierarchy of federal-provincial bodies, mandated by and reporting to the first ministers. Similarly, while first ministers have commissioned special projects in the past such as the Tax Structure Committee in 1967, the practice was greatly extended in 1978. The wage and price monitoring agency, the review of taxation in the mining industry, the commissioning of the Economic Council's study of regulation and the mandating of the Tier I and II industry consultation process were examples. The communiqués also took on a somewhat more elaborate form, as they were clearly designed in the eyes of some officials, to provide a guideline to individual governments and intergovernmental committees for future work.

In their preparation for the conferences, governments were forced to coordinate and integrate the work of many departments and agencies in their own administrations to present an effective position at the meetings. Thus the exercise probably helped governments to think more systematically about industrial policies and to clarify their own views. Bringing so many line departments into the process also appears to have helped sensitize some officials to federal-provincial and regional issues. In the short run, that might have produced mutual exasperation and frustration; but in the longer run it offers the prospect of more sensitive policy making.

Thus, it would be short sighted to judge the process entirely from what one saw on the television screen. Its most important effects are not so much in the "decisions" registered in the conference room, but rather in the impact the conferences will continue to have in the internal decision making processes of the eleven governments.



THE SUBSTANCE OF THE DEBATE

Despite the many constraints imposed by the process on the first ministers conferences, some clear messages emerged. The discussion of the issues revealed real differences in policy and perspective among governments, and some dominant trends in overall approaches toward the economy. In part because of the wide scope of the agenda, the 1978 conferences provided an opportunity to listen to the political rhetoric on a large number of economic issues, and to judge the competing policy means and objectives proposed. The following analysis takes a more comprehensive view of two aspects of the substantive debate. First, we examine the prominence of a prevailing conservatism concerning the economic role of the state in the economy. Second, we examine the different approaches to structural problems in the economy articulated by the federal and provincial governments, thus laying bare the divergence of views on industrial strategy. We find a simultaneous pattern of convergence of basic conceptions of the role of the state in the economy, and divergence on particular strategies and on the goals and needs of different regions and provinces.

The Economic Role of the State

In his opening statement to the November First Ministers Conference on the Economy, Prime Minister Trudeau said:

"Through the three days before us we shall be seeking appropriate policies and initiatives to restore full economic health. We shall also be seeking to identify where the responsibility for

action lies - whether provincially, federally, jointly together, or as we are coming increasingly to understand, not with governments at all."¹

The belief that government in Canada had overextended itself was widely voiced at both conferences in 1978. This assertion arose from two rather different views of the appropriate role of the state in a modern capitalist economy.

Some participants believed that, in extending the social welfare system during the 1960s and early 1970s, Canadian governments had been moving in the correct direction, but given the low level of growth in the economy, it was now necessary to restrain the public sector's role. Government spending was cited as a main contributor to severe inflation and constricted private investor activity. This school of thought argued for diminishing the role of government in Canada on functional grounds. Large scale public spending on the welfare state, from this perspective, is made possible only by the productivity of the economy and by the economic surplus it generates. Primary attention, therefore, must be paid to rebuilding economic health. The Prime Minister was one of those who subscribed to this view.²

In contrast, some participants argued that government in Canada had overextended itself, by assuming responsibilities and functions which are outside the proper realm of government. According to this view, which reflected an increasingly popular "neo-conservative" ideology, government in Canada had attempted to satisfy desires of citizens which are not properly the concerns of political institutions, and had assumed an inappropriate interventionist role in the economy, thus usurping the field of endeavour of private enterprise and constraining the latter's initiatives.

The 1978 conferences reflected many neoconservative concerns. Many discussions focused on the need for "de-regulation," for restraints on public sector wages, for "privatization" of Crown corporations and for reduced or restrained public spending. However, none of the premiers expressed what could be called a comprehensive or fully developed conservative stance; statements were in the form of rhetoric rather than ideological arguments. Some premiers, for example Premier Blakeney, explicitly rejected the conservative doctrine, and all were sympathetic to many forms of intervention when it came to discussion of particular problems. How-

ever, the talk of restraint admirably served one of the prime functions of the conference: signalling to the business sector a determination to encourage private investment.

The prime proponents of neoconservative ideas were the governments of British Columbia, Alberta, Manitoba and Ontario. Although the Atlantic Premiers agreed on the need for public sector restraint, their statements were tempered by their insistence that the federal government must continue its attempts to correct the structural problems in the Canadian economy which have resulted in regional underdevelopment. Federal support was requested so that the Atlantic region could be economically self-reliant in the future. It is interesting to note, however, that the Atlantic Premiers stated that self-reliance was necessary because economic dependence on government had an adverse impact on individuals. Premier Hatfield described the lives of unemployed New Brunswickers as ones of "futility compounded by recriminations."³ In a similar vein, Premier Moores said that "make-work projects, no matter what their merit, will never solve our problems. They only create severe sociological problems..."⁴ Such statements echo the conservative conviction that social welfare programs may create a sense of dependency and erode the self-respect of the recipients. But in the short term, at least, the Atlantic Premiers realized their need to maintain such programs, whatever their long run aspirations for self sustaining growth.

Premier Lévesque's conception of the Quebec government as the force for moulding the social and economic development of that province, and his party's social democratic tendencies, meant that his statements generally ran counter to the grain of neoconservatism.⁵ Premier Blakeney's rejection of the ideology was expressed in his statement to the February conference that,

"... the simple-minded assertion that anything is good which limits government spending or intervention in the economy, simply does not reflect Saskatchewan's concept of the duties and responsibilities of government, nor is it in keeping with a compassionate and forward-looking society."⁶

In a recent analysis of neo-conservative trends in Canada, Larry Pratt has maintained that it is,

"the rich, conservative provinces, notably Alberta, Ontario and BC, (which) have deployed their considerable influence over

federal economic policies to back private sector initiative and to lobby at the side of business for reduction in federal spending and powers."⁷

Examination of the first ministers statements at the conferences on the economy in 1978 suggests Pratt's view is not complete. In the first place, despite the fact that Manitoba is not a rich province, its Premier was one of the strongest proponents of neoconservative principles at the conferences. Second, the premiers of BC, Alberta, Manitoba and Ontario emphasized different aspects of neoconservative thought.

Although Premier Davis joined the premiers of the three Western provinces supporting private enterprise, he did not cite "demand overload" as the source of the Canadian government's misguided economic activities, perhaps because the economic prospects for Ontario, though high are declining. In contrast, Premiers Bennett, Lougheed and Lyon explicitly asserted that unreasonable public expectations, and the willingness of governments to cater to them, had led us into our economic difficulties.

As mentioned above, first ministers' debates were characterized by rhetoric rather than consistent ideological arguments. One example of the confusion which prevailed was that some premiers simultaneously argued that the role of government should be greatly reduced, but called for various forms of intervention. Premier Davis, for instance, applauded the observations of the federal finance minister about the need for "deregulation, less government involvement and more confidence in the private sector," but also called for "programs to restructure, modernize and rationalize our industries before the GATT changes take effect."⁸ Intervention, in this view, is not the issue; rather the question is whether it is supportive of business and of private capital accumulation.

Premier Lougheed also stated in his opening speech to the February conference that he saw the primary task for the meeting as the creation of "a new climate of confidence."⁹ His speech certainly seemed designed to that end. He blamed Canadian governments, among other things, for accepting public demands for nonessential services, for succumbing to the power of the public sector unions, for not resisting pressure from citizens for excessive regulation of profit making activity, and for having "sadly condoned, and at times even supported, a constant media induced attack on the doers and achievers who create jobs in this country."¹⁰ Although

Lougheed's statements in February were in themselves consistent, they were in strong contrast to the entrepreneurial role which the government of Alberta apparently envisages for itself with respect to the development of the province.

Premier Lyon neither called for the development of federal-provincial programs to rationalize Canada's industrial structure, nor envisaged a large provincial government role in shaping the structure of the provincial economy. Nevertheless, his statements at the conferences in 1978 were somewhat contradictory. No sooner did he deplore the excessive role which the federal government had assumed in directing the Canadian economy, than he called, in November, for an immediate meeting of officials on the issue of upgrading the prairie grain transportation and handling system. One seemed to be witnessing a nominally free enterprise government, which recognized the need for state activity at least in infrastructural support and development, attempting to transfer as many of the costs as possible, both in terms of finance and ideological consistency, to the federal government.

British Columbia's position on government economic intervention was in many respects the most consistent. The theme underlying the Premier's statements appeared to be that governments should not attempt to intervene in the economy at the sectoral level in order to shape its structure, but rather should attempt to create a favourable climate for private sector activity. At the November conference, Bennett condemned the purchase of Pacific Petroleum by Petro-Canada as being contrary to the spirit of the February conference's affirmation of private enterprise. The reason Bennett gave for his attack, however, was that Pacific Petroleum and West Coast Transmission are "one of the instruments, although in the private sector, of British Columbia's economic policy."¹¹ He appeared to be advancing the notion that intervention by one level of government is somehow more acceptable or amenable to the free market than intervention by the other level. As the Prime Minister pointed out in his opening speech to the November conference, it was necessary to decide not only what policy instruments should be used to what ends, but also which level of government should carry out the initiatives. The latter question cannot be said to be ideological, but in putting forth the notion that provincial intervention

in the economy is more appropriate than federal, Premier Bennett was attempting to use ideology to answer it.

These examples demonstrate that, although neoconservative thought may have influenced the statements of some of the premiers, it did not receive a fully elaborated expression at either of the 1978 conferences. The premiers of British Columbia, Alberta, Manitoba, and Ontario appeared to have "picked and chosen" the tenets of neoconservatism which were most compatible with their provinces' interests.

It remains, then, to examine the "conclusions" of the conferences to judge how far the conservative thrust survived. On the first page of the February communiqué, the first ministers emphasized that they "see an expanded private sector as the major impetus for a growth in the Canadian economy." In their consensus on medium-term objectives they wanted "sustained growth of output and employment and a reduction of unemployment and a reduction of the rate of inflation." Expansion "should come to the largest extent possible from business investment, the development of new sources of energy and from a more rapid growth of exports than imports."

In the conclusions on "demand management policies", two clauses demonstrate the thrust:

"The trend of expenditure growth should be held, on average, to less than the trend growth in the value of GNP or provincial gross product. In this context, however, it was agreed that capital expenditures of a revenue producing nature were important to economic growth and development."¹²

Thus expenditure restraint was encouraged, as was deficit reduction:

"Current large deficits limit the ability of governments to provide further economic stimulus through either increases or tax reductions ... these deficits should be reduced quickly as the desired rate of recovery is achieved."

There was no wholesale abandonment of counter cyclical fiscal policy, but merely an acknowledgement that large scale deficits render such policy more difficult.

In prices and incomes policy, perhaps the most conservative statement was that "the level of total compensation paid to public employees should not lead the private sector." But rather than a full-fledged regulatory body to succeed the Anti Inflation Board, a watchdog monitoring agency, would be created. This was in keeping with another February con-

clusion, under the general title "business environment": "the burden of government regulation on the private sector should be reduced and the burden of overlapping federal and provincial jurisdiction should be eliminated." In addition, "Foreign investment is welcome in Canada (wherever it is consistent with national or provincial objectives)," and "the federal-provincial corporate tax structure appears to be internationally competitive and must remain so."

The November conclusions added little new to these resolutions, other than to reaffirm the commitment:

"that the fundamental focus for growth must lie in the private sector ... [that there be] continued restraint on prices and incomes ... [they] agreed to emphasize policies which would stimulate new productive investment from Canadian savings [and] ... continued restraint on public sector current spending, greater efficiency and effectiveness in the public services and tough but fair bargaining with public sector employees."

The overall thrust was generally, but not thoroughly, conservative. There were many qualifications, and no wholesale abandonment, of some of the more traditional tools of demand management. On the whole, the rhetoric of the 1978 exercise arose from a genuine but mild fiscal crisis. To a majority of the participants, part of this crisis was a lack of investor confidence in the private sector; the conservative nature of the rhetoric and the conclusions on macroeconomic policy was directed at the business community, to raise its confidence, and at the general public, to lower its expectations. At this level of generality there was a substantial consensus; neither federal-provincial nor interregional conflict was particularly prominent. All agreed that economic development must be led by the private sector, and that the role of government was to help it to do so. There was also some recognition that federal-provincial conflict itself could threaten to grind the private sector between competing governments. The competition to capture resource rents through higher taxes was a prominent recent example, and the study of resource taxation, accompanied by a partial retreat of both levels from high taxes, was a result.

The Debate on Structural Policies

The term "national industrial strategy" was frequently heard before and during both conferences in 1978. The phrase itself was never clearly defi-

ned, which, of course, was one reason for its widespread use, but in general "industrial strategy" usually meant a set of public policies designed to maintain or to build a particular industrial structure in Canada (or within particular provinces). Its proponents contend that the present implicit strategy is inadequate (or worse) and that an explicit strategy is required to meet the structural problems of the economy. Policy makers speak of "structural policy" as measures which influence the way in which resources are allocated between the public and private sectors, between and within various sectors of the economy, and between and within the various regions of the country. Structural policies, as noted earlier, can be of two kinds: framework (or horizontal) policy, such as trade and tariff or energy policies; and sectoral (or vertical) policy, designed to influence the structure and performance of particular industrial sectors.

Few participants at the conferences presented a full-fledged "industrial strategy" for Canada; much less did the conferences as a whole. To the extent that industrial strategy has come to be associated with a highly dirigiste and detailed government role in the economy, it was ruled out by the discussion described above. The sine qua non of acceptable industrial strategy is that it support, not compete with, private sector decision making.

Nevertheless, certain themes ran through each province's position, the federal government's responses, and other statements. This section reviews the substance of ongoing debate on structural policies, and sketches out the limitations and promise of a "national" strategy.

British Columbia

The tariff changes in the wake of the GATT negotiations were the most important development facing the country at the time of the conferences. Thus the British Columbia position on commercial policy is a good starting point from which to evaluate its conception of "national industrial strategy." British Columbia in "Towards an Economic Strategy for Canada: The British Columbia Position," tabled at the February conference stated that the present structure of the Canadian economy is the product of past "framework" policies, particularly tariffs¹³ and argued that the protection of weak industries by tariffs and financial support has resulted in a,

"weak and vulnerable industrial structure, often characterized by high costs and frequent cross-subsidization of the less efficient by the more efficient industries, and a general decline in international competitiveness in all sectors."¹⁴

The remedy advocated was the application of "the test of economic efficiency and international competitiveness to rationalize Canada's industrial base toward what we can do best."¹⁵

This would involve moving as far as possible toward free trade, primarily benefiting resource industries, but BC maintained that it would also in the long run, increase the health of Canadian secondary industries mainly because expanded markets would result in reduced unit costs and greater efficiency. It was acknowledged that adjustment problems would be encountered by many manufacturing firms, but adjustment assistance should be relatively limited through a gradual reduction in the protective tariff and a cash support system which would promote the development of secondary industry in Western Canada.¹⁶ The government's objective was to attract new industries, oriented to continental markets, to the province, rather than industrial rationalization at the national level. One of the advantages of free trade, to BC, lay in encouraging direct foreign investment.

A second policy change advocated by the British Columbia government was a move towards tax neutrality between sectors. Tax neutrality, like the removal of protective trade barriers, would promote the fulfillment of the two principles basic to British Columbia's proposed industrial strategy: that competitive market forces be relied upon to set the level of activity in particular sectors, and that industrial policy be established to facilitate, not prevent, changes in the relative level of activity between sectors.¹⁷ These principles also form the basis for British Columbia's objection to the use of a sectoral approach to industrial strategy.

At the conferences in 1978, Premier Bennett opposed both the protection of weak industries, and regional development measures which result in suboptimal utilization of resources within sectors. He complained at the February conference that healthy forest industry companies from British Columbia were locating facilities in other parts of the country because they could get grants, and that this was detrimental to the industry as a whole.¹⁸ British Columbia therefore proposed that programs be established to encourage labour mobility, that the Department of Regional

Economic Expansion be disbanded upon expiry of its present programs, and that such programs be replaced by transfers to individuals "with severely limited employment and mobility alternatives."¹⁹ In short, BC rejected a sectoral based industrial strategy as contrary to a free market economy, and looked to both provincial and federal government to establish the macro-economic framework for a thriving private economy.

Because most of the framework policies in the industrial strategy envisioned by British Columbia are under federal jurisdiction, Premier Bennett maintained that close federal-provincial cooperation on the economy was vital. Consultation between the eleven governments might also inhibit the erection of barriers to the mobility of labour and capital by provincial governments and thereby preserve the integrity of the Canadian common market, which the BC government maintained was crucial both to its industrial strategy and the provincial economy. An ongoing council of first ministers was therefore proposed. BC noted that, at present,

"Systematic procedures for calling meetings, setting agendas, terminating debate, establishing consensus, and implementing agreements are lacking. Most importantly, however, no formal mechanism exists to ensure meaningful and early consultation on matters of continuing federal and provincial interest, nor to monitor government follow-up of the results of intergovernmental consultation."²⁰

Alberta

The goal of the government of Alberta, in contrast, was to promote its own provincial industrial strategy, and to ensure that the federal government did not obstruct it. Premier Lougheed, like Bennett, called for the restoration of private investor confidence. The Alberta government's aim was to ensure continued expenditures by the petroleum industry (largely foreign owned) in the province. Provincial revenues, of course, are heavily reliant on oil and gas royalties and taxes. Lougheed was the most vociferous opponent of the principle of nondeductibility of provincial royalties in the calculation of federal corporate taxes, and argued that the tax structure be revised to encourage private investment.

The accumulation of resource revenues in recent years has allowed Alberta to pursue its objectives more independently, and although it continues to emphasize the importance of private investment, the Lougheed government has also assigned an entrepreneurial role to the state. In par-

ticular, the province seeks to use such public instruments as the Alberta Heritage Savings Trust Fund to diversify the industrial structure of the provincial economy. On the other hand, one Alberta official explained that they would like to see companies established that would be competitive in the international market. Alberta tries to lead or promote the environment for industrial diversification through having a good tax situation and secure supplies of raw materials that will attract the types of firms that will contribute to diversification.²¹

Anxious to provide the infrastructure for such diversification, the Alberta government argued that a distinction should be made between capital and current expenditure in the budgetary process, with the latter being restrained to meet the demands of investor climate, and the former expanded to meet the demands of industrial strategy.

While Alberta's industrial proposals did not share BC's emphasis on framework policies, Premier Lougheed did intervene forcefully in the debates on commercial, transportation and industrial policy. In his opening speech in February, Lougheed objected to federal subsidization of "marginal economic enterprise" by tariff protection and grants, which discourage labour mobility. Although Alberta shares some of British Columbia's concerns about the impact of regional development policies on overall economic efficiency, Premier Lougheed did not join Bennett in his attack on the Department of Regional Economic Expansion.

Nevertheless, his complaints about federal support of the petrochemical industry in eastern Canada echoed those made by British Columbia about Ottawa's subsidization of the eastern forestry industry: inefficient allocation of resources. In provinces where the economies are becoming stronger, the provincial governments wish to direct their own industrial development. These governments insist that the federal government should not interfere in their economies, and object to federal activities that support potentially competitive industries in other provinces.

Like the other Western provinces, Alberta advocated the greatest possible reduction of tariff barriers, on the grounds that their principal impact was to subsidize central Canadian industry. Specifically, Premier Lougheed hoped that GATT negotiations would result in greater access for

Canadian petrochemical and agricultural products to foreign markets, particularly those in the United States.

In the fierce debate on transportation policy at the February conference, Premier Lougheed opposed the user-pay²² principle, as did Saskatchewan, Manitoba, Quebec and the Atlantic provinces. Premier Davis and the Federal Minister of Transport, Otto Lang, defending user-pay, argued that it would be more efficient to use tax incentives to encourage specific industries in certain areas than to subsidize firms across the board by means of a transportation subsidy. Blakeney suggested in reply that tariffs likewise could be abolished and that subsidies be paid to the industries that need them instead of protecting the ones that do not.

If the efficiency criterion which Davis cited in February in defence of the user-pay principle contradicted his position on commercial policy, then the positions of Alberta, Saskatchewan, Manitoba and British Columbia were likewise contradictory on these issues. In many cases, the components of a government's position are united, not by logical consistency, but by the province's interest.

Finally, while Alberta had welcomed the conferences as signalling greater federal-provincial coordination of economic policy, it strongly opposed proposals for including private sector representatives in inter-governmental consultations on the economy, as Ontario had suggested. Premier Lougheed argued that governments should consult separately with representatives of the private sector, rather than "dilute" intergovernmental consultation by the inclusion of spokespersons for business and labour. As one Alberta official explained:

"It becomes a question of who speaks for Alberta business. Certainly national labour and business organizations don't, so it's better to keep the discussions on a government to government basis. Who speaks for the Alberta petroleum industry but us?"²³

Saskatchewan

Saskatchewan's position at the February and November conferences had one major element in common with that of Alberta: a recognition of an active entrepreneurial role for government in the economy. Premier Blakeney elaborated on Lougheed's distinction between capital and other government expenditures. Governments ought not to allow worries about balanced bud-

gets stop them from investing in energy, transportation and housing projects. This was deemed both politically desirable in terms of job creation, and good business sense, because such projects would utilize labour on a large scale while it was still in oversupply.²⁴

Despite their common recognition of an entrepreneurial role for government, Alberta and Saskatchewan differed in their industrial strategies. This may be traced to the different characters of their largest industrial sectors, and to their respective conservative and social democratic outlooks.

For Saskatchewan, development schemes based on agriculture and potash require neither imported technology nor high foreign investment. With existing regulations in agriculture, and government ownership of large parts of the potash industry, the protection of high profits at the personal or corporate level is not particularly important to the maintenance of growth. Thus, where Premiers Lougheed and Bennett advocated revision of the tax system to encourage investment, and Bennett strongly supported indexation of personal income taxes, Blakeney argued, as a response to the "fiscal crises," that the remaining loopholes in the Income Tax Act be plugged, and indexing of personal income taxation phased out. It is likewise not surprising that Premier Blakeney's attack on foreign ownership was rejected by those provincial governments that either wanted, or already had, substantial direct foreign investment in their economies. Blakeney specifically argued in November that the "ownership structure" of profitable industries be repatriated as a prelude to the rationalization of the national economy.

Premier Blakeney's opposition to measures to keep public sector compensation below that in the private sector also set Saskatchewan apart from most other provinces.

Blakeney was sympathetic to Ontario's proposal for the creation of a National Council on the Economy. This position differs from the Alberta position that an industrial strategy consists of each province developing its own means for promoting investment and development, with the federal government's role being to minimize the interprovincial conflicts that result. Perhaps Saskatchewan is not as able to pursue an independent

course, and for many of its professed goals, such as large energy projects and Canadian ownership, a large federal role is necessary.

Manitoba

Premier Sterling Lyon, at both conferences, sought to carry his "message" to Ottawa. He argued that other governments must take Manitoba's lead in reducing government's role in the economy by reducing regulation and re-training expenditures. Any strategy for the re-invigoration of the economy must begin with a commitment to the pre-eminent role of the private sector:

"I know that it can be argued that this conference should talk about the long term or the medium term instead of talking about the next few months, but any long-term solution has to start with immediate policy and it must start with an end to the ambiguity that has come to colour Canada's attitude toward private investment in the private sector generally."²⁵

Manitoba positions were clear cut. Premier Lyon advocated a federal-provincial review of government regulation, including the Foreign Investment Review Agency; attacked the expansion of Crown corporations such as Petro-Canada and Air Canada and argued against universality in welfare programs.

At the November conference, which followed federal restraint measures in August of cuts in federal transfers and programs, the Manitoba government was faced with a dilemma. Although Manitoba had urged federal restraint, it was inevitably affected by it, and less able than its western neighbours to absorb these cuts. The conservative stance of the Manitoba government in this case did not coincide as clearly with perceived provincial interests as may have been the case in Alberta or British Columbia.

While Manitoba does not really share in the general prosperity of the "West", it shares similar western views. Premier Lyon joined the other western premiers in arguing for significant tariff reductions, and joined Alberta and Saskatchewan in pressing both for an end to the user-pay principle and for upgrading of the prairie grain handling system.

On regional disparity issues, Manitoba is a member of the "have not" club. During the discussions of regional policy in February and November, Premier Lyon neither attacked the Department of Regional Economic Expansion, as Premier Bennett had done, nor expressed strong support for

the principles underlying it, as the premiers of the Atlantic provinces had done. In February, Manitoba's interventions in these discussions were limited to a request for more federal flexibility in the development of an agreement concerning tourism, and, in November, to a request that means be devised for providing greater employment opportunities for status Indians. Premier Lyon, however, during the discussions on research and development in November, argued that it was unjust that Manitoba had been treated as one of the "developed" provinces with respect to R&D tax credits.

Again, a comparison of the perspectives of the four Western provinces shows how diverse they were. There was no common regional position. The Atlantic provinces' interests also diverge and belie the stereotype of a cohesive "region." While they agree on many essential structural issues, such as trade and transportation, it is more useful, particularly as the provincial governments take an increasingly important role in the economy, to differentiate provinces, rather than four or five regions, as the basic units of economic division in Canada today.

Ontario

For Ontario the conferences were an opportunity for Premier Davis and other provincial spokesmen to urge other governments not to take Ontario's industrialization for granted. Ontario was beginning to recognize that explicit policies are indeed responsible for the concentrated industrialization of central Canada, a view long held in the "peripheral" regions. It qualifies the older claim of Ontarians that the concentration of manufacturing in their province was the result of natural economic forces.

In particular, Ontario was concerned about the international competitiveness of its manufacturing sector in the face of tariff reductions and declining productivity. Other provincial governments may have seen impending tariff reductions as opportunities for increased resource extraction and processing, and for industrial diversification; Ontario saw them as necessitating increased government action to help manufacturers adjust. The position paper An Economic Development Policy for Canada stated:

"The first commitment must be to manufacturing; there can be no simple acceptance of the status quo in output and employment, but there must be action to bring about increasing employment in manufacturing, and an increase in its share of GNP."²⁶

In other respects, Ontario concurred with other provinces that the expansion of the role of government in the economy had had an adverse effect on the private sector. Davis therefore joined other premiers in calling for fiscal restraint and a decrease in regulatory activity.

Ontario's conception of industrial strategy seems similar to British Columbia's, but in fact the two differed substantially. Whereas British Columbia wanted to facilitate changes in the relative level of activity between sectors, Ontario's primary objective was to defend and re-invigorate the manufacturing sector. In many instances this would require government intervention in the form of adjustment assistance, promotion of plant and equipment modernization, industrial rationalization, and international marketing. Provinces with resource based economies hoped to encourage local processing by providing price incentives or advantages in terms of security of supply to firms willing to locate in the province. But Ontario insisted that a national common market must be maintained,²⁷ in part because of fear that other provinces might be able to use resource advantages to lure firms away from Ontario. A larger concern was that fragmentation of the national economy would reduce the size of the markets for Ontario manufacturing firms, thus reducing their competitiveness. The desire to secure a large market led Premier Davis to recommend such things as the "Buy Canadian" campaign to the other first ministers in February. (As several other premiers pointed out in November, it could in fact more accurately be called a "Buy Ontario" campaign). The recommendation was also made in An Economic Development Policy for Canada that:

"Effective coordination of government purchasing in areas such as heavy electrical equipment, urban transit, railroad rolling stock and pharmaceuticals will assist Canadian industry to develop rationalized units capable of competing effectively in world markets."²⁸

The Ontario government also argued against proposed revisions to competition law and changes to the Bank Act at a time when Canadian producers should be devoting their full efforts to rationalizing and improving their productivity. Ontario's position on the Bank Act conflicted with that of British Columbia, that revisions to promote competition should proceed, to

"ensure that firms are able to obtain adequate financing for plant modernization and/or expansion as well as providing impro-

ved opportunities for Canadians to invest their savings in the economy."²⁹

BC disagreed with what it perceived as Premier Davis' defence of eastern financial institutions.

One of the most important shifts in Ontario's position between February and November concerned regional development. In February, Premier Davis had at least faintly supported the Atlantic provinces' conception of regional development, but by November he had moved closer to the British Columbia position. He said that the way to strengthen the low-growth regions of Canada was not by weakening the Ontario economy, nor artificially diverting industries to regions where they would not otherwise locate, and he questioned if Canada could afford to trade off competitive industrial development to achieve better regional distribution of incomes thus indicating both the extent to which the Ontario government perceived its manufacturing sector as being "under siege" and the more general tendency to defend the provincial interests.³⁰

Finally, in pursuit of all its objectives, the Ontario government was a strong supporter of more formal mechanisms for federal-provincial collaboration on economic policy. Calling for a "genuine consultative process," the Ontario government maintained that "the achievement of a credible national economic development policy is dependent on the federal and provincial governments working closely together."³¹ In fact, Ontario's proposal for a "National Council on the Economy" included private sector representatives of business, labour and other groups as well, which would consider and "offer policy alternatives" to future First Ministers' Conferences on the Economy.

Quebec

Quebec's participation consisted primarily of insisting that federal economic policies and programs should respect provincial priorities, in every area, from agriculture to research and development to tourism. It flowed from the intensive efforts by the province throughout this period, to generate its own industrial strategy, and to develop its own extensive procedures for consultation with the private sector.

Some of the criticisms of federal policy made by Premier Lévesque were similar to those made by the Atlantic Premiers. In November, Premier

Lévesque attempted to demonstrate that federal fiscal restraint had hurt Quebec and that the federal retail sales tax scheme reduced provincial revenues while benefiting the Ontario manufacturing sector. Premier Lévesque with Premier Bennett, severely criticized federal cutbacks in unemployment insurance, but for opposite reasons. British Columbia felt that the federal cutbacks in the program had not gone far enough. Quebec, in contrast, maintained that the encouragement of labour mobility was contrary to the principle of regional development and demonstrated Ottawa's insensitivity to the relative immobility of Quebec workers because of linguistic and cultural factors.

Quebec and the Atlantic provinces also took similar positions on regional disparity and underdevelopment, but articulated them quite differently. Atlantic premiers frequently criticized federal policy for protecting the Ontario economy to the detriment of the rest of the country, but they assumed that this situation could be remedied. Quebec spokesmen argued that the federal structure was simply incapable of responding to the economic interests of minority regions. Similarly, Quebec's grounds for Ottawa's withdrawal from overlapping jurisdictions was also more principled than other provinces. It was not a matter simply of the inefficiency of duplication; Quebec spokesmen maintained that Ottawa should withdraw because the issues involved were regionally specific, and thus could not be accommodated at the federal level.

Quebec sought, especially in November, to demonstrate what it viewed as the steady erosion of the province's fiscal manoeuvrability. Finance Minister Parizeau produced a long list of various tax changes, such as amended fiscal arrangements, federal sales tax on Olympic installations, changes in population calculation for equalization, cuts in shared-cost programs, retail sales tax cuts and so on, which he contended had pushed the Quebec government

"into an increasingly tight financial position in the hope of bringing it to recognize as its own, the federal priorities, the federal programs and federal distributions to citizens."³²

Thus, Quebec's involvement in the conferences consisted primarily of trying to bring federal policy and programs in line with the province's industrial strategy. In light of its broader political goals, it also

tried to demonstrate the inability of both Ottawa, and federal-provincial debate, to deal with Quebec's economic problems.

The economic development strategy which underlay Quebec's position at the 1978 conferences was not made completely explicit until the September 1979 release of its white paper, Bâtir le Québec.³³ According to the strategy, there were two components to building a healthy economic base in the province: policies to promote the competitiveness and dynamism of individual firms, and policies to encourage the sectoral rationalization of industry and increased processing of raw materials within the province. The paper confirmed the private sector as a primary force for growth, and that Quebec's program of industrial assistance was similar to Ontario's policy of promoting industrial modernization. However, the Quebec program emphasized indigenous capital and the support of provincial firms. The Parti Québécois' conception of Quebec as a nation on the road to political sovereignty makes a critical difference in this respect.

The sectoral component of the economic strategy had three facets: to enhance the province's comparative advantages in natural resources through intervention to ensure resource supply; to develop "basic industries," such as steel and petrochemicals, considered essential to diverse industrial development; and to provide continued protection through an adjustment period for the "soft" sectors such as textiles, footwear, and furniture, which employ so many in the province.

Although Industry Minister Bernard Landry stated at the February First Ministers Conference that Quebec agreed with Ontario that an effort must be made to adjust to freer trade,³⁴ and although the province's industrial strategy emphasized exporting goods in the manufacture of which Québec enjoyed a comparative advantage, the government argued that very vulnerable sectors should continue to be protected over the medium term. This would allow the companies involved to modernize and become more competitive, and would prevent massive unemployment.

When Quebec assessed the federal role in industrial strategy, it made a distinction between the federal financial involvement and federal input into the substance of policy. Quebec insisted that Ottawa's commitment to fund regional development and social programs should be maintained, but that federal expenditures should follow provincial priorities. Quebec

officials argued that each province has to build its own economy according to its resources and relative advantages.

Federal involvement in economic development should therefore be based primarily on bilateral consultation. Whereas both British Columbia, with a strategy based on framework policies, and Ontario, with its emphasis on the need for a national common market, insisted that increased federal-provincial consultation was imperative, Quebec wished to keep such discussion to a minimum. Premier Lévesque advanced two cardinal principles which should govern intergovernmental relations at the February conference:

- "(1) That each government mind its own business but that it do so definitely and with the greatest tenacity;
- (2) That the occasions for federal-provincial discussions be reduced to a minimum but when cooperation is necessary, that it be both frank and fleet."³⁵

The Atlantic Provinces

The Atlantic provinces tended to take rather similar positions on the main "structural issues." On the trade issue, they generally supported trade liberalization; Premiers Hatfield, Regan and Campbell all noted in February that much of the region's manufacturing output, and most of its resource output, is exported. They called for greater free trade, particularly with the eastern United States. They repeated their opposition to the user-pay principle in transportation, especially for railways, and cited the importance of differential transportation rates as a "tool of regional development." At the November conference, all four governments made conspicuous statements in support of the General Development Agreement approach of the Department of Regional Economic Expansion, in the face of opposition from British Columbia, and Ontario.

Regional solidarity, however, breaks down somewhat on closer examination of each province's prerequisites for economic development. Conflicts and differing approaches among the provinces are a result of different economic bases and opportunities. The Atlantic provinces share many of the same problems; thus competition amongst them for scarce investment dollars is keen.

New Brunswick

New Brunswick perhaps best illustrates the classic case of a dependent province with little leeway for an independent development strategy. Slow-downs in the national economy have a critical effect on provincial revenues, as equalization declines, cutbacks in unemployment insurance and other federal programs also decrease fiscal latitude. In his statement as chairman of the mining sector on the agenda in February, Premier Hatfield noted his disagreement with the Western provinces on the royalties deductibility issue. The provincial right to the revenues from natural resources, he said,

"should not be misused so as to pre-empt the federal government from the exercise of its fiscal responsibilities, including equalization."³⁶

New Brunswick could not bring itself to support any proposals which would erode the central government's ability to redistribute income, or to use money for purposes of regional development.

Prince Edward Island

Support for the federal role in income redistribution and regional development was echoed by Prince Edward Island, but its Premier used the conferences as an opportunity to advocate greater regional sensitivity on the part of federal policy makers. In fiscal policy, Premier Campbell welcomed Ottawa's attempts to set medium-term targets for the economy, but warned:

"a substantial effort to examine and predict the impact of national targets upon regional economies must accompany or, indeed, be an integral part of the national target setting exercise."³⁷

Along with his general support of present federal-provincial efforts at development, the PEI premier also served notice that his government did not share the view that wholesale retreat of the public sector would serve economic progress in the region: "the private sector seems to feel little sense of responsibility toward contributing to balanced economic growth in this country."

Nova Scotia

The positions taken by the Nova Scotia and Newfoundland governments best illustrate the thrust of industrial strategy as perceived in the Atlantic

region. These two provinces have the most significant potential for resource led growth in the region, and have been the most vociferous in their demands for federal assistance and policy cooperation in developing their economic opportunities. "We must use our resource base as the fundamental guide for determining what our industry structure should be," Premier Buchanan told the November conference, and cited the promise of the fishery industry as the chief example. To meet the challenge of the extended international fishing limit, the fishing fleets of Nova Scotia and Newfoundland require significant investment, but Premier Regan told the February conference they simply did not have the resources to make all the necessary investments on their own.

Fisheries expansion has become a critical focus of debate within the Atlantic region and at the intergovernmental level. The Nova Scotia government has insisted on wresting a significant amount of the management of the industry from Ottawa. The province is anxious to develop a vertically integrated offshore fishing fleet in order to expand the province's processing industry and to contribute to its marine technology and ship-building industries. Federal fisheries minister Romeo Leblanc generally supported the development priorities of the inshore fishery, and to some extent was supported by the Newfoundland government.³⁸ Nevertheless, the Newfoundland government has also insisted on a greater role in fisheries policy. Both provinces have also injected this concern into the constitutional debate.

Newfoundland

In addition to its grievance with the federal government over fisheries policy, the Newfoundland government added two other resource related issues: the conflict over ownership and management of offshore oil and gas, and the contention that "national energy policy" is at least partially responsible for Newfoundland's inability to get a fair deal from Quebec on the Upper Churchill hydroelectricity contract. While Newfoundland Premier Frank Moores told the conferences in 1978 that his province was on the threshold of great economic potential as a "resource rich area," he continued to emphasize that at this stage "the federal government holds the key to the realization of our resource potential." Because of its fiscal

dependency, Newfoundland faces serious limits to its development goals without substantial federal cooperation.

Thus, the Atlantic premiers were concerned about federal fiscal restraint at such a critical juncture in the region's development. Both Nova Scotia and Newfoundland complained about the disproportionately high impact of the changes to unemployment insurance on their regions. New Brunswick and Prince Edward Island argued that a single national strategy could not address unique regional problems. While the Atlantic provinces' spokesmen did not argue, as Quebec did, that federal institutions were inherently incapable of responding to regional needs, they did argue that their governments were more familiar with local development needs and priorities. In general, they called for a long-term joint commitment to regional development based on the comparative advantages of their resource bases. This is a strategy which requires close federal-provincial collaboration.

The positions of the Atlantic provinces reflect a significant departure from their traditional position of dependency. While those concerns remained, they were now accompanied by a new selfconfidence born of the promise of wealth from offshore oil and gas and the Atlantic provinces now asserted the need to manage and to benefit from these resources. Newfoundland, in particular, is committed to control the pace and character of oil exploration, development and production, to obtain a larger share of the resulting wealth, to guarantee job opportunities for its citizens, and to minimize the disruptive effects of development on its traditional culture and social structure.

The Federal Government

The position and role of the federal government at the conferences was qualitatively different from that of the provinces. Federal spokesmen at the preconference meetings presented policies for provincial reaction, but, at the first ministers conferences, they did not put forward a comprehensive blueprint for an industrial strategy. Rather their tactics were to react to provincial statements and to seek to mediate in interregional disputes. On a number of issues, listed below, federal representatives took strong stands, but in most cases they were defending prevailing policies or proposed initiatives.

In fact, if the federal government pursued any strategy at all, it was to promote the consultative process itself. In the period between the two conferences, federal officials and ministers took great pains to follow-up on the February initiatives, though it is questionable if other policy decisions pursued by the federal government between conferences reflected the collaborative spirit. Nevertheless, there appeared to be a prevailing commitment to consultation, so much so that the consultative process seemed to be a substitute for policy for the federal government.

These general observations aside, what was the overall stance of the federal government towards the structural issues? The need to improve the business climate was Ottawa's chief concern. The federal government proposed the creation of an Inflation Monitoring Agency, promoted the rationalization of government regulation and improved coordination of economic policies, and stressed the need for public sector restraint. Changes in the unemployment insurance program were made with this end in mind.

In its conviction about the need for improving the competitiveness of the Canadian economy, the federal government shared the concerns of most provincial governments. Many federal proposals reflected the worries of Ontario, and to a lesser extent Quebec, about the lack of competitiveness of Canadian manufacturing. Thus, many federal proposals paralleled those of Ontario: mechanisms to promote industrial rationalization, mergers and modernization; the development of a comprehensive adjustment assistance program for industries affected by the GATT negotiations; increased incentives for research and development; and the maintenance of an internationally competitive tax system.³⁹ In addition, the federal government shared Ontario's concerns about the maintenance of a national market for Ontario's products; Ottawa adopted Premier Davis' proposal for a "Buy Canadian" campaign. But the federal position did not always coincide with Ontario's. For example, whereas Premier Davis argued that revision of competition laws was unnecessary and would increase uncertainty on the part of industry, Finance Minister Jean Chrétien insisted that it would promote, rather than impede, industrial rationalization.

The major shift in federal policy between the February and November conferences concerned transportation. In February, Ottawa and Ontario had taken the position that the principle of user-pay must be maintained. By November, however, the federal government had introduced a new National

Transportation Act, Bill C-20, which formally recognized that transportation policy should be used as a tool for regional development and that when this objective conflicted with that of efficiency, the regional development role should prevail, provided that all governments were in agreement. This bill received general approval from both the Western and Atlantic governments.

On other issues, however, the federal government continued to hold positions contrary to the majority of provincial views. The statements by Fisheries Minister Romeo Leblanc gave little indication of a willingness to compromise with the demands of some of the Atlantic provinces; in mineral policy, Ottawa would not budge on its refusal to deduct provincial resource royalties from corporate taxes.

In contrast to the theoretically consistent strategy papers produced by British Columbia, or the implicit drive and vision of Alberta's goal to diversify, the federal government articulated no overall policy for the structural reform of the Canadian economy. This is not to suggest that it did not respond to the issues; it did, in a plethora of policy statements, discussion papers and department consultations, initiated, not from the centre, but rather across the entire bureaucratic field.⁴⁰ That the central bureaucracy was able to get all departments to respond at the same time (while not, perhaps, in the same key) was no mean feat.

In general the conference forum gave many advantages to the provinces, and to some extent placed Ottawa on the defensive. It was a golden opportunity for provincial premiers to act as national policymakers and to use a national platform to promote their regional views. Because it has Parliament, the federal government does not need such a forum as much as the provinces do. The conference format invited provinces to assert their views on federal policies which affected them.

As more self contained, homogeneous entities, it was easier for provinces to articulate a clear model of regional needs. Federal leaders had to balance the views of a large number of departments, with different constituencies, perspectives and priorities, and the views of ten very different sets of provincial/regional interests. It is not surprising that

the federal position tended to vacillate between broad generalities and specific responses to provincial requests.

No joint provincial position emerged. The policy divisions were not only federal versus provincial; frequently, the provinces were divided among themselves. These divisions had little to do with party affiliation: indeed through most of the period all but three provincial governments were Progressive Conservative. Differing ideology did play some role in explaining conflicts; in particular, the divergence in approach between neighbouring Saskatchewan and Manitoba seemed to reflect the social democratic orientations of Premier Blakeney and the conservative values of Premier Lyon. But by far the most important division lay in the differing economic structures of the provinces themselves, and in the inter-regional conflicts over the nature and location of economic activity which such differences generate. Thus there is a remarkable continuity in each provincial government's position. Given a perspective which begins with regions or provinces as the most important focus of attention, it is difficult to discuss industrial strategies in anything but regional terms. It is hard to see how a single national policy can respond to all these needs. If Ottawa is to be the prime generator of industrial policy for the regions, its strategy will of necessity be an amalgam of different policy elements aimed at satisfying various areas.

One alternative is provincial economic strategies. We have seen that the provinces were effective and articulate champions of their own regional interests, and powerful advocates for beneficial federal policies. But beyond that, what was striking was the provincial commitment, most evident in BC, Alberta, Saskatchewan, Quebec, and increasingly Nova Scotia and Newfoundland, to develop their own provincial policies. In many cases the provinces demanded to be left alone to do their own thing, or argued that federal policies be adjusted to reinforce provincial policies.

Conclusions

The official communiqués were the only means of consolidating the wide array of federal and provincial views. To take the main framework policies in turn, the conclusions concerning trade and industrial policy endorsed the "Buy Canadian" campaign, thus satisfying the manufacturing sector, and the federal and Ontario governments. The federal government was urged to

continue its role at the multilateral trade negotiations "with the aim of achieving positive net benefits to Canada and a balance of benefits and costs which reflect the interests of all provinces."⁴¹ A special effort to reduce tariffs (and lower non-tariff barriers) was singled out for fisheries and agriculture products, resource-based industrial products and petrochemicals, and a commitment was made to negotiate for a bigger share of automobile production, thus responding to a main demand of each region.

In regional development policy, the February conclusions noted that the first ministers strongly affirmed the importance of reducing regional disparities, "and the continuing need for review and expansion of programs for regional development, based on longer-run economic development potential and transportation requirements in each province and region."⁴² This would appear to answer the Atlantic provinces demands, particularly as DREE was committed to maintaining a federal presence in regional policy. The regional "commitment" was "reaffirmed" in November, but with the caveats, possibly responding to BC and Ontario concerns, that "regional development should be based on viable economic opportunities resulting from natural strengths such as fisheries, forestry, agriculture and tourism." This communiqué, however, endorsed the basic tenets of bilateral federal-provincial cooperation through the General Development Agreement approach.

Transportation was conspicuously absent in the February communiqué. But by November, the conclusions included the following hard-won concession for eastern and western provinces. "First ministers agreed that transportation should be used as a tool for regional economic and social development. They noted that this objective was contained in Bill C-20, amendments to the National Transportation Act."⁴³

In the area of energy development, the most notable conclusion from the February conference was the endorsement in principle of two joint federal-provincial capital projects for the development of hydro electric power at the Gull Island site in Labrador, and for heavy oil production in Saskatchewan; this, in part, responded to some provinces' calls for increased public investment in large projects. In November the first ministers gave a tentative boost to a gas pipeline in the east, by recognizing "the need for the rationalization of refinery surplus capacity in Eastern Canada and equitable treatment of gas relative to other energy forms," a qualified

support of Alberta's position. (However, the dramatic politics of oil pricing and revenue sharing took place outside these economic summits.)

There was less progress on sectoral policies. There was no resolution of the conflict on fisheries; the conference seems to have made little difference to prior consensus on agriculture; the most significant achievement in the mineral sector was the tabling of the federal-provincial review of taxation, which appears to go a long way towards restoring "tax stability" to the sector. In particular, "there was general agreement that where one level of government moves to reduce taxes on resource industries the other level would not act to offset these tax-relieving benefits."⁴⁴ Some "agreement" was reached on the importance of such things as "R&D programs, greater technology transfers and modernization" of the forestry industry. Headway was made towards a "block-funding" of provincial housing plans (effective decentralization). Finally, in the manufacturing sector, the conclusions dwelt largely on the process of consultation established with specific industry sectors. The first ministers, in November, "reaffirmed the need to continue, in consultation with representatives of Canadian industry and labour, the development of both general industrial and specific sectoral policies."⁴⁵ It would be stretching matters to deduce from this that the governments endorsed dirigiste industrial planning, but at least, as explained below, they rejected neither the sectoral approach, nor consultation with business and labour.

On some questions, then, the first ministers were able to go no farther than an exchange of views, at best enlightening, at worst a litany of well-worn positions. For other issues, valuable consensus was reached on broad policy objectives. Finally, in a few policy areas, joint decisions were taken that bound all the participants.

Notes

I. A Summary of Events

1. The ministerial conferences were as follows: Energy Ministers, December 1, 1977; Agriculture Ministers, January 17, 1978; Mines Ministers, January 20, 1978; Ministers of Labour, January 23-24, 1978; Forestry Ministers, January 25, 1978; Finance Ministers, January 26-27, 1978; Ministers of Trade and Industry, January 30, 1978; Ministers of Tourism, January 31, 1978; Federal and Atlantic Fisheries Ministers, week of February 1, 1978.
2. According to the conference conclusions: "It was agreed that the Economic Council of Canada be requested, if feasible, to assume the responsibility for analyzing price and cost developments for a limited post-control period. The function would be to inform the public and draw public attention to cost or price developments which appear to threaten the national economic objectives. It would also have a research and educational role in the improvement of productivity."
3. First Ministers Conference on the Economy, Ottawa Feb. 13-15, 1978, Notes for the Hon. Marc Lalonde, "Statement on Consultative Mechanisms," Canadian Intergovernmental Conference Secretariat, Ottawa, Document No. 800-7/073, p. 2.
4. First Ministers Conference on the Economy, Ottawa, Nov. 27-29, 1978 "Progress Report on Commitments undertaken by First Ministers at the February 1978 Conference on the Economy, tabled by the Federal Government," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-9/022.
5. Western Premiers Conference, Yorkton, Saskatchewan, April 14, 1978, "Communiqué."
6. See Federal Year in Review, 1977-78, Institute of Intergovernmental Relations, Kingston, Ont. 1979, pp. 10-13.
7. See, for example, editorial in Le Devoir, November 28, 1978.
8. Le Droit, November 25, 1978.
9. First Ministers Conference on the Economy, Ottawa November 27-29, 1978, "Notes for opening remarks by the Prime Minister," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-9/027, p. 4.
10. Ottawa Journal, December 1, 1978.
11. First Ministers Conference on the Economy, Ottawa November 27-29, 1978, "Summary of Conclusions," Canadian Intergovernmental Conference, Secretariat, Ottawa, Document No. 800-9/087.
12. Bill C-20 recognized transportation policy as an explicit tool for regional development. It was never passed, but is still somewhere on the Liberals' legislative agenda. See below, p. 105.

II. The Process of the Debate

1. Government of Canada Agenda for Cooperation, Ottawa, May 1977.
2. For a detailed history of these relationships, see R.M. Burns, Report: Intergovernmental Liaison on Fiscal and Economic Matters, Institute of Intergovernmental Relations, Queen's Printer, Ottawa 1968; for more recent analysis see Gérard Veilleux "L'évolution des mécanismes de liaison intergouvernementale," in R. Simeon ed. Confrontation and Collaboration-Intergovernmental Relations in Canada Today, Institute of Public Administration, Toronto, 1979, and "Intergovernmental Canada: Government by Conference? - A Fiscal and Economic Perspective," Canadian Public Administration, Vol. 23, No. 1, Spring 1980, pp. 33-53.
3. Richard W. Phidd and G. Bruce Doern, The Politics and Management of Canadian Economic Policy, Macmillan, Toronto, 1978, p. 38.
4. Interviews with senior officials in the Federal-Provincial Relations Office, Privy Council Office, and former provincial officials, June 1979.
5. Interview with senior federal official, July 1979.
6. For a more complete discussion of this point see below, "Agenda Setting", p. 63.
7. Interview with Privy Council Office official, June 1979.
8. Interview with Newfoundland official, July 1979.
9. Interview with Ontario officials, June 1979.
10. Interview with Ontario officials, June 1979.
11. Interview with Saskatchewan officials, July 1979.
12. Interview, August 1979
13. Towards an Economic Strategy for Canada: The B.C. Position, Victoria, BC, 1978.
14. Interview, August 1979.
15. Interview with former Nova Scotia official, June 1979.
16. Interview with New Brunswick official, June 1979.
17. The most extreme version of this story was that the whole 1978 exercise had been devised to this end; that the federal government, for political reasons, needed to take immediate action with respect to the economy, but that the Department of Finance would not respond quickly enough to this imperative.
18. Interview with Saskatchewan official, July 1979.

19. Interview with Saskatchewan official, July 1979.
20. Interview with New Brunswick official, June 1979. It is partly because of this role as "political bureaucrats" that D.V. Smiley has argued that the creation of a professional corps of intergovernmental officials has had a negative effect. See "An Outsider's Observations of Federal-Provincial Relations Among Consenting Adults" in Richard Simeon, ed., Confrontation and Collaboration: Intergovernmental Relations in Canada Today Institute of Public Administration, Toronto, 1979, pp. 109-110.
21. Interviews, June 1979.
22. Interviews, September 1979.
23. Interviews with former PCO official, and Ontario and New Brunswick officials, June 1979.
24. Interviews with officials from Alberta, Nova Scotia and Quebec, June-September, 1979.
25. Interviews, August 1979.
26. British Columbia was not involved in this dispute. The province's satisfaction with the federal Salmonid Enhancement Program and the fact that BC does not have to share the resource with other provinces, has contributed to better relations with Ottawa over the fisheries.
27. First Ministers Conference on the Economy, Ottawa, November 27-29, 1978, "Opening Statement on Fisheries by Prince Edward Island," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-9/042, p. 12.
28. First Ministers Conference on the Economy, Ottawa, November 27-29, 1978, "Fisheries Statement by Nova Scotia," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-9/078, p. 3.
29. First Ministers Conference on the Economy, Ottawa, November 27-29, 1978, "Notes for Remarks by the Hon. Romeo Leblanc, Minister of Fisheries," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-9/068, p. 10.
30. Interview with Saskatchewan official, July 1979.
31. Interview with BC official, August 1979.
32. Interview with provincial officials, July 1979.
33. Interview with senior Quebec officials, September, 1979. See also First Ministers Conference on the Economy, Ottawa, November 27-29, 1978. Federal Government "Agriculture in Canada," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-9/016 and Summary of Conclusions, Doc. No. 800-9/087.
34. Interview with Nova Scotia official, July 1979.

35. Interview with Saskatchewan official, July 1979.
36. Interview with Ontario official, June 1979.
37. Interviews with Newfoundland and former federal officials, June-July 1979.
38. Ibid.
39. Interview with official from Atlantic Provinces, July 1979.
40. The term "media event" often implies an artificial event concocted by the media. This, of course, was not the case; however, many would interpret the conferences as artificial events concocted for the media.
41. Interview with Maritime official, June 1979.
42. Interview with Newfoundland official, July 1979.
43. Interview with Ontario official, June 1979.
44. Interview with Newfoundland official, July 1979.
45. Ibid.
46. Ibid.
47. Interview, June 1979.
48. Interview with Saskatchewan official, July 1979.
49. Interview with Saskatchewan official, July 1979.

III. The Substance of the Debate

1. First Ministers Conference on the Economy, Ottawa November 27-29, 1978. "Verbatim Transcripts," p. 9.
2. First Ministers Conference on the economy, Ottawa February 13-15, 1978, "Notes for Remarks by the Prime Minister of Canada introducing the discussions of General Economic Policies," Canadian Intergovernmental Conference Secretariat, Ottawa, Document No 800-7/046, pp. 4-6.
3. First Ministers Conference on the Economy, Ottawa February 13-15, 1978, "Verbatim Transcripts," p. 50.
4. Ibid., p. 105.
5. See Quebec Ministry of State for Economic Development. Bâtir le Québec, 1979.
6. First Ministers Conference on the Economy, Ottawa February 13-15, 1978. "Statement by Premier Allan Blakeney on the Public Sector." Canadian

Intergovernment Conference Secretariat, Ottawa, Document No. 800-7/053, p.7.

7. Larry Pratt, "Politics and Petrocan," Canadian Forum, Dec.-Jan. 1979-1980, Vol. LIX, No 695, p.4
8. First Ministers Conference on the Economy, Ottawa February 13-15, "Verbatim Transcripts," p. 27.
9. Ibid., p. 92.
10. Ibid., p. 97.
11. First Ministers Conference in the Economy, Ottawa November, 27-29, 1978, "Verbatim Transcripts," p. 11.
12. Thus including Mr. Blakeney's concerns.
13. Government of British Columbia, Towards an Economic Strategy for Canada: The B.C. Position, Victoria, BC, 1978, p. 20. It should be noted in passing that both Ontario and Quebec would strenuously object to this analysis. Ontario would take issue with this perspective because the view does not acknowledge the importance of central Canadian manufacturing to the health of the Canadian economy as a whole. In contrast, Quebec would argue that Ontario has in fact been the sole beneficiary of Canada's "national policies."
14. Ibid., p. 8.
15. Ibid.
16. Government of British Columbia, Towards an Economic Strategy For Canada: Background Papers; Canadian Industrial Policy, February 1978, p. 18.
17. Ibid, p. 35.
18. First Ministers Conference on the Economy, Ottawa February 13-15, 1978, "Verbatim Transcripts," p. 308.
19. Government of British Columbia, Towards an Economic Strategy for Canada: The B.C. Position, p. 15.
20. Ibid., p. 40.
21. Interview, August 1979.
22. "User-pay" implies that freight rates should be determined by free competition with other modes of transport and that cross-subsidies from some users to others should be eliminated. Both aspects are a threat to western provinces: the first because there is no effective competition from other modes on the prairies especially for the movement of grain; the second because it threatens the heavily subsidized Crows Nest Pass rates for grain movement and the desire to maintain a network of uneconomic branch lines throughout the region.

23. Interview, August 1979.
24. First Ministers Conference on the Economy, Ottawa, February 13-15, 1978, "Verbatim Transcripts," p. 18.
25. Ibid., p. 56.
26. Government of Ontario, An Economic Development Policy for Canada, 1978, Canadian Intergovernmental Conference Secretariat, Document No. 800-7/030, p. 11.
27. Ontario has continued to hold this position, and has recently been the only province to fully support Prime Minister Trudeau's position on this issue.
28. Government of Ontario, An Economic Development Policy for Canada, 1978, p. 20.
29. Government of British Columbia, Towards and Economic Strategy for Canada: The B.C. Position, p. 15.
30. First Ministers Conference on the Economy, Ottawa, November 27-29, 1978, "Verbatim Transcripts," p. 5.
31. Government of Ontario, An Economic Development Policy for Canada, 1978, p. 24.
32. First Ministers Conference on the Economy, Ottawa, November 27-29, 1978, "Note of the Minister of Finance of Quebec", Canadian Intergovernmental Conference, Secretariat, Ottawa, Doc. No. 800-9/036.
33. Quebec Ministry of State for Economic Development, Bâtir le Québec 1979.
34. First Ministers Conference on the Economy, Ottawa, February 13-15 1978, "Verbatim Transcripts," p. 209.
35. First Ministers Conference on the Economy, Ottawa, February 13-15, 1978, "Opening Statement by Premier Lévesque," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-7/056, p. 2.
36. February First Ministers Conference on the Economy, Ottawa, February 13-15, 1978, Canadian Intergovernment Conference Secretariat, Ottawa, Doc. No. 800-7/051, p. 4.
37. First Ministers Conference on the Economy, Ottawa, Nov. 27-29, 1978, Opening Statement by Premier Bennett Campbell," Canadian Intergovernmental Conference Secretariat, Ottawa, Document No. 800-9/041.
38. First Ministers Conference on the Economy, Ottawa, February 13-15, 1978, "Statement by Premier Campbell on the Fisheries Sector," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-7/054.

39. See, for example, Canadian First Ministers Conference on the Economy, Ottawa, February 13-15, 1978. "Notes for Finance Minister Jean Chrétien," Canadian Intergovernmental Conference Secretariat, Doc. No. 800-7/017; "Report to the First Ministers' Conference on the Canadian Manufacturing Industry by the Hon. Jack H. Horner," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-7/072.
40. See Canadian First Ministers Conference on the Economy, Ottawa, February 13-15, 1978, conference background documents such as: "Manufacturing Performance," prepared by the Department of Industry, Trade and Commerce CICS Doc. No. 800-7/004, "Canadian Manufacturing Prospects from a Regional Perspective," prepared by the Department of Regional Economic Expansion CICS Doc. No. 800-7/005, "An Economic Profile of the Commercial Fisheries in Canada," prepared by the Department of Fisheries and Environment CICS Doc. No. 800-7/024 and the following discussion papers tabled at the November conference: "Discussion Paper - Energy," CICS Doc. No. 800-9/006, "Minerals," CICS Doc. No. 800-9/007, "Transportation," CICS Doc. No. 800-9/008, "Labour Market Policies," CICS Doc. No. 800-9/009, "Canada's Fisheries: Profile, Prospects and Issues," CICS Doc. No. 800-9/011, "Industrial Research and Development," CICS Doc. No. 800-9/012, "Industrial Development Issues," CICS Doc. No. 800-9/013, "Industrial Adjustment Policies," CICS Doc. No. 800-9/014, "Report on Tourism," CICS Doc. No. 800-9/015, "Position Paper: Agriculture in Canada," CICS Doc. No. 800-9/017; see also "Notes for comments by Hon. Robert Andras, President, Board of Economic Development Ministers," CICS Doc. No. 800-9/055.
41. First Ministers Conference on the Economy, Ottawa, February 13-15, 1978, "Conclusions of the Conference," item 5.
42. Ibid., p. 7, emphasis added.
43. First Ministers Conference on the Economy, Ottawa, Nov. 27-29, 1978, "Summary of Conclusions," p. 11.
44. Ibid., p. 10.
45. Ibid., p. 2.

PART C
THE INDUSTRY CONSULTATIVE EXERCISE

THE CONSULTATIVE PROCESS

The industry consultation in 1978 was more straightforward, and its mandate was less ambiguous than that of the federal provincial conferences. However, the political difficulties in setting up the consultation involved similar problems, and many of the issues were the same as those discussed by the first ministers. This chapter describes the consultative process, first by outlining the sequence of events, then by considering them from the perspectives of the participants, and finally by examining in more detail the membership and mandates of the consultative task forces.

The Sequence of Events

The stimulus for the establishment of the 23-sector task forces in 1978 was the "Enterprise: '77" project of the federal Department of Industry, Trade and Commerce. In the spring of 1977, approximately 5000 businessmen were solicited for their opinions on current federal and provincial economic policy. Although these interviews were conducted by federal officials, provincial governments were invited to send representatives to the interviews taking place within their provinces, and the federal government made interview reports available to the provinces on request.

This exercise produced a barrage of criticism of the role played by government in the Canadian economy. The most common complaints involved the "burden" imposed on the private sector through regulation, excessive taxation, and the impact on the labour markets of federal transfer pay-

ments, e.g., unemployment insurance to individuals. Businessmen were also cynical of the federal government's dealings with the private sector.¹

At the interviews, businessmen were not asked to address specific issues, nor to make specific recommendations. IT&C officials, therefore, thought that the next stage in the consultative process should be more structured and should seek specific recommendations from the private sector for restoring the health of the Canadian economy. This reflected a policy position taken in the federal government's post-controls statement, Agenda for Cooperation.² The main objective of the consultations was to build or renew business confidence in the government.³

With the exception of tourism, the sectors represented in the task forces were all engaged in manufacturing, reflecting the traditional orientation of the Department of Industry, Trade and Commerce to secondary industry, and the problems faced by many manufacturing sectors in the face of the tariff reductions which would emerge from GATT negotiations. The decision to adopt a sectoral approach resulted from the developing conviction within the federal government that it was necessary to analyze, and attempt to correct, the structural weaknesses of the Canadian economy. This was coupled with political realities which virtually precluded rapid and large scale inter-sectoral or inter-regional transfers of resources and restricted new measures to those designed to raise the level of performance of existing industries.

The Department of Industry, Trade and Commerce's consultation with the private sector prior to 1978 had primarily involved management concerns, e.g., research and development, export and investment problems, and taxation, and the Department had therefore come to regard business, rather than labour, as its clientele. With the adoption of a sectoral approach to consultation, however, it was recognized that all major actors would have to be involved. The department decided to invite labour to participate in the sectoral task forces, although there was uncertainty about the reaction of business to labour's inclusion.⁴ Provincial governments were also invited to send representatives to participate on the task forces.

The planners of the industry consultative process wanted to avoid any "tripartism" in the exercise. The concept was politically unpopular as

it had connotations of "big" interest collusion on economic decisions to the exclusion of the interests of the unorganized, e.g., labour, small business, etc.⁵

The federal government instead sought what may be termed a bipartite consultation, or a forum in which labour and business could come together, under public auspices, to advise the government on private sector concerns. The distinction between "tripartism" and "bipartism with government sponsorship" may appear too subtle, but participants insisted on the distinction.⁶

The selection of the 23 industrial sectors was somewhat haphazard. The Department of Industry, Trade and Commerce had conducted, for internal use, studies which could be polished into "sector profiles" for distribution to the task forces. Due to the lack of background material, IT&C officials could not set up task forces in one or two further industries which they would have liked to see examined. Nevertheless, they felt that the 23 sectors selected covered the major aspects of manufacturing in Canada.

It was hoped that endorsement of the IT&C exercise by the first ministers at their conferences would legitimize it and encourage business and labour representatives to participate. Therefore, the department presented its proposal to the Ministers of Industry meeting preceding the February conference, and to the first ministers themselves. After receiving the approval of the Ministers of Industry and the majority of first ministers,⁷ IT&C began setting up the 'Tier I' task forces.

The Department was also concerned that the exercise would be branded a political initiative of little substance. According to one federal official:

"IT&C had to commit itself not to use the process in a political way: there were no press conferences, no publicity surrounding the task force meetings, no Ministers involved. This was the only way IT&C could get, not only the provinces, but many private sector people, into the exercise."⁸

Each IT&C division concerned with a specific sector chose a chairman from the business community. In some sector, IT&C officials nominated all the business participants; in others, the suggestions of the task force chairmen or provincial governments were taken into account. In some

sectors, industry associations were well represented on the task forces, whereas in others, such as electronics, it appeared that IT&C officials had attempted to circumvent the trade associations.⁹

As a pre-condition of participation, the Canadian Labour Congress had demanded assurance that it would be able to clear all labour involvement on the task forces.¹⁰ Nevertheless, as can be seen from task force membership (see Appendix), two representatives of the Centrale des syndicats démocratiques (CSD) and one official of the Confédération des syndicats nationaux (CNTU) did take part.¹¹ The task force secretariats were composed of IT&C officials, and all other federal participants had "observer" rather than "member" status. The status of provincial government representatives varied from one task force to another. Provincial officials were variously designated as members, observers, or participants. On some task forces, all provincial representatives shared the same status; on others, their designation appeared to depend on the extent of their participation.

The first task force meetings took place early in April, 1978. They met, on average, about four times and each meeting took place in a different city. It was late July before all the reports were submitted.

On nine of the 23 task forces, at least one labour member dissented from the majority report. On one other, a labour member disassociated himself from a substantial number of recommendations. In only one case, the automotive industry, did businessmen as well as labour officials dissent from the task force report.

A "Tier II" committee was established to review the Tier I reports and extract from them the common themes. IT&C had originally contemplated assembling a completely new 'Tier II' group, but had finally decided, at the urging of task force members, to invite Tier I chairmen and labour representatives to participate in the overview committee. Only the chairman of the Tier II committee had not been previously involved in the sectoral exercise. Government representatives were not included in the Tier II committee, due to sensitivities among the business and labour participants.

The CLC's demand for parity with business on Tier II was accepted, and there were therefore five labour and five business participants,

in addition to a chairman from the business community. One academic also participated.

The report of the Second Tier committee was completed by late October, and was discussed at meetings of the Deputy Ministers (October 26) and Ministers of Industry (November 7). At the latter meeting, the federal government offered a preliminary response to the task force reports in Action for Industrial Growth: A First Response,¹² which was followed by Continuing the Dialogue¹³ in February 1979. Detailed federal responses to the sectoral reports did not appear until May 1979. Despite the fact that at the November ministerial meeting, the federal and provincial Ministers of Industry agreed that all governments should make substantive responses to the sector recommendation before February 1, 1979,¹⁴ the first provincial response from Nova Scotia, was not released until April, 1979. New Brunswick responded in January 1980. The Ontario government released its response in mid-1980. The other seven provincial governments do not intend to make formal public responses.

How did business, labour and other governments react to the proposal to hold the 1978 exercise? What were the mandates and structures of the consultative task forces?

The Process in Perspective: Reactions of Businessmen, Labour and Provincial Governments

The IT&C exercise in 1978 was not the first time that the private sector had been invited to participate in sectoral discussions. The Economic Council of Canada, had sponsored two national economic conferences in 1973 and 1974, bringing together approximately 200 representatives of industry, unions and the public sector. Sixteen sector committees prepared "Outlook Papers" on different industries and on education and health.¹⁵ These papers were discussed at the conferences, with a view to providing input into economic policy making.

Although the economic conferences were considered fairly successful by businessmen with whom we spoke, no concrete results had flowed from them. One industry representative doubted that governments had seriously studied the sectoral reports. This seems to have been the essence of the private sector's grievances against the federal government; not that there had not been adequate opportunities for consultation, but

that Ottawa had neither seriously examined, nor acted upon, the recommendations made in the course of these discussions.

As well as being worried that the Liberal government might attempt to use the IT&C sectoral task force exercise to make political mileage, businessmen were concerned that the exercise might prove to be another instance of "consultation without results" to try to create a positive image for the federal government.¹⁶

But many people in the private sector believed that the federal government's approach to consultation was changing. Like some provincial officials, they thought that Ottawa, having found itself in a policy vacuum, was beginning to seek genuine input from the other economic forces.

Although business participants feared that the IT&C exercise might prove unfruitful, the extent of pessimism varied substantially from one industry to another, for example the aerospace industry, which had had a close and harmonious relationship with Ottawa over many years, tended to welcome the prospect of participating in the IT&C exercise. In contrast, sectors which were in close contact with government by virtue of being "problem industries" (soft sectors such as clothing, furniture and footwear) tended to share the disenchantment with Ottawa.

Another factor which tended to influence a businessman's reaction to the proposal of the IT&C exercise was the size of the firm he represented. In general, representatives of the smaller firms tended to involve themselves in the exercise reluctantly, often with the attitude that they were "giving it one last shot." In contrast, executives of the larger firms, whether Canadian or foreign owned, almost automatically agreed to participate, first, because they wanted to keep informed about what was brewing in Ottawa, and second, because they perceived the process of influencing policy as one which was very slow and demanded perseverance. This difference may be explained by the greater resources at the disposal of the larger firms and the fact that lobbying is usually considered as an integral part of their operations.

Although many businessmen apparently had reservations about the IT&C exercise, the reservations were not great enough to prevent them from participating; all the members of Tier I committees interviewed said that

the business membership of their task forces had been representative of the industry as a whole.

The CLC's reaction to the proposal concerning the sectoral consultation exercise was complex.¹⁷ IT&C's decision to seek labour's involvement was generally perceived as an afterthought. The CLC was informed of Ottawa's intention at meetings with the Prime Minister and the Cabinet in the first week of February 1978, but internal problems prevented it from reaching an early decision about whether or not to participate. The CLC was concerned that its limited resources might preclude effective involvement, and the more radical branches of the CLC were sceptical because of what they perceived as the tripartite nature of the IT&C exercise. Finally, the Congress was preparing for a leadership convention on April 4, 1978. Although IT&C was not to blame for the delay in the CLC's decision on participation, CLC officials felt that by refusing to take their situation into account and by proceeding with the planning and organization of the consultative exercise in the absence of labour, the federal government had unbalanced and imperilled the exercise as a whole.

In March, Jack Horner pressed the CLC for a decision. CLC officials felt that they were faced with a "fait accompli"; IT&C had already defined the terms of reference of the task forces, selected their chairmen, and set their schedules. The CLC was convinced that the IT&C exercise would proceed with or without their involvement¹⁸ and decided, shortly before the convention, to participate. Owing to the late decision, labour representatives did not attend many of the first task force meetings.

All three task forces in which non-CLC labour representatives were involved concerned "problem industries", textiles and clothing, shipbuilding and repair, and footwear, and these industries are concentrated in Quebec where the CSN and CSD constitute rival trade union "centrales" to the CLC. The fact that M. Dalpé of the CSD was also a member of the Textile and Clothing Advisory Panel, which reports to the Minister of IT&C, may explain his involvement. The representatives of CLC affiliates on the textiles and clothing and shipbuilding task forces expressed no objections to the participation of their colleagues from other labour congresses.¹⁹

The federal government was anxious that the provinces endorse the project and, through the auspices of the first ministers conference in

February 1978 and the industry ministers meeting earlier in the year, it sought provincial approval. A comparison of provincial involvement and reaction to the exercise is instructive as an illustration of the nature of federal-provincial relations in industrial policy, and in formulating a regional analysis of industry-government relations.

The reactions of provincial observers and policy makers toward the industry consultation tended to vary according to their place in the bureaucracy. As at the first ministers conferences, officials in central agencies and intergovernmental affairs were more sceptical of the federal motivations of the exercise than were line department bureaucrats. Two cases in point were British Columbia and Quebec. The "line" officials in BC were critical of the timing of the sector consultation, and thought that Ottawa should have waited until federal-provincial follow up mechanisms were improved, but they generally supported the idea. Central agency officials, however, objected to the sectoral approach altogether, as part of a larger view that sector specific industrial policy be avoided. The sectoral approach, in their view, treated the provinces "as just one of four interest groups."²⁰ In Quebec, officials in the Ministry of Industry and Commerce were relatively positive about the project and became deeply involved. Officials in the central agencies, by contrast, perceived the exercise as being primarily politically motivated, and were much less enthusiastic. Indeed, some officials on the Conseil Exécutif appeared to be totally unaware that the sector task forces had taken place.

Despite these internal divergences of opinion, both provinces participated fully as observers. BC sent representatives to 19 task forces.²¹

Reactions of many of the provinces depended on, or corresponded directly with, their relationship to the federal department of Industry, Trade and Commerce. Provincial officials in both the east and west tended to view IT&C as "Ontario's DREE," not attuned to regional economic interests. Nevertheless, officials in the Atlantic provinces who saw little benefit for their region in the exercise, given the limited concentration of manufacturing there, welcomed the opportunity to bring a "regional" dimension to the discussion, and to meet representatives of important industries. Thus Nova Scotia and New Brunswick sent representatives to

about nine task forces each, Newfoundland and Prince Edward Island to about six.²²

In Alberta, however, a similar regional alienation from IT&C led to a boycott of the process altogether. Premier Lougheed argued at the February first ministers conference that federal and provincial governments should consult separately with the private sector rather than including private sector representatives in intergovernmental discussions.²³

Lougheed rejected Ontario's proposed National Council on the Economy and the federal government's proposal for a National Industrial Council,²⁴ both of which called for the participation of the private sector and both levels of government. Lougheed's position appears incompatible with the statement in the February conference communiqué that:

"First Ministers agreed to seek out the active involvement of the private sector (including business and labour) in federal-provincial discussions on specific development programs tailored to the particular requirements of each of the manufacturing sectors."²⁵

According to a provincial official, Alberta thought that it had made its position clear and was therefore surprised to receive word from IT&C that, "the Tier I exercise was going ahead."

Industry, Trade and Commerce's apparent confusion may be partly explained by the fact that IT&C officials thought that they had secured the agreement of the Alberta Deputy Minister and Minister of Economic Development to participate. Apparently, the decision not to participate was made by Cabinet, rather than at the line department level.²⁶ The IT&C exercise was seen by the Alberta government primarily as a publicity seeking venture for the Trudeau government; there was also concern that participation would imply a commitment on the part of the Alberta government to the outcome of the consultative exercise.

Alberta preferred to conduct its own consultation with industry rather than get involved with the federal program. Other provinces, too, had their mechanisms for consultation with industry, some more elaborate than others. In Saskatchewan, the larger industrial concerns had access to the Premier. In Manitoba, the provincial government, through its "Enterprise Manitoba" agreement with the federal government, encouraged sectoral development and consultation in five of the sectors studied in the IT&C

exercise: aerospace, electronics, urban transportation, machinery and food processing. Manitoba, however, was one of the most enthusiastic supporters of IT&C's industry consultation.

The two provinces with the most complex and formalized government consultation with the manufacturing sector are, not surprisingly, Quebec and Ontario.

In Ontario, formal consultation with the private sector began in 1977, following the "Partnership for Prosperity" conference, which brought together 140 businessmen, labour leaders, academics, and representatives of consumers and other groups to discuss the province's economic outlook. Informal discussions with business and labour then took a more concrete form with the Premier's Advisory Committee on Economic Policy, which recommended in November 1977 that Ontario establish a pilot project for sectoral consultation. Under the auspices of the Ontario Ministry of Industry and Tourism, an electronics sector "task force" began meeting in January 1978. With the creation of the IT&C sector task forces, Ontario decided not to duplicate their efforts, and was a chief supporter of the federal proposal at Industry Ministers and first ministers meetings in early 1978. In fact, Ontario officials claimed partial credit for the sector-by-sector industry consultation idea. The province sent representatives to all but one (the ocean industry) sector task force.

Quebec, like Ontario, had been involved in formal consultation with the private sector long before the IT&C consultative exercise was initiated. Two types of conferences had been held, the "grand sommet", dealing with issues of concern to all industries, and the sectoral "mini sommets". Neither type of conference discussed general economic issues; but were restricted to immediate issues.²⁷

The first of Quebec's socioeconomic conferences was the "grand sommet" held at Pointe-au-Pic in May 1977. The government hoped to meet with the principal economic agencies in the province, arrive at "a new equilibrium" in labour relations in Quebec, and identify a new direction for the province's economic development. It is probable that the Parti Québécois government also hoped that the conference would result in improvement of its relations with other economic agents and, in particular, with the Conseil du Patronat. This summit brought together 129 participants and

51 observers from both the private and the public sectors; all discussions took place in plenary session, and the conference was open to the media. Some provincial officials believed a closed conference would be more effective, but labour leaders refused to meet with government and business in closed session.²⁸

Four sectoral "mini-sommets" on textiles, clothing, footwear and furniture followed the Pointe-au-Pic conference in the fall of 1977. These were closed to the media, and much of the discussion took place in workshops. They brought together an average of 55 participants and observers. Quebec consultation with industry continued simultaneously with the IT&C exercise; sectoral conferences on agricultural products, fisheries, tourism, and "industries culturelles" were held in 1978.

Quebec did not boycott the federal process. As mentioned, it was a significant participant in the majority of federal task forces, and a comparison of the industry and labour participation in the two consultations shows almost no overlap. The Quebec conferences involved the francophone business community almost to the exclusion of dominant anglophone interests in Quebec such as the aerospace sector, whereas the federal process included firms from both the anglophone and francophone business communities.²⁹ It seems clear that the two processes did not necessarily duplicate each other; the Quebec internal process was obviously more political and social in its outlook, and tended to stress issues specific to the regional economy, while the IT&C process, by definition, was concerned with "national" problems.

In summary, the motivations for, and extent of participation in the federal government's industrial consultation project by the provinces, varied considerably. In the following discussion, the effects of the varying degrees of commitment and involvement will be illustrated by the reaction of the provinces to the discussions and to the final reports of the task forces.

The Mandates and Structures of the Tier I and II Committees

Tier I

The Briefing Notes for Consultative Task Forces, distributed to the members of the "Tier I" committees stated:

"The overall objective of the exercise is to restore the sectors to a high degree of economic dynamism by encouraging the development of new investment opportunities, improving the efficiency of operations and facilitating the adjustment out of uncompetitive activities into more viable ones."³⁰

In pursuit of this objective,

"the terms of reference for both (the Tier I and Tier II committees) specifically sought the private sector's views on a wide range of government policies which together establish the framework within which industry operates."³¹

The members of the task forces were provided with briefing notes, documents such as the federal department of Finance's general overview Canada's Economy: Medium Term Projections and Targets,³² and the more specific sector profiles prepared by IT&C. Some observers, however, criticized the task forces as having a very broad mandate, without clear terms of reference. New Brunswick officials, in particular, were critical of the gap between the sector profile analysis and the "macro" approach of the Medium Term paper. As a result, the task forces were not geared specifically to what each sector could contribute to the larger, macroeconomic goals.³³ The task forces were seen as forums for special pleading, which would give government no insight into the question of which industries ought to be expected or encouraged to lead the Canadian economy onto a recovery path. As one western official remarked, "You have to be more specific in the terms of reference for such task forces, otherwise consultative exercises of that kind become simply a formula for the preservation of the status quo."³⁴

Tier I participants interviewed (representing ten task forces), were generally satisfied with the definition of their industrial sector as outlined in the "sector profile" prepared by IT&C. One exception was the ocean industry. According to the profile,

"[The ocean industry] is composed of those establishments which manufacture equipment or private services for all commercial and scientific activities in the oceans. Marine transport vessels and traditional fishing support equipment, however, are generally excluded."³⁵

Task Force members, however, disagreed and look on all fishery related manufacturing as a major opportunity for their industry. They therefore felt that the mandate and membership of their task force should include marine transport and traditional fishing equipment manufacturers.

Other sector task force members found a few inaccuracies in industry profiles, but most sector committees decided that, because of time constraints, they should not occupy themselves with revisions of their industry's profile.

Industry, Trade and Commerce's sectoral consultation was planned as a "one shot" exercise: the Tier I committees were to disband after having submitted their reports, and there was no provision for task force chairmen to reconvene their committees in order to study governments' responses. Although several provincial officials objected to this feature, none of the private sector participants we interviewed were particularly concerned about it. The aerospace task force however has been transformed into a permanent consultative committee. A few chairmen were prepared to reconvene their task forces on their own initiative, if the federal government's response was unsatisfactory. Most felt, however, that once they had presented their views, it was up to governments to respond. If the responses were unsatisfactory, industry's displeasure could be effectively demonstrated without reconvening the task forces.

Provincial officials complained that the time allotted to the sector committees was too short to permit them to accomplish their task. However, the vast majority of private sector participants and a few government officials felt that they had had sufficient time. A Tier I chairman observed that:

"It may be that our first observations are the best ones. Subsequent refinement or reflection will improve them but the improvement may be marginal. In that sense the time was sufficient."³⁶

All private sector participants said the membership of their task forces had represented good cross sections of their industries. One Nova Scotian observed:

"I'd have to say that the region has to be realistic, and it is inevitable that if you set up industry sectoral task forces then they're going to be representative mainly of central Canada, because that's where the industry is. There's no escape from it."³⁷

Officials from the Atlantic provinces felt, however, that the task forces were mainly representing central Canadian industry, and that the emphasis on central Canada had been exacerbated by the fact that small business and industry was not included. This exclusion was also noted by officials in

Quebec and in the Western provinces. Manitoba industry was represented, but only as a result of the government suggesting names of companies to IT&C.³⁸ Saskatchewan was, surprisingly, not represented on the food product task force, and BC found western representation on Tier I generally unsatisfactory.

Despite the provincial government's refusal to participate, Alberta had no qualms about Alberta firms getting involved in the IT&C exercise, and officials suggested firms to Industry, Trade and Commerce.

Labour's assessment of the businessmen on the task force was positive; they were impressed by the number of chief executive officers on the task forces and by their commitment to the process. Labour representation, however, varied from union presidents to relatively junior officials. The CLC prepared The Labour Report to the Coordinating Committee for the 23 Industry Sector Task Forces,³⁹ to familiarize junior labour members with the CLC position.

Businessmen, even those on the same task force, often conveyed very different impressions of the nature of labour's participation. Nevertheless, certain patterns emerged. Businessmen in task forces representing industries faced with severe problems tended to rate labour's participation very highly. This was particularly true in the case of the textiles and clothing industry, where labour and management had been working together on the Canadian Textile Labour-Management Committee since the late 1960s, and on the Textile and Clothing Advisory Panel. These judgements did not, however, depend on whether or not the labour representatives had disassociated themselves from the majority report. Labour members on both the aerospace and forest products task forces dissented from the majority reports, but the majority of the business members contacted felt that labour's input had been good. Finally, there was a strong correlation between the seniority of the labour representatives on a task force and a positive evaluation of labour's input on the part of business members. When unions sent junior representatives to the task force meetings, or where junior officials substituted for the union presidents, businessmen generally perceived labour's involvement as minimal.

Some businessmen in high technology industries indicated that the labour representative did not have enough expertise to discuss the techni-

cal issues involved, while others said that union representatives could not contribute fully to sectoral discussions, because they felt they had to adopt the CLC position." Task force chairmen tended, however, to be far more sensitive to the politics of labour and the constraints it imposed than most other business participants.

There was a substantial difference between the roles of the federal and provincial government members. The provinces took varying degrees of interest in the task forces, with those from Ontario, Quebec and Manitoba most frequently obtaining full status as task force members. However, there were limits to the participation of even the most senior provincial officials. As one business member observed, "the provincial representatives were very active, but there was a boundary over which they couldn't pass. The extent of their government's commitment to the exercise was not predetermined." Businessmen noticed that the provincial officials, like labour representatives, were constrained by having to answer to their "political bosses."⁴⁰

There was also concern from both industry and the provinces that the role of the provincial observers had not been sufficiently defined; many felt like outsiders to the process. In a formal position as interested observers, many felt compelled only to listen. As one Quebec official told us, this was not necessarily a bad thing:

"The underlying philosophy of the task forces was that it afforded industry an opportunity to give its views to government, so we were there as observers until the final meeting, when we intervened. We wanted to hear their views and knew we could comment on recommendations later."⁴¹

Federal officials took a more active role. In theory they were there only to provide "secretarial" support, but in fact their input was much greater. As one participant told us, IT&C officials acted more like "executive assistants," and many task force members noted that IT&C and other federal officials entered vigorously into the debate. In some cases, the discussions within the task forces were virtually a debate between industry and federal officials.

Tier II

In April 1978, IT&C convened a meeting of the twenty-three sector task force chairmen to discuss the composition of the Tier II committee. The

research director and the senior economist of the CLC attended the meeting and insisted that the CLC have equal status with business on the Tier II committee.⁴² There appears to have been fierce debate on this issue with those opposing equal representation doing so on the grounds that the CLC did not represent labour in Canada and that independent unions should have a role on the committee. IT&C wanted parity for CLC or the committee because it was the only labour organization with which it could deal, and although the CLC did not represent labour across Canada, it had a large number of affiliates, none of which would have participated in sectoral consultation without Congress approval.

At the meeting of the 23 chairmen, businessmen who favourably perceived consultation with the CLC, eventually prevailed on their colleagues to accept IT&C's proposal for CLC parity on Tier II.

CLC officials regarded the Second Tier level of the IT&C process very positively because they felt better equipped to deal with horizontal, rather than sectoral issues. In addition, whereas there had been great variation in the expertise of labour participants on Tier I, all the labour members on the Second Tier committee were senior officials of the CLC.⁴³ Compared with the Tier I, the roles of the various participants in the Tier II group were clearly defined.

Jack Horner, outlined the terms of reference of the committee:

"Your mandate is to work directly from the task force reports and attachments to identify and make recommendations about factors and policies that cut across sector lines. You will pull together the common threads running through the reports to make recommendations on broad economic policy and on issues important generally to manufacturing and tourism. You will, if you wish, make recommendations as well on major sector-specific issues."⁴⁴

According to Tier II members, the committee initially attempted discussion of broad economic issues. This was found to be unworkable, as the discussion degenerated into labour and business members haranguing each other. The committee therefore decided to concentrate on issues on which agreement was possible. Procedures had striking similarities to those of the bargaining table. One issue was dealt with at a time. On each issue, the business members briefed their colleague on the committee's staff, and the CLC officials briefed the labour member. The Tier II staff, which also included an academic, then met to try to hammer out a common position.

When they reached a point beyond which they could not proceed, they returned to consult with their fellow labour or business members, and the process was repeated until agreement was reached.

When their report was completed, the Tier II committee decided to present its recommendations both to the federal government and directly to the provinces. Teams of Tier II members, consisting of one business and one labour member each, visited provincial capitals, except those in the Atlantic provinces. A Newfoundland official said that Second Tier members had planned to come to St. John's but that the weather had prevented it. In contrast, New Brunswick officials had not even been contacted by the committee.⁴⁵ The latter saw the Second Tier committee's oversight as just another example of the neglect of their region in the entire consultative exercise. They were particularly upset that the only Tier II member from the Atlantic region had been an academic on the committee staff.

Other officials from the eastern provinces were relatively unconcerned about the lack of Atlantic representation on Tier II. Their view was that, given the IT&C exercise's emphasis on large scale (hence, central Canadian) manufacturing, expectations of significant participation from the Atlantic region on Tier II were unrealistic. This was exacerbated by the fact that none of the task forces was asked to consider the regional dimension of their sectors. In effect, this view of the IT&C exercise was more damning than the complaints about the lack of Atlantic representation on the Second Tier. Its proponents were echoing the opinion of some Western officials concerning the IT&C exercise as a whole, namely that if government, in seeking the advice of the private sector, does not clearly state its objectives, consultation becomes nothing more than a formula for the status quo.

Officials in other provinces, with the exception of British Columbia, considered the Second Tier level of the IT&C exercise to be less important and less useful than the sector task force reports. British Columbia officials preferred the Second Tier's examination of horizontal issue to the sectoral approach embodied in Tier I. They also welcomed the creation of a forum in which the broad economic issues affecting all manufacturing sectors would be discussed in conjunction, rather than in isolation.

II

THE ISSUES OF THE DEBATE

In contrast to the first ministers conferences, the debate over economic issues in the industry consultative exercise was not as open or direct. Furthermore, it took place on two levels: first, the discussions between labour and business (and sometimes government observers) in Tier I and Tier II, and second, the governments' responses.

This chapter first examines the recommendations and discussions of Tier I by looking more closely at a number of key issues important to the structural pressures on the economy and the state's relations with the private sector. These issues are taxation, foreign ownership, government intervention, trade policy, research and development and technology transfer, regional balance, labour relations and manpower, and the special problems that the federal state imposes. This is followed by an examination of the "dissenting views" of several Tier I participants and outside observers. Second, we discuss the debate and recommendations that arose from the Tier II committee, and reactions to it. Finally, we look at the federal and provincial governments' responses to both the Tier I and Tier II task force reports.

TIER I

Taxation

All sectors saw, in the Canadian tax structure, a mix of disincentives to investment, to capital formation, to productivity growth and to the ability

to attract and sustain the services of key technical and management personnel. Taxation was seen as the most important element in the cost competitiveness of industry and as the principal factor in encouraging investment. Increased competitiveness was seen as being dependent on government fiscal actions to offset cost disadvantages suffered by Canadian industry because of climatic conditions, labour costs and the high price of raw materials.

Most committees recommended increases in the investment tax credit for plant construction and equipment purchases. They suggested that accelerated tax write-offs be made permanent and that more generous carry forward and carry back provisions be implemented for losses and unused investment credits.

Elimination of capital gains tax was needed to create a more favourable investment climate; registered home ownership and retirement savings plans were mentioned as disincentives to private risk capital investment in industry. Concern about the lack of investment incentives for individuals was greatest in high risk "infant" manufacturing sectors such as the ocean industry. According to one member of that task force:

"The point that we were trying to make was that we were looking for ways to encourage investment of the savings of Canadians in manufacturing industry. The last budget, as far as I can tell, provides no new incentive for the individual to use his savings to invest in manufacturing industry as opposed to investing in residential housing or high-rise buildings or the movie industry or exploration drilling."¹

It was suggested that governments adopt inflation accounting for the tax system in order that real wealth not be transferred from business to governments.

There was no general call for a reduction in the corporate income tax. However, the personal income tax rate in Canada was identified by many as a problem for some industries in retaining personnel. The majority of reports also called for the elimination of federal and provincial sales taxes on building materials and non-production machinery and equipment, and saw sales taxes as contributing to Canada's uncomfortable investment climate.

Although most sectoral reports noted their aversion to government handouts and intervention, and more than a few called upon governments to decrease public sector expenditure as a percentage of GNP, they justified

the necessity for various fiscal measures to assist business on the grounds that they would:

- in the short to medium term to help companies seize market opportunities or to adjust to changing market conditions (aerospace, food and beverage, electronics, ocean) and;
- to enhance price competitiveness vis-à-vis the major competition, generally in the United States, and consolidate the domestic market as a hedge against imports (furniture, processed fruit and vegetables, plastics, footwear) or to put industry on equal footing in an anticipated export market (machinery, commercial printing).
- to help overcome inflation (textile and clothing).
- to offset cost disadvantages of largely imported production inputs and ongoing structural disadvantages, such as labour costs and climate (petro chemical, fertilizer) or heavily subsidized foreign competition (shipbuilding and repair, iron and steel, aerospace).

With the overall cost structure in Canada substantially higher than in the US, the cumulative level of taxes in Canada was claimed to significantly contribute to the deficit competitive position of Canadian industry. The private sector felt that its efforts should be directed in all cases to improving productivity; governments' responsibility was to ensure an investment climate conducive to meeting the challenges of the future in Canada.

Foreign Ownership

The question of foreign ownership was a significant "non issue" of the debate. Ownership, nevertheless, has been perceived by many industrial policy analysts to be a critical structural factor, and it is instructive to examine a few of the industrial sectors to ask just how important the constraints of ownership were to the internal dynamics of the task forces themselves.

Nationality of ownership was seldom discussed and there was no indication that it was considered a "problem," but this probably meant it was considered too sensitive an issue to discuss openly or to include in a report of task forces which included executives from both multinational and Canadian owned firms. Businessmen from the larger firms in particular are reluctant to discuss the ownership issue openly. This reticence, however,

does not extend to such groups as the Canadian Federation of Independent Business. However in three sectors, the automotive, machinery, and electronics industries, foreign ownership became either directly or indirectly a significant issue.

The Automotive Industry Task Force report was unique among the 23 for its direct evidence of internal dissent among the business members.² Five members, all from independent Canadian parts manufacturers, felt their views were "not sufficiently accommodated" in the final report and wrote a dissenting view to indicate that the report only addressed the problems of the vehicle assembly part of the industry which was mainly foreign-owned. The labour members, too, wrote a dissenting minority report arguing that there was inadequate employment and R&D investment by Canadian assemblers under the present Autopact agreement, and implied that direct foreign ownership of the automobile manufacturers was at fault.

The majority report did not ignore the ownership issue entirely; it openly admitted that "decision making functions" of the industry took place in the United States, and recognized that there were "too few decision centres" in Canada, especially for investment, R&D, purchasing and marketing. The parts manufacturers were also at a disadvantage, even if competitive with US suppliers, because of the lack of decision centres in Canada in purchasing and new product development. Foreign ownership in the parts sector was also seen as a specific factor in the underdevelopment of the industry. However, the task force could not reach a consensus on strong measures to increase Canadian investment and purchasing, particularly in the parts sector. The foreign owned versus Canadian firms dichotomy on the task force prevented a common position on the limitations placed on the Canadian industry by continental rationalization.

Similar constraints were mentioned, but not prominently, in the Machinery Industry Task Force report. In particular, this task force mentioned that investment for export opportunities was limited, as to a large extent, investment policies of Canadian machinery firms are based primarily on domestic market forecasts. The task force did not attribute export limits to foreign ownership, but rather argued that both foreign and national firms face "greater uncertainties regarding advantages of continuing to export from a Canadian base in the long term."³

Finally, the Electronics Industry Task Force maintained that the important factor is not corporate ownership but corporate behaviour. Accordingly, the task force recommended in an appendix a set of "Guidelines for the Corporate Behaviour of Foreign-Owned Companies and Multinational Enterprises Operating in Canada,"⁴ based on similar OECD guidelines and on principles for international business conduct established by the Canadian government. The guidelines promote a substantial amount of "autonomous" Canadian input in financing, technological innovations, R&D, and so on.

Government Intervention

All task force reports made three points:

- that environmental standards, labour relationships and transfer payments to the poor put a heavy burden on industry;
- that these should be subjected to a cost benefit analysis to determine if in fact the general good was being best served by such a regulatory burden; and
- that all future regulation be made on a consultative basis with business.

Most of the reports specifically mentioned government regulation of competition. Fragmentation of Canadian industry was cited as a major impediment to cost efficiency, productivity and international competitiveness. Government attempts at competition legislation, and the bureaucratic intervention they require, were seen to adversely affect business confidence. Most often mentioned was the fact that corporate concentration must be seen in an international rather than a domestic context. The Report of the Royal Commission on Corporate Concentration (Bryce Report)⁵ and the "Skeoch Report"⁶ were favourably mentioned by all the task forces that discussed the issue in detail.

A second major issue was the cost of government environmental legislation. This issue was mentioned in detail by task force reports in the iron and steel, petrochemicals, plastics, forest products, non-ferrous metals, construction, cement and concrete and commercial printing sectors. The general tone was that industry had been "disproportionately affected by the rapid growth and proliferation of regulation." All sectors were concerned that the costs of compliance might far outweigh the benefits to society. The iron and steel, cement and concrete and petrochemicals indus-

tries were concerned about the cost of compliance with pollution control standards, and the plastics industry suggested that manufacturers be held liable for only those damages they can be reasonably expected to foresee. Most other task forces, however, urged some consultative mechanism be established in which more "rational" environmental legislation could be formed and encouragement given to harmonizing the differences in regulations between jurisdictions.

The tourism sector identified government regulation and legislation as the single most debilitating factor in that sector's poor performance. A significant portion of its recovery plan dealt with strategies to lobby all three levels of government and make them aware of the effects on the economic health of the tourism business, of minimum wages, premiums for holiday pay, unemployment insurance and almost every tax.

The final issue mentioned in a number of reports was the cost of compliance with government requests for information. It was suggested that firm steps be taken by governments to cut down on industry's "paper burden."

Finally, in relatively new industries like ocean technology, or in high cost/high risk ventures, or in industries with little domestic decision making control, the involvement of governments was actively sought, either for infrastructural support or as a means of coercing the industry into a certain direction. Government, for example, is involved in every part of the aerospace industry.

Trade Policy

It is not easy to class industrial sectors by their support or opposition to free trade. Where the need for protection was expressed, it was for reasons specific to the circumstances of the individual sector.

The textile and clothing sector, one of the most vulnerable to trade liberalization, deserves special mention. The Textile and Clothing Sector Task Force, along with the Footwear Task Force, recommended that it be exempted from multilateral trade negotiations. Nonetheless, the positions adopted by labour and business illustrate their relative restraint in terms of requested trade policy. They recommended bilateral export restraint agreements be negotiated with 14 more countries than were signed at

that time, that a computerized import reporting system be implemented by IT&C, and that various antidumping and countervailing measures be streamlined. These were intended to fulfill two basic requirements for the survival of the sector:

"reduction of the penetration rate of imports from low-wage and state-trading countries to a level somewhat comparable to that permitted by the United States, the European Community and other industrialized nations and the vigorous control of unfair trading practices on the part of both the developed nations and those of the Third World."⁷

In the best of possible worlds, the task force would have insisted upon national quotas for protection against imports but they realized the federal government would reject such proposals out of hand. The relative "realism" of this sector task force was unusual in the exercise as a whole, and may be explained by the extensive consultation the industry has had with government since 1976.

Textile and clothing was not the only sector seeking tariff protection. Plastics, the food and beverage industry, and processed fruit and vegetables also sought protection. The ocean industry felt that protection was necessary, but favoured Canadian content regulations on offshore oil exploration, rather than tariffs. Similarly, the shipbuilding and repair industry wanted protection in the form of a regulatory structure. Requests for regulatory measures to increase the share of the market served by domestic industry were also directed at provincial governments. A member of the Construction Industry Task Force outlined the problem:

"We are trying to change the accepted format of Canadian industry's input into projects undertaken by foreign based multinationals. It is more of a problem here in Alberta than anywhere else. Of the 60 largest industrial plants built in Alberta in the last 25 years, not one was designed by Canadians. The multinational problem, in particular, can only be solved by government. Industry has tried to break the circle for some time now, but to no avail. The feds have very little clout with the provinces in this regard. Provinces will have to act. All the province has to say when granting construction permits is that such and such activity must be in local hands - it's all in their power."⁸

Partial protection in a certain range of products was sought by the forest products industry, but generally it felt it would benefit from easier access to world markets. The petrochemical industry sought bilate-

ral free trade with the US in a limited number of petrochemicals, but favoured the retention of a tariff, or a reduction of the effects of higher labour costs in Canada. In all cases, nevertheless, the task force felt that government revenue should bear the cost of offsetting disadvantages in cost competitiveness, vis-à-vis the US. The electronics industry recognized free trade as an eventual goal but felt protection was still needed so it could secure the domestic market.

Free trade was favoured for all products in the cement and concrete sector, and strongly favoured by commercial printing, though the latter opposed the clause in the GATT proposals which would open government contracts of more than \$200 000 to international competition. The non-ferrous metals industry sought reciprocal reduction of all tariffs, as did the aerospace industry. The construction industry favoured bilateral trade with the US. By its very nature, of course, the tourist industry cannot be protected, at least not by tariffs.

Three sectors should be treated as special cases. Iron and steel needs special protection from foreign steel products subsidized by governments. The sector task force encouraged the government to establish a system to identify these products and to take measures to countervail them. It suggested a ceiling for steel under the General Preferential Tariff similar to those in the EEC and Japan, and mechanisms beyond traditional export financing to encourage export trade. The machinery industry called upon government to seek the elimination of all "buy provincial" schemes which it identified as serious impediments to growth. Finally, the auto industry saw certain measures to restrict access to the Canadian market as a potential coercive tool to force auto manufacturers to invest in Canada.

In all sectors, the call for government protection was not ideologically based, but was a response to the quality and quantity of support given by other governments to major competitors, chiefly in the US. This was nowhere more clear than in the issue of procurement policies. Nine sectors saw government procurement as the basis for a coordinated national industrial development program. In aerospace, the major problem affecting the sector was the lack of stimulus caused by an inadequate level of direct government procurement. Procurement policy was viewed as the industry's major vehicle for technological development, as well as the cornerstone to its export policy of specialization in the international market. In the

construction industry, government procurement policy would lead to new levels of efficiency. Active procurement policies could be used as a base on which to build an export trade.

Finally, the iron and steel sector noted that its future development depended upon the growth of secondary manufacturing, which was particularly vulnerable to dumping. A significant number of sector reports called upon the government to simplify the procedure for securing protection against dumping and to reduce the stringent burden of proof, which now resides with the Canadian manufacturer.

Research and Development, and Technology Transfer

Research and development is directly related to the technological competence of various industrial sectors. Although a number of sectors felt that they were modern and efficient by international standards (machinery, textiles, cement and concrete, commercial printing, iron and steel), most agreed that research and development was a key factor in improving productivity, overcoming cost input disadvantages and increasing growth. Generally, sector reports admitted to declining expenditures on R&D as a percentage of constant GNP and felt that government could improve this situation by providing a dependable research environment.

Proposals for specific government action varied according to the circumstances of the industry. The ocean industry called for the development of a jointly funded Canadian Ocean Technology Research Authority endowed at \$100 million over at least five years. Most sectors called for increased government incentives, investment tax credits, and a broadening of the term R&D to include design innovation, management techniques and automated systems development. The urban transportation industry proposed the development of a national policy to overcome fragmentation and to secure coordinated funding for R&D.

A structural dilemma facing research and development in Canada was repeatedly noted. R&D has traditionally been concentrated in pure research, but many sector reports noted that the emphasis had changed to commercial development and the application of new technology to the production process. Government, therefore, needed to encourage the development of R&D capability, which is tied to production engineering, product design and marketing capability. This was stressed by the non-ferrous metals,

electronics, furniture, footwear, and the food and beverage industries. Government's role in R&D was seen as providing a climate in which private industry could develop innovative product management and marketing improvements through a system of improved incentives, tax write-offs and more accessible public programs, specifically the R&D sections of the Enterprise Development Program (EDP).

Again, although research and development had a high profile on Tier I, several task force members, some of whom represented high-technology industries, indicated that R&D per se was no panacea for the problems of Canadian manufacturing. The chairman of a high technology sector task force cautioned that:

"Large expenditures on R&D make sense only where the domestic market is large enough to support the manufacture of the product contemplated. R&D, in the absence of a marketing plan which makes long-term sense, is a waste."⁹

And the Electronics Task Force contended that:

Within the area of technology, the crucial activity is the application, adaption, and extension of basic research to produce goods and services for which there is a commercial market. The basic research underlying new electronics goods and services and production processes is relatively cheap and easily accessible. Few, if any, of the successful firms undertake basic research. The vast majority of a firm's effort allocated to R&D is devoted to the entrepreneurial activity of developing products ... This process is time consuming, difficult and costly."¹⁰

The task force urged a shift in government support from basic research to market-oriented development.

Technology transfer was treated as a separate problem in a number of task force reports; most saw them as a constraining factor.

In summary, research and development was portrayed in most of the task force reports as a critical factor in productivity increases and growth. Problems in this area centred on the "stop and go" nature of previous government funding and its emphasis on basic, rather than applied research. The role of government was to develop sustained dependable funding directed at applied research to produce goods and services for the commercial market. This involved an expansion of what is currently considered R&D, and substantial amounts of public money.

Regional Balance

Few task force reports mentioned regional balance as a significant issue. Those that did were concerned only that federal and provincial regional subsidies and development grants did not lead to excess capacity and a distortion of inter-regional competition in the national market. Various task forces recommended that projects eligible for regional incentives should be more carefully evaluated, and cautioned government against policies which induced industrial activity for short term employment creation. Regional growth should be pursued by aggressively catering to local requirements and building on indigenous strengths.

The cement and concrete report supported DREE infrastructural support but opposed DREE grants to companies because they disrupt the normal market. Regional development, it argued, should be stimulated through income tax incentives.

Three Canadian industrial sectors are concentrated in specific localities: petrochemicals in Montreal, Sarnia and Alberta, automotive in Southern Ontario, and aerospace in Toronto, Montreal and, to a lesser extent, Winnipeg. The aerospace industry felt that greater regional dispersion should not be encouraged. Instead, consideration should be given to finding new work which could be performed by upgraded small companies in other regions, a strategy which would require significant increase in government support through procurement policies. The automotive industry noted the obvious barriers of high fixed plant costs and specialized trades to regional diversification in industry. The petrochemical task force recommended that the three centres of its activity be allowed to develop to their maximum efficiency by concentrating new petroleum investment at these sites.

Regional location was not a major issue in the other reports. One of the primary elements of the federal provincial debate, the territorial location of economic activity, was low on the list of industry concerns. Moreover, while many federal and provincial government programs seek to counteract market forces and foster regional development, most industries believed that the market should prevail.

Some businessmen from the Atlantic region were disturbed by the approach of the Tier I committees to regional development. But, as one

Nova Scotia businessman put it, "If my company were located in Toronto, I would have taken exactly the same stance."

Atlantic representatives in sectors with less regional imbalance generally supported Tier I recommendations such as the abolition of regional development incentive grants. They shared the view that the latter distort the market and that public servants do not have enough expertise to accurately evaluate submissions for grants. It is also possible that competition which may be fostered by such grants would not be welcomed.

A third group of task forces, of those representing industries which naturally locate in the coastal areas of the country, such as the shipbuilding and ocean industries, although noting in their reports the contribution these industries could make to regional development, did not heavily stress the point.

Labour Relations and Manpower

Apart from general requests that government reduce or limit wage settlement increases in the public sector, the task force reports identified the lack of skilled manpower and high labour costs as the two largest problems in labour and manpower policy. Canada's lack of highly skilled tradespeople was seen by the machinery sector to be the major limiting factor to increasing plant capacity. In other sectors this problem was seen to contribute to the generally unfavourable investment climate in Canada. The ability of skilled tradespeople to be sufficiently mobile to fill job vacancies across the country concerned both the automotive and electronics task forces.

Many, therefore, argued for improved Canadian training. Although many sectors expressed a need for more recognized apprenticeship programs, the most common demand centred on the standardization of training, proficiency requirements, and labour codes across the country. The construction, aerospace, forest products, machinery and petrochemical sectors were most emphatic on this point, while shipbuilding, automotive and furniture saw a need for greater coordination of education and industrial training. Specifically they sought a re-allocation of funds from provincial post secondary training to in-plant training. A few task forces recognized rigorous provincial protection of educational jurisdiction as a problem in the

demand for a nationally administered standardized apprenticeship and training program. Only the machinery sector asked for a review of immigration laws to allow the entry of skilled foreign tradespeople.

High labour costs in Canada were identified as a major problem by the petrochemical, plastics and non-ferrous metals task forces. In petrochemicals, they were seen as a major element of cost disadvantage. While labour related expenses represented only one-third of the total cost of new plants, they accounted for two thirds of the cost differential vis-à-vis the United States. Plastics also expressed great concern about the increasing wage differential between Canada and the United States. Part of the problem was attributed to the alleged effect of unemployment insurance on the work ethic and the resistance of unionized workers in Canada to continuous (seven day, 21 shift) operation of plants. The non-ferrous metals sector viewed labour retention in remote areas as a large problem and suggested that various forms of income tax relief be implemented for employees in isolated areas. Frequent work stoppages, it argued, had eroded Canada's reputation for reliability of supply.

Little mention was made of the Canadian system of collective bargaining. The forest products and construction task forces felt that the government should study industrial certification as a method of reducing the multiplicity of unions representing employees at the same operation. Other sectors viewed public service wage settlements and indexed pensions as trend setters that the private sector could not afford. Finally, while the petrochemical industry called for the elimination of the right to strike in essential services as defined by the Alberta Labour Act, only the Furniture Task Force called for the imposition of "right to work" laws.

The general opinion welcomed measures to tighten the unemployment insurance scheme; the Furniture and Cement and Concrete Task Forces called for a reduction of the cost and administrative burden placed upon them by workmen's compensation. The Cement and Concrete Task Force went so far as to suggest that compensation benefits be subject to income tax, and that where payments were high the employees should bear some of the cost.

The Problems of Federal-Provincial Conflict and Duplication

Fifteen of the 23 task forces identified some aspects of divided federal and provincial jurisdiction as an impediment to business efficiency.

Issues most commonly mentioned were environmental regulation, labour codes and standards, transportation policies, income taxes, unemployment insurance and workmen's compensation. Lack of intergovernmental coordination was seen to impede new investments, increase the difficulty and costs of compliance to regulation and increase tax burden and administrative costs. Intergovernmental coordination was seen to be necessary to increase government effectiveness and reduce government expenditures.

The urban transportation sector presents a special case. The largest single problem affecting the industry was seen to be market fragmentation. The task force felt that this was principally due to the degree of public control over the sector, and the resulting lack of study of policy on either total market needs or related industrial opportunities for urban transportation manufacturing. Initiatives, such as the federally proposed National Urban Transportation Development Corporation (1974), designed to overcome this problem, had not been accepted by the provinces.

The urban transportation industry accepted that existing jurisdictional problems prevented the establishment of a single body to act as a catalyst in the servicing of Canadian demand by Canadian industry. Nevertheless, it felt that some method of obtaining cooperation was essential. The task force called upon the federal and provincial governments to cooperate in industry support programs, and for the establishment of an inventory of national market needs and standardization of specifications, components and purchasing policies. This latter point was addressed by many of the task forces.

The petrochemical industry called for informal, ongoing consultations between governments and industry (labour was not mentioned) to monitor changes in market development and investment plans and to avoid intergovernmental conflicts.

The general impression was not that industry preferred to deal with one level of government rather than another. Rather the climate of jurisdictional protection, wherein each government sought to expand or consolidate its hold on specific areas or aspects of a common area, led to uncertainty, administrative burdens and a negative effect on the investment climate. Industry seemed not so much aware of the problems of "federalism" as it was of doing business in the Canadian federal system.

Dissenting Views

Labour members dissociated themselves from the reports of seven task forces: aerospace, primary iron and steel, cement and concrete, furniture, machinery, non-ferrous metals and automotive. On both the Forest Products and the Urban Transportation Task Forces, one labour member out of three dissented from the majority report. Finally, one of the two labour representatives on the Petrochemical Task Force disagreed with a substantial number of recommendations.

In only four cases, iron and steel, aerospace, petrochemical and automotive, did labour's dissent emanate from disagreement on sector-specific issues. The labour member on the Iron and Steel Industry Task Force said the task force erred in its assertion that enormous amounts of capital were required for essential expansion programs, and that the industry was fairly profitable relative to other Canadian industries. The Aerospace Sector Minority Report stated that the difficulties of the industry were due not only to labour costs and productivity problems, but also to the extensive practice of sourcing parts outside Canada. The dissent of labour members from the petrochemical and the auto industry reports was also based on assessment of their industries' situations and prospects which differed than those held by the majority.

In furniture and forest products the reasons for dissent were not given, but in the remaining four, labour dissent sprang from disagreement with business on broad policy issues. The most frequent of these was labour's opposition to industries' requests for subsidies and special tax and other concessions, which would in the words of one union official, "simply add to the after tax profits of corporations and would not result in significant benefits to Canada." Union officials frequently objected to task force recommendations such as reduction in the level of unemployment insurance and limits on the right to strike, and to statements attributing the problems of manufacturing in Canada to high labour costs. But despite the fact that the Petrochemical Task Force recommended that the right to strike be limited in essential services, only one out of three labour members on the task force objected.

In general, labour representatives favoured government intervention in the economy through regulation and public ownership, and tended to be more critical of the impact of foreign ownership on the economy than did

business members. And in many cases, the minority reports included recommendations on ways to improve manpower training in their sectors.

The positions on broad economic policy areas outlined in the labour members' minority reports were reflected in the CLC's overview document, The Labour Report to the Co-ordinating Committee of the Twenty Three Industry Sector Task Forces. The labour officials who dissented from the Aerospace, Nonferrous Metals and Urban Transportation Task Forces reports specifically noted that the reader should refer to the CLC document for a fuller exposition of their unions' positions.

Only in the Automotive Industry Task Force, did business members dissent from the majority report. In disassociating themselves from the report, representatives of the Canadian independent parts industry stated that they had found themselves

"immersed in a determination on the part of the task force to justify a policy of industrial benefit to one sector of the industry, while the requirements of the independent parts and other sectors of the automotive industry have been ignored."¹²

IT&C officials appeared much more concerned about the dissent of this business group than they were about labour dissent, which was discounted in advance as "to be expected."

An Overview

The Tier I discussions of several key issues surrounding "industrial strategy" in Canada illustrate some of the strengths and weaknesses of this particular consultative exercise. The task forces focused on a broad range of topics, from specific problems relating to single industries to comments that pertain to business anywhere. Much of the task force discussion centred around a proper "investment climate", fiscal policy, prices and incomes policies, and various government regulation of labour relations, environmental standards, and competition policy. They also discussed several of the areas important in industrial rejuvenation: the impact of trade liberalization, the state of research and development and technology transfer, and questions of manpower supply. In at least two of these areas, trade and R&D, the task force reports illustrate the complexity and specificity of industry demands for direct government support. This demand for direct government support is in contrast with the general call for less government intervention in order to improve the overall investment climate.

The issues of regional location of industry, and nationality of ownership were not considered in depth by the sector task forces.

How instructive was the debate for the governments which received the reports?

Many senior provincial bureaucrats viewed the exercise as educational, and regarded the information obtained from the meetings and the reports as helpful in formulating sectoral policy. Their reaction to Tier I recommendations, however, was predominantly negative. The following comment was typical:

"The IT&C task force reports provoked a lot of cynicism in the Ontario government about business. They certainly belied business' general statements about getting government out of the economy."¹³

The reports were described by some provincial officials as "shopping lists of tax cuts" or "forums for special pleading." The essence of the officials' complaints appears to have been that the Tier I reports in no way aided governments in formulating new directions in industrial policy. One western official observed that "in a way, the [Tier I] process served the federal government well because the private sector only asked for more of what it has been getting."¹⁴

Provincial officials were also disturbed by the Tier I willingness to place the burden of restoring the competitiveness of Canadian manufacturing entirely in the hands of government. They also complained about the lack of regional and political sensitivity of the Tier I exercise. In particular, Atlantic and Manitoba officials were disturbed by the antipathy of the majority of task forces to regional development measures and Quebec officials argued that the many recommendations for uniform educational systems and labour standards demonstrated ignorance of the cultural realities of Quebec society.

Federal officials were much less critical of the reports. Like provincial observers, they appreciated the opportunity to discuss the issues with industry representatives, and to obtain detailed comments on government programs. They tended to evaluate the exercise in terms of its effect on government-industry and business-labour relations in general, so that, from their point of view, the recommendations themselves were not the most important part of the exercise. Rather, the improved relations, the

benefits of dialogue, and the willingness to listen were the most important accomplishments of the process.

Nevertheless, the task forces had produced a "wish list" of tax incentive proposals. As the Second Tier report stated:

"We acknowledge that if all the tax recommendations in the Task Force reports were implemented at the same time, there would be such a massive reduction of government revenues that the results would be unacceptable. Governments will, therefore, need to assign priorities to recommendations that are consistent with inflation and real economic growth."¹⁵

The view that government, rather than industry, should establish industrial objectives and priorities was reinforced by the Tier II report.

TIER II

The Second Tier committee on policies to improve Canadian competitiveness summarized its conclusions and recommendations under nine headings: trade and multilateral trade negotiations, manpower and labour relations, taxation, research and development, energy, transportation costs, regional development, government purchasing policies and rationalization.

The report identified "many areas where agreement was reached and where recommendations can be made jointly by labour and business."¹⁶ There were some issues, however, on which consensus could not be achieved. The most important of these were taxation, and manpower and labour relations.

Labour and business members agreed that the level of corporate taxation in Canada should not exceed that in other developed countries (in particular, the United States) and that greater coordination of fiscal policy between Canadian governments was necessary. They also recommended a number of tax measures to stimulate manufacturing, such as sales tax cuts on footwear and clothing. Labour and business members disagreed, however, on the desirability of "inflation accounting" for corporations, on changes to the capital gains tax, and on whether or not the level of corporate taxation was satisfactory.

The Tier II committee deferred discussion of labour relations by establishing a private sector task force to investigate the question and report to the first ministers.

On manpower, the committee recommended the establishment of "an autonomous body, jointly supported by provincial and federal governments and by business and labour, to integrate sector inventories of manpower availability and needs and to advise on manpower policy, training and education requirements."¹⁷ They also suggested that funding be redirected to "on the job" training. The Tier II report, however, noted that the business and labour members had been unable to reconcile their "fundamentally different views" on unemployment insurance.

It should not be concluded, however, that labour and business members simply "agreed to disagree" on difficult issues, for it is apparent that a great deal of compromise took place.

Regulation is an example. The CLC officials did not consider it important, and did not want to devote a section of the report to it. In contrast, business members felt strongly about it. Regulation was therefore discussed only briefly in the report. The committee recommended that regulation be simplified, and noted that whereas business members advocated cost-benefit analyses of proposed regulations, labour officials argued that such analyses do not capture the full social benefits of some types of regulation.

Trade policy was a second example of compromise. All members agreed that Canada should negotiate reciprocity in the GATT; that industries which are uncompetitive but vital in political and economic terms should enjoy the same level of protection as their counterparts do in other developed countries; that lower trade barriers should be phased in over a period of eight to ten years; that textiles and clothing should be exempted from the Tokyo Round; that the federal government should develop a comprehensive adjustment assistance program and should encourage the formation of export consortia; and that safeguard procedures be improved. But agreement was not complete. Business members had wanted to make specific recommendations on bilateral free trade with the United States, but CLC officials objected. They compromised on a recommendation:

"That Canada rely on the multilateral trade agreement route in its general trade policy; continental free trade should not be pursued as a general policy, but only as a selective sectoral strategy where appropriate."¹⁸

Another area of compromise was regional development policy:

"Broad agreement is expressed by the Task Forces that regional economic development is fundamental to the concept of equitable sharing among Canadians of the country's resources. Indeed, this is the very essence of regional development."¹⁹

In spite of their praise for the principle, the committee lamented the creation of surplus industrial capacity which had resulted from regional development programs. Reliance on grants should be reduced; business and labour should be consulted before grants are made; and regional development incentives should not foster competition with existing industry. According to one labour member, the recommendation to reduce the use of grants was a compromise between the business members, who wanted them replaced by tax incentives, and the CLC officials, who favoured the use of open and publicized grants ("to show who the beneficiaries of welfare are in our society.")²⁰

The Tier II report, like Tier I, placed great emphasis on research and development:

"Canada should aim at self-sufficiency in technology, that is, to balance exports against imports of technology. This requires an economic environment encouraging the growth of the domestic market, the development of incentive to attract R&D activities of an international trade, and policies that differentiates between support for large corporations and small firms."²¹

The committee made several recommendations concerning incentives for research and development, two of which apparently involved concessions by business members to the CLC. First was the suggestion that "payback" mechanisms be implemented when public funding had led to a successfully commercialized and profitable venture. Second, "research and development benefits to Canada should be given more emphasis as an explicit evaluation criterion used by the Foreign Investment Review Agency."²²

The committee only briefly discussed transportation and energy policy. It noted that transportation issues were extremely complex, and could not be fully considered in the short time allotted. The major recommendations on energy were that, in the long run, energy should be developed and sold in the form that represents the optimum amount of upgrading; and that "the pricing policy for energy should ensure that Canadian secondary producers are not put at a disadvantage relative to their international competitors, particularly those in the United States."²³

The Tier II report identified rationalization as "potentially one of the most important factors in improving the competitiveness and productivity of Canadian manufacturing industries." It suggested that governments encourage the establishment of joint service facilities for corporations that cannot justify such expenditures on their own; that compensation be extended to communities and individuals adversely affected by rationalization and that competition legislation not hinder the restructuring process. The committee did not, however, make suggestions concerning the substance of federal measures to encourage rationalization.

The committee stressed the need for intergovernmental coordination in government purchasing. They argued that governments had not formulated their purchasing policies in the national interest. In particular,

"There is concern that certain provincial government purchasing policies are designed primarily to encourage regional development. An effect of this policy that may not be appreciated is the resulting fragmentation of industries which reduces their cost competitiveness in both the domestic and export markets."²⁴

This was only one of a number of Tier II recommendations which criticized provincial activities that fragment the national economy. For example, the committee recommended that "provincial actions or restrictions that reduce manpower mobility be abolished,"²⁵ that "the need for intensive consultation on fiscal policy will become greater as provinces increasingly develop their own taxation systems,"²⁶ and that "provincial governments publish on a regular basis their (development) priorities and compare their plans at federal-provincial meetings in an attempt to reach consensus and harmonization."²⁷

Business in general seems highly sceptical of the growing emphasis on "province building." Those business that have a national market fear conflicting sets of regulations, restrictions on the movement of goods and capital, misallocation of resources according to political criteria, and regionally fragmented markets. In this sense, the interests of Canadian manufacturing capital and labour, or at least those segments represented on the committee, run counter to the recent emphasis on provincialism at the political level.

The compromises necessary to reach agreement between business and labour in Tier II resulted in a watered down version of the strident demands of Tier I.

The majority of task force members, including the chairmen, thought the Tier II committee had done a good job but with little relevance to Tier I. Specific recommendations, crucial to each industry, had inevitably been lost in the attempt to identify common threads. Some business members of Tier I also pointed out that the overview was more political. Most task force members said that it would not be accurate to claim that the Tier II report effectively incorporated their sectors' positions. Rather, observers tended to view the two processes as separate, as did the governments in their responses to the reports. The more political nature of the Tier II committee's report probably gave it more credibility to the policy makers and politicians who received it; at least, it gave some indication of the sensitive trade-offs required in industrial policy formation. And as a unanimous joint statement of senior businessmen and labour officials, it could hardly be ignored.

Finally, the overwhelming consensus among officials, and members of Tiers I and II, was that the major benefit of the Tier II exercise was an improvement in understanding between business and labour. Ron Lang, a CLC official on the overview committee, expressed this view in a speech to the Conference Board of Canada's seminar on consultation in November 1979:

"Tier II was important for a number of reasons, but perhaps its most noted accomplishment was that for the first time business and labour had sat around the same table discussing, word-by-word, paragraph-by-paragraph, a final report to which they could sign their names and which they were prepared to defend publicly. That, in my opinion, was a tremendous achievement."²⁸

THE GOVERNMENT'S RESPONSE

The federal government, through the department of Industry, Trade and Commerce, expended a great deal of bureaucratic effort to produce a detailed response to the findings and recommendations of both the Tier I and Tier II reports. With the receipt of the 23 sector task force reports by late August 1978, the bureaucracy began an analysis and breakdown of some eight hundred and sixty recommendations. As the Second Tier committee did its work, IT&C prepared the first of its written responses to the wealth of material generated by the consultative exercise.

In early November, Action for Industrial Growth: A First Response²⁹ was released to respond to the issues prior to the federal budget

later that month. This paper consisted of a 17 page "summary of initiatives to date," which cited actions underway or planned, and an eighteen page "first response" which gave a clearer indication of which policy initiatives were meant to satisfy which of the hundreds of recommendations.

Separate response papers for each industry sector Task Force did not appear until May 1979. Each "response" averaged 25 pages, and included an overview of the government's reactions to the thrust of the task force recommendations and some of the more general policy initiatives which responded to broad concerns. The bulk of the responses, however, were detailed answers to each of the recommendations (which varied from a dozen for some task forces to over a hundred for others.) Individual responses indicated disagreement, "under review," or various shades of agreement: "agree, agree in part, agree in principle," or the enigmatic: "noted."

Finally, Action for Industrial Growth: Continuing the Dialogue,³⁰ released in February 1979, responded in 48 pages to the 46 recommendations of the Second Tier report.

The Ontario government responded to the Task Force reports with 22 sector responses and twelve horizontal responses, the latter relating to issues which were encompassed by many of the Task Force recommendations.³¹

The only other public response is that of the New Brunswick Department of Commerce and Development, which in January 1980 released a 50 page response, addressed to task force recommendations concerning 13 broad areas of provincial policy. Nova Scotia also prepared an overview response and specific sector responses but did not make them public. They were instead sent to the federal government and to the task force chairmen.

That the other provinces have not provided public, detailed responses to the Task force recommendations is not for want of federal pressure. Since the fall of 1978, IT&C has tried to get the provinces to respond. The federal department prepared a detailed list and breakdown of Tier I recommendations by categories of federal, provincial and joint federal-provincial responsibility, and asked provincial officials at a meeting on October 26, 1978 to respond to the latter two areas. At the November 7 meeting of federal and provincial ministers of industry, it was "generally agreed that all governments should respond quickly and in a

substantive way to the recommendations of both Tier I and Tier II reports," before February 1, 1979.

The reason for the provincial delay in responding stems in part from their assessments of the process as a whole. For many governments it was clearly not a vital issue; others did not see the point in replying as the process itself accomplished what was needed and, in the words of a BC official "detailed responses to 800 recommendations would be overkill."³² Other provinces have used the task force recommendations in their dealings with specific sectors. Most provincial officials responsible for their government's role in the exercise cited the federal election campaign and change of government in 1979 for the lack of response.

The federal First Response paper indicates the overall approach of the government to the consultation exercise:

"The role of government in influencing the directions industrial activity takes in Canada has long been a focus of controversy. This issue is not conducive to simple prescriptions given the structure of Canadian industry, the degree of foreign ownership, the size of its markets, competitive pressures from abroad, and the role of governments in industrial development in our major trading partners. An essential premise remains, however. It is that the private firm operating in the marketplace is the instrument to seek out economic opportunity and turn it to productive activity."³³

Given this market emphasis, the government has thus to respond in its policies to "rapidly changing opportunities and constraints generated by the market," which also rule out the "grave risk" of prescriptive industrial planning.

The First Response paper essentially reiterated existing government policies designed to demonstrate that, in the IT&C's eyes at least, many of the recommendations of the Task Forces were already in effect, but may simply have been unadvertised, underdeveloped or not explained. Thus under the heading "burden of government" it listed recent expenditure restraints; under "economic development and infrastructure" it listed current DREE programs; and under "taxation" it listed a variety of measures, some years old, such as various forms of depletion allowances, tax credits and write-offs. The federal government claimed that introduction of environmental protection compliance regulations which would allow for variance, the extension of federal procurement policy to Crown corporations and the

examination of the scope of present programs for the teaching of on-the-job labour skills, were planned initiatives.

Continuing the Dialogue did for the Second Tier report what the 23 individual responses did for the sector task forces. The paper reiterated the general approaches taken by A First Response, and underlined its measure of agreement with Tier II. It perceived the committee's work as important for three reasons:

- it was a significant example of industry-government consultation and cooperation,
- it placed emphasis on the importance of the manufacturing industry to Canada, and
- it reinforced the federal government's belief in the need to foster economic growth.

The response then reviewed in detail each Tier II recommendation, noting in at least half the cases that there was agreement in part or in principle, and in only three cases, all relating to taxation, that there was disagreement.

This response did not preclude new policy departures. The Board of Economic Development Ministers (BEDM), in the few months of its existence,³⁴ did make a concerted effort to coordinate specific new sets of policies for four industrial sectors. Although it had only \$300 million allocated for extra spending in 1978-1979, BEDM used it, in particular, in programs for shipbuilding, forest products, the automobile industry and electronics. Instruments included various special subsidies, DREE grants, increased funding through the Enterprise Development Program, tax measures and R&D incentives.

The reader immersed in the whole of the First Response, the 23 sector responses, and Continuing the Dialogue, is apt to drown in detail. They are testament both to the incredible variety and scope of public policy towards the private sector, and the myriad of technical jargon and attention to minutiae that afflicts the bureaucracy. This is not to suggest that individual firms or participants could not find interest and satisfaction in the particulars, but that as a whole the responses are difficult to comprehend and tedious; it is very difficult to draw useful generalizations from them.

Certain trends emerge from the responses. Many of the task force recommendations on taxation were rejected by the federal government. Changes to corporate tax regime were all turned down, as were suggested personal income tax reductions. Paradoxically, business participants in the consultative exercise later recalled the tax measures announced in the November 1978 budget as positive evidence of the federal response to their recommendations.³⁵ The reduction of the manufacturer's sales tax, the raised investment tax credit, new research and development credits, the reduction in unemployment insurance premiums and an increase in automatic employment expense deductions were all part of the budget, and all cited as part of the federal government's general response to industry demands.

Some industry recommendations were received more favourably than the tax recommendations. These included joint alleviation of labour supply problems, less stringent environmental protection laws, specialized programs for export marketing and technological innovation, procurement policy, and efforts to reduce government regulation. The federal government, however, required extensive provincial cooperation for the implementation of many of these initiatives. In its response to the Electrical Industry Task Force, for example, the federal government pledged to initiate discussions with provincially owned utilities for cooperation in purchasing Canadian made equipment, and agreed with the perceived need for increased harmonization of labour legislation, but again, left it for first ministers or labour ministers to sort out.

Like the federal government, the provinces that responded expressed sympathy for private sector demands but they also had a regional perspective which was almost absent from the federal responses. New Brunswick, in particular, criticized the consultative process for its superficial treatment of regional development concerns. It also took issue with the relative lack of attention to small and medium-sized business, and what it saw as the general lack of mechanisms for further consultation. New Brunswick also questioned the Tier II report's emphasis on submitting regional incentive grants to business-labour scrutiny, and disagreed with Canada policies for government procurement which would militate against such programs as "Atlantic Canada Plus" (a regional version of "Buy Canadian")."

Finally, the official responses of the federal and provincial governments included a dovetailing of the industry consultative exercise with the federal-provincial process. At their November meetings industry ministers spent much of their time responding to the Second Tier report.³⁶ The ministers noted the "regulation reference" to the Economic Council of Canada, and promised to try to remove overlap between levels of government in a manner consistent with their respective jurisdictional authority. Provincial ministers promised to develop a coordinated adjustment policy for industries affected by international trade negotiations; on manpower questions, they agreed to "participate in an interprovincial Task Force" to consider ways of harmonizing labour market practices and legislation. A federal-provincial working group would also look into the question of coordinating government purchasing policies, and the ministers endorsed the joint labour-business study of problems related to major construction projects. Other issues were left for more appropriate bodies to deal with, for example tax questions to finance ministers.

Further evidence of federal-provincial action was provided in the Progress Report³⁷ tabled by the federal government at the November First Ministers Conference. Here, under item 7, "industrial research and development" were the various tax measures recommended by ministerial meetings and embodied in part in the federal budget of November 16. Ottawa outlined increased funding for various programs of the Ministry of State for Science and Technology designed to encourage R&D. Under "trade and industrial policy," the Progress Report noted three meetings of officials and ministers on industrial adjustment assistance, and reiterated earlier federal announcements regarding increases in, or extensions of such programs as the Enterprise Development Program, and the Export Market Development Program.

The task force participants' assessments of the responses were, like those of the governments, mixed. Most task force members seem to have had low expectations to begin with, and were thus not too disappointed. As Alfred Powis told a recent conference on the consultative process, "to believe that these recommendations will actually be heeded by governments would be a triumph of hope over experience."³⁸ The very fact that governments read the reports and responded quickly, was taken by some participants to be a positive sign and a genuine desire to consult and improve economic policy. A construction executive from Alberta was impressed by

the governments' reports: the response "was made quickly and in direct terms of we agree or disagree. Very unusual for them, and a darn good performance."³⁹

Others were not so impressed. "Standard civil service answers" was the opinion of an aerospace executive, and a business member on the Iron and Steel Industry Task Force thought that "many people could have sat down and written [the response] in advance. It was very bland ... a typical official's document." An ocean industry executive from Nova Scotia thought the response to the task force to be simply "a great deal of jargon ... [it] did not address adequately some of the particular concerns we made." When pressed to explain, he said that Ottawa had given a "flat no, we disagree" to a suggested mechanism for enhancing investment opportunities in the sector, without what he considered to be a reasonable alternative policy. One could be cynical, he said, and believe that "the feds had their own plans, and if our recommendations didn't correspond, they went ahead anyway."⁴⁰

Labour reaction to the governments responses likewise was a mix of praise and criticism. However labour participants were more critical of the Second Tier responses.

On the release of Continuing the Dialogue in February 1979, the CLC issued "a scathing denunciation" in which they charged the federal government with ignoring or distorting labour's role in the process.⁴¹

Throughout our interviews with task force members, however, and in later public statements by prominent participants,⁴² the government "responses" uppermost in their minds were not the formal ones. The restraint measures in August, the various incentives of the November budget, and the establishment of the Board of Economic Development Ministers⁴³ were seen as tangible evidence of the federal government's commitment to improving the economic climate. The federal government itself considered the new Board to be its most important response.

Participants who were positive about the process, the majority of our sample, tended to regard the consultation itself as a recognition of their concerns. But as one task force chairman told us: "There's no point if it's just sending reports back and forth. Let's continue to get action on a face-to-face, personal basis, not trade paper; the consultative pro-

cess has to be alive in order to work successfully." Others noted that industry has to expect a continuous process of "beating on government's door" if it wants results; another said the "communications process" was most important. The following comment from a senior textile executive used to extensive contacts with government provides a useful summary:

"They're working very hard to show us they're responding. It would have been a huge setback if these 200-300 CEOs and union leaders had not been given a proper response. However, for 90% of the recommendations there is no easy solution. We've made a fair amount of progress, but it's a continuous exercise, and you can't change overnight."⁴⁴

It is clear, nevertheless, that for many the consultative process has only begun. Many of the participants from smaller firms said that if there was not adequate response to the 1978 exercise, they would not repeat it. In contrast, participants from larger firms said that they would continue their attempts to impress their case upon government, whatever the nature of the final response.

Government's basic goal in this exercise was to restore private sector confidence, and to seek private sector views on ways to overcome structural problems in the economy. But this consultation must, at least, be divested of its ad hoc nature if the public and private sector are not to return to their respective worlds, unknown to, and unheard by, each other. According to some, the 1978 industry consultation was an attempt to redress an imbalance in the state's attitude towards the private sector. If a balance is to be maintained, basic contradictions such as labour's role in the process and provincial input will have to be addressed. And in any case, with a more genuine dialogue between government and industry, communication may not have to take the form of self-serving replies and public relations advocacy. We will return to these themes in our concluding chapter.

Notes

I. The Consultative Process

1. Interview with officials, then with Industry, Trade and Commerce, June 1979.
2. Government of Canada, Agenda for Cooperation: A Discussion Paper on Decontrol and Post-Control Issues, May 1977, p. 13.
3. Interviews with provincial officials, June-August 1979.
4. Interviews with senior officials, IT&C, June 1979.
5. For the views of a senior federal official in the tripartite concept see T.K. Shoyama's remarks in M.W. Dodge, ed. Consultation and Consensus: A New Era in Policy Formulation: A round table discussion held in Ottawa, June 8-9, 1978; The Conference Board in Canada, December 19, 1978, pp. 38.
6. Interviews with senior federal officials, June 1979.
7. The reactions of the provincial governments to the proposals is discussed later.
8. Interview, June 1979.
9. Interviews with Quebec Department of Industry Officials, Sept. 1979 and Manitoba aerospace executives, August 1979; and P. Walker, "Industrial Policy-making in the Canadian Federal System. The Consultative Task Forces, 1978," unpublished paper for Yale University, Dec. 1979.
10. Interviews, October 1979.
11. When this was brought to the attention of the above mentioned CLC officials, they said that "if any non-CLC people were involved, it was because of negligence on our part rather than our approval."
12. Canada, Department of Industry, Trade and Commerce, Action for Industrial Growth. A First Response, Ottawa, November 1978.
13. Canada, Board of Economic Development Ministers, Action for Industrial Growth: Continuing the Dialogue, Ottawa, February 1979.
14. First Ministers Conference on Economy, November 27-29, 1978, "Progress Report on Commitments undertaken by First Ministers at the February 1978 Conference on the Economy," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-9/022, pp. 46.
15. The Outlook from 1973; Report of the National Economic Conference, Montreal, Dec. 12-14, 1973, (Sponsored by the Economic Council of Canada).
16. Interview with Tier II member, September 1979.

17. We were unfortunately unable to interview any of the three non-CLC labour members of the task forces.
18. ITC officials confirmed that they were prepared to go ahead with the exercise, even if the provinces or labour chose not to participate. See P. Walker, op. cit., p. 34.
19. Interviews with Tier I, and Tier II labour participants, July 1979.
20. Interviews with BC officials, August 1979.
21. The Commercial Printing and Urban Transportation Task Force reports did not list their members in enough detail to determine which provinces participated; thus our numbers may be overestimated by 2.
22. Interviews with officials, June-July 1979.
23. First Ministers Conference on the Economy. February 13-15, 1978, "Verbatim Transcripts," p. 539.
24. For the Ontario proposal tabled at the First Ministers Conference on Economy, February 13-15, 1978, see "An Economic Development Policy for Canada," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-7/030; for the federal proposal for a National Industrial Council, see "Notes of Statement on Consultative Mechanisms for the Hon. Marc Lalonde." CICS Doc. No. 800-7/073, and Government of Canada, Agenda for Cooperation: A Discussion Paper on Decontrol and PostControl Issues, Ministry of Supply and Services, Ottawa, 1977, pp. 28-33.
25. First Ministers Conference on the Economy, February 13-15, 1978, "Conclusions of the Conference," Canadian Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-7/078, p. 2.
26. Interview with senior Alberta officials, August 1979.
27. Secrétariat permanent des conférences socio-économiques, Le bilan des conférences socio-économiques du Québec, L'Éditeur Officiel du Québec, Québec, mars 1978.
28. Interview with senior Quebec official, September 1979.
29. This is substantiated by comparisons of lists of participants from the "Tier I" and "Tier II" task forces, and the "grand sommets" in Quebec. The overall impression was also confirmed in interviews with senior Quebec officials in September 1979.
30. Briefing Notes for Consultative Task Forces Department of Industry, Trade and Commerce, Ottawa, p. 1.
31. Action for Industrial Growth: A First Response, Department of Industry, Trade and Commerce, Ottawa, November 1979, p. 1.
32. Canada's Economy: Medium Term Projections and Targets. Department of Finance, February 1978.

33. Interview, July 1979. See also New Brunswick Department of Commerce and Development, New Brunswick Responses to the Industry Sector Task Forces, January 1980.
34. Interview, August 1979.
35. A Report by the Sector Task Force on the Canadian Ocean Industry, Department of Industry, Trade and Commerce, Ottawa, 1978, p. 1, "Sector profile: the Oceans Industry in Canada."
36. Interview, July 1979.
37. Interview, July 1979.
38. Manitoba's eventual representation, described by one provincial official as "mediocre", was a result not of IT&C decisions but of the fact that many Manitoba firms are "branch plants" which were represented by their head offices in Toronto or Montreal.
39. Canadian Labour Congress, The Labour Report to the Coordinating Committee for the 23 Industry Sector Task Forces, Research and Legislation Department, Canadian Labour Congress, July 1978 in A Report by the Sector Task Force on the Canadian Aerospace Industry, Industry, Trade and Commerce, July 1978. Annex C-1
40. Interview with Tier I chairmen, September-October 1979.
41. Interview, September 1979.
42. Remarks to the Conference Board in Canada's Session on Formal Consultation: A New Era in Public Policy Formulation? Ronald Lang, Canadian Labour Congress. November 20, 1979, Ottawa, p. 8.
43. Interview with senior CLC official, October 1979.
44. A Report by the Second Tier Committee on Policies to Improve Canadian Competitiveness. Department of Industry, Trade and Commerce, Ottawa, October 1978, p. 2.
45. Interviews with Newfoundland and New Brunswick officials June-July 1979.

II. The Issues of the Debate

1. Interview, July 1979.
2. A report by the Sector Task Force on the Canadian Automotive Industry, Chairman Norman H. Bell, Department of Industry, Trade and Commerce, see pp. 2-3, 5, 8, Appendices B and C.
3. A Report by the Sector Task Force on the Canadian Machinery Industry, Chairman W.L. Mallory, Department of Industry, Trade and Commerce, Ottawa, 1978, pp.12.

4. A Report by the Sector Task Force on the Canadian Electronics Industry, Department of Industry, Trade and Commerce, Ottawa 1978.
5. Report of the Royal Commission on Corporate Concentration, March 1978.
6. Lawrence A. Skeoch, with Bruce C. McDonald, Dynamic Change and Accountability in a Canadian Market Economy, Independent Committee appointed by the Department of Corporate and Consumer Affairs, March 1976.
7. A Report by the Sector Task Force on the Canadian Textile and Clothing Industries, Chairman J.E. Newall, Department of Industry, Trade and Commerce, Ottawa, 1978.
8. Interview, August 1979.
9. Interview, October 1979.
10. A Report by the Sector Task Force on the Canadian Electronics Industry, Department of Industry, Trade and Commerce, p. 8. For a discussion on the relationship between "basic research" and market exploitation see Science Council of Canada, Report No. 29. Forging the Links: A Technology Policy for Canada, Supply and Services Canada, Ottawa, 1979, pp. 43-44.
11. Canadian Labour Congress, The Labour Report to the Coordinating Committee for the 23 Industry Sector Task Forces, Research and Legislation, Department, Canadian Labour Congress, July 1978, in A Report by the Sector Task Force on the Canadian Aerospace Industry, Department of Industry, Trade and Commerce, July, 1978, Annex C-1.
12. A Report by the Sector Task Force on the Canadian Automotive Industry, Chariman Norman H. Bell Appendix C, p. 1. Department of Industry, Trade and Commerce, Ottawa, 1978.
13. Interview with senior Ontario official, June 1979.
14. Interview with senior British Columbia official, August 1979.
15. A Report by the Second Tier Committee on Policies to Improve Canadian Competitiveness, Department of Industry, Trade and Commerce, Ottawa, October 1978, p. 8.
16. Ibid., p. 5.
17. Ibid., p. 15.
18. Ibid., p. 26.
19. Ibid., p. 26.
20. Interview, October 1979.
21. A Report by the Second Tier Committee on Policies to Improve Canadian Competitiveness, op. cit., p. 21.

22. Ibid., p. 22.
23. Ibid., p. 25.
24. Ibid., p. 28.
25. Ibid., p. 15.
26. Ibid., p. 18.
27. Ibid., p. 27.
28. Remarks to the Conference Board in Canada's Session on "Formal Consultation: A New Era in Policy Formulation?" by Ronald Lang, Canadian Labour Congress, November 20, 1979, Ottawa, p. 10.
29. Canada. Department of Industry, Trade and Commerce, Action for Industrial Growth. A First Response, Ottawa, November 1978.
30. Canada. Board of Economic Development Ministers. Action for Industrial Growth: Continuing the Dialogue, Ottawa, February 1979.
31. At the time of this study, the Ontario government responses had not been published and are therefore not analyzed here.
32. Interview, September 1979.
33. Canada, Department of Industry, Trade and Commerce, Action for Industrial Growth: A First Response, November 1978, p. 1.
34. BEDM was retained as the Committee of Economic Development Ministers by the Clark government. The Ministry of State for Economic Development was formed by an order in Council in 1978.
35. Asked about the nature of government responses to the Forest Products Task Force, one executive mentioned: "It wasn't a surprise, (but) they did give some tax breaks, and something about UIC, R&D and government spending", although another member of the same group was disappointed that federal policy towards the forest industry would continue to stress "grants and incentives" rather than "fiscal levers." A Construction Task Force member noted: "We had hoped to get a better response on our tax recommendations, but everyone had a kick at the cat."
36. Federal-Provincial Ministers of Trade and Industry, "Communiqué," November 7, 1978, Canadian Intergovernmental Conference Secretariat, Ottawa Doc. No. 800-9/020.
37. First Ministers Conference on the Economy, November 27-28, 1978. "Progress Report," tabled by the Federal Government, Canadian Intergovernmental Conference Secretariat, Doc. No. 800-9/022.
38. William Dodge and Martha Grier, eds, Consultation and Consensus: A New Era in Policy Formulation?, The Conference Board in Canada, Ottawa, 1978, p. 31.

39. Interviews, July - September 1979.
40. Interviews, July - August 1979.
41. Edmonton Journal, February 22, 1979.
42. See statements by Ronald Lang, Alfred Powis, and T.K. Shoyama, in W. Dodge and M. Grier, eds, Consultation and Consensus; and Ian Barclay and Lang's presentations to a Conference Board in Canada's "Conference on Consultation and Advocacy," Ottawa, November 20, 1979.
43. Since our revisions to this chapter were made, Richard French produced an excellent analysis of the brief life of the Board of Economic Development Ministers. See R.D. French, How Ottawa Decides: Planning and Industrial Policy-Making 1968-1980, Canadian Institute for Economic Policy, Ottawa 1980, pp. 120-129.
44. Interview.

PART D
CONCLUSIONS

THE LIMITS OF CONSULTATION

A Framework for Comparison

Writing about the pressures of industrial change on society in 1978, the C.D. Howe Institute recalled a similar period of crisis a generation ago, and the views of Joseph Schumpeter at that time:

"'creative destruction' is a healthy, evolutionary process whereby the economic system adapts to changing circumstances... However, there is a strong resistance to the 'destructive' element of the process today because it tends to cause economic hardship in the form of unemployment, relocation and income loss...."

"The way in which this resistance is expressed in policy terms is important because policy can influence the ability of the economy to undergo the process of creative destruction. The test of a dynamic economy lies in its ability to shed inefficient and obsolete activities and to adopt new, more efficient processes."¹

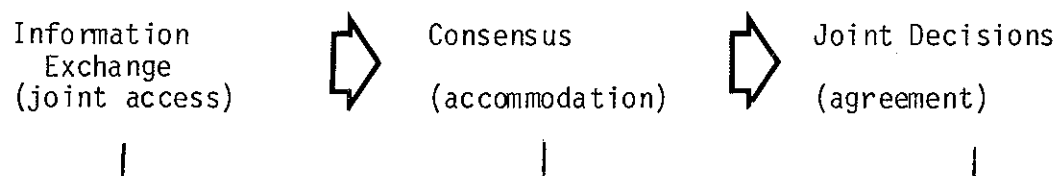
This paper is a case study of how the Canadian state is facing the "creative destruction" of much of its economy. The two processes of collaboration, one with provincial governments, the other with the private sector, illustrate the limitations and difficulties of designing industrial strategy in Canada. During the 1970s the kind of industrial strategy most often envisaged was one which would promote a shift in the economy's resources between sectors, promote rationalization within sectors, and reduce, as much as possible, the hardships to firms, communities and workers which might result from such transition. As we have seen, there was considerable debate on which economic agencies should have most scope

in decision making. A large part of the problem has been the conflicting interests and policies of Canada's various economic sectors, regions and governments.

How then do we judge the exercises in economic policy collaboration of 1978? Did either process of consultation contribute to the formation of a coherent industrial strategy for Canada? If not, why not, or to what degree did they help?

What do the two processes, government-industry and federal-provincial, tell us about the nature or the limits of consultation among functional and territorial interests in Canada? Because intergovernmental collaboration is much better established and advanced than public/private consultation, comparison is not always appropriate but both exercises fit the same broad policy process, although in different ways and at different points.

Let us consider a continuum which illustrates the possible range and nature of consultation. A very simple version may be presented in this way:



There may be a wide range of results from consultative forums, whether the participants are governments, economic groups, or both. At its most elementary stage, consultation requires an exchange of views and information; the meeting itself imparts legitimacy to the participants and gives them access to one another. If, however, there is not a genuine sharing and exchange of information, the consultation gets no farther than a trading of opinions. At best there is a mutual education which may affect the later decisions of the various participants. Farther along the continuum, and rising out of a shared information base, comes accommodation or "consensus building," where there may be agreement on general goals and directions, and where compromises on various limited and specific issues may take place. Building upon that, the participants may go a few steps farther, towards making joint decisions and agreeing on joint policy upon which all

would be obligated to act in their own spheres. Moving from left to right on this continuum, the individual participant's freedom of action is eroded as consultation takes on a life of its own. How far along the continuum a consultative process gets depends fundamentally on the rewards and demands, at each stage, of joint decision making when compared to acting alone. As one proceeds from left to right, more elaborate and formal machinery is required; more formal decision rules are necessary, and mechanisms to assure effective compliance with and implementation of these rules become more important. And, it should be noted, this continuum does not take in the broadest range of political and economic options. In the industry-government context, for example, it assumes a mixed economy where some measure of consultation between private and public interests is desirable. Neither a totally laissez faire government nor a socialist regime require consultation. Similarly, when the consultation involves federal and provincial governments in the Canadian context, it assumes the federal system; intergovernmental consultation would not be required within a unitary state, and would be of a wholly different order between independent states.

We will try to place the processes we have described in previous chapters into a larger framework, to see where they have taken us so far, and where they may take us in the future. We will also be comparing and assessing their results in contributing to an "industrial strategy."

The Industry Consultation

"Who makes an overall development strategy for Canada?" was the question directly addressed in the report of the Second Tier Committee:

"Both labour and business members of the Committee recognize the fundamental democratic responsibilities of elected governments to govern. The committee, in putting forward recommendations for government action, does not seek to share this responsibility; governments must be responsible and must clearly be seen to be responsible for the decisions they take."²

Over and above specific policy measures, many of the private sector participants in the task forces looked to government to set industrial objectives: will Canada have an indigenous ocean industry; will we preserve the textile and clothing industries; will high technology industries be given priority? Representatives of firms located in the periphe-

ral regions of the country stressed that government must decide whether regional diversification of industrial activity should be encouraged. It would be unrealistic to expect industries concentrated in central Canada to pursue such a strategy independently. Businessmen also argued that only in the context of a set of industrial objectives established by government, could they plan with a degree of certainty.

"Did the IT&C exercise produce an industrial strategy for Canada?" It did not, nor was that its intention. The relevant question is: to what extent would the IT&C exercise have helped government to formulate an industrial strategy, assuming that government was interested in doing so?

The Tier I exercise provided officials with a wealth of information about the industrial problems and challenges facing domestic industry, as perceived by the private sector. Nevertheless, the reports did not present government with a basis for making decisions about which sectors should be encouraged to lead economic recovery. The format of the Tier I exercise encouraged each sector task force to make a special case for itself, and worked against the formulation of recommendations which would permit government to choose between sectors and between firms.

This was also true of the report of the Second Tier committee which had the difficult mandate of extracting common threads from the Tier I reports. The Tier II committee's need to balance conflicting sectoral recommendations led in some cases to proposals which involved uneasy compromises. For example, in energy, the committee recommended both that "pricing and taxation policies be so structured that adequate energy sources be developed" and that "the pricing policy for energy should ensure that Canadian secondary producers are not put at a cost disadvantage relative to their international competitors."³ That the overview committee did not make specific recommendations concerning industrial rationalization also testifies to the difficulties involved in formulating proposals for manufacturing industry as a whole, without picking winners and losers among sectors.

The failure to provide the basis for the formulation of an industrial strategy resulted in part from the design of the mandates of the Tier I and II committees, which provided no policy direction and set no objec-

tives for the committees. While the federal Department of Finance provided its paper Medium Term Projections and Targets for the Canadian Economy, and IT&C prepared sector profiles, the task forces were not explicitly directed to provide information on how their sectors could contribute to meeting specific economic goals as set out by the government. This may have been due to a reluctance on IT&C's part to weaken business confidence by implicating industry directly in a process of sector selection. IT&C may also have wanted to avoid having the task forces spend their time debating the government's goals and objectives. However the lack of sensitivity of the exercise to regional issues, for example, would have been lessened if the federal government had outlined its objectives concerning regional development.

Because the task force mandates did not have specific regional policy in terms of the relative positions of the regions in the national economy objectives, their recommendations buttressed the status quo. The same was true of their recommendations regarding industrial policy generally; these involved requests for "more of the same" and were not conducive to new policy initiatives by government. If the federal government had wanted recommendations on which to base an industrial strategy, it would have had to clarify its objectives and ask the private sector about ways to achieve them.

The government's dilemma is that a top-down process, where government asserts clear policy objectives and only seeks advice on how to implement them, risks being damned as illegitimate intervention in the private sector. But a bottom-up process, in which the private sector is simply invited to "tell us what you want," is bound to produce an uncoordinated and incoherent stream of proposals which provide something for everyone, but avoid hard decisions.

Given these limitations, we should note that the industry consultation did fulfill some functions rather well. Government and industry representatives exchanged and validated their information about the needs of different sectors and the details of existing government policy. Also, the recommendations of the task forces and the responses of governments supplied further information to assist firms, unions and governments in making their own decisions. The task forces proposed a multitude of creative, but disparate, policy suggestions, some of which were subsequently

taken up, in various forms, by the federal and provincial governments. The fact remains, however, that the 1978 exercise barely went beyond the initial points on our consultative continuum. One could not contend that those involved reached a broad joint consensus on objectives for industrial policy, especially in light of the criticisms of the government responses from labour and others.

To observers of public/private consultation in Canada, these conclusions should not be surprising, for there are a number of significant obstacles to the development of formal collaborative mechanisms.

First, no single business organization exists to legitimately represent the private sector. The Canadian Manufacturers' Association, the Business Council on National Issues and the Canadian Federation of Independent Business each represents a significant proportion of business, but none are as all-encompassing as, for example, the BC Employers' Council or the Conseil du Patronat in Quebec are for their regions. Nor do they speak with the authority that business, labour and agricultural groups in many European countries do. Foreign ownership is one significant obstacle to this; the cleavages between large and small business and the regional dispersion of business are others. The IT&C exercise did bring together firms in the manufacturing sectors (many for the first time) but, as a whole, small business was neglected.

The Canadian Labour Congress does not have the same degree of structural weakness for consultation, but it, too, has limitations. Only a minority of the Canadian work force is organized, and a significant minority of unions are not affiliated to the CLC.

For both labour and business, however, there are also attitudinal (or ideological) barriers to moving farther along the road to collaboration. The North American political and social climate is not as conducive to public intervention in the economy as are some European societies. Business has generally resisted attempts by government to implicate the private sector in its decision making processes. The labour movement, too, has been cautious of any "tripartite" forums, anxious not to be "coopted" into accepting political decisions not in its interests. Individual unions which, relative to other countries, have more power and resources than the

central organization, continue to be sceptical of any activities not directly related to collective bargaining.

Finally, governments themselves, reflecting the mood of these two large interest groups, have not been overly anxious to seek extensive consultation. They are also responsible to many interest groups which lie outside of "big" business and labour, and which are hostile to "corporatist" institutions. One must note also that corporatist mechanisms do not fit easily into the framework of parliamentary government, cabinet solidarity and bureaucratic responsibility.

The industry task forces of 1978 were a step towards more effective collaboration on economic and industrial issues. The participants were modestly satisfied with the results, and may be expected to repeat similar types of exercises. Further movement along our consultation continuum, however, is not very likely in the foreseeable future. At the provincial level, where private interests appear to be more homogeneous, the obstacles to industry-government consultation may not be as great. From this arises the crosslinkages of federal-provincial consultation with public/private, a point to which we will return.

The Intergovernmental Consultation

If governments were acknowledged to be responsible for the hard decisions of industrial strategy, were the First Ministers Conferences on the Economy in 1978 a step in that direction? The answer is not very encouraging. First, the conferences were not designed to discuss the structural weaknesses of the economy to the exclusion of other issues. Among their most important goals was to signal business that governments could coordinate their role in the economy and contribute to a better climate for marketplace decisions. Yet general progress on macroeconomic goals, such as the level of government spending, price and incomes policy, and growth objectives, must be tempered with the unspectacular results in the more important structural issues related to industrial strategy. In fact, even at a level of general objectives for industrial policy, the industry consultation process formulated a much more coherent overall view than did the first ministers. The main virtue of the intergovernmental process, however, was its ability to enact in concrete policy terms those few things on which the governments were able to agree.

As the section on the "Substance of the Debate" showed, the level and nature of industrial activity across the country were very much at issue in the intergovernmental arena. There was a prevailing disagreement among regional spokespersons, rooted in differing economic interests and political ideologies. Provincial governments have varying views on the main issues of structural change: for example, the ultimate use of trade and tariff policies, the role of transportation, competition, and regional development policies. Yet all of these policy areas are partly, if not wholly, under federal jurisdiction. Nevertheless, strong provincial views on national economic issues arose in many cases as a result of coherent and aggressive provincial industrial development strategies. If Canada does not have a national industrial strategy, it most certainly has several provincial industrial strategies.

In both the discussions of sector specific issues and "horizontal" policy issues, the debate was complicated by constitutional questions. Jurisdiction over many of the public policy fields necessary for the state to pursue industrial goals is currently being disputed amongst the federal and provincial governments. Most provinces are anxious to secure or expand their existing economic powers, and to neutralize the impact of some federal policies on their regional plans. Natural resources, fisheries, offshore minerals, and many other issues crucial to the economic debate were being discussed in the constitutional negotiations which were also underway in 1978 and 1979.

Resolution of these issues and of the bitter intergovernmental conflicts surrounding them is a prerequisite for further progress in federal-provincial collaboration. The conclusions of the conferences demonstrate clearly that consultation among governments in Canada takes on many forms and functions, and is much more developed and varied than the public/private consultation process. In terms of our continuum, the federal-provincial conferences can and do extend from simply meeting, to exchange views, to joint policy decisions and implementation. How far along the continuum governments can go varies according to the issue discussed, which in turn depends on a number of factors.

Public policy can affect both the means and the ends of the government's role in the economy. The means may be termed "institutional" issues; the ends, "structural" issues. As we have seen, structural issues

were very difficult to resolve; consultation on them between Ottawa and the provinces has barely progressed beyond the information exchange and adversarial debate stages. Too much is at stake; moreover, the participants are not convinced that joint action is preferable to their own freedom of movement.

Institutional issues centre on changes in the organization of policies and policy instruments within and between the two levels of government. Among these, there are two broad issues: rationalization of policies, and jurisdictional disputes over policy. Two examples of the need for policy rationalization were the agriculture stabilization programs, and the dispute over funding for housing projects. The former was not really resolved at the first ministers conference, but may be on its way to resolution; the latter was resolved through policy decentralization. Other policy disputes were alleviated through exchange of information, direct coordination or integration within one level of government or the other. Exchange of information is particularly useful in the planning or policy formation stage.

Jurisdictional disputes are less easy to resolve because they may involve rather different regional perceptions of economic or political interest. Of course, with the constitutional review process also underway in 1978, the participants at the economic conferences tended to leave jurisdictional questions aside. However, what some governments perceive as a rationalization problem over a policy issue, may be viewed by others as a jurisdictional dispute. Two examples from 1978 were fishing and uranium mining.

In general, the consultative process appears to be capable of making substantial and very important headway towards the resolution of institutional problems that are defined as problems of rationalization rather than jurisdiction. And in this respect some modes of resolution are easier than others: information exchange is the most painless, followed by policy coordination. Integrating into one order of government a policy field that was formerly shared between the provincial and federal governments is most difficult of all. The consultative process is much less capable of resolving structural conflicts in a mutually acceptable way, due to differences both in political ideology and economic interests. Even for the most difficult issues, however, there is virtue in placing them in the

process. For example, in jurisdictional areas, disputes were considerably defused when the federal government treated the provinces as partners rather than adversaries in national decision making, and when the provinces recognized the national impact and responsibilities of their power. Provincial governments' attempts to ensure that a national decision making forum be intergovernmental rather than dominated by Ottawa gained increased legitimacy.

The need for federal-provincial consultation on national issues is, of course, not universally recognized. Some federal officials feared that the 1978 conferences further undermined the power of the federal government and enhanced the status of the provinces by allowing premiers to use a national forum to participate in policy making on matters under federal jurisdiction. Ottawa, they believed, was on the defensive. On the other hand, some provincial participants thought that the federal government still dominated the process. Some Quebec officials decided that federal-provincial interpenetration is so complex, and the difficulties of cooperation so great, that there must be a radical break.

Where can intergovernmental consultation on economic policy go from here? Significant innovations in the 1978 process hold promise for improved mechanisms; yet the conferences also demonstrated many weaknesses and limitations. There remain significant institutional obstacles to open and useful federal and provincial consultation in such a forum. Within bureaucracies there were differences in approach; some federal officials and politicians were much more willing to confer with their provincial counterparts (and more convinced of the need to) than others. The agenda was an attempt to widen the traditional fiscal debate to include other economic concerns and other agencies in economic policy making, and to get them all together at the same time. This same characteristic, however, posed massive problems for coordination, and became too much for the first ministers, the ultimate decision makers, to cope with effectively. When it is all added, there was really very little to show for such a tremendous amount of effort.

The round of preliminary ministerial meetings, geared specifically to prepare statements and policy options for the first ministers, was also an innovation. Again, we can see the limitations of the forum: ministers would not, or could not, take the decisions necessary to expedite

the process. Whether all participants shared a common goal of policy determination is also somewhat in doubt. There seemed to be constant tension between the imperatives of the open media event, public education, political grandstanding and statesmen like compromises, and the substantive policy objective of designing a medium term economic strategy.

Can federal-provincial first ministers conferences be effective decision making forums? Some would answer, "Yes", but only if present trends towards institutionalization are greatly accelerated. According to this view, intergovernmental consultation would strive for the far end of our continuum where joint policy is decided and where the freedom of individual governments is constrained. Once policy makers move toward the more developed end of this spectrum, however, the need for sophisticated institutions increases. Mechanisms for "policy implementation" and "forums of consultation" were, of course, part of the 1978 agenda itself. The British Columbia government made suggestions for reform that would entail the establishment of a permanent Council of First Ministers, with a group of high level economic coordinators directing a federal-provincial secretariat on economic policy and strategy. The Council would, on a continuous basis, identify areas of study, set broad policy directions, and establish terms of reference for specific policy proposals. First ministers would make the broad decisions, passing policies back to the secretariat to coordinate their implementation. These proposals would also assign a role to ministerial conferences, to act as joint working groups to further develop proposals or to undertake studies.⁴

The Ontario government would take such proposals one step further. It would build into the intergovernmental process some means of getting "the advice of business, labour and other groups in the private sector." Thus the Ontario government proposed the creation of a National Council on the Economy, composed of the federal and provincial ministers of Finance and representatives of business, labour and others, "to define the major economic issues of the day and offer policy alternatives for consideration by First Ministers."⁵

And, as federal-provincial relations minister Marc Lalonde told the first ministers in February 1978, the federal government has discussed their ideas for a joint public/private consultative forum in Agenda for Cooperation.⁶ In his summary of possible mechanisms, Lalonde also men-

tioned the use of the Economic Council of Canada as an agency for joint reference, specific consultation on regional economies or issues and private sector involvement in sectoral discussions.

Despite these proposals, we remain sceptical of the efficacy of any elaborate institutional framework in the absence of other more critical commitments being made. Our study of the process and substance of the 1978 round of first ministers conferences leads us to conclude that, any level of consultation requires a significant amount of political will behind it. Unless individuals in the process are convinced that their shared interests are greater than their conflicting interests, the will for more sophisticated intergovernmental consultation will not exist.

One of the most critical decisions to be made, and one that depends a great deal on political will, is where the balance of power in our federal system will rest. With a federal constitution, there can be at one extreme a great deal of centralization of power in Ottawa, and at the other, a highly decentralized system of powerful provinces. In either case, political pressures are more focused, and decisions are more easily made, by one government alone. At any point in between, however, political pressures are fragmented. Effective national policy making therefore requires some degree of coordination. In many ways the constitutional debate now underway prevents us from being certain about the decision Canadians will make on the centralization-decentralization continuum.

At any point on the spectrum first ministers conferences would have a different function. At the centralized extreme, they would become meetings of vassal dependencies with a role like that of interest groups, trying to influence Ottawa, but without formal power. However, there would be definite obstacles to any return to the federal dominance in economic affairs that there was in 1940s and 1950s; Ottawa has neither the fiscal clout to reclaim complete economic hegemony, nor, perhaps, the political legitimacy. Too many of the policy levers are in provincial hands. Nor are these levers likely to be quickly given up by the provinces, as the provinces develop greater commitments to planning their own development and greater confidence in their ability to do so. Today the demand is not so much that provinces should adjust and adopt their policies to national or federal priorities; but rather that federal policies should be designed to facilitate and harmonize with provincial policies.

Paradoxically, the arguments for federal primacy in economic policy making are compelling. They include the desirability of maintaining a truly open national market, the need to maximize opportunities for mutually beneficial economic integration, the need to engage in an effective redistribution, the need to provide consistency, predictability and simplicity in the policy environment for firms operating across the whole national market, the need for Canada to present a unified face to world competition, and the need to integrate the broad tools of fiscal and monetary policy with the more direct tools of economic development, such as labour and manpower. In the present political context, however, major shifts in favour of federal jurisdiction are most unlikely.

At the opposite extreme the provinces would be the basic units for economic planning, and the provincial governments as the primary economic policy makers. As we have seen, several provinces, such as Alberta, Saskatchewan, Quebec, and recently Newfoundland, have asserted their willingness and capability to act in this way. The province has some advantages as a planning unit. The province is more homogeneous and therefore it is easier to develop a general consensus on policy. The scale of provincial societies makes consultation easier. Several provinces possess both the wealth and the bureaucratic and technical skills to aspire to a more powerful role.

If this model were followed, then provincial economic powers would be strengthened. Provinces would gain a direct role in areas of jurisdiction with important regional/provincial effects (like transportation.) At the extreme, we would move to a "confederal" system, in which Ottawa would undertake policies sanctioned by the provinces and "national" policy would consist of the pooled, collective interests of the ten provincial governments.

There are of course many problems with such a scenario. It is obviously not attractive to the poorer provinces, nor to a province like Ontario which depends so much on the national market. Regional inequalities would almost certainly be exacerbated. There is no more reason to believe that confederalism could better reconcile conflicting regional interests than the federal system can. And not all provinces possess the necessary resources. Provincial economies, less diversified than the national economy, are more subject to wide fluctuations in their fortunes.

They also are even more subject to international forces than the national economy; and, in a world of national and international corporations, and of mobile capital, even wider provincial powers would not necessarily provide effective control.

Industrial strategy will depend upon the actions of all governments, whether each government acts on its own or in concert with the other ones. Where the balance of power between federal and provincial governments will rest is thus in doubt. Only when the critical jurisdictional issues become more settled will there be the necessary political will to make intergovernmental forums work. At that point we shall be better able to assess the tasks that specific mechanisms such as first ministers conferences are expected to accomplish. If a general consensus on policy directions and the division of labour between governments can be achieved, then it should not be difficult to build on some of the suggestions already made to develop effective coordinating mechanisms. If not, no amount of tinkering with new institutions will be effective. The problems we have examined in this study are, in short, not primarily problems in public administration.

Integrating Federal-Provincial and Industry Consultation

In reviewing the background to 1978, we found that the anti-inflation program of 1975, combined with the later debate about tripartism, conjured up an image of national economic policy making in which the federal government would be the central agent in consultation with the private sector. This suggested a movement towards a well established European tripartite model and seemed to run against the more familiar Canadian pattern of policy making based on territorial and governmental perspectives. But by 1978, the federal-provincial axis had reasserted itself. One of the more interesting aspects of the debates on economic policy in 1978 was that both processes were in play at the same time illustrating some important differences between them, and posing some questions about how, and through what mechanisms, the two processes can be brought together. Both federal-provincial and public/private consultations have an important rationale, but can they be reconciled?

Business and labour leaders on the Tier I and Tier II committees discussed many of the same issues as the federal and provincial ministers

and officials did. But the range of subjects and the perspectives brought to bear on them differed in important ways. As one role of the intergovernmental process was to restore business confidence, many of the general themes of the conferences, e.g., expenditure restraint, better coordination, and less regulation, were highly congenial to business. Many of the kinds of assistance sought by the task forces were also sympathetically discussed in the first ministers conferences. But the discussion in the first ministers meetings was of necessity much broader: the IT&C process focused only on manufacturing while the intergovernmental meetings spent much effort on agriculture, energy and other matters. More important, there was a fundamental difference in orientation; for provinces, the primary issue was often the location of industrial activity. To a premier, what affects economic activity in "my province" is central; for an industrialist, territory is secondary. His question is what affects "my industry." The premier is concerned with interactions among various activities in his province; the industrialist is interested in his suppliers and customers without regard to location. Thus, the private sector businessman regards an emphasis on regional development as at best irrelevant and at worst harmful. He also is impatient with conflicts of jurisdictional authority; for him, those issues should be resolved on grounds of efficiency and administrative convenience, not on the basis of rival conceptions of province or country building. Among the private sector participants is a fear of the negative impact of isolated provincial development strategies. On the other hand, government participants feel that the private sector representatives are shortsighted and blind to important political realities. Thus there is considerable exasperation with each other, reflecting quite different view points.

The two types of consultation are most fundamentally different in their position along the spectrum of collaboration. The industry-government consultation is at a relatively primitive stage compared with the intergovernmental forum, and with state-industry relations in other industrial societies. The private sector, both labour and business, is not much farther past the role of lobbyist, trying to inform and influence the policy makers. In intergovernmental consultation, participants share a similar basis of authority; provinces are also often placed in the role of lobbyist, but, compared with industry's position, they have a more legiti-

mate role in policy making. Until and unless labour and business organizations gain more legitimacy, their direct participation in economic policy making will be limited. They will, of course, continue to have considerable leeway in making private decisions, but the time has not arrived for full collaboration on public goals and policies.

The federal-provincial process is, of course, more clearly established. There were many new aspects of the 1978 process, in subject matter, institutions, and participants. But the general ground rules were known and accepted on all sides. The IT&C process, on the other hand, was more exploratory and tentative: expectations and rules of the game were much less clear. In addition, the IT&C process was closed, private and mainly technocratic; the governmental one was open and political.

The formal link between the two processes was rather loose. The IT&C process was legitimated and approved by the first ministers. Both levels of government sat in on the various industry committees. But the ties were minimal.

It is unlikely that public/private and intergovernmental consultation can be fully integrated. In terms of consultative experience and decision making legitimacy, the participants are simply not at the same level of development. Business and labour, in their relations with both federal and provincial governments, are barely past the adversarial stage, only a little way along the spectrum; "executive federalism" is a well established and more or less legitimate feature of the Canadian political system.

This is not to suggest that the two cannot come together. The case studies presented here indicate a great deal of promise for consultation that meshes the two forums. Despite its limitations, the IT&C exercise involved provincial governments in a substantial way; in fact, there have been a number of spin-off task forces and advisory boards which have continued the business, labour and federal-provincial collaboration since 1978.

On a larger scale, a national forum to bring together the eleven governments and representatives of the private sector (such as the National Economic Development Conference planned by the Conservative Minister of State for Economic Development, Robert de Cotret, before the fall of the

government in December 1979) might be useful, but only if it was designed to play an educational and consensus building role. It could not, however, serve as a model for national collaborative decision making on economic policy. It would be unwieldy and cumbersome, and even more prone to avoid joint decision making.

Industry consultative forums might be more successful when tied to the federal-provincial process at a less political level. Advisory boards, joint planning agencies, and special task forces could have a crucial effect at various stages of the policy process.

Apart from mixing federal-provincial consultation with the private sector, industrial consultation will likely continue to be more common and successful on an industry to single government basis.

Yet, there remains conflict over where consultation is to take place. The industry consultation examined here was mainly a federal exercise, but as we saw, many provinces are developing their own consultation mechanisms. There is the danger, described by Alan Cairns, that rival governments will seek to bind important economic interests to them, in networks of dependency, and that as a result private interests will find themselves again caught between competing economic and governmental systems.⁷ It is much easier to operate a public/private consultative process in a unitary state.

And yet we know that intensive federal-provincial consultation on economic policy is not going to fade away, especially while the balance of power within the federal system is still in dispute. A frequently noted characteristic of federal-provincial negotiations is that they tend to "freeze out" interest groups, partly because of their secrecy, and partly because the preoccupations of intergovernmental negotiators preclude the private perspective. It is also clear that the conflicts, contradictions, duplication and delay of intergovernmental discussions have important repercussions for private interests. Nevertheless, the trend to intergovernmental collaboration seems irreversible and this dilemma was not resolved in 1978. Canada's serious economic difficulties seem to have heightened awareness by both levels of government of the consequences of their disagreement on the private sector. A general opening of the federal-provincial process to the scrutiny of Parliament, provincial legislatures and the press may also strengthen this awareness.

The involvement of manufacturing firms and unions in a review of federal and provincial industrial policy in 1978 was a significant step towards further consultative mechanisms with the private sector. In general, though, Canada's political realities are such that the territorial and intergovernmental perspective will dominate economic policy making in the next decade. Any "national" industrial strategy will of necessity sacrifice clarity to the exigencies of regionalism. It will have to be sensitive and differentiated so as to benefit all regions, which means that it cannot focus on only one sector, even one as large as manufacturing, which is so highly concentrated on regional terms. To a very real degree, the limits of consultation between the public and private sectors, and between the two orders of government, will continue to constrain the making of an industrial strategy and a general economic policy for Canada.

Notes

I. The Limits of Consultation

1. C.D. Howe Research Institute, Policy Review and Outlook, 1978: A Time for Realism, 1978, pp. 5-6. Joseph A. Shumpeter is cited from Capitalism, Socialism and Democracy, Harper and Row, New York, 1942.
2. A Report by the Second Tier Committee on Policies to Improve Canadian Competitiveness, Department of Industry, Trade and Commerce, Ottawa, October 1978, p. 5.
3. Ibid., p. 25.
4. Government of British Columbia Towards an Economic Strategy for Canada: The British Columbia Position, pp. 43-44.
5. Government of Ontario An Economic Development Policy for Canada, Intergovernmental Conference Secretariat, Ottawa, Doc. No. 800-7/030, 1978.
6. "Notes for the Hon. Marc Lalonde's statement on Consultative Mechanisms," Canadian Intergovernmental Conference Secretariat, Document 800-7/073; Government of Canada, Agenda for Cooperation: A Discussion Paper on Decontrol and Post-Controls Issues, pp. 28-33.
7. Alan C. Cairns, "The Governments and Societies of Canadian Federalism", Canadian Journal of Political Science, December 1977, Vol. X, No. 4, pp. 695-725.

Appendix - Composition of the Industrial Sector Task Forces

<u>Task Force</u>	<u>Business Members</u>	<u>Labour Members</u>	<u>Academics</u>	<u>Prov. Gov't Reps. as Members</u>	<u>Total Members</u>	<u>Prov. Gov't Reps. as Observers</u>	<u>Federal Reps.</u>	<u>Other Observers</u>	<u>Total</u>
Fertilizer	12	2-both CLC affiliates	1	Man., Ont., Que.	18	BC, NB,	N/A	Canadian Fertilizer Institute	22
Automotive	11	2-both CLC	1	Que. (2), Ont., Man.	18		6		24
Construction *	15	3-all CLC	3	Que., Ont., BC, Man.			8		34
Electronics	15	3-all CLC	1	Ont., Que.	21	BC, Man., Sask.	7	Canadian Manufacturers Association Electrical & Electronics Manufacturers Association	33
Textile and Clothing	18	4: 3 CLC 1 CSD	1		23	PEI, Man., Ont., Que., BC,	N/A	2 Reps. of Retail Council of Canada	30
Tourism	33	2-both CLC	2	Ont. (2), BC, NS, Yukon, Sask., Nfld., NWT, NB, PEI	47		7		54
Urban Transportation	11	3-all CLC	2		16				
Plastics Processing	12	1-CLC	1	Ont., Man., Que.	17	PEI	N/A	Society of the Plastics Industry of Canada	19

* No member/observer distinction made

** No membership list.

<u>Task Force</u>	<u>Business Members</u>	<u>Labour Members</u>	<u>Academics</u>	<u>Prov. Gov't Reps. as Members</u>	<u>Total Members</u>	<u>Prov. Gov't. Reps. as Observers</u>	<u>Federal Reps.</u>	<u>Other Observers</u>	<u>Total</u>
Shipbuilding Repairs	10	3: 2 CLC 1 CNTU	1		14	PEI, NS, Ont., Que., BC			20
Aerospace	15	2-both CLC	1	Que., BC, PEI, Ont., Man.	23				
Cement and Concrete	13	1-CLC	1		15	Nfld., Man., Ont., Que.	5		25
Primary Iron and Steel	14	1-CLC	1		16	BC, Man., Ont., Que., Sask.	6	9 Business Representatives	36
Petrochemical	11	2-both CLC	1	Man., Ont., Que.	17	BC, NS		Canadian Chemical Producers' Association	20
Ocean	14	3-all CLC	1		18	Nfld., NS, Que., BC	4		28
Machinery	11	1-CLC	1		13	BC, Man., NB, Ont. (2), Que. (2)	5	1 CLC Rep.	26
Furniture	12	2-both CLC	1		15	Que. (2), Man., BC, Sask., Ont.		-Ont. Furniture Manufacturing Association -Furniture West Inc. -L'Association des Fabricants des Meubles du Québec -Canadian Busi- ness Equipment Manufacturers' Association	

<u>Task Force</u>	<u>Business Members</u>	<u>Labour Members</u>	<u>Academics</u>	<u>Prov. Gov't Reps. as Members</u>	<u>Total Members</u>	<u>Prov. Gov't Reps. as Observers</u>	<u>Federal Reps.</u>	<u>Other Observers</u>	<u>Total</u>
Processed Fruit & Vegetable	12	1-CLC	1		14	PEI, Que., NB, Man., NS			20
Food and Beverage	16	2-CLC	1		19	PEI, Ont. NB, Man., NS			25
Footwear	8	3: 2-CLC 1-CSD			11	Ont., Que.(2) BC		C.D. Howe RI Shoe Manu- facturer Assn. of Canada	17
Forest Products	10	3-all CLC	1	NS, Nfld., Man., Que.(2), NB, Ont., BC(2) Sask.	24		6		30
Non-Ferrous Metals	13	1-CLC	1		15	BC, Man., NB, Ont.(2) Que.(2)	7	Mining Assn. of Canada	30
Electrical	17	2-both CLC	1	Man., Que., Ont.	23	BC, Sask.	6	EEMA	32