

Public Money in the Private Sector



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CANADIAN COMMUNITIES

INSTITUTE OF INTERGOVERNMENTAL RELATIONS
QUEEN'S UNIVERSITY

Director: Richard Simeon

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Public Money in the Private Sector

Industrial Assistance Policy and Canadian Federalism

Allan Tupper

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Foreword

This book is the fourth in a series entitled *Queen's Studies on the Future of the Canadian Communities*, which has been generously supported by the Donner Canadian Foundation. It is also the second of a particular group of Studies in the field of Federalism and Public Policy. These policy monographs explore the impact of federal institutions on the content of government policy. They ask: how have the division of powers and inter-governmental relations affected the selection of policy objectives and the choice of policy instruments? What bearing has the operation of the federal system on the multiple interests—some regional, some cutting across regions—within Canadian society? Answers to these questions are essential for understanding how federalism affects not only policy-making *processes* but also the *substance* of public policy. This, in turn, has a direct bearing on the continuing question of constitutional revision.

The Parti Québécois' newly reaffirmed commitment to political sovereignty, this time without linking it necessarily to economic association, is a fresh reminder that Quebec is seeking to expand its economic powers. Other provinces, while not sharing the political goals of the present government of Quebec, are also anxious to expand their control over the course of regional economic development. In this respect, the partial constitutional accord of November 1981 probably marked a breather in the process of constitutional revision rather than its final conclusion. This supposition is strongly reinforced by the federal government's reassertion of its economic role since May 1980, and in particular by its determination to strengthen the Canadian common market in the constitution. Support for greater centralization of economic power, or for curbing the economic power of the provinces, is readily forthcoming from some business leaders, while others benefit from and support the provinces' role in economic development. Thus Canadians can expect, whether the prospect pleases them or not, continuing jockeying for position among governments, as they test the scope of their present economic powers and seek to reinforce or

extend them through constitutional change. One of the issues at stake will be the capacity of governments, both federal and provincial, to prod and support the private sector through the selective expenditure of public funds.

Allan Tupper's study of policy in this area illuminates a murky landscape, revealing an intricate tangle of programs and ambitions. He identifies the wide range of techniques of industrial assistance currently employed in Canada, and illustrates how recourse to them generates conflict at several levels—inter-provincial, federal-provincial, and international. Since, in many cases, the grants and incentives which governments shower upon industry are intended to affect the location of manufacturing activities, industrial assistance policy frequently provokes bitter disputes among governments. The result, as Tupper points out, is not merely an unedifying spectacle of politicians bickering among themselves, but diminished coherence in economic policy-making in Canada, and probably an unnecessary degree of public subsidization of business profits. Tupper asks whether constitutional amendments might reduce or eliminate some of these problems; he concludes that the prospects for significant change through constitutional amendment are rather slight.

Allan Tupper is Associate Professor of political science at the University of Alberta. He obtained his doctorate from Queen's University in 1977. A specialist in Canadian politics and economic policy, he is co-editor (with Bruce Doern) of *Public Corporations and Public Policy in Canada*, published in 1981 by the Institute for Research on Public Policy.

Peter M. Leslie
Richard Simeon
March 1982

Preface

The proper economic role for government is an issue of enduring significance on the political agenda of modern states. In Canada, however, controversies about the balance between state intervention and market forces are complicated considerably by the existence of federal and provincial governments, each armed with important economic powers. This monograph examines the complex interplay between Canadian governments and industry in one area of economic policy—the formulation and implementation of such industrial assistance policies as grants and incentives to industry and public purchasing codes.

In this study, I have avoided any explicit discussion or assessment of competing prescriptions for a comprehensive Canadian "industrial strategy." I have tried instead to describe and understand the frequent and often intense intergovernmental conflict that has characterized Canadian industrial development policy-making over the last decade. I hope that my essentially descriptive discussion will prompt advocates of various grand "industrial strategies" to pay more explicit attention to the problems engendered by Canadian federalism and intergovernmental relations.

In undertaking this study, I have become convinced that there are no obvious constitutional or political solutions to the problems posed by governments' reliance on industrial assistance policies. Both federal and provincial governments remain committed to extensive economic intervention, even though the effectiveness of such intervention remains hotly disputed. As well, intergovernmental debates about the *location* of industry in Canada seem destined to continue. Internecine domestic policy-making will undoubtedly continue to produce industrial policies which pay lip-service to hard-nosed economic reasoning.

My association with Larry Pratt and Garth Stevenson has helped me immeasurably in conceiving this study. Both have produced innovative and excellent scholarship on the relationships between state and industry under Canadian federalism. I have benefited greatly from my direct exposure to

their thinking. Peter Leslie at Queen's University read drafts with great care and thoughtfulness. His advice both clarified my thinking on a number of difficult points and alerted me to the importance of several recent developments in Canadian federalism. Richard Simeon's enthusiasm, diligence, and intelligence continue to influence and inspire me.

Allan Tupper

1 Introduction

The 1970s and the first years of this decade were troubled times for governments. Early in the 1970s, the dramatic actions of the OPEC nations highlighted forcefully the vulnerability of industrialized nations to external forces, while also making obvious the interdependence of states. At the same time, the power of multinational enterprises has continued to call into question the capacity of states to control their complex interdependent economies. And all modern governments have had to wrestle, generally unsuccessfully, with the twin villains of inflation and unemployment. As well as intensifying conflicts between nations, such economic trends have unleashed tensions among competing classes and regions within nations. For when faced with a constant or shrinking economic pie, one interest's gain is often perceived as another's loss. A pervasive pessimism grips the modern world as governments everywhere struggle to regain the economic prosperity that characterized most of the post-war era. But no consensus has developed on the source, nature, and proper response to these economic woes. For some, the contemporary dilemma represents another, if not the last, crisis of capitalism, while for more conservative thinkers the real enemy is the interventionist state itself.

The international response to these developments reveals a common thread—modern states continue to reject *laissez-faire* as their salvation and instead have intervened in their economies. Quite obviously, the policy response of modern states has not been monolithic. As dictated by prevailing ideologies, domestic circumstances, and international conditions, different governments have manipulated policy levers with varying vigour, emphasis, and results. But, as illustrated by the imposition of wage controls in several countries, the blossoming of new public corporations, and burgeoning contemporary expenditures on industrial development, state intervention is now the rule, not the exception.

The contemporary policy arsenal contains a variety of discretionary policy weapons, including industrial subsidies and grants (with or without

equity participation by the state), state purchasing policy, and government financial services. These policies, hereafter cited as *industrial assistance policies*, are the subject of this study. Governments' increasing reliance on such instruments reflects several political and economic trends.¹ The most important of these may be summarized briefly as:

- (a) the lesser role played by tariffs in the post-war years and the related rise of non-tariff barriers, including various forms of industrial assistance;
- (b) the emergence and increasing importance of such policy goals as balanced regional economic development, the maintenance of employment in particular firms and industries, and the preservation and extension of national ownership and control in important economic sectors. These goals in turn have highlighted the inadequacies of Keynesian measures for regulating the economy;
- (c) the apparent necessity for governments to extend protection to domestic firms comparable to that offered by other states.

While industrial assistance policies have provided governments with flexible policy instruments, their widespread manipulation has also created new problems. At the international level, governments' ingenious deployment of purchasing policies and industrial subsidies often appears to subvert the drive toward freer world trade. Within nations, state reliance on such policies is seen to shore up weaker industries to the detriment of the economy as a whole, to heighten political conflict by making clear to unsupported industries the benefits of state support, and to enhance the discretionary powers of political executives. But more important still, by transferring public money to the private sector, industrial policies have everywhere evoked debates about the effectiveness of such transfers and the interests ultimately served. Do government subsidies and grants to firms achieve their objectives? Do the economic and political benefits outweigh the costs? Are industrial policies really little more than a new form of political patronage or, worse still, are they examples of state underwriting of private profit? Such questions have loomed large on the political agenda of most modern states.

Canada provides a unique opportunity to study industrial assistance policies, for both Ottawa and the provinces are deeply involved in the promotion of industrial development through the selective and discretionary expenditure of public funds. In the course of my research several questions came to guide the inquiry. These include:

- (a) how does federalism influence policy-making, as compared to what might transpire in a hypothetical unitary Canada?

- (b) what are the causes and consequences of intergovernmental rivalry in industrial assistance policy-making? and
- (c) can the tensions engendered by industrial policies—between centre and peripheries, between rich and poor provinces, between resource-rich and resource-deficient provinces—be resolved or moderated by constitutional revision and/or by appropriate policies adopted within the existing institutional framework?

Answers to these questions are sought through the analysis of federal and provincial purchasing policies, the industrial assistance programs of the federal departments of Regional and Economic Expansion (DREE) and Industry, Trade and Commerce (DITC),* as well as of three provincial governments—Manitoba, Ontario, and Quebec. Some attention is also paid to such state financial intermediaries as the Federal Business Development Bank, the Manitoba Development Corporation, and the Quebec Industrial Development Corporation. As well, the politics of several government-supported industrial projects, including the Petrosar undertaking and recent debates about the location of automobile plants, are probed in detail. These and other cases are included to inject a dynamic dimension, to portray the complexity of issues, and to increase the number of provinces examined. With a few exceptions, the monograph focuses on the events and controversies of the 1970s.

In undertaking an examination of a policy area, decisions must be made about the range of phenomena to be reported on and the best way of classifying public policies. Such decisions are increasingly difficult as the scope of state intervention broadens and the world faced by policy-makers becomes more interdependent. The analyst inevitably walks a tight-rope as, struggling to define a policy area for analytical purposes, he must also reflect an awareness of interdependence and the complexity of modern governments. As this inquiry proceeded, the problem of separating industrial assistance policies from other policy areas repeatedly came to the fore as it became obvious that governments themselves perceived industrial assistance measures as a subset of broader economic policies. For example, provincial governments on the prairies and in the maritimes object just as bitterly to the "heavy burden" of federal transportation policy as they do to "discriminatory" federal policies in promoting industrial development. Debates about industrial assistance policies are also intertwined with controversies about commercial policies, for several reasons. Most impor-

* While this monograph was in press, Prime Minister Trudeau announced a major reorganization of federal government departments. Both DITC and DREE were disbanded and replaced by a new Department of Regional Industrial Expansion.

tant, government purchasing practices and industrial incentives can be employed as non-tariff barriers to trade and, hence, such policies are important items in international trade negotiations. And quite obviously, policy debates about the future of Canadian manufacturing often focus on the changing international order and the related need for domestic policies of adjustment assistance and rationalization. As well, for the provinces in particular, issues about resource ownership and control are intimately related to industrial development concerns. As the case of modern Alberta so vividly illustrates, resource ownership provides political clout and the wherewithal to promote industrial expansion. Finally, "tax expenditures," although not explicitly studied in this monograph, are often employed by Canadian governments as a form of subsidy. In short, industrial assistance policies are but one component of a range of interrelated federal and provincial economic initiatives. Their analysis cannot be neatly separated from contemporary controversies about transportation, commercial, and resource policies.

Why Study Industrial Assistance Policies?

The best answer to this question is a simple one—direct government measures to stimulate economic activity have been at the heart of political controversy in Canada over the past two decades. Such state interventions as represented by the Syncrude project in Alberta, the colossal James Bay development in Quebec, the ill-fated Bricklin experiment in New Brunswick, and now the Chrysler rescue have commanded nationwide attention and controversy. As well, DREE's efforts to influence the spatial distribution of secondary industry have evoked wideranging debates about the role for government in altering corporate decisions about plant location. There is, moreover, no indication that Canadian governments will curtail their economy-building efforts in the foreseeable future. Indeed, disorder and uncertainty in the domestic and international political economy have recently evoked consistently interventionist responses. The late 1970s witnessed federal and provincial grants to major automakers, new subsidies for the pulp and paper industry, a proliferation of "buy provincial" purchasing codes, and extended federal assistance to the Canadian ship-building industry. A belief in the virtues of unhindered markets has often influenced the rhetoric, but seldom the actions, of Canadian governments.

As well as provoking debates about the role of the state, industrial assistance policies also provide a rich lode of information on intergovernmental conflict. Not surprisingly, Ottawa's industrial policies have heightened longstanding tensions between centre and periphery. In particular, prairie governments and capitalists have often denounced the policies of the Department of Industry, Trade and Commerce as being oriented to central Canadian interests, insensitive to the needs of secondary industry on the

prairies, and partially responsible for the concentration of industry in the Montreal-Windsor corridor. Industrial assistance policies thus add another item to the already lengthy list of western grievances. Interestingly, both "western alienation" and related federal-provincial conflict appear to have intensified during the contemporary period of prairie economic prosperity. In Atlantic Canada, discontent with federal policies is also widespread, but alienation there differs from that in the west. Maritime elites, while frequently arguing vociferously for further federal assistance, lament that Ottawa's industrial policies are piecemeal, uncoordinated, and unrelated to any masterplan for regional development. Rather than creating an industrial order based on self-sustaining growth, Atlantic governments have been reduced to dependence on federal handouts. Finally, the Parti Québécois' vigorous assertions that Ontario alone is the prime beneficiary of most federal policies for industrial development have added a new dimension to perennial Canadian arguments about the distribution of the costs and benefits of federalism.²

Almost as remarkable as the intensity of such regional grievances are the differing capacities of hinterland provinces to offset the "centralizing" impact of Ottawa's policies. As Larry Pratt has argued, the 1970s witnessed in oil-rich Alberta the emergence of an ambitious provincial government dedicated to the pursuit of provincial economic diversification, the enhancement of provincial power, and where possible, the elimination of external influence over provincial priorities.³ Armed with constitutionally-sanctioned ownership of valuable natural resources, Alberta has employed its state powers, with varying degrees of success, to shift industry and jobs westward. Such "province-building" efforts contrast dramatically with those of maritime governments whose finances have often been stretched by grandiose industrial development schemes. In short, few areas of state activity highlight so forcefully the disparity between the provinces' formal equality and their actual ability to shape their economic development. The provinces' different economic circumstances are of more than passing importance—this must constantly be borne in mind, for they foster very different attitudes to Ottawa's role and the proper course of constitutional reform.

As well as highlighting a variety of long-standing political tensions, industrial assistance policies also offer an opportunity to probe policy-making in an area where both governments are deeply involved and where intergovernmental conflict seems to be the rule, rather than the exception. In examining the contemporary Canadian constitution, one is immediately impressed by the extent to which *both* levels of government employ various industrial policy tools.⁴ Ottawa subsidizes firms and industries, operates a complex public enterprise sector, provides loans and financial services to capitalists, and, through DREE grants and other devices, strives to alter

firms' location decisions. While little understood and less investigated, federal purchasing policy is used to achieve a variety of political and economic objectives. On the other hand, the postwar years have witnessed an impressive, if not universally welcomed, expansion of the provinces' economic role. In the industrial assistance sphere, most provinces possess policy arsenals comparable to those of sovereign states. Among the instruments employed are industrial incentives and grants, development-oriented purchasing policies, and, in most cases, ownership of colossal electric utilities whose contribution to provincial development is major. Alan C. Cairns⁵ wry remark that the larger provinces wield greater economic powers than many members of the United Nations attests to the growth of provincial powers and stands in stark contrast to the antiquated view of the provinces as "glorified county councils."⁶

The virtues of Canada's "flexible" constitution are numerous, particularly during periods of rapid economic and social transformation. Among other things, a loose division of powers permits governments to respond quickly to new developments, to develop policies that meet the differing needs of ten disparate provinces, and to deal with the complex problems which mock formal divisions of legislative power. But constitutional flexibility is not without costs. While permitting an enormous expansion of governments' economic roles, the Canadian constitution has done little to regulate the resulting intergovernmental conflicts. Indeed, industrial policy-making has sometimes degenerated into a struggle wherein political power, not constitutional niceties, is of the essence. And in trying to comprehend contemporary debates about Canadian industrial policies, an appreciation of the behaviour and bargaining strategies of large bureaucracies, both public and private, is often more valuable than a knowledge, however thorough, of constitutional law.

The increasing reliance of governments on industrial assistance policies not only highlights the clash of federal and provincial priorities, it contributes to interprovincial conflicts. For example, provincial governments have sometimes engaged in bidding wars for new investment. Such competition, once started, besides souring interprovincial relations, appears difficult to curtail. The struggle for new industry and jobs is an expensive undertaking, but one which the provinces, particularly the less prosperous ones, are reluctant to eschew. And as considerable evidence suggests, the major beneficiaries of interprovincial competition are the corporations which play for the high stakes involved. Recently the provinces have employed, often in retaliatory fashion, purchasing policies which favour provincial firms in the competition for government contracts. Such policies, whatever their economic consequences, have come to symbolize both the competitive style of policy-making so characteristic of the modern Canadian federation and the provinces' increasing manipulation of non-tariff barriers to trade. The

latter development, in particular, has emerged as an important issue in contemporary constitutional wrangles.

Analysis of Canadian industrial assistance policies also demonstrates forcefully the significance of the complex and dynamic international order. As we shall see, deteriorating economic conditions have prompted most modern governments to view new investment as a precious commodity and to provide subsidies and incentives to attract investment and jobs to their countries. In particular, North America is now a major battlefield in the international war of competitive industrial subsidies. Various American states are now rather overtly influencing Canadian firms to locate or expand south of the 49th parallel. In response, the Canadian provinces have struggled to match the inducements offered by their southern neighbours. As a result, Canadian industrial incentives must respond to Canadian needs and problems, while also remaining "competitive" in the international arena. As well, Ottawa's regional and industrial development initiatives have frequently irritated Washington, particularly when Canadian subsidies are seen to cause firms to locate here rather than in the United States. Recent experience suggests that the U.S. is willing to retaliate, thereby creating new bilateral tensions and limiting Ottawa's capacity to shape the national economy.

Recent global developments have also magnified the economic heterogeneity of Canada's regions and made painfully obvious the serious problems faced by industries in different parts of the country. Fuelled by the continuing vitality of resource industries, Alberta and Saskatchewan's current prosperity stands in stark contrast to the shaky status of many manufacturing concerns in Quebec which face potentially lethal competition from "third world" countries. All the while, governments in Atlantic Canada must struggle to maintain their share of industry and jobs. And presently, even Ontario must work hard to maintain its much-discussed economic hegemony. Indeed, the now popular description of the Canadian economy as an aggregate of regional economies, each at a different level of development and prosperity, rings increasingly true. Under these circumstances, Ottawa's ability to frame industrial policies acceptable to all provinces is increasingly suspect.

What is particularly interesting about Canada's current economic woes is their tendency to exacerbate long-standing cleavages within the country. In all the provinces, but particularly in Ontario and Quebec, recent years have witnessed the development of comprehensive industrial strategies, while east of the Manitoba-Ontario border interprovincial competition for industry continues unabated. More interesting still, several recent controversies have illustrated rather dramatically that federal efforts to enhance Canada's share of jobs and industry *in a global context* cannot be divorced from debates about the location of industry *within* Canada. Many provin-

cial governments have lately been quick to attack federal policies which, in an effort to enhance Canada's international strength and competitiveness, seem to confer inordinate benefits on particular provinces or regions. And while it is often tempting to dismiss such grievances as petty, it is clear that the provincial states will continue to vault questions about the spatial distribution of industry and the regional impact of federal expenditures to the forefront of the political agenda. Finally, as concerns mount about the international competitiveness of Canadian industries, the more prosperous provincial governments and various private interests have come to view DREE expenditures and other federal regional development initiatives as luxuries. In their view, industrial policy must build on existing "strengths," even if this means a further regional concentration of jobs and industry. Such views necessarily heighten tensions between rich and poor provinces.

The Scope of the Study

As this study proceeded, several themes and issues, other than those already noted, repeatedly intruded. But since the scarce resources of time and space prohibit their full exposition here, a few words about three problems will have to suffice. First, governments' manipulation of industrial assistance policies has magnified the perennial problem of executive discretion and governmental accountability. As the behaviour of such agencies as Nova Scotia's Industrial Estates Ltd. so vividly illustrates, important negotiations between government and industry are often conducted behind a heavy veil of secrecy. And while secret government-business dealings are hardly a problem unique to this country, Canadian federalism probably contributes to the problem, insofar as the "imperatives" of intergovernmental bargaining sometimes provide yet another rationale for secrecy. A review of recent industrial assistance policy-making highlights our failure to reconcile state intervention with reasonable degrees of legislative scrutiny and public debate.

Second, beyond the vexing regional conflicts at stake, debates about industrial assistance expenditures inevitably revolve around the issue of whether corporate or broader societal interests are ultimately served. But the perennial debates about winners and losers assume new importance during an era when government austerity is a sacred principle and when increased expenditures in one area often imply reductions elsewhere. The possibility that expensive industrial policies will be financed by reduced social expenditures looms as a real, even if unpleasant, possibility. As well, many Canadians would probably be appalled by the recent edict, issued by the federal and provincial industry ministers, lamenting our "overzealous protection of the environment."⁷ While it is obviously not possible to discuss fully the tradeoffs between environmental protection, industrial development, and the provision of social services, it is important to point

out that such tradeoffs do exist and to remind ourselves of the broader context in which industrial policies are framed.

Finally, this monograph, like most of the literature on Canada's constitutional quandary, focuses on governments—what they do, how they interact, and what changes are required in their relationships. The shortcomings of such a focus are numerous. First, our tendency to concentrate on governments' positions may deflect attention from discussions of the interests served by the state. For while governments and their attendant bureaucratic machines obviously have goals and interests of their own, it is impossible to separate such internally generated demands from those flowing from the broader environment. As well, one often gets the impression, particularly when examining the rhetoric of provincial government spokesmen, that the current provincial "position" has been unanimously endorsed by the provincial electorate. Such a misleading perspective ignores intra-provincial discord and glosses over the rich and varied determinants of politics *within* Canada's provinces. And perhaps most important, the governmental focus also begs the question of whether *either* level of government responds adequately to citizens. A 1978 *Financial Post* report on northern Ontario indicated, for example, that northern entrepreneurs portrayed both federal and provincial industrial incentives as profoundly ignorant of northern conditions.⁸ Clearly, a satisfactory settlement of inter-governmental disputes holds no guarantees that governments will be any more sensitive to citizen needs. Indeed, for the workers in a number of troubled and heavily subsidized firms and industries, contemporary constitutional debates probably appear light-years from their everyday concerns. But ultimately their livelihood is dependent on further state decisions. Let us hope that their aspirations and interests are not lost sight of in the ongoing debates about jurisdiction and governmental powers.

Organization of the Study

This study comprises an introduction and seven chapters. The second chapter probes Ottawa's industrial assistance policies, while the third compares the policies of Ontario, Quebec, and Manitoba. As only three provinces' experiences are chronicled in detail, a few words of explanation are in order. Manitoba is an interesting case, for over the last decade its provincial governments have undertaken controversial forays into the province's secondary manufacturing sector. Manitoba is also intriguing because, while integrated into the wheat economy and hence sharing certain interests with Alberta and Saskatchewan, the province also stands apart. Unlike its more prosperous western neighbours, Manitoba boasts no booming resource sectors. Ontario, long portrayed as Canada's "heartland," has recently been struggling to salvage its once dominant position. Finally, Quebec is where the "house is on fire," where federal

economic policies are increasingly portrayed as insensitive to Quebec's needs, and where debates about industrial policies are intertwined with controversies about language in the workplace and the Québécois' control of the provincial economy.

Chapters 4, 5, and 6 plumb the interplay between governments, paying particular attention to intergovernmental conflict. The chapters examine the regional impact of federal policies, interprovincial rivalries, and intergovernmental competition in a North American context. Chapter 7, by asking two questions—how has federalism shaped industrial assistance policies? and how have such policies influenced Canadian federalism?—summarizes our findings. Chapter 8 examines several options for constitutional and political reform.

2 The Federal Role

While the effectiveness of Ottawa's industrial assistance policies is the subject of considerable controversy, one is immediately impressed by the scope of federal activity and Ottawa's continuing commitment to influencing economic development on the northern part of the North American continent. Like other national governments, the Canadian state over the last two decades has developed a proliferation of industrial assistance programs. Illustrative of Ottawa's commitment to the promotion of secondary industry is its current range of transfers to business for the purposes of regional development, the promotion of industrial research, and the maintenance of jobs. Only since 1976 has *combined* provincial lending to manufacturers outstripped the loans disbursed by the Federal Business Development Bank.¹ As well, Ottawa continues to use its purchasing power in the pursuit of various political and economic goals. For example, federal control over multi-billion dollar military procurements provides Ottawa with an important, albeit controversial, policy instrument: witness the 1979-80 debate over new aircraft acquisitions for the Canadian armed forces.

In framing its industrial assistance policies, the federal government faces many constraints. Paramount among these are the actions of other states and the Canadian provinces, the limits imposed on policy-makers by pervasive foreign ownership, and the deeply rooted hostility of Canadian businessmen and governments to state planning. But, while hemmed in by such limitations, Ottawa's role appears unconstrained by constitutional limitations. The British North America Act is silent about activist purchasing policies, industrial development loans, and grants to influence industrial location. Ottawa's spending power is unrestricted, and the federal government is accordingly able to implement industrial assistance policies in a manner comparable to that of modern unitary states. As well, neither the provinces nor business interests have mounted sustained challenges to Ottawa's constitutional capacity in the industrial assistance sphere and,

accordingly, the courts have played no major role in clarifying governments' responsibilities. As Donald Smiley has aptly remarked of industrial policies, " . . . in this policy area perhaps more than any other there is a very vague constitutional delimitation of the powers and responsibilities of the two levels of government."²

This chapter outlines the goals of Ottawa's industrial assistance policies, surveys the instruments at its disposal in this area, and explores some of the limitations on their effective use.

The federal role may be best understood if seen as a compromise between three competing drives. First, Ottawa's policies reflect a keen tension between the need to develop internationally competitive industry and an often conflicting commitment to a "fair" distribution of industry within Canada. Second, federal policies embody a struggle between demands for intervention and a deep respect among policy-makers for an economy where private enterprise is the driving force. Finally, Ottawa's role is bounded by continuing calls for an "industrial strategy" and important limits on its capacity to articulate any such strategy.

Region versus Nation

The federal government's post-war masterplan for Canadian economic development envisioned a central role for Ottawa and embraced a commitment to economic management through Keynesian techniques. Perhaps in testimony to the inadequacy of this vision, the past two decades have witnessed a growing federal reliance on more selective instruments of intervention. A watershed in the development of Ottawa's industrial assistance policies was the creation in 1963 of a Department of Industry by Prime Minister Pearson's Liberal government. Blessed with a broad mandate, the new department was empowered to promote Canadian manufacturing, to adapt industry to international changes, to identify industries facing severe problems, and to encourage industrial research and development. In outlining the department's rationale, Pearson argued that manufacturing had been too long ignored by Ottawa, even though a robust secondary sector was requisite to national prosperity. Rather poetically, he proclaimed: "Our soil, forests, and mineral resources will continue, of course, to contribute very importantly to our development, but for the future expansion that we need if we are to take care of our work force we must now look especially to the manufacturing industries."⁴ At the same time, the prime minister vowed that his new creation would never stoop to the propping up of failing industries. The department was to develop industries capable of thriving in rough and tumble markets.

A key characteristic of the Department of Industry and its successor, the Department of Industry, Trade and Commerce is its commitment to the pursuit of export markets, the development of secondary industry, and the

adaptation of industry to international changes. While the effectiveness of the department's policies is often bitterly debated, DITC cannot be accused of subordinating its developmental initiatives to regional goals. Indeed, successive federal ministers have steadfastly maintained that the department must orient itself to the needs of industries, not to those of provinces or regions, and that successful attacks on regional disparities will be easier if the overall economy is strong. One of the department's most articulate ministers, Jean-Luc Pepin, stressed its orientation when he remarked, "I think in broad terms, the Department of Industry, Trade and Commerce with respect to industrial development is engaged in a nationwide attitude. We look at national policies irrespective of geographic locations."⁵ Not surprisingly, the department's disregard of the spatial distribution of economic activity has been vigorously denounced by leaders in Canada's hinterland provinces. Western premiers in particular have long lamented that DITC's definition of "national development" means nothing more than support of industry in Ontario and Quebec.

Since the late 1960s DITC has developed over a dozen major programs in support of its broad goal of nourishing robust secondary industries. While now involving cumulative expenditures of hundreds of millions of dollars, these important programs have generally eluded both sustained scholarly analysis and intense partisan controversy.⁶ But in reviewing Ottawa's industrial assistance programs, an inescapable conclusion emerges—most programs have arisen in response to discrete problems and, taken together, they do not form an "industrial strategy." The sheer number of federal programs makes description difficult and this problem is compounded by Ottawa's continuing rationalization and modification of its industrial assistance schemes. It is possible, however, to group Ottawa's programs into three categories: programs for new product development; programs for industrial rationalization and adjustment; and programs for export market promotion.

Product Development Programs. In the post-war years, the federal government has provided financial assistance to firms in support of new product development and has argued that "industrial research and development of new products and processes are obviously key elements in maintaining industrial growth in an advanced country."⁷ Central among federal initiatives are the Industrial Design Assistance Program, the Industrial Research and Development Incentives Act, and the Program for the Advancement of Industrial Technology. While the form of assistance has varied widely, the federal government has in each case partially underwritten the costs of industrial research. Ottawa's long-standing goal of sustaining an indigenous defence production industry is reflected by the Defence Industry Productivity Program (DIP) which helps industry finance the development of products with civilian and military export potential.

Programs of Rationalization and Adjustment. Canada, like most modern states, provides assistance to domestic firms ravaged by changes in international trading patterns. In this vein, the General Adjustment Assistance Program has provided loans to those manufacturers seriously undermined by the Kennedy Round reductions in Canadian tariffs. But beyond this general assistance, Ottawa has sustained, through loans and grants, a rather curious assortment of industries. For example, the shipbuilding industry, while hardly a central motor of the economy, has received large federal subsidies under a variety of programs.⁸ This surprising level of support seems explicable only by the demonstration effect of other states' commitment to the preservation of their shipbuilding industry through various forms of intervention. Similarly, Ottawa has provided financial assistance to such industries as aerospace, pharmaceutical products, and those autoparts producers injured by the 1965 Canada-U.S. Auto Pact. A survey of these programs does little to explain why certain industries are supported, while others are ignored. But such a disparate collection of programs indicates that Ottawa has eschewed a strategy of promoting "leading sectors" or of exploiting Canada's comparative advantages.

Programs for Export Market Development. Given Canada's position as a major trading nation, it is hardly surprising that the federal government has assumed a role in the identification and exploitation of foreign markets. Such federal activity includes the financial services offered by the Export Development Corporation, the intelligence services provided by the Trade Commissioner Service and the incentives offered by DITC. Among the latter, the most interesting and important is the Program for Export Market Development. Designed to whip up the "animal spirits" of Canadian exporters, this program provides state loans in support of the costs incurred by firms in the pursuit of foreign markets.

In response to the inadequacies of its proliferation of incentives, the federal government has recently replaced a half dozen programs with a new initiative—the Enterprise Development Program (EDP). Rather than providing assistance in only one phase of product design, EDP provides an all-embracing package of assistance to promising firms facing changing international markets. As the federal government proudly proclaims, "Rather than simply supporting projects, this approach may be described as investing in the firm."⁹ DITC officers exercise considerable discretion in the assessment of applications and the tailoring of assistance packages. But while it employs laudable new techniques, it is difficult to view EDP as a radically new federal approach to industrial development. For in keeping with its predecessor programs, EDP merely *responds* to private sector applications and involves no explicit judgments about which industrial sectors merit state support. A final important federal initiative is the Federal Business Development Bank (FBDB) which provides loans and related

financial services to small businesses. The FBDB is, however, a "lender of last resort," for it is empowered to lend to businessmen only when private financial institutions are unwilling to do so.

In assessing the role of the DITC, two characteristics stand out above all others. First, the department seems primarily concerned with providing a climate conducive to orderly business expansion and is little interested in economic planning or the active structuring of the economy. The state's role is essentially a passive one with major decisions about the timing, scope, and location of investment remaining the preserve of the private sector. Michael Jenkin has effectively described the prevailing "hands-off" policy in these terms:

Most Canadian industry-oriented policies have tended to concentrate upon fiscal incentives (e.g. capital depreciation allowances)—the object being the correction of distortions in the market-place. These policies are generally directed to broad categories of firms, if not to the whole population of firms in the economy. When, on occasion, industry-oriented policies are directed towards the solution of "structural" problems within the economy (. . .), companies wishing to take advantage of these policies are expected to come forth *voluntarily*, and these policies tend not to distinguish between firms who come forward except on the basis of commercial "need". Such policies reflect an arms length and largely "macroeconomic" approach to industrial problems—one which seeks to alter the broad environment for the conduct of business, but leaves specific changes to the forces of the market-place.¹⁰

Wayne Cheveldayoff, a political journalist, sustained Jenkin's view when he argued that senior officials of the DITC were "imbued with free market ideology" and hence hostile to such concepts as economic planning and an "industrial strategy."¹¹ Second, even though its policies exert an important impact on provincial economic affairs, the DITC has, until recently, paid little explicit attention to its role in a federal state. As recently as 1971 the then minister, Jean-Luc Pepin, argued that there was no compelling reason for even meeting regularly with his provincial counterparts.¹² Since then, however, the department has decentralized its operations, beefed up its regional offices, and devised regional advisory councils in support of the FBDB and the EDP. But these initiatives appear more like grudging, indeed symbolic, responses to continuing provincial criticisms than the products of a clearly articulated philosophy of policy making.

While constantly striving to enhance the competitiveness of Canadian industry, the federal government has also sought to influence the location of economic activity and to stimulate economic development in Canada's less

prosperous regions. The most visible manifestation of this federal role is the establishment in 1969 of the Department of Regional Economic Expansion (DREE). The department's rationale and the economic problems prompting its establishment are now well known, having been chronicled by several authors.¹³ Suffice it to say, however, that DREE was viewed by Prime Minister Trudeau as the spearhead of a major federal assault on the chronic economic woes of Quebec and Atlantic Canada. Empowered to promote economic development in a variety of ways, DREE's activities include the provision of industrial incentives, the improvement of economic infrastructure and the promotion of social adjustment. In exercising the department's broad powers, DREE spokesmen have consistently acknowledged the provinces' interest in regional development and have accordingly stressed the need for intergovernmental collaboration. Indeed, various federal ministers have urged that traditional constitutional boundaries should be laid aside in favour of new federal-provincial alliances aimed at reducing disparities. Illustrative of Ottawa's approach is the increasing importance attached to the General Development Agreements which, since 1973, have embraced federal and provincial support of industrial projects deemed central to provincial priorities.

Despite its diverse efforts, one of DREE's major administrative responsibilities—the Regional Development Incentives Act (RDIA)—has been the subject of considerable controversy. Indeed, while involving relatively modest expenditures (compared to the DITC's aggregate expenditures), the RDIA has attracted more sustained attention than any other federal industrial assistance program.¹⁴ At the heart of the RDIA is an effort to lure job-generating enterprises to slow growth regions and to encourage the expansion and modernization of existing plants. The central enticement is outright federal grants of up to \$6 million to manufacturing or processing concerns willing to locate or expand in so-called "designated areas." Interestingly, all of Canada, with the exception of such allegedly prosperous areas as southern Ontario and sizeable portions of Alberta and British Columbia, now appears to be a "designated area." Another striking feature of the program is the broad discretion granted DREE officers in the awarding of industrial incentives. Far from providing grants automatically, the RDIA empowers the minister to refuse aid to those firms that would probably locate or expand in a designated area without federal assistance and to those companies whose expansion or establishment would not make a "significant contribution" to the designated area's prosperity.

Beyond the complex federal-provincial issues at stake, the RDIA has evoked many debates about Ottawa's proper role in the economy. One continuing controversy concerns the extent to which DREE has subsidized capitalists whose location decisions were not really influenced by grants. Specialists now differ only on the *extent* to which the RDIA has provided

windfall profits to corporations. Indeed, even DREE itself admits that evaluation of corporate applications is hardly foolproof and that various capitalists' coffers have been rather generously filled by federal grants.¹⁵ The RDIA experience thus highlights the remarkably complex problem of gauging the correct level of grant required to offset the initially higher costs of locating in a remote area. But more important, Ottawa's efforts to influence firms' location decisions have focused attention on the tradeoff between national and regional development. Along these lines, critics contend that given Canada's precarious international position, the federal government can ill afford policies like the RDIA which, by promoting growth in "weak" regions, may rob stronger areas of their vitality and thereby weaken the economy. In their extreme utterances, DREE's critics contend that market forces alone must determine industrial location, even if this means the further concentration of industry in Ontario.¹⁶ DREE's supporters ridicule exclusively economic assessments and point instead to such intangibles as the promotion of national unity and individual dignity. As we shall see, federalism complicates such controversies by moulding them into intergovernmental disputes. For, as dictated by their economic prosperity, their industrial structure, and their relative dependence on federal funds, the provinces have expressed very different views about the "proper" tradeoff between overall economic performance and its explicitly regional dimensions.

In their critiques of the RDIA, economists have pointed to such shortcomings in the program as:

- (a) a bias toward corporate expenditures on capital;¹⁷
- (b) a tendency to displace investments which in the absence of DREE would otherwise have been undertaken;¹⁸
- (c) a capacity to increase the income gap between rich and poor Canadians.¹⁹

A typical response among economists has been that of Dan Usher: ". . . , I wonder if it might not be best for the federal government to restrict its subsidy program to the support of poor people (as through a negative income tax) and to such transfers to provinces as are agreed upon in federal-provincial negotiations, and to keep its distance from firms' decisions about the location of industry."²⁰

The debates surrounding the RDIA really underpin a broader concern about the effectiveness of federal regional development policies. For the mainstream of opinion argues that development expenditures have not generated self-sustaining growth. As the C.D. Howe Research Institute has recently concluded: ". . . , there are signs that disparities have been increasing over the past fifteen years despite the introduction of major federal programs intended to reduce them."²¹ Indeed, the major controversy

concerns the *reasons* for Canada's persistent failure to achieve balanced regional economic growth. Some commentators point to the international order and argue that external forces are working against Quebec and Atlantic Canada and in favour of presently prosperous regions. Among the relevant forces are:

- (a) the continuing vitality of resource industries in western Canada;
- (b) the threats posed to various Quebec industries, including textiles, clothing, and footwear, by competition from "developing" countries. And while hardly impervious to such forces, Ontario's economy is better diversified and hence better able to cope; and
- (c) shifting patterns of industry and population in the United States, particularly the shift away from the northeast toward the "sunbelt." This major development is seen to exert an adverse impact on Quebec and Atlantic Canada.²²

When viewed in context with such changes, Ottawa's regional development policies appear modest and hardly capable of reversing the broader economic forces at work. Other analysts also point to the international order but focus explicitly on patterns of direct foreign investment and the behaviour of multinational enterprises. In this vein, critics often argue that foreign domination of key economic sectors robs the federal state of its capacity to shape the overall contours of the economy, let alone the regional distribution of industry.²³ And as is now well known, the location and plant expansion decisions of multinational corporations are parts of transnational corporate strategies, strategies which are shaped by a host of political and economic factors, only one of which is the financial lures offered by governments.²⁴

In trying to explain the continuing economic disparities between Canada's regions, some commentators point to deficiencies in the design of the RDIA and other programs. Central here is the view that such initiatives as the RDIA are doomed to failure because of their passivity. While clearly striving to influence the location of industry, federal incentives are firmly based on the view that corporate decision must ultimately prevail and that the state must limit itself to offering lures to businessmen. Under these circumstances, the drive for development is clearly constrained by an abiding respect for private decision-making.²⁵ Closely related to such concerns is the view that federal initiatives are piecemeal and uninformed by a clear philosophy of regional development. Obsessed with the creation of jobs, governments have lured firms to outlying regions with little thought being given to the existing industrial mix, the resource base, or the values and traditions of local populations. R. Ian McAllister neatly captured the

policy vacuum when he noted the "uneasy vagueness" surrounding the goals of government intervention in the hinterlands.²⁶

Finally, federal regional development policies are seen to fail because their effects are more than counterbalanced by other policies which centralize economic activity in already prosperous regions. Indeed, DREE's activities are often portrayed as a federal effort to "compensate" poor regions for the adverse impact of technological changes, uneven resource endowments, and federal transportation, commercial, and fiscal policies. Such a viewpoint underpins the grievances of provincial governments in the west, Atlantic Canada, and Quebec, which now argue that federal economic policy assumes two dimensions—one which causes Ontario's manufacturing industries to prosper and another which seeks to appease the disadvantaged provinces.

This brief review of Ottawa's industrial policies has highlighted two key, sometimes conflicting, dimensions of the complex federal role. One dimension, best exemplified by the policies of the DITC, sees Ottawa as responsible for ensuring the international competitiveness of secondary industry. The second role sees the federal authority as a vehicle for influencing the distribution of industry and jobs within Canada. In undertaking these initiatives, Ottawa has adopted very different postures toward the provinces. The DITC has generally proceeded as if Canada were a unitary state while DREE, in word if not in deed, has placed a premium on federal-provincial liaison.

Federal Purchasing Policy

State purchasing policy is now an important instrument of economic policy in modern capitalist states. This is so because it is now obvious that modern governments' massive purchases of goods and services can exert an important impact on the health of domestic industries. Indeed, according to recent Ontario government data, Canadian governments currently spend more than \$35 billion annually on goods and services.²⁷ Such expenditures account for nearly 10 percent of gross national expenditures. In recent years, provincial and municipal expenditures have grown rapidly and now exceed 60 percent of total government expenditures on goods and services. However, the federal government's continuing need for ships, railroad rolling stock, and specialized defence materials provides it with an important capacity for nourishing particular firms and industries. Indeed, the political economy of important recent weapons procurements reveals a remarkable blurring of economic, political, and strategic concerns.

Debates continue to rage about the effectiveness of state purchasing power as an instrument for promoting industrial development. Several economists have argued forcefully that activist purchasing policies exert an unhealthy economic influence, and free traders have long loathed protec-

tionist procurement practices as insidious perversions of international trading accords.²⁸ On the other hand, organizations such as the Science Council of Canada argue that an interventionist government purchasing code is vital to the development of indigenous, high-technology industries. For example, John Shepherd, the vice-chairman of the Council, has argued that major aircraft procurements, both for the Canadian Armed Forces and Air Canada, must be used to bolster the Canadian aerospace industry. Speaking in 1979, Shepherd argued: "In these times of economic uncertainty, procurements of such magnitude must serve our long term technological interest. If they don't, they must be deferred until that condition is met."²⁹

Federal procurement policy has also evoked a good deal of federal-provincial conflict, in that each province has now come to view a "fair share" of Ottawa's purchases as nothing less than a divine right. In particular, the western provinces have vigorously argued that federal purchasing policies contribute to the concentration of industry in Ontario and Quebec.

While the politics of government purchasing have been little studied, it is possible to outline with confidence three features of federal purchasing policy. First, while Canada has no statutory equivalent to the "Buy America" Act, the federal government has eschewed least-cost purchasing and substituted instead a complex protectionist policy. As well as granting Canadian suppliers an outright premium of 10 percent, Ottawa has also devised a host of administrative procedures which favour Canadian suppliers. The sum total of this web of pro-Canadian preferences prompted Professors Stegemann and Acheson to remark: "The government of Canada is clearly willing to make a substantial sacrifice in terms of tax funds by not generally procuring its material needs from the lowest-price sources."³⁰ Second, it remains unclear to most observers, and perhaps even to policy-makers, precisely which economic and political objectives are being pursued. The Department of Supply and Services (DSS) informs us for example, that purchasing policy is used to promote a "healthy economic climate" in Canada, while analysts conclude that purchasing policy is indeed multi-purpose, being employed for such diverse ends as the sustenance of a defence production industry, the protection of Canadian firms from import competition, and the encouragement of Canadian-based, high-technology industries. Interestingly, Ottawa does not appear to have consistently employed purchasing policy as a regional development tool. According to DSS figures, about 80 percent of federal contracts are placed with firms in central Canada and the department seems rather resigned to the continuing pre-eminence of centrally-located firms. Finally, the administration of federal purchasing policy features considerable government discretion. While elaborate administrative procedures do exist, most commentators point to their flexibility and the resulting scope for tailoring

procurement policy to the needs of particular firms and industries.³¹ Such extensive discretion perhaps accounts for the problem of discerning clear policy patterns and the high degree of political conflict involved.

The Quest for a National Policy

During the present period of recession, soaring interest rates, and rising energy costs, discussion of Canada's elusive "industrial strategy" has become a major industry in itself. Quite obviously, the term "industrial strategy" implies different things to different groups and interests, but advocates of diverse grand designs have generally united to indict Ottawa for its failure to define a coherent set of national economic objectives.³² As this chapter has shown, Ottawa has not shrunk from economic intervention, but the appropriateness and effectiveness of that intervention is widely questioned. Far from stemming from a clear vision of Canada's proper role among the economies of the world, federal industrial policies are portrayed by most observers as piecemeal, uncoordinated, and too often oriented toward the support of weak industries, rather than the nourishment of strong ones. Indeed, in comparison to previous eras when Ottawa, through policies of "defensive expansionism," struggled to mould an interdependent national economy, current federal policies betray a woeful indifference to the economy's overall structure. As the DITC's programs illustrate clearly, Ottawa appears content to respond passively to corporate proposals and to provide a "climate" conducive to business expansion.

In a magisterial article published in 1975, Donald Smiley perceived the genesis of a new "national policy" for Canada.³³ Having reviewed a variety of federal economic initiatives, he saw indications that Ottawa was shedding its post-war complacency in economic affairs and reasserting an active federal role in the economy. Predicated on an alliance between Ottawa, business elites, and universities, "the master prescription of the emergent national policy is for a Canadian economy with a highly developed capacity for indigenous innovation."³⁴ At the heart of the new "technological mercantilism" are policies aimed at rationalizing secondary manufacturing, ensuring Canadian control of high-technology industries, enhancing the economy's innovative capacity, and further upgrading, within Canada, of resources bound for foreign markets. In Smiley's view, Ottawa's new nation-building scheme could well fail because of its general neglect of provincial economic powers and its particular neglect of Alberta's seething discontent with central Canada's political and economic hegemony.

Experience suggests that Ottawa's commitment to a new national policy is not very strong. Indeed, the federal response to recent changes in the international order has been hesitant and far from incisive. With the possible exception of further measures to stimulate industrial research and develop-

ment, most of Ottawa's recent industrial policies seem primarily geared toward the maintenance of employment. Some of the more important recent measures include:

- (a) efforts to ensure for Canada a fair share of jobs in the North American automobile industry;
- (b) continued subsidization of shipbuilding and new programs of assistance for the pulp and paper industry;
- (c) a confused and confusing effort to negotiate "industrial offset" deals with U.S. suppliers of military equipment for the Canadian armed forces. Such offsets involve subcontract work for Canadian firms.

As well, recent federal ministers, particularly Jack Horner, have rejected outright the industrial strategy concept and have argued instead that industrial planning must proceed on an industry by industry basis.³⁵

Conclusion

During the 1980 federal election campaign, Prime Minister Trudeau stressed the need for a more active federal role in industrial development matters when he outlined the foundations for a Canadian "industrial strategy." Proceeding on the assumption that Ottawa must be an "active player," not merely a "passive referee," Trudeau's nationalist strategy embraced the following elements:

- (a) an expanded role for government purchasing as a policy instrument;
- (b) "revitalization" of the Canada Development Corporation and the establishment of a national trading company;
- (c) a commitment to the promotion of Canadian-owned high-technology industries and measures to increase the research and development activities of branch plants;
- (d) a strengthened role for the Foreign Investment Review Agency, including measures to stimulate Canadian counter-bids to foreign takeovers.³⁶

The appointment of Herb Gray, a nationalist and "strong state" man, as measured by Liberal party standards, as minister of Industry, Trade and Commerce provides evidence for some observers of the prime minister's determination to steer a nationalistic course and to enhance Ottawa's role in economic matters.

Even assuming that the prime minister is dedicated to the pursuit of an industrial strategy, there are many roadblocks in his path. For example, the federal cabinet apparently remains sharply divided over such vital issues as the role of the state and economic nationalism.³⁷ As well, interesting

questions already have arisen about the capacity of a debt-ridden federal government to finance expensive, new industrial assistance programs. As Wayne Cheveldayoff has asked rhetorically: "Will Mr. Trudeau approve a transfer of funds from DREE to Industry, Trade and Commerce to aid industrial development in Ontario's Golden Horseshoe?"³⁸ As this last question implies, Ottawa's growing interest in industrial development holds considerable potential for further intergovernmental conflict.

3 The Provincial Role

The growing strength of the provincial states has fascinated many observers of Canadian politics. Indeed, far from collapsing under the weight of such impressive forces as the development of national communications and transportation networks, most provincial governments appear increasingly powerful, self-confident, and ambitious. The reasons for the provinces' political and economic prowess are widely debated, if little understood. For some observers the key lies in the provinces' constitutional powers in such fields as natural resource ownership, education, and health services. Other commentators have stressed, however, the emergence of powerful bureaucratic and political elites in the provinces, elites dedicated to the aggrandizement of provincial government influence. Less convincing are those explanations which rather nebulously portray the provincial states as guardians of distinctive provincial "cultures."

The most controversial dimension of contemporary provincial power is the provinces' growing economic importance. Particularly since the late 1950s, the provincial states have been deeply committed to the promotion of economic growth through state intervention. Among the industrial assistance policies employed are subsidies and grants, activist purchasing codes, and government financial services. Quite obviously, provincial development strategies vary widely in terms of the goals pursued and the means employed. But the provinces are unanimous in their rejection of market forces and federal policy as the exclusive determinants of provincial economic development. As Anthony Careless has remarked of post-war provincial economic policies: "It became the hope of the poor to catch up with central Canada and the expectation of the rich to move to full potential."¹ The constitution has thrown up no obvious roadblocks to a major provincial role in the industrial assistance sphere. Accordingly, the central constraints on the success of provincial industrial policies are political and economic, not constitutional. Such a situation prompted J.A. Corry to remark of the modern provinces: ". . . , each looks at the social economy

of its province as a goodly estate which it is eager to nourish and manage after the manner of central governments everywhere."²

Despite continuing controversy about the exercise of provincial economic powers, the economic role of the provincial states has been little studied. Some commentators, writing from a centralist perspective, have denounced provincial development strategies as sinister threats to national unity. Coupled with this problem is the long-standing obsession, best exemplified by the continuing popularity of Philip Mathias' book *Forced Growth*, with unsuccessful provincial industrial developments.³ As Larry Pratt and John Richards have convincingly argued, such a focus has stereotyped provincial governments as being incompetent in economic matters, while ignoring important interprovincial differences and the recent emergence of sophisticated provincial industrial strategies.⁴ In this chapter, which compares the industrial assistance policies of Manitoba, Ontario, and Quebec, I hope to avoid such pitfalls. We will first seek to discern important similarities and differences in the broad strands of provincial policy, by a particular examination of the 1970s, after which our focus will shift to developments since the election in 1976 of the Parti Québécois.

Three Perspectives on Province-Building

The provincial role in industrial assistance policy is manifest by the existence in all provinces of government departments devoted to the promotion of secondary manufacturing. Normally allied with the provincial departments of industry are such crown corporations as the Ontario Development Corporation (ODC), the Manitoba Development Corporation (MDC), and the Quebec Industrial Development Corporation (QIDC). Armed with broad mandates, these freewheeling corporations are empowered to provide financial assistance to manufacturers considering locating or expanding in their provinces. Renowned for their secrecy, such development agencies are committed to luring new investment to their provinces.

The provincial role in industrial development, as measured by expenditures, the scope of involvement, and the means employed, expanded impressively in the 1970s. Indeed, from humble origins as "lenders of last resort," provincial financial intermediaries have now assumed their places among the more important provincial crown corporations. Given the remarkable similarities in the mandates of provincial development agencies and industry departments, there is little point in providing comprehensive descriptions here. Instead, brief accounts are provided of two illustrative examples—Ontario's Ministry of Industry and Tourism and the Quebec Industrial Development Corporation. Readers in search of more information are referred to the standard materials on the subject.⁵

The Ontario Ministry of Industry and Tourism was established in 1972 from the amalgamation of two other departments, and is currently playing an important role in economic policy-making at Queen's Park.⁶ The ministry's mandate is broad and very similar to that of its counterparts in Quebec, Manitoba, and Ottawa. The department's obligations include, as a "number one priority," the creation of jobs, the sustenance of strong secondary industries, the assistance of small businesses, and the development of export markets. Although it is not extensively involved in the direct financing of industry, which function has been transferred to Ontario's development corporations, the ministry does offer such assistance to businessmen as the provision of feasibility studies and technical data on plant location, the distribution of research on foreign trade and export possibilities, the undertaking of trade missions, and the supply of management advice to firms. Recently, the ministry has also prepared "profiles" on the status of such industries as aerospace and shipbuilding. Finally, it assists municipalities in their industrial development activities.

The Quebec Industrial Development Corporation (QIDC) provides an excellent example of the development-oriented crown corporations which flourished in the provinces in the 1970s. Established by the Liberal government of Robert Bourassa in 1971, the QIDC was envisioned as a major weapon in the battle for industrial development in capital-hungry Quebec.⁷ While the QIDC has certain goals unique to the Quebec context, its broad mandate is very similar to those of its counterparts in other provinces. Three features of the QIDC are particularly noteworthy, the first being its concern with the generation and maintenance of employment in secondary industry. It pays particular attention to high-technology firms, and is empowered to assist companies in developing new products, in promoting consolidation and mergers, and in aiding potentially profitable firms which are unable to obtain investment funds from private lenders. Second, the QIDC may provide assistance in a variety of forms, including loans at preferential interest rates, forgivable and guaranteed loans, equity participation, and even reduced rates of provincial taxation. As well, the corporation enjoys considerable discretion when tailoring financial assistance. Indeed, with respect to the nature of assistance offered, the QIDC has a veritable "carte blanche" and is therefore able to deal flexibly with firms facing different circumstances. Third, while professing a strong commitment to an increased Québécois presence in the provincial economy, the QIDC, like its counterparts in other provinces, has also stressed the need to attract new investment, regardless of its national origins. As we shall see in chapter 5, the provincial departments of industry and the development corporations are focal points in the sometimes intense interprovincial competition for industry.

While the state structures responsible for the administration of industrial assistance policies are broadly similar, the substance of provincial development strategies does vary widely. Such differences reflect several forces, including different economic circumstances, prevailing ideologies and patterns of political competition, and available financial resources. Turning first to Ontario we see, perhaps surprisingly to those who believe that Ontario's prosperity flows mainly from natural advantages and federal beneficence, that Queen's Park has conceived many industrial policies. In reviewing these policies, three central features emerge:

- (a) a major thrust has been the alleviation of *intra-provincial* economic disparities;
- (b) during the 1970s, Ontario expanded its range of programs to include efforts to enhance research and development, to promote exports, and to rationalize manufacturing. While continuing to assist lagging regions, the province is increasingly committed to the provision of industrial assistance to firms everywhere in the province;
- (c) to a greater degree than some other provinces, Ontario has relied heavily on the provision of loans and grants to industry while generally eschewing state enterprise, mixed corporations, and joint ventures.

The almost revered description of Ontario as Canada's "industrial heartland" captures the essence of the province's southwestern corner but neatly ignores vast, northern hinterlands and the relatively depressed southeastern region. Unemployment and slow growth in these regions have long been headaches for Ontario's politicians and since 1963 the Ontario Development Corporation has been charged with spurring industrial development outside the "Golden Horseshoe." From 1967 until its termination in 1973, the central instrument in the intraprovincial attack on regional disparities was the Equalization of Industrial Opportunity Loans (EIOL). This program exhibited important similarities to the Regional Development Incentives Act, and provided "forgiveable" loans of up to \$500,000 to manufacturing firms locating or expanding in eastern or northern Ontario. Described by critics as a porkbarrel for the governing Progressive Conservatives, a contributor to the "Americanization" of Ontario's economy, and a subsidizer of large firms, the EIOL program was a source of bitter controversy.⁸ While staunchly defending the program as a major boost to the prosperity of poor areas, the government ultimately disbanded the scheme in 1973 and replaced it with a more complex program of industrial assistance. Under the Ontario Business Incentives Program (OBIP), Ontario now provides "incentive" loans to manufacturing, service, and tourist concerns locating or expanding within Ontario.⁹ In contrast to its controversial predecessor,

OBIP has eschewed "forgiveable" loans and has substituted in their place interest free loans, deferred payment schemes, and the provision of infrastructure. In keeping with the government's policy of stimulating lagging regions, maximum OBIP loans are larger in eastern and northern Ontario than in Metro-Toronto and environs.

Ontario has recently introduced a number of programs aimed at nourishing industry, regardless of its location within the province. Queen's Park now offers the Export Support Program, which assists exporters unable to qualify for either private or federal government financing, and the Venture Capital for Canadians program, which provides loans to small businesses struggling to develop new products. The Ministry of Industry and Tourism has also launched measures to encourage technical innovation, product improvement, and prototype development. While not yet involving large expenditures, such incentives reflect Queen's Park's contemporary obsession with halting Ontario's economic decline by enhancing the competitiveness of secondary industry.

An inescapable theme in the study and practice of Canadian politics is the expansion of the state's role in Quebec, the related desires of the Québécois to control more fully their economy and society, and the strains imposed by these developments on the Canadian federation. Industrial assistance policies remain central to Quebec's development strategy and analysis of such policies in the Quebec milieu reveals three central themes. These are:

- (a) a concern among Quebec policy-makers about the "intrinsic shortcomings" of an economy dominated by such industries as shoes, leather goods, and primary textiles;
- (b) continuing efforts to promote Québécois managerial elites; and
- (c) a strong commitment to public and quasi-public enterprises as policy instruments.

While it is now commonplace to contrast Ontario's relatively robust manufacturing industries with Quebec's weaker ones, Quebec policy-makers have long acknowledged the economic heterogeneity of central Canada.¹⁰ Accordingly, a leading element of Quebec's industrial strategy has been an effort to develop modern, high-technology secondary industry, thereby reducing the province's dependence on antiquated, labour-intensive industries. Illustrative of this concern was the establishment in 1968 of an incentive program, involving outright grants of up to \$5 million, for high-technology firms establishing or expanding plants in Quebec.¹¹ Among the industries singled out for assistance were aerospace, chemicals, and electrical equipment. As well, the rationalization and modernization of manufacturing industries in Quebec remains a central goal of the QIDC. But what is particularly interesting is the manner in which successive Quebec govern-

ments have enviously eyed Ontario and explicitly compared the two provinces' economic performance and industrial structures. Indeed, in outlining the role of the QIDC, Gerard Plourde, its first chairman, focused explicitly on Ontario-Quebec disparities when he remarked: "The gap between Ontario and Quebec is growing wider and more apparent. If the rest of Canada—especially Ontario—wants Quebec to stay within Confederation then Ontario might have to accept a slower growth rate."¹² More dramatically still, when denouncing federal proposals to restrict the flow of foreign direct investment into Canada, the Liberal government of Robert Bourassa complained that Ottawa's initiatives would favour Ontario, rob Quebec of its capacity to attract foreign capital, and relegate Quebec to a position of perpetual inferiority in central Canada.¹³ As we shall see in chapter 4, the Parti Québécois continues the tradition of comparing economic life in the two central provinces, while arguing that "discriminatory" federal policy accounts for Ontario's more robust economy.

A second feature of Quebec's industrial policy is its long-standing concern with nourishing Quebec-owned business, promoting francophone managerial elites, and enhancing the use of French in Quebec industry. It is in these areas that Quebec's industrial policies are intertwined with broader debates about the need for more francophone control over the provincial economy. In particular, recent Quebec governments have stressed the need to promote small businesses. Almost affectionately known as PME's (*petits et moyennes entreprises*), businesses employing fewer than 200 persons are portrayed as the backbone of Quebec's economy. But more important, small businesses in Quebec are generally owned and controlled by francophones. According to data prepared by Quebec's Department of Industry and Commerce in 1973, 72 percent of firms employing fifty persons or less were francophone controlled while only 14.8 percent of firms employing more than 500 persons were controlled by Quebecers.¹⁴ As well, small businesses in Quebec face serious problems, including a lack of technological innovation, low productivity, and an inability to penetrate export markets. Such a situation has prompted Quebec governments to provide financial, marketing, and technical assistance to the PME's and to extol, rather romantically, the virtues of small firms as the cornerstones of a modern Quebec economy.

While resolute in their promotion of small Quebec-based firms, Quebec governments have also argued that foreign investment is requisite to Quebec's economic well-being. But in so arguing, the Quebec state has also stressed the need to integrate foreign firms with the "realities" of modern Quebec. In this vein, industrial incentives are employed as levers for increasing the representation of French-Canadian managers in the private sector and for extending the use of French in business. As early as 1968,

recipients of grants under the Financial Assistance Program for Certain Industrial Sectors were required to hire at least one Quebec-educated engineer, technician, or administrator for every \$50,000 of grant. More recently, the Quebec Industrial Development Corporation has stated that it expects its "clients" to engage Quebec suppliers where possible, to hire French-Canadian managers, and to encourage the use of French among senior staff.¹⁵ The QIDC's president, Lucien Saulnier, saw such measures as necessary, given that francophones comprised only 20 percent of Quebec's private sector managers in 1975.

A common feature of advanced capitalism is government ownership of industry and a variety of "mixed" (public-private) enterprises. Among the Canadian provinces, Quebec has recently been a pace-setter in the use of public corporations to involve the state directly in entrepreneurial activities. Since the early 1960s, Quebec's public enterprise sector has expanded to include Hydro-Quebec, a steel mill (SIDBEC), an oil and gas exploration firm (SOQUIP), a mining company (SOQUEM), and a government-holding company (SGF).¹⁶ As well, Quebec's public corporations have often acquired subsidiaries and undertaken joint ventures with private firms and thereby blurred the boundaries between public and private sectors.

Quebec's stable of crown corporations has developed in response to various economic and political circumstances. The General Investment Corporation, for example, was established in 1963 by the Lesage Liberals as a vehicle for extending Quebec's control over certain industries, while SOQUIP was a 1968 child of Jean-Jacques Bertrand's Union Nationale regime and an instrument for stimulating exploration for "l'or noir" in energy-hungry Quebec. But more interesting than the explicitly economic functions of crown corporations in modern Quebec is their role as employers of well-educated Quebecers. Long underrepresented in the private sector, Quebec's new middle class has turned to the provincial state as a vehicle for advancing its interests. And in establishing various public corporations, Quebec governments have clearly outlined the underlying political reasons for intervention. For example, in outlining the rationale for the establishment of the General Investment Corporation, René Paré, the corporation's former chairman, remarked: "But there is more to this than the forging of a powerful economic and industrial lever. We must look particularly at the human side—opening up career opportunities which would not be found outside the public sector and non-Quebec controlled industries."¹⁷ Important recent research by Pierre Fournier concludes that Quebec's commitment to crown corporations as employers of the francophone middle class is very strong.¹⁸ For example, his data reveal that prior to nationalization in 1963 francophone engineers were a distinct minority in Quebec's hydro-electric industry. But under Hydro-Quebec, 90 percent of the work force is francophone and French is now the language of work.

Manitoba's recent experience with industrial development policy highlights the diversity of the modern prairies. Situated between Ontario and booming Alberta, Manitoba boasts neither the former's manufacturing strength nor the latter's resource-based prosperity. Indeed, as Alberta struggles to bring about a realignment of economic and political power in Canada, Manitoba is preoccupied with preventing any further erosion of its position. In many ways, Manitoba's circumstances and policy postures are now closer to those of maritime provinces than to those of its more prosperous western neighbours. In both Manitoba and the maritimes, provincial governments face the intertwined problems of out-migration, unemployment, and the vagaries of vulnerable, resource-based economies. Manitoba also shares other common positions with Atlantic governments—notably a growing dependence on federal industrial assistance expenditures and, in constitutional matters, a commitment to a strong federal government.¹⁹

The outstanding feature of Manitoba's recent industrial policy is the role of the Manitoba Development Corporation (MDC). Restructured in 1970 by Ed Schreyer's NDP government, the MDC was envisioned as a major actor in Manitoba's struggle for industrial diversification. Not content to have the MDC play a passive role, the NDP government proclaimed its crown corporation to be "a development agency in the true sense of the word."²⁰ Because it was empowered to lend, to guarantee loans, and to take equity positions in private firms, the MDC's investment policy vaulted it repeatedly to the forefront of political controversy. Far from the "cautious orthodoxy" of its predecessor, the MDC was criticized in the 1970s for funding "everything that moved."²¹ Among other things, the MDC acquired substantial interests in Saunders Aircraft, a Winnipeg-based bus manufacturer, a cruise ship, several food processing concerns, and a data processing firm.²² Such acquisitions, and their subsequent poor performance, prompted wide-ranging debates in Manitoba about such perennial concerns as the economic role of the provincial state, the effectiveness of a development strategy based on forced secondary industry, and the importance of federal policy as a constraint on prairie diversification.

Illustrative of the MDC's strategy was its luring of Saunders Aircraft, a Montreal-based passenger aircraft manufacturer, to the less glamorous surroundings of Gimli, a town sixty miles north of Winnipeg. When Saunders moved to Manitoba in 1971, the Schreyer government appeared to have engineered a minor triumph. For, with its promise of 300 to 500 new jobs, the new aircraft company staved off the employment crisis caused by the closure of the Canadian Forces Base at Gimli and also provided some impetus to the further expansion of Manitoba's aerospace industry. But marketing and technical problems proliferated and by responding to each crisis with further funds, the MDC entered what Philip Mathias described as

a "Vietnam war" from which it could not easily withdraw.²³ In 1976, after total provincial investments of \$40 million, Saunders collapsed, thereby providing another example of an unsuccessful provincial development scheme, and more ammunition for those convinced that economic disaster and government ownership are synonymous.

With the election of Sterling Lyon's Progressive Conservative government in 1977, the MDC's activities were drastically curtailed. In arguing that the corporation's interventions were failures, the premier also contended that the Federal Business Development Bank was well equipped to serve as a lender of last resort.²⁴ The stingy Lyon regime, dedicated to a limited role for the state and major reductions in public expenditures, was concerned with creating the proper "climate" for business investment and making Manitoba safe for capitalism once more. As well as winding down the MDC, the Conservatives were also committed to selling current holdings to private investors, thereby achieving the objectives of curbing expenditures and getting "government out of business." In Lyon's view, such "privatization" would also contribute to the financial renaissance of MDC's losers. As the premier remarked: "What some of these things need is a good private operation to run them, to add some entrepreneurial horse sense to the management."²⁵ While a number of small MDC-owned firms were in fact "privatized," the crown corporation remains the owner of Mckenzie Seeds Ltd. of Brandon and the now relatively prosperous Flyer Industries.

While the Lyon government was hostile toward an expanded role for public corporations, it certainly was not opposed to an important provincial role in the promotion of economic growth. Some of their industrial policies included: "Enterprise Manitoba," a \$44 million federal-provincial industrial assistance program; "frozen" hydro rates until 1984 as a locational incentive; and a commitment to maintaining Manitoba's corporate tax rates on a "competitive" footing with those of other provinces.²⁶

The 1981 election campaign in Manitoba, which resulted in an NDP majority government led by Premier Howard Pawley, was dominated by debate about how best to rejuvenate and strengthen Manitoba's economy. It remains to be seen, however, whether the NDP's return to power will herald new departures in industrial development policy and a return to a greater reliance on public ownership as a policy instrument.

Recent Developments

Recent years have witnessed an intense provincial interest in industrial assistance policies, an outstanding example of which is the proliferation of "buy provincial" purchasing policies. As research by Tom Powrie clearly indicates, activist provincial purchasing policies are not novel phenomena.²⁷ For during the 1950s and 1960s, British Columbia, Saskat-

chewan, Quebec, and Ontario experimented with purchasing procedures which eschewed least cost procurement and favoured provincial or Canadian suppliers. But what is striking about the contemporary scene is the overtness of such provincial "protectionism." Heretofore such provincial initiatives were almost a source of embarrassment and generally a subject for private discussions only. Now, however, provincial governments exhibit pride in their economic prowess and often announce publicly and with great bravado their protectionist practices.

It is rather difficult to pinpoint precisely the current range of "buy provincial" policies.²⁸ Various governments, notably Ontario, have made conflicting statements and it remains unclear whether provincial policy also applies to crown corporations and such provincially funded institutions as hospitals. But it now appears that a majority of provinces, including all four Atlantic provinces, Quebec, and British Columbia offer outright price preferences to provincial suppliers. Quebec's "buy Quebec" policy, as outlined in 1977, is perhaps the most comprehensive and clearly articulated provincial purchasing code.²⁹ Among other things, the PQ's policy provides for a general price preference for Quebec suppliers, a preference for Canadian as opposed to offshore suppliers when Quebec firms cannot supply a particular product, measures to limit bids to Quebec suppliers under certain circumstances, and requirements that general and subcontractors on provincial construction projects be Quebec-based. Hydro-Quebec has recently confirmed that it has favoured Quebec firms for over fifteen years and that during 1978, 72 percent of its contracts involved Quebec products or Quebec firms.³⁰ The three prairie governments have so far resisted pressures from local businessmen and claim to favour provincial firms only when "all other things are equal." Their record in these matters, however, is not perfect as evidence suggests that all three provinces sometimes restrict tendering to local firms.³¹ As well, specifications are sometimes drafted to favour provincial suppliers.

Ontario now favours a 10 percent price preference for *Canadian* suppliers and opposes "buy provincial" purchasing codes. Indeed, of the growing trend toward provincial protectionism, Queen's Park has recently remarked: "Different systems of preference, applied on a province by province basis, would only have the effect of fragmenting further the already small Canadian market. This would aggravate many of the problems our manufacturers have faced in the past."³² As an alternative to "balkanization," Ontario has articulated a purchasing policy comprising three strands:

- (a) efforts to encourage Canadian consumers to "shop Canadian";
- (b) attempts to persuade Canadian industry to buy Canadian goods and services whenever possible;

- (c) a commitment to fostering greater intergovernmental co-operation in purchasing policy. In particular, Ontario seeks an end to provincial preferences for local suppliers, an intergovernmental commitment to an outright preference for Canadian firms, and efforts to maximize Canadian content in future resource-related "mega-projects."

Ontario's image as a staunch defender of the Canadian common market was significantly compromised in 1977 when the provincial government awarded a streetcar contract to a Thunder Bay producer even though a Quebec firm, MLW Bombardier, submitted a lower bid. Citing high unemployment in Thunder Bay as the reason for its action, Ontario expressed contempt for Quebec's protectionist policies, while denying that the "streetcar" decision represented the tip of a "buy Ontario" iceberg.³³

The publicly espoused rationales for preferential purchasing policy are vague and do not flow from any impressive analyses of trends in provincial economic development. A commonly advanced explanation sees "buy provincial" policies as necessary responses to the barriers imposed by other provinces. Employing language more than a little familiar to students of international politics, Quebec's former minister of Economic Development, Bernard Landry, emphasized the retaliatory dimension when he remarked: "It is clear that the purchasing policies practiced just about everywhere in the other provinces are instruments of economic policy put into place by others to the detriment of the Quebec economy. In this sense, the new policy is intended to be neither retaliatory nor the beginning of an escalation."³⁴ On the other hand, governments in Atlantic Canada emphasize the need to boost small businesses and ease unemployment while their ambitious counterparts in Victoria and Quebec City argue that, given multi-billion dollar provincial budgets, government purchasing policy should be used to exert an influence over the course of provincial economic development.³⁵

Several themes emerge from the recent "procurement" debate. First, during an era when advocates of expanded provincial powers are particularly vocal and apparently popular, "buy provincial" purchasing codes are one of the few provincial initiatives which have been widely criticized. Many observers point to the adverse economic consequences of such policies, especially their potential for developing inefficient industries and for further fragmenting Canada's already tenuous "common market." The *Financial Times of Canada* stressed this latter point when it rather dramatically portrayed provincial purchasing policies as further steps along the road to "balkanization."

Each step will be put forward as a reasonable protection for local jobs or industry or as a reasonable response to the unreason-

able protectionism of some other province. So we will build, stage by stage, the walls to cut off Canada's circulation and turn a single economy into a succession of separated and weakened provincial fragments.³⁶

Second, while many analysts argue that the provinces should not employ such non-tariff barriers to trade, no one has yet argued convincingly that the constitution prohibits activist provincial purchasing codes. Indeed, a key assumption for most provincial governments is that the "common market" problem should be resolved through political, rather than explicitly constitutional, channels. Finally, in common with most debates about Canadian industrial policy, the procurement controversy reveals profoundly different provincial perspectives. For, while Ontario preaches the virtues of a common market, hinterland provinces like Newfoundland see "protectionist" measures as antidotes to a market-determined distribution of jobs, industry, and wealth.

Apart from its widely publicized critiques of federal economic policy, the Parti Québécois' industrial assistance policies are broadly similar to those of other recent Quebec governments.³⁷ A particularly striking common ground between the PQ and its federalist predecessors is the current government's professed commitment to the nourishing of small businesses. Speaking in 1977, Bernard Landry, the minister of economic development, eulogized small businesses, citing the "PME's" contribution to Quebec's economy as an example: "They are a prodigious creator of jobs and because they are in so many different sectors, they can ride out adverse economic conditions better than one large company. They control a sizeable slice of the Quebec economy—and they are resolutely Québécois."³⁸ A recent manifestation of the government's interest in smaller enterprises was the establishment in 1977 of a new industrial development fund. Under a complex scheme, businesses employing 200 persons or less may finance plant expansion, research and development, or product innovation through reductions in provincial taxation. According to Landry, the program should promote entrepreneurship among Quebecers, while boosting employment and reducing regional disparities.

Like its predecessor, the PQ is ambivalent about the role of foreign direct investment. On one hand, prominent ministers and the premier himself, have made various visits to the United States in an effort to allay fears there about "socialism" and to assure current and potential investors about Quebec's stable investment climate. And, like many other North American governments, Quebec is committed to enhancing its share of investment and jobs in the continental automobile industry. But, while arguing that foreign capital is necessary, the government also maintains that foreign investment must enter on terms acceptable to Quebec City.³⁹ The PQ is adamant that Quebecers be at the helm, particularly in the resource sectors,

having proclaimed that future resource developments must involve Quebec capital from either the public or the private sector. This emphasis on Quebec participation in resource developments reflects, in turn, a broader vision of an industrial strategy based on further upgrading of resources within Quebec and continuing reliance on cheap hydro as a development tool.

In its economy-building efforts, the PQ has also tried to articulate development strategies for particular industries. So far pulp and paper has received particular attention, for this vital employer faces stiff competition from modern mills in the southern United States where labour is cheap, where demand is swollen by the "sunbelt's" general prosperity, and where transportation costs are modest. While hardly peculiar to Quebec, the trend toward the formulation of "sectoral" strategies reflects the provinces' increasingly sophisticated approach to industrial development. What began two decades ago as the provision of loans to small businesses has in the modern era been transformed into complex industrial assistance plans tailored to meet the needs of particular industries.

The province of Ontario has recently adopted a much more aggressive approach to industrial development. Such slogans as "Ontario first" now echo through the corridors of Queen's Park and the province appears willing to enter the competitive race for new industry that has recently preoccupied the less prosperous provinces. More important, policy outputs have matched rhetoric and the late 1970s witnessed several new industrial assistance schemes including:

- (a) the establishment, during an era of provincial government austerity, of a \$200 million Employment Development Fund (EDF). Administered by a team of senior ministers, the EDF is empowered to assist various provincial industries;⁴⁰
- (b) a major program of subsidies for the modernization of the province's pulp and paper industry, as dictated by lagging capital expenditures, especially as compared with Quebec and British Columbia;
- (c) a comprehensive program of assistance for small businesses;⁴¹
- (d) an enhanced role for the Ministry of Industry and Tourism and further efforts to publicize abroad Ontario's economic potential; and
- (e) continuing efforts to enhance the strength of Ontario's troubled automobile industry.

Designed to boost employment, to modernize industries, and to rationalize manufacturing, such actions represent a perhaps belated attempt to maintain Ontario's industrial pre-eminence. Indeed, the defensive thrust of recent Ontario policy was neatly captured by Duncan Allan, a senior

official in the Ministry of Industry and Tourism, when he remarked: "The province can't be a patsy in the battles to attract new investment. When things are being tilted against us we have to protect ourselves."⁴²

It is obviously premature to write Ontario's economic obituary. For, as a recent federal government report argued: "Ontario still possesses most of the factors which have allowed it to dominate Canadian manufacturing."⁴³ Some of the relevant strengths include a well-educated work force, proximity to major U.S. and Canadian markets, and the economic infrastructure associated with modern manufacturing. But counterpoised against such advantages are a series of ominous trends, including rising costs and low levels of investment in Ontario's manufacturing industries. And, while the extent of Ontario's decline and the related shift of economic power westward are the subject of scholarly and partisan controversy, it is now commonplace to remark on Alberta's resource-induced boom and the problems caused by rising oil and gas prices in an energy-deficient metropolis. As Larry Grossman, Ontario's minister of Industry and Tourism remarked in 1979: "In terms of the rest of Canada, Ontario has been an economic leader for years but there has been a shift away from us due to the resources of the West. Other provinces have been able to use their resource base to develop very competitive industries."⁴⁴ Nor does analysis of the medium-term future provide much basis for optimism. Slow growth in the United States suggests continuing stagnation in Ontario and, simultaneously, Queen's Park faces industrial adjustments precipitated by recent GATT negotiations. More fundamentally, recent events have fully exposed the vulnerability of Ontario's "branch plant" economy. During the current recession, bitter controversies have arisen when it became apparent that Canadian jobs were being lost as a result of decisions taken by the U.S.-based parents of Canadian subsidiaries. In particular, events of the last three years have dramatically highlighted the vulnerability of the Ontario automobile industry to such external forces as the headquarters' decisions of the "Big 3" automakers, consumer demand in the U.S., and American public policies. While Ontario's response has so far been ambivalent, recent discussions of such measures as the "world product marketing concept" suggest that Queen's Park is considering steps to control further U.S. subsidiaries and to enhance indigenous innovation.⁴⁵

One can only speculate on the consequences for federalism of Ontario's recent aggressiveness in economic matters. It may be that Ontario's efforts to defend its industrial hegemony will render ineffective locational incentives and other industrial policies offered by the poorer provinces. As well, Ontario recently has questioned the effectiveness of federal regional development expenditures and thereby set the stage for further tensions between "rich" and "poor" provinces. A less likely possibility is that Queen's Park visions for Ontario's industrial rebirth might clash with Ottawa's and thereby interject a new element of federal-provincial conflict.

Conclusion

Chapters 2 and 3 have highlighted the commitment of the federal and provincial governments to industrial assistance policies as instruments to stimulate economic growth and development. Our review of policy outputs reveals that the federal government manipulates such levers as industrial grants and subsidies, activist purchasing policies, and state financial services. But what is particularly remarkable about the Canadian experience is the prominent provincial role in the industrial assistance sphere. As we shall see in the next three chapters, the current mix of activist federal and provincial governments contributes to intense and continuing intergovernmental conflict.

4 Federal-Provincial Relations

At the heart of federal-provincial conflict over industrial assistance policy are debates about the regional impact of federal policies. The premiers have obviously mastered the rhetoric of regional alienation, and the positions of governments in the maritimes and western Canada are firmly rooted in the belief that Ottawa's policy retards regional development, ignores salient differences among the provinces, and ultimately serves the interests of central Canada. The bitter resentment of sparsely-populated hinterlands toward the more heavily populated areas is of course a longstanding feature of Canadian politics. But now the Parti Québécois has complicated perennial regional controversies by portraying Ontario alone as the prime beneficiary of federal industrial policies.

This chapter examines how federal-provincial conflict flows from the dynamics of an economy characterized by regional specialization, with manufacturing and population concentrated in the centre, while the peripheries perform the role of resource producers. The problem of federal-provincial conflict is approached in a somewhat unorthodox manner, for the chapter begins by examining instances of intergovernmental cooperation. It then contrasts such harmonious cases with several more contentious ones.

Intergovernmental Cooperation

Industrial assistance policy is an area where both governments are deeply involved and in which the stakes are high; thus, there are obvious pressures to harmonize policies. And, in response to the realities of interdependence, Canadian governments have devised administrative devices with a view to dovetailing their efforts. Among other things, the last decade has witnessed joint federal-provincial efforts to resuscitate the troubled coal and steel industries on Cape Breton Island, the establishment of the Newfoundland and Labrador Corporation—a federal-provincial crown corporation dedicated to the promotion of industrial development, and a recent agreement between Ottawa and the prairie provinces aimed at sustaining the

beleaguered Canadian Co-operative Implements Ltd. (CCIL), a farmer-run agricultural equipment manufacturer. Serving 10 percent of the western Canadian market, CCIL (with its 80,000 western shareholders) was a symbol of producer cooperation and the only implement-producing coop in North America. The firm's collapse entailed major repercussions for the financial stability of other cooperatives. CCIL's importance as an employer in Manitoba forced even the Lyon government to cooperate grudgingly with Alberta, Saskatchewan, and Ottawa in the provision of a \$15 million financial aid package.¹

The most widely discussed examples of federal-provincial cooperation in industrial assistance are the General Development Agreements (GDAs) which, since 1973, have provided a framework for a number of more specific agreements whose implementation has been jointly financed by the Department of Regional Economic Expansion and the provinces. GDAs were inaugurated after a major review of DREE's activities, and are predicated on the need for cooperative identification of goals and the selection of programs to meet these goals. Designed to eliminate federal-provincial conflict, the GDAs were seen by Ottawa as policy initiatives which acknowledged interdependence, recognized the sanctity of provincial priorities, and reflected the need for policy coordination. At the Western Economic Opportunities Conference in 1973 Don Jamieson, the then minister of Regional Economic Expansion, eloquently prophesied the beginning of a new era of cooperation and urged governments to cut across any "jurisdictional and constitutional lines" which might stand in the way of attacks on regional disparities.² GDAs have now been hammered out between Ottawa and all the provinces except PEI, where a comprehensive province-wide development plan is in place. And, in recognition of the differing provincial fiscal circumstances, the federal government will finance up to 90 percent of the programs subsequently negotiated under the GDA's in Newfoundland, 80 percent of those of Nova Scotia and New Brunswick, 60 percent of those in Quebec, and only 50 percent of those in Ontario, Alberta, and British Columbia. The development agreements presently embrace, among other things, efforts to rehabilitate Quebec's steel and pulp and paper industries, measures to promote development in Ontario's eastern and northern regions, and infrastructure upgrading throughout the maritimes.³

The expansion of Saskatchewan's steel industry provides an excellent example of intergovernmental cooperation. The case is a particularly fascinating one for it manifests federal-provincial accord and the satisfactory resolution of rivalry between Alberta and Saskatchewan. As a symbol of industrial power, a creator of high-paying jobs, and a basis for industrial diversification, the establishment of an indigenous steel industry has been a central goal of many nations. In Canada, such sentiments have often been

articulated by western provincial governments who have denounced the major Ontario-based steel producers as impediments to prairie industrialization.⁴ In alliance with the railroads, steel producers have been criticized for charging exorbitant prices to western users, while favouring metropolitan consumers in periods of short supply. Under these circumstances, prairie governments have viewed the establishment of a strong western steel industry as a spur to regional development and a measure capable of reducing western dependence on eastern suppliers. As the principal home of the Interprovincial Steel and Pipe Corporation (IPSCO), Saskatchewan, in particular, has long harboured dreams of a robust western steel industry. Indeed, as Premier Blakeney has argued, a strong IPSCO is a central element in Saskatchewan's industrial strategy: "We are pinning our hopes in steel on the Interprovincial Steel and Pipe Corp., because a viable western steelmaker is the catalyst for a number of related developments—for instance, farm implement manufacturing, which has a particular relevance for Saskatchewan. . . . The benefits, not just to Saskatchewan, but to the West in general are obvious: permanent jobs, spinoffs for supply and service industries, secondary manufacturing."⁵ While still small in comparison to the Ontario-based giants of Canada's steel industry, IPSCO has steadily expanded facilities in recent years. And in its struggles, IPSCO has received support from the Saskatchewan government through equity participation and provincial purchasing policy which instructs government agencies to use IPSCO products whenever possible. Alberta too has ambitions in steel-making, as witnessed in 1970 by the musings of Harry Strom, the province's last Social Credit premier, about the need for an Alberta-based steel industry.⁶ But fearing the creation of two marginal producers on the prairies, Premier Lougheed has rejected an all-Alberta venture and opted instead in 1974 for a 20.2 percent interest in IPSCO. Hardly a magnanimous gesture of western cooperation, Alberta's investment was conditional on IPSCO's creation of new jobs in Alberta.⁷

And what of Ottawa's role in this scenario? Under a 1974 Ottawa-Saskatchewan agreement, the two governments developed a financial package designed to expand IPSCO's plant, to diversify its product lines, and to increase employment. Hopeful of creating 1,700 new jobs while preparing IPSCO for a northern pipeline boom, Ottawa provided \$35 million while Saskatchewan contributed \$10 million. In announcing the intergovernmental pact in 1974, Otto Lang, the senior Liberal minister from the prairies, joyously proclaimed a new era in western industrialization, while reassuring Alberta that its industrial strategy would be bolstered by IPSCO's expansion in Saskatchewan.⁸

The IPSCO experience represents a rather uncommon occurrence in the modern Canadian federation, in that three governments saw themselves as "winners" as a result of an intergovernmental agreement. Saskatchewan,

like most provincial governments, was delighted to receive federal funding for a high priority provincial project, while Alberta was satisfied that the Saskatchewan "gains" would not impede its own industrial strategy. On the other hand, the federal Liberals had moved to modify their image as a party insensitive to western economic aspirations. As well, the IPSCO expansion, while important to Saskatchewan and the prairie economy, still left the Regina plant dwarfed by such firms as Stelco and Dofasco and therefore constituted no threat to the Ontario-based industry. In short, one province's gain was not perceived as another's loss. Such a situation is remarkably atypical of recent experience.

As well as jointly funding firms and industries, Canadian governments have also developed a maze of intergovernmental committees as coordinating mechanisms. Generally subsumed under the rubric of "executive federalism," such devices assume special importance in an area like industrial development, where the constitution has done little to define precisely governments' roles. Industrial policies are now discussed in a number of forums, including the annual premiers' meeting, the meetings of western and maritime premiers and, of course, the highly visible first ministers' conferences. Beyond these general bodies, there are also several intergovernmental bodies which deal exclusively with industrial assistance policies. Some of these include occasional meetings of the federal and provincial industry ministers, discussions between concerned deputy ministers, and annual meetings of the western industry ministers. All such bodies profess dedication to the resolution of common problems, the exchange of information, and the harmonization of policies.

Despite such efforts as the GDAs and the proliferation of intergovernmental committees, the saga of industrial assistance policy remains dominated by such familiar themes as regional conflict, the clash of priorities, and internecine policy-making. As evidence, consider the following:

- (a) widely voiced concerns about the absence of a coordinated public purchasing policy;
- (b) the report of a Montreal consulting firm which concluded that there was virtually no coordination between federal and provincial industrial incentives and that federal and provincial policies often worked at cross purposes;⁹ and
- (c) bitter intergovernmental disputes about such issues as the regional allocation of expenditures under the Long Range Patrol Aircraft acquisition, the provision of assistance to the pulp and paper industry, and the location of automobile plants.

It is to the dynamics of these conflicts that we now turn.

Hinterland Protests

A revered theme in the study and practice of Canadian politics is western resentment of the dominance of central Canada in economic and political affairs. But for many non-westerners, the force of such discontent is probably an enigma during the modern era of prairie prosperity. For, despite their thriving resource-based economies, the governments of Alberta, British Columbia, and Saskatchewan remain fierce critics of federal policies, staunch defenders of provincial autonomy, and tireless province-builders.

A classic survey of the economic grievances of contemporary western governments is found in the record of the Western Economic Opportunities Conference (WEOC) held at Calgary in 1973.¹⁰ Convened by the federal Liberal government after yet another rebuff at the hands of western voters, the conference involved the western premiers and focused on the impact of federal economic policies on western development. A continuing feature of the conference was the unrelenting and unanimous provincial attack on Ottawa's "discriminatory" policies as impediments to western development. According to provincial figures, the incentive programs of the federal Department of Industry, Trade and Commerce and the lending practices of the Industrial Development Bank ignored western needs while benefitting Ontario and Quebec.¹¹ Of this trend Saskatchewan's NDP premier Allan Blakeney remarked wryly: "This whole matter of the Department of Industry, Trade and Commerce, we deal with a certain detachment since the department rarely impinges upon the life of Saskatchewan."¹² Described by Manitoba's premier Ed Schreyer as the "saddest example" of discrimination, Ottawa's purchasing policy was also portrayed as a boost to centrally-located industries which supplied 85 percent of federal purchases of goods and services.¹³ Such a situation prompted Schreyer to call for an element of "industrial development equalization" which would guarantee each province a share of federal largesse roughly equal to its share of the national population. The WEOC debates also stressed the tensions between DREE policies and those administered by the DITC. According to the western premiers, DREE's efforts were offset by purchasing practices and DITC expenditures which enhanced, modernized, and strengthened central Canadian industries.

The WEOC debates about the uneven impact of federal expenditures really underpinned a broader malaise. As Peter Lougheed argued, the west feels "fenced in" by an eastern dominated federal regime which continues to misunderstand the spirit and potential of the west.¹⁴ Indeed, underlying the arguments about the regional impact of federal industrial assistance programs was the obvious rejection of Ottawa's vision of a political economy based on a division of labour between an industrialized core and resource-producing hinterlands. And what was required was not merely

more federal expenditures on the prairies, but rather industrial policies which acknowledged western desires to upgrade further natural resources, encouraged the development of resource-linked industries outside central Canada, and recognized the west's growing economic prowess.

The Manitoba-Ottawa feud over the expansion of Manitoba's aerospace industry provides an interesting case of federal-provincial conflict. At the heart of the controversy was Manitoba's view that Ottawa's obsession with central Canadian aircraft firms led it to ignore Manitoba's aspirations. The aerospace industry, as a high-technology manufacturing industry atypical of the prairie's industrial structure and an area where Manitoba had already made substantial investments, was a priority for provincial policy-makers. But according to Premier Schreyer, Ottawa was able to subsidize Canadair and de Havilland through grants and other forms of assistance, while Manitoba was forced to shoulder the burdens of aerospace development on the prairies.¹⁵ Indeed, had Manitoba received its "fair share" of federal assistance, Saunders aircraft would now be traversing commercial routes instead of rotting unfinished in hangars. The flames of discontent were further fanned when Lockheed Aircraft announced in 1975 that major subcontracts for work on long range patrol aircraft being constructed for the Canadian Armed Forces had been awarded to Canadair Ltd. of Montreal. Denouncing Ottawa's defence procurement policy as "rotten, biased and heavily prejudiced" in favour of eastern producers, Schreyer portrayed the LRPA contract as another example of "discriminatory" federal policy.¹⁶ Having apparently learned valuable lessons from his predecessor's experience, Sterling Lyon undertook to pressure Ottawa into ensuring Manitoba 10 percent of the industrial benefits flowing from Ottawa's multi-billion dollar fighter acquisition program. A task force, involving the Manitoba Department of Industry and Commerce and five provincial aerospace companies, was established to inform Ottawa and potential contractors of Manitoba's industrial capacity.¹⁷

A much more bitter struggle occurred in 1974 when several governments clashed over the expansion of the Canadian petrochemical industry. While not involving overt subsidies, the Petrosar controversy represented an epic struggle between resource-rich Alberta on one hand and Ontario and the federal government on the other. A central tenet of Alberta's industrial strategy is the need to develop industries based on the further upgrading and processing within Alberta of provincial resources.¹⁸ In the view of this policy's most forceful advocate, Premier Peter Lougheed, such a strategy would end the "export of jobs" from Alberta, and diversify the provincial economy before its valuable non-renewable resources are depleted. Obviously aware of his strategy's challenge to Ontario's economic pre-eminence, Lougheed remarked rather bluntly: "The nature of the transformation we are trying to create in Alberta and the west is bound to create tensions in Canada."¹⁹

A cornerstone of Alberta's development policy is the creation of a world-scale petrochemical industry.²⁰ Proceeding on the questionable premise that assured feedstock is now more important than proximity to markets, Alberta has seen petrochemicals as an area where the province enjoys a significant comparative advantage. As well, salaries in the high-technology industry are very high, employment multiplier effects are substantial, and in Alberta's view at least, environmental impacts can be effectively controlled. Not surprisingly, given the economic importance of petrochemicals, Ontario was keen to maintain its hegemony by developing further the Sarnia-based industry.

The essence of the petrochemical dispute was Alberta's conviction that the construction, with Ottawa's blessing, of a new world-scale petrochemical plant at Sarnia would threaten the development of two new plants in Alberta.²¹ Fearing that the so-called Petrosar plant would dominate Canadian markets, Lougheed was also enraged by the new plant's potentially heavy dependence on Alberta crude oil. If constructed, the Petrosar plant would thus enhance the concentration of the petrochemical industry in southern Ontario, while relegating Alberta to the role of mere feedstock supplier. In refusing to send further high-paying jobs "down the pipeline" to Ontario, Lougheed played his trump card when he warned Petrosar's backers not to count on assured supplies of Alberta crude. Citing support from Alberta's electorate, he summarized his position this way:

... , we believe Albertans will agree with our conclusion that it is unreasonable in the extreme to expect Alberta to supply crude oil, owned by the people of Alberta, at subsidized prices for further expansion of the petrochemical industry in Sarnia at the expense of development of our own petrochemical industry in Alberta.²²

Jealously struggling to preserve its position, Ontario denounced Alberta's hard line, adopted the position that developments in Alberta and Ontario should proceed apace, and demanded federal action to assure secure feedstocks for Petrosar. Such a response was hardly surprising, for the \$1.25 billion plant and its attendant 800 jobs, were seen as major boosts to the provincial economy.

The federal government's position in this drama was ultimately based on the optimistic assumption that markets in the 1980s would tolerate the immediate construction of two plants in Alberta, as well as Petrosar. But in Alberta's view, Ottawa showed its true colours by allying with Queen's Park and threatening to force Alberta to supply Petrosar. And from Alberta's perspective, Ottawa's neutrality was compromised from the outset by the participation in the Petrosar consortium of Polysar Ltd., a former federal crown corporation and now a ward of the Canada Development Corporation. Thus, even if Ottawa had not actively promoted

Petrosar, it was guilty of tolerating the Ontario expansion and hence ignoring its WEOC commitment to the development of an Alberta-based petrochemical industry. Faced with fierce opposition, Alberta backed down and the Petrosar project proceeded. But two years later, in a final gesture of defiance, Lougheed denied Petrosar the status of an "approved purchaser" before the Alberta Petroleum Marketing Commission and thereby forced the Ontario concern to buy Alberta crude from a third party, after the oil left the province. Claiming that Petrosar exerted a stranglehold on Alberta, Lougheed remarked: "we can't stop it, but we're not going to do anything to help them either."²³

The belief that "discriminatory" federal policies account for the underdevelopment of secondary industry on the prairies is an article of faith among most westerners, and particularly, among their provincial governments. But the economic basis of traditional western grievances has been explicitly challenged by Ken Norrie, an economist, who contends that the location of manufacturing industries is better explained by conventional economic theory. As Norrie has cogently argued: "The geographically peripheral areas of the country are just not feasible sites to naturally attract most types of secondary industry . . . Hinterland regions do not become industrial centres in a market economy, and the distribution of manufacturing industries across Canada is a simple reflection of this fact."²⁴ The recent activities of the Alberta government reveal, however, a commitment to the use of provincial powers to overcome political and economic obstacles to industrial development. And, as the Petrosar controversy so vividly illustrates, Alberta's efforts to diversify through "downstream" developments have aggravated tensions about the location of industry in Canada.

While modern Alberta's policies are often described as "challenges" to the status quo, the position of Atlantic Canada is rather euphemistically referred to as a "problem." For, in contrast to the contemporary boom in the three most westerly provinces, the maritime economy remains characterized by economic decline, lagging per capita incomes, and high unemployment. Like their western counterparts, however, provincial governments in Atlantic Canada have never attributed their economic situation solely to such impersonal forces as markets, the uneven impact of technological changes, and the accidents of history and geography. Rather, federal economic policies have long been viewed as indifferent to maritime needs and partially responsible for the secular demise of the Atlantic region.²⁵

A central feature of the contemporary maritime political economy is the region's dependence on federal monies. In particular, federal regional development funds, especially those disbursed by DREE, are seen by Atlantic governments as important boosts to the regional economy. But

while advocating a strong federal role in economic matters, Atlantic governments have often voiced dissatisfaction with their status. For as the shadows of dependence lengthen, the loss of provincial autonomy becomes more visible. As Alex Campbell, the former Liberal premier of Prince Edward Island, resentfully remarked: "We've sold out to the centralists and the subsidy."²⁶

Another important feature of modern Atlantic Canada is its relatively weak private sector and the related role for the state in the direct stimulation of economic activity. Indeed, over the last two decades, the federal government has become increasingly active in the support of maritime industries, while the provincial governments impatient with Ottawa and well aware of the inadequacies of *laissez-faire*, have struggled to lure new manufacturing industry to their provinces. As New Brunswick's premier Richard Hatfield has argued, active state promotion of industrial development is an inescapable fact of life in a weak hinterland region. "It is a vital and risky business for the government to encourage and participate in manufacturing investment . . . but it's a risk we must take if we are to create new employment."²⁷ The most visible manifestation of the drive for development of the Atlantic provinces are the idle Clairtone, Bricklin, and Come-by-Chance plants and the other monuments to the failure of "forced" industrialization. But beyond such episodes lies a broader pattern of economic development, a pattern characterized by direct government participation in most major industrial undertakings. Of this trend, the C.D. Howe Research Institute has recently remarked:

What is most striking about the Atlantic region is that it does not appear to have a vigorous private sector. As the process of relative economic decline has continued, governments have substituted economic support programs. Governments account for 46 percent of investment, when public enterprises are included in the public sector, and government transfer payments account for 20 percent of fiscal expenditure and therefore finance a high proportion of consumption. The provincial governments are dependencies of the federal government, and the people in the region are dependents of the federal and provincial governments.²⁸

A commonly articulated Atlantic grievance is that industrial development policies have placed heavy burdens on provincial finances. Atlantic governments often argue that federal indifference and economic backwardness compel them to finance expensive industrial developments, and lament the resulting vicious circle of dependence. For once started, provincial developments have often encountered major problems which have prompted further financial transfusions as governments struggle to resusci-

tate their investments. To complete the circle, the provinces often find themselves appealing to Ottawa for their salvation.

A classic example of these tendencies is Nova Scotia's problems with the Sydney Steel Corporation (Sysco), a provincial crown corporation.²⁹ Acquired reluctantly by the province in 1967 when the mill's owner unexpectedly announced the plant's imminent closure, the steel mill remains a key employer in Sydney and the economic heart of industrial Cape Breton. From the outset, Nova Scotia was adamant that Ottawa should acquire, rehabilitate and operate the mill, but the federal government rejected this course. As a now decrepit monument to the early development of corporate capitalism in the maritimes, the ancient mill is a financial and political nightmare for Nova Scotia governments. As a key employer, the plant's closure would create economic chaos in Sydney, while its continued operation in the face of deteriorating markets and rising costs represents a major drain on provincial finances. The most widely advanced solution is a complete overhaul of the mill, with a view to increasing its competitiveness and the writing off of existing debts. But facing a pricetag of at least \$500 million, Nova Scotia has maintained that such an undertaking is impossible without federal assistance. A satisfactory federal-provincial agreement has not yet been struck and after more than a decade of intergovernmental negotiations, buck-passing, and piecemeal solutions, the crisis of Sysco remains unresolved.

Analysis of New Brunswick's efforts to establish an automobile plant at Saint John highlights further dimensions of intergovernmental conflict. Encouraged by the buoyant optimism of Malcolm Bricklin, the government of Premier Richard Hatfield embarked in the mid-1970s on the ill-fated construction of a new sports car plant.³⁰ In the government's view, the Bricklin project had enormous potential. As well as diversifying New Brunswick's forestry-dominated economy, the plant also symbolized the advent of a new industrial era based on the development of a high-wage manufacturing industry. But management, marketing, and technical problems abounded and soon the province's modest initial investment had blossomed to a total of \$19 million, at which point Hatfield refused to commit further government funds. And in the absence of other "angels," Bricklin's modest maritime empire soon collapsed with the handful of completed Bricklin roadsters ironically becoming prized toys of Toronto's jet-set. While frankly admitting errors of judgement on his government's side, Hatfield also pointed to federal indifference as a key factor in Bricklin's demise. Arguing that Ottawa was afraid to finance a hinterland competitor to Ontario's auto industry, he remarked bitterly: "The Bricklin plant would never be closed down today if it had been located in Oshawa instead of Saint John. The [federal] government would never have let it fail."³¹ And in language similar to that employed by his prairie counterparts, Hatfield

denounced Ottawa for being unable to envision an economy with a balanced regional distribution of manufacturing.

The ambivalent posture of the Atlantic governments toward the federal role in industrial assistance became obvious during two first ministers conferences in 1978. In a number of statements, the Atlantic premiers unanimously agreed that government intervention was required to bolster the region's economy. In so doing, they endorsed DREE wholeheartedly and specified a series of major industrial projects which required federal assistance for their successful implementation. As the former Liberal premier of Nova Scotia remarked: "The province will take the initiative but we need investment dollars from the federal government to overcome years of disparity."³² But underlying these positions was a critique of Ottawa's piecemeal approach to regional development and the uneven impact of federal economic policies. In rejecting the view that the benefits of a strong central Canada would ultimately "trickle down" to their region, the Atlantic premiers attacked the "hand-out" nature of Ottawa's regional development initiatives, while urging the federal government to initiate programs which exploited the region's advantages in fisheries, coal, and tidal power. As well, a number of leaders argued that DREE operated within a broader web of federal policies, all of which offset its efforts and contributed to the centralization of industry in Ontario and Quebec. Particular villains were transportation, energy, fiscal, and tariff policies. As a prescription, Premier Regan of Nova Scotia advocated regional development and balanced economic growth across the country as the central tenets of all federal economic policy.³³

Quebec: The New Hinterland?

The immediately preceding section has stressed how federal industrial policies have been attacked by prairie and maritime politicians as discriminatory, insensitive to regional needs, and attuned to the demands of secondary industry in central Canada. Such criticisms of Ottawa's economic policies are hardly surprising, for they correspond with the long-standing metropolis-hinterland interpretation of Canadian economic development. But since winning power in 1976, the Parti Québécois has challenged this textbook image by arguing that federal industrial policies have served Ontario's interests alone. As Richard Simeon and Peter Leslie have recently remarked: "What the Quebec government now claims, . . . is that Quebec is part of the Canadian hinterland which is the economic tributary of Ontario."³⁴

Pointed objections to Ottawa's industrial assistance policies have not, however, been the exclusive property of the Lévesque regime. For DREE policies, in particular, have long been an irritant in Quebec-Ottawa relations. Indeed, during DREE's early years, Quebec was so outraged by

Ottawa's refusal to "designate" all of Montreal and its environs for assistance that the province established its own industrial incentives in direct competition with Ottawa's. Arguing that Montreal was the hub of capitalism in Quebec and hence the best place to develop new industries, the government enacted a scheme designed to entice firms to Montreal, while DREE incentives blanketed the rest of the province. Such internecine policy-making declined through the 1970s, but the Bourassa Liberals often clashed with Ottawa about DREE's alleged perversion of provincial priorities. In a 1973 report,³⁵ for example, the provincial government severely criticized DREE's policies. Among other things, the report argued that:

- (a) DREE funds did little to rejuvenate severely depressed areas like the Gaspésie and Lac St. Jean;
- (b) DREE provided too little assistance to "modern" industries;
- (c) DREE provided too much assistance to backward industries like textiles, thereby accentuating Quebec's dependence on low-wage industries;
- (d) only 24 percent of DREE funded developments were in industries deemed central to Quebec's "industrial strategy."

In portraying DREE's efforts as bandaid solutions, Quebec argued that federal incentives were working at cross purposes with provincial efforts to develop modern, high-technology industries. But, despite such an analysis, the Bourassa government mounted no sustained attack on federalism and even cited Quebec's large absolute share of DREE expenditures as compelling evidence of "profitable federalism."

At the heart of the Parti Québécois' analysis of Canadian political economy is the view that Quebec's poor economic performance and backward industrial structure are as much the products of federal economic policy as the interplay of economic forces.³⁶ Indeed, the mainstream of federal economic policy is seen to enhance or tolerate the concentration of dynamic industries in Ontario. As evidence, the PQ cites three federal actions in particular—the Canada-US Autopact which allegedly works against Quebec, the St. Lawrence Seaway, which is said to have undermined Montreal's position as an important port, and the National Oil Policy of 1961, which is portrayed as enhancing Ontario's petrochemical industry, while undercutting Montreal's aspirations. DREE expenditures are attacked from at least three angles. First, the PQ contends that while Quebec has received a large absolute share of DREE expenditures, its per capita share is modest in comparison to Atlantic Canada's. Second, the PQ has echoed the longstanding grievance that DREE incentives have undermined Quebec's industrial renaissance by stimulating new investment in "soft" industries like textiles. Finally, DREE monies are attacked for reducing Quebec and other provinces to the status of "welfare recipients," while contributing little to the generation of self-sustaining growth.

Having reviewed the "battle of the balance sheets" debate, three observers have concluded that Quebec's grievances really centre around the *nature* of federal assistance, not merely the amount.³⁷ Such a comment corresponds with the arguments of various PQ ministers who have repeatedly claimed that Quebec has not received its share of "productive" federal expenditures.³⁸ And in unison with maritime and western spokesmen, the PQ contends that DREE assistance, regardless of its magnitude, will never foster a dynamic provincial economy.

The PQ's interpretation of the impact of federal economic policies on Quebec has not gone unchallenged. Indeed, in a spirited rebuttal, Tommy Shoyama, a former federal deputy minister of Finance, portrayed Pierre Fr chet te's version of the emerging orthodoxy as poorly documented, misleading, and in the case of the national oil policy's impact on Quebec, simply incorrect.³⁹ But despite such counterattacks, the PQ remains undaunted and continues to claim that federal industrial policy "discriminates" against Quebec.

Conclusion

Over the past twenty years, every province, with the exception of Ontario, has denounced federal industrial policies for exerting a perverse influence on the course of provincial economic development. In particular, our analysis reveals how governments of the hinterland provinces, and now the government of Quebec, have argued that on balance federal policy has maintained Ontario's economic hegemony. Two points must be made about such long-standing provincial grievances. First, there is some evidence which suggests that provinces may have overestimated the significance of "discriminatory" federal policy as an obstacle to industrial development. Such evidence has not, however, exerted much influence on intergovernmental conflict, particularly when controversies centre around questions of industrial location. Second, the provincial governments wield important economic powers which may be employed to offset the "centralizing" or "discriminatory" impact of federal policies. What emerges under federalism, therefore, is not merely a war of words, but often a clash of governments, each armed with potent instruments of intervention. And in the modern era, the activities of the Alberta state remind us that the provinces differ in their capacity to limit federal influence over provincial priorities. As our next chapter reveals, the provinces also employ their policy-making powers against one another and it is to the interprovincial dimension of conflict that we now turn.

5 Industrial Policies and Interprovincial Conflict

The preceding chapter's brief analysis of the Petrosar controversy highlighted parallels between intergovernmental negotiations within Canada and the conduct of international relations. For at stake in that confrontation were the conflicting drives of a resource-producing province struggling to diversify its economy and the stubborn opposition of an energy-deficient, industrialized core striving to maintain its hegemony. This chapter develops further the analogy between policy-making *within* Canada and the behaviour of nations by probing the problem of interprovincial competition for industrial expansion. As we shall see, the Canadian provinces, armed with important economic powers, have come to compete against one another for new industry and jobs. Among the manifestations of such competition are retaliatory purchasing policies, the perceived need in most provinces to provide industrial incentives comparable to their neighbours', and more spectacular still, occasional instances when provincial governments have bid against each other in efforts to lure firms to their borders. Such competition, recently characterized by Garth Stevenson as "ferocious," has attracted renewed attention, as the costs loom increasingly large in a competitive international environment.¹

The contemporary drive for provincial industrial expansion has added a major element of conflict to interprovincial relations as the provinces have often come to view their neighbours as enemies in the battle for industry. But critics of such competition also point to a variety of other consequences, notably the adverse impact on national prosperity as ten provincial states pursue development schemes with scant regard to their extra-provincial effects. As well, interprovincial rivalry may well strain the weaker provinces' treasuries as they struggle to compete with more prosperous areas. Finally, interprovincial competition raises important questions about the nature of government-industry bargaining in a federal state. As John Richards and Larry Pratt have argued in *Prairie Capitalism*, the government-business interface under federalism is very complex and not reducible

to simple iron laws.² But there is evidence in support of the widely voiced concern that interprovincial competition strengthens the position of corporations, while increasing the price paid for new investment. For when the provinces *assume* that capital is a scarce commodity, which in the absence of appropriate inducements will locate elsewhere, they reduce their capacity to direct autonomously the pace and nature of industrial development.

Despite their complaints about the costs of competition, the provinces perceive few real incentives to curtail their admittedly self-defeating behaviour. The aggrandizement of the provincial economy is often portrayed as the hallmark of proficient economic management and the poorer provinces are justifiably suspicious of their prosperous neighbours' pleas for interprovincial harmony. More suspect still are calls for federal intervention to reduce interprovincial competition and to "referee" disputes. In a deeply divided polity, Ottawa's actions are often denounced as measures favouring the status quo.

The Struggle for Industrial Development

The roots of the modern phase of interprovincial competition for industry lie in the recession of the late 1950s. During that period, and particularly in the weaker provinces, there developed a belief that the provincial states must intervene in the economy and thereby achieve levels of economic prosperity and stability impossible to attain under *laissez-faire*. Designed to offset natural economic disadvantages and federal indifference, provincial development policies were concerned with the creation of new jobs and the promotion of economic diversification through the nourishment of secondary manufacturing. The state's role was to woo private investors through offers of tax incentives, outright grants, and the provision of infrastructure. The most striking symbol of the new provincial aggressiveness was the establishment in 1957 of Nova Scotia's Industrial Estates Limited (IEL).³ Always close to the centre of political controversy in Nova Scotia, IEL was the first important example of a provincial agency devoted exclusively to industrial development and the promotion of secondary industry. Operating behind a veil of secrecy, IEL was seen as a central weapon in Nova Scotia's battles with the problems associated with declining resource industries. Within a decade, the other provinces launched comparable initiatives.

The demonstration effect of state-fostered industrial growth in the maritimes seems to have prompted the other provinces to follow suit by the early 1960s. Few provincial governments were willing to preach *laissez-faire*, while their neighbours bragged of the prosperity induced by government-funded developments. In the mid-1960s, for example, Quebec vowed to alter its industrial incentives to ensure that neither Ontario nor Nova

Scotia garnered new industry by offering "superior" incentives.⁴ Even W.A.C. Bennett, British Columbia's self-annointed high priest of capitalism, saw a need in the 1960s to strengthen his province's economic infrastructure with a view to enhancing B.C.'s attractiveness as a site for industry. More recently, the proliferation of "buy provincial" policies attests to the existence of a "follow the leader" syndrome among provincial governments.

The provinces' desire to provide levels of industrial assistance at least comparable to those of their neighbours is hardly surprising and, in itself, is not very controversial. But what has fascinated most observers is the competitive manner in which provincial powers have been wielded. For rather than waiting passively for firms to respond to their lures, the provinces have often aggressively pursued potential investors. Indeed, most provinces conduct international campaigns designed to inform capitalists about the availability of government assistance and other amenities. And in many cases, premiers themselves travel abroad seeking out footloose firms, extolling their province's "investment climate" and where possible, initiating negotiations with investors.

The provinces, particularly those east of Saskatchewan, frankly admit to the existence of competition for industry. And here lies the core of the controversy, for it is argued that such rivalry sometimes leads the provinces to strike poor deals with corporations, to support incompetent firms, and to grasp at investment possibilities regardless of their fit with the provincial economic and political milieu. Often referred to as "forced growth" policies, provincial industrial development programs are sometimes portrayed (generally in the absence of much evidence) as frightening insults to common sense and "sound" economics.

The pursuit of foreign capital by the provincial governments has been widely discussed, but some evidence also suggests that the provinces actively influence firms already located in Canada to move or to expand in another province. Ontario and Quebec, for example, have frequently bickered about such practices and accused each other of interprovincial "raiding." Indeed, as recently as 1978, Ontario denounced Quebec for allegedly offering a Timmins-based firm \$17 million in interest-free loans to expand in Quebec.⁵ As well, Nova Scotia has openly admitted that it influences Ontario firms to expand or relocate in Nova Scotia. The rationale for such efforts was outlined by Max Salsman, the former president of Industrial Estates Ltd., in 1975:

When you realize that 65 percent of all manufacturing in Canada is concentrated in that one Golden Horseshoe region, it makes sense to look for companies that might be willing to expand elsewhere.

We've been bringing presidents and vice-presidents of Ontario firms down here and showing them what we have to offer. We tell them: "If you're thinking of expansion why not consider Nova Scotia or the western provinces, particularly if a share of your market is in those areas?"

For a lot of reasons it could make sense. Compared with the rest of Canada, Nova Scotia has an excellent record in labour-management relations and in terms of fewer work stoppages.⁶

While provincial efforts to relocate industry within Canada may not be very significant in an economic sense, the very existence of such policies contributes to mistrust in interprovincial relations.

Interprovincial rivalry is generally, but certainly not exclusively, more frequent and intense between contiguous provinces than among provinces separated by vast distances.⁷ As illustrated by recent spats over purchasing policies and "raiding," Ontario and Quebec have frequently clashed over industrial development policies. Another common configuration of conflict pits the two larger maritime provinces, Nova Scotia and New Brunswick, against each other and Quebec. In these provinces, industrial development is a central political issue and, as a result, the trio has often competed for promising new industries. A contemporary example of this axis of conflict is the dispute about the location of port facilities for liquid natural gas tankers. In the west, British Columbia and Alberta have fought over the location of Pacific Western Airlines' head offices while particularly in the 1960s, Alberta and Saskatchewan bickered about provincial purchasing policies. But in comparison with eastern Canada, bitter controversies about the location of industry have been infrequent in the modern west. Indeed, as the IPSCO case reveals, Alberta and Saskatchewan have even managed to transcend exclusively provincial concerns and to conceive a robust prairie steel industry as a boost to the regional economy. Such relatively harmonious relationships flow, in some degree, from the emergence in Alberta and Saskatchewan of economic strategies which see industrial diversification as being best achieved through resource-linked ventures rather than force-fed secondary industry. And while such strategies have reduced prairie rivalries, they have contributed to new tensions, particularly between Ontario and Alberta.

Analysis of the dispute between Nova Scotia and Quebec over the expansion of the steel industry provides some sense of the passions aroused by the clash of province-building strategies. During the 1960s both provinces established, for rather different reasons, public corporations in the steel industry. As we saw in chapter 4, Nova Scotia acquired Hawker-Siddeley's outmoded steel mill in 1967 in order to prevent catastrophic unemployment in Sydney. During the 1960s Quebec also acquired Hawker-Siddeley's assets in that province, but this action was dictated more by the

symbolic appeal of an indigenous steel industry and longer term economic goals than by the need to maintain employment. Both undertakings quickly became, however, drains on provincial finances and as a solution both governments looked toward expansion and modernization. In the early 1970s Quebec envisioned a \$500 million modernization scheme which, if successful, would make its crown corporation (SIBDEC) Canada's fourth largest integrated steel mill. Nova Scotia, on the other hand, saw the establishment of a modern steel plant in Cape Breton as a solution to the immediate crisis in Sydney and as a longer term solution to Cape Breton's economic decline. At stake for both governments were many jobs, long-term economic stability, and millions of dollars.

A major precipitant of the Quebec-Nova Scotia conflict was the release in 1974 of a DREE-commissioned study on future prospects for steel-making in eastern Canada. Generally known as the "Stelco" report, it concluded that there was potential for a new world-scale steel complex somewhere in eastern Canada.⁸ But the report was ambivalent about the precise location and noted that suitable sites were available in Nova Scotia and Quebec. Not surprisingly, Quebec and Nova Scotia immediately defined the problem as a "them or us" one and jointly rejected as naive Ottawa's pleas that a common ground be struck. Both governments immediately established working groups to investigate the problem, to promote their interests, and to make contact with private investors capable of financing a major new steel mill. And, as well as acquiring 3,000 acres of land at Gabarus Bay near Sydney, Nova Scotia also established a new crown agency, the Cansteel Corporation, and charged it with promoting and financing a new steel complex on Cape Breton Island.⁹ Under intense political pressure to resolve the perennial crisis at Sysco, Premier Gerald Regan spent most of 1975 crossing the Atlantic in an effort to stimulate interest among foreign capitalists.¹⁰ Throughout 1975 and 1976 interprovincial tensions increased as Quebec lamented that Nova Scotia's actions would undercut SIDBEC, while Nova Scotia retorted in kind and argued that SIDBEC's expansion would destroy Nova Scotia's dream of a five million ton supermill at Gabarus Bay. The controversy assumed new urgency in December 1976 when, as one of his first acts, Rodrigue Tremblay, the PQ's minister of Industry and Commerce, demanded that Ottawa block the development of a new steel mill in Nova Scotia.¹¹

In this scenario Ottawa found itself caught between competing provincial claims and therefore avoided public expressions of preference. Immediately after the release of the Stelco report, Don Jamieson, the federal minister of Regional Economic Expansion, argued that given the tremendous cost of a new steel mill, private investors would ultimately pass economic judgement on the merits of competing locations. But, as interprovincial tensions heightened, Ottawa was forced to abandon this posture of indifference and

adopt the role of mediator. During 1975, Jamieson remarked that Ottawa must "ensure that competing claims do not get in the way and result in nobody getting anywhere. . . . , it seems to me that there is a certain mutuality of interest between all the parties concerned in working, . . . , to see whether there are common grounds."¹² Fortunately for Ottawa, the issue resolved itself when international changes made uneconomical the construction of a new Canadian steel complex. Consequently, Cansteel has been abandoned, Quebec has scaled down its ambitions, and a major inter-governmental clash has been avoided.

The spectacle of provincial competition for industry has been frowned upon by most observers of the process. And while it is hard to quantify the economic costs of such cutthroat behaviour, it is equally difficult to see any virtues in the process. For, as well as poisoning interprovincial relations, the often competitive desire for provincial industrial expansion has also complicated federal-provincial relations. What is especially noticeable is the tendency, particularly of the weaker provincial states, to portray various federal policies as boosts to the economies of the already prosperous areas and hence impediments to the achievement of their industrial development goals. A compelling example of this inclination is the response of governments in Quebec and Atlantic Canada to the establishment of the Foreign Investment Review Agency (FIRA) in 1974. Designed to control the flow of foreign direct investment into Canada, FIRA was denounced, especially by Quebec and New Brunswick, as an insensitive constraint on the poorer provinces' capacity to develop their economies. It was depicted as a measure which would "freeze" the industrial structure in its present form and thereby guarantee Ontario's pre-eminence.¹³

In 1973 the province of Manitoba condemned interprovincial rivalry for industry when it remarked:

Provinces and even municipalities have tended to compete with each other not only through promotional efforts but also through financial incentives such as guarantees on bank loans, grants, tax concessions and so on. Development agencies for this type of competition originated in the late 1950's in the "have not" provinces, but the "have" provinces soon entered the field. The result has been an ongoing escalation at the taxpayer's expense, and competitive wastefulness to the disadvantage of all provinces.¹⁴

While providing a generally accurate assessment of the situation, Manitoba's statement overlooks the possibility that interprovincial competition may disadvantage some provinces more than others. For while in a formal sense the provinces wield comparable powers, their ability to employ effectively different policy levers is ultimately determined by a

complex series of economic, geographic, and fiscal factors. Indeed, in efforts to attract secondary industry, Ontario seems to enjoy significant advantages over peripheral areas. The greater fiscal capacity of Queen's Park allows it to "outbid" weaker provinces and recent Ontario statements indicate a greater willingness to do so if necessary. As well, economists have argued that even eastern Ontario, given its proximity to markets, offers more attractions to investors than eastern Quebec or the maritimes. T.N. Brewis neatly captured a reality of interprovincial competition when he remarked:

In so far as provincial governments are competing for industry—and there is no doubt that they are—some are in a much more favourable position than others. Were the government of Ontario to see fit to outbid other provinces in the incentives that it offers to new industry, it would be difficult to challenge it effectively. It has financial resources far in excess of those in the poorer provinces, and the poorer regions of Ontario are not subject to such severe disadvantages as are some elsewhere.¹⁵

In practice, Ontario's policy of offering incentives to firms locating in or near the "Golden Horseshoe" has provided the "have-not" provinces with a degree of unwelcome competition.¹⁶ Such realities raise the spectre of already disadvantaged provinces straining their budgets in a treadmill-like effort to emulate Ontario. More recently, observers have pointed to Alberta as a province particularly well equipped to promote industrialization. Currently blessed with huge revenue surpluses, Alberta has stated its intention to develop a corporate tax system dedicated to the promotion of certain forms of industrial activity. Concern has already been expressed about the potential of such actions for further widening interprovincial disparities.¹⁷

The consequences of interprovincial rivalries extend, however, far beyond concerns about regional disparities. For quite obviously, the cost of new investment is closely related to the extent of interprovincial competition. And to the degree that bidding for industry results in "windfalls" for corporations, the process involves a perverse form of income redistribution from taxpayers to firms. More generally, the existence of interprovincial competition provides corporations with an element of bargaining power not found in a unitary state.

Competition for industry also exerts an unsavoury, albeit indirect, impact on the substance of provincial labour policy. This interesting phenomenon is particularly visible in the poorer provinces where, as Garth Stevenson has argued, the existence of a docile, unorganized labour force may be one of the few attractions for investors.¹⁸ And hence in their efforts

to remain "competitive" as sites for industry, provinces may well sacrifice certain forms of labour legislation and opt instead for a hard-line stance toward trade unions. More speculatively, similar forces may also lead to less stringent environmental safeguards than would occur in the absence of competition.

Analysis of Nova Scotia's dealings with Michelin Tires Ltd., currently the province's largest manufacturing concern, provides some insights into the darker side of industrial assistance policy-making. The Michelin case is an important one, for as well as evoking conflict in Nova Scotia, Michelin's Canadian operations have also sparked a Canadian-American controversy about the role of industrial assistance grants.¹⁹ For our purposes, the first significant issue concerns the reasons for Michelin's original decision to locate its major North American facilities in a rather remote area like Nova Scotia. A conventional interpretation is that Nova Scotia, with some federal assistance, was able to devise a financial assistance package attractive enough to offset the higher initial costs of a hinterland location. Indeed, in reviewing Michelin's tenure in Nova Scotia, one is immediately impressed by governments' generous contributions to the costs of constructing and expanding Michelin's plants. For example, to assist in the construction of facilities valued at \$100 million in 1971, Nova Scotia provided a \$7.6 million grant, a \$50 million loan at 6 percent interest, and promises of favourable tax treatment. To sweeten the deal, Ottawa chipped in a \$16 million DREE grant. But in a frank statement to the Senate's Standing Committee on Foreign Affairs, A.V. Peters, a Michelin executive, contended that such state assistance was not the crucial determinant of his firm's decision:

What was the role of those facilities in our coming, to begin with, to Canada, and then settling in Nova Scotia? They were certainly not the reason for our coming to Canada or for our settling in Nova Scotia. That said, it is not something to be neglected. But, obviously, a company which enters an important market, with important and costly manufacturing facilities, and intending to stay in that market on a long-term basis, could not be swayed from making that particular decision by different degrees of assistance. It is well to have that assistance, if available generally. Certainly, it should be used. It is not without interest; but that could not be the basis of the decision, that one would go to Canada or to the United States because of that assistance.²⁰

As attested to by recent events, a more convincing interpretation sees Michelin's decision as dictated by the existence of a relatively weak trade union movement in Nova Scotia. Indeed, as Terry Dodsworth has recently argued in the *Financial Times* of London, Michelin, as a paternalistic and

virulently anti-union employer, has, as a global strategy, sought hinterland plant locations in its efforts to avoid unionization.²¹

A second issue concerns the concessions Michelin has extracted from Nova Scotia as a condition for expanding its two existing plants and establishing a third one. At the heart of a recent controversy in Nova Scotia are amendments to the provincial Trade Union Act which make extremely difficult the unionization of interrelated plants of the same firm. The legislation, often caustically referred to as the "Michelin bill," is depicted by organized labour as a successful act of corporate blackmail and a measure designed to thwart the United Rubber Workers' efforts to unionize Michelin plants. Interestingly, the Conservative government of Premier John Buchanan has never really denied that the legislation was enacted at Michelin's behest. Indeed, the promise of 1,800 new jobs in a depressed province and the need to maintain good relations with Michelin appear to be noble enough causes to justify a confrontation with labour. And while the trade union movement remains outraged, Leslie Single, Industrial Estates Ltd.'s current president, portrayed the legislation as a major boost to his agency's efforts to attract new investment: "Our job is made a lot easier if legislation affecting the continued viability of companies in the province is passed. An announcement like this does nothing to hurt us in talking with prospective clients. News like this travels around the world very quickly and it makes a lot of sense to managers everywhere."²²

The Limits to Interprovincial Cooperation

Many of the provinces have publicly complained about the political and economic consequences of interprovincial competition for industry. Given this explicit recognition of self-defeating behaviour, several interesting questions arise, including—what steps have the provinces jointly taken to limit competition? why has cooperation generally failed? and what lessons can be learned from an analysis of interprovincial conflict? It is to these questions that we now turn.

The most visible steps toward interprovincial cooperation in industrial policy-making have been taken by provincial governments in the west and Atlantic Canada. In February 1974, for example, the western premiers established the Committee of Western Industry Ministers and empowered it to examine options for a western "industrial strategy," to prepare joint critiques of federal policy, and to conduct research on economic problems.²³ In eastern Canada, the Atlantic premiers have often discussed such issues as the elimination of interprovincial rivalries, the development of a regional purchasing policy, and the presentation of common fronts to Ottawa. And to a greater degree than on the prairies, debates about a possible union between the Atlantic provinces have assumed some importance on the region's political agenda. Among the commonly cited

advantages of some form of union are a reduction of internecine rivalry and the elimination of provincially-imposed barriers to trade.

Even on a regional basis, however, interprovincial cooperation has produced few concrete results. The western industry ministers have hammered out a regional position on the GATT negotiations and have jointly sponsored trade missions abroad. But nothing akin to a regional industrial strategy has emerged. And as we have argued earlier, reduced competition for industry on the prairies is more a product of the western governments' declining interest in manufacturing-led development than a result of explicit interprovincial accords. Nor have the western provinces been able to agree on whether "buy provincial" purchasing codes are legitimate policy instruments. Indeed, the joint denunciation of corrupt federal initiatives remains the bulwark of modern western "cooperation." In reviewing developments in the maritimes, a similar pattern emerges. For in the region, interprovincial competition for industry remains commonplace. And a 1979 survey by the Atlantic Provinces Economic Council reports that neither provincial governments nor their electorates are much interested in Atlantic union, notwithstanding the economic benefits normally associated with such a venture.²⁴ In fact, the same report notes a "galloping provincialism" in the region, a proliferation of non-tariff barriers, and a lamentable increase in "beggar thy neighbour" policies.

The provinces also remain deeply divided about the need for "buy provincial" purchasing policies—such divisions have so far blocked moves toward a common policy. Two prosperous provinces, Alberta and Ontario, have tried to convince the other provinces of the folly of such "protectionism," albeit for different reasons. In Alberta, the Lougheed government was pressured by local capitalists to articulate a formal "Alberta first" purchasing code in retaliation to the undertaking of such measures by British Columbia and some other provinces.²⁵ But as a first response, the premier rejected the "buy Alberta" option and decided instead to convince the other premiers to eschew "balkanizing" measures. Noting that intergovernmental feuds were routine for his government, Lougheed departed for the 1978 premiers conference prepared for a confrontation. But he returned to Edmonton and quite frankly admitted that his efforts had failed and that the adoption of a protectionist purchasing code was now a more likely possibility. As we have already seen, Ontario too is an opponent of the "buy provincial" movement and a dedicated guardian of the common market. Queen's Park's position obviously flows from fears that Ontario manufacturers will be the major losers from further restrictions on interprovincial trade. But Ontario's pleas have fallen on deaf ears, a situation which prompted Darcy McKeough, the former provincial treasurer, to lament that the provinces "... haven't demonstrated their capacity to sit down with one another."²⁶

What factors explain the provinces' reluctance to restrain their competitive urges? Almost self-evident is their tendency to evaluate industrial developments exclusively in terms of the impact of such developments on provincial, rather than regional or national, prosperity. For having assumed certain entrepreneurial roles, the provincial states' capacity to generate jobs, to take credit for industrial growth, and to create at least the illusion of prosperity has become a central determinant of their success. Under these circumstances, there are few incentives for governments to eschew competition in favour of cooperation. And given their focus on provincial prosperity, the premiers seldom see any compelling reasons to entertain industrial projects which seem to confer, even in the short term, greater benefits on other provinces or regions. Some insights into provincial views on these matters are found in reports of the 1977 meeting of the Atlantic premiers. At that meeting, Alexander Campbell, the then premier of Prince Edward Island, prompted a discussion of interprovincial relations when he lamented: "We are four separate, jealous, and parochial provinces. We fight each other for subsidies, and we bicker about energy and transportation."²⁷ But while generally agreeing with Campbell's assessment of existing relationships, the other premiers portrayed as irresponsible a provincial leader who failed to promote aggressively his province's economic growth. As Gerald Regan, the former premier of Nova Scotia, suggested, provincial governments are accountable to a provincial electorate; consequently, competitive policy-making, while perhaps reprehensible, was a fact of life under federalism.

The Provinces and DREE

Chapter 2 revealed how federal industrial assistance policies embody two distinct strands—one which stresses the need to strengthen secondary industry, regardless of its location, and another which emphasizes the development of industry in lagging regions. Not surprisingly, these two policy thrusts have often been perceived as conflicting rather than complimentary. For as we have seen, DREE and related federal measures, by luring capital to areas where it may not be employed to full advantage, are often depicted as a "drag" on the economy. Arguments about the tradeoffs between regional development and national prosperity are certainly not confined to academic discourse. In 1977, for example, it was widely rumoured that the federal cabinet was deeply divided over the need for DREE. But federalism complicates such debates in Canada by casting them in an intergovernmental mould. For, particularly during the 1970s, the provinces have expressed very different attitudes toward DREE and related federal policies. The so-called "have" provinces, especially Ontario and British Columbia, have been either lukewarm or hostile toward DREE, while governments in Atlantic Canada have prescribed an even more

important role for the department. Debates about the balance in federal policy between regional and national growth have thus evoked interprovincial conflict.

As Canada's industrial core and the once undisputed provincial economic heavyweight, Ontario has been ambivalent about federal assistance to weaker provinces. Indeed, its powerful Tory premiers have always regarded themselves as rather statesmanlike figures who had a much greater role to play in confederation than the mere presentation of self-interested Ontario positions. Such a self-image perhaps explains Ontario's professions of undying commitment to equalization and certain regional development measures. But at the same time, Ontario has also contended that federal regional development incentives exert a perverse economic impact on the more prosperous regions. In a strongly worded position paper in 1971, for example, Queen's Park bluntly argued: ". . . , Canadian governments must avoid distorting the competitive industrial structure through industrial development programs designed to reduce regional disparities. We must ensure that we create economically efficient industry rather than subsidizing inefficient operation in the name of development."²⁸ Such sentiments have recently been expressed more frequently, a situation which suggests that Ontario's opposition to DREE will increase as the province's economic hegemony is increasingly threatened. At the federal-provincial economic "summit" in February 1978, British Columbia spearheaded the assault against DREE. In depicting regional development policy as "a drag on the national economy," Premier Bill Bennett characterized DREE as ineffective, called for its termination, and advocated in its place direct federal transfers to individuals with severely limited employment and mobility alternatives.²⁹ Not surprisingly, Atlantic premiers pounced on Bennett, denounced him as insensitive, and portrayed the much-maligned DREE as their region's economic saviour.³⁰

The richer provinces' assessments of DREE are seldom substantiated by rigorous economic analysis. But their opposition toward federal policy, regardless of its economic rationality, has implanted a prickly wedge between the rich and poor provinces. Indeed, it is rather ironic that DREE, as a nominal instrument of national unity, has exerted such an effect. The interprovincial strife over DREE's role points to another familiar theme in Canadian political discourse—the weaker provinces' commitment to a federal state strong enough to redistribute income, jobs, and economic prosperity.

Conclusion

The government of Ontario has recently undertaken a series of initiatives designed to improve interprovincial relations in industrial development matters.³¹ Propelled by the fear that Ontario's manufacturers will be hurt by further extensions of provincial "protectionism" or by a tendency for provincial governments to purchase goods and services "offshore," Queen's Park has urged the other provinces to prefer *Canadian* suppliers only. In particular, Ontario is concerned lest provincial businesses be excluded from supplying inputs to multi-billion dollar western resource projects. This fear has prompted Larry Grossman, Ontario's minister of Industry and Tourism, to foster cooperative relationships with prairie governments, especially Alberta. In return for explicit recognition of the needs of Ontario industries, Grossman has expressed a willingness to assist Alberta's industrial strategy. So far, however, Alberta and the other provinces have been coolly noncommittal towards Ontario's advances. Accordingly, the prospects for success of Ontario's efforts remain uncertain. Looming ominously in the background, however, is Queen's Park's threat to seek federal intervention if interprovincial cooperation fails. As Grossman remarked of his appeals to Alberta: "What I would like to see come out of this is the identification of things Ontario could supply to the West. But if I find there is total resistance, then we will have to go to the federal people and say our differences are too big for us to handle."³²

6 Industrial Assistance Policies and Canadian-American Relations

This study has so far stressed the tensions engendered in Canada by governments' increasing reliance on industrial assistance policies. But an exclusive focus on domestic rivalries is a myopic one as it is obvious that Canadian governments operate in, and are constrained by, a competitive international order. Growing concerns about the "new protectionism" and "neo-mercantilist" policies find modern states aggressively employing industrial assistance measures to achieve national objectives and to shield domestic industries from foreign competition. Such policies are a source of tension and mistrust, as governments accuse each other of practising "beggar thy neighbour" policies and as competition for industry and jobs heightens. *Businessweek* neatly captured the intensity and spirit of such competition when it recently remarked: "So the cooperative effort to create an interdependent world economy—a hallmark of the postwar period—is being replaced by what often appears to be a free-for-all among industrial nations trying to grab or preserve as much as possible for themselves of the shrinking economic pie."¹

North America provides a fascinating environment within which to probe intergovernmental competition for industry. For the operative constitutions of Canada and the United States permit national *and* regional governments to employ preferential purchasing policies, to subsidize firms, and to levy corporate taxes. As a result, Canadian-American competition involves four types of governmental actors—the two national governments, the American states, and the Canadian provinces. A complex web of actors, each with its own interests and goals, emerges when one looks at the plethora of firms operating within either country and at those whose operations are transnational.

When examining this environment, observers have stressed three themes—tensions between Ottawa and Washington over industrial assistance policies, competition for industry between Canadian provinces and American states, and corporate manipulation of competing governments.

But very little attention has been paid to the impact of continental rivalries on intergovernmental relations within Canada and the United States. Such a neglect is unfortunate for, put simply, it cannot be assumed, particularly in Canada, that governments will close ranks in response to international challenges. Quite obviously, prompt responses to external threats are difficult in a policy area where both levels of government are involved and where regional tensions and ancient rivalries proliferate. And in Canada, a country where the location of industry is a central political issue, federal efforts to bolster this country's share of new manufacturing investment are sometimes portrayed by provincial governments as insidious measures which serve other region's interests. As well, international challenges may lead Canadian governments to intervene even more aggressively in the economy, thereby escalating international and domestic tensions. Indeed, contemporary continental rivalries have already contributed to a "state of siege" mentality in Canada, while also strengthening the case for protectionism as a defensive response.

Industrial Assistance Policies in a Continental Context

Over the past decade industrial assistance policies have emerged as nagging irritants in bilateral relations.² Such Canadian-American tensions are sometimes the products of interdependence, as it becomes increasingly difficult for governments to achieve domestic objectives without influencing their neighbour's economy. But spats about incidental, albeit harmful, spill-overs have recently been replaced by accusations of blatant protectionism and deliberate attempts to injure. Indeed, as fears of recession, economic decline, and energy-related stagnation grip governments and businessmen on both sides of the 49th parallel, bilateral conflict over industrial policies is intensifying.

A longstanding controversy stems from Washington's view that many Canadian industrial incentives, while perhaps oriented toward the achievement of domestic objectives, really amount to export subsidies. This argument first emerged in 1971 when the U.S. Treasury argued that the DREE grants provided to Michelin Tires Ltd. were so large that they did, in fact, constitute an export subsidy.³ In response, Washington levied a countervailing duty on Michelin tires imported into the United States. Justified as a measure to protect American jobs from "unfair" competition, the Treasury's countervailing duty was the United States' first explicit retaliation to a foreign government's use of regional development grants. A similar issue arose in 1979 when the Treasury imposed a countervailing duty on optic liquid level sensing devices manufactured by Honeywell Ltd. of Toronto.⁴ Washington's rationale for this measure was that the product's development had been underwritten by a federal grant of \$250,000 under the Program for the Advancement of Industrial Technology. The Treasury

was particularly concerned because Canadian funds had been used to finance the final phases of product design and marketing. According to Richard Self, the director of the Treasury's office of tariff affairs: "The money didn't go into basic or general research but was spent on a specific product aimed at export markets. We also believe that some of the money went towards promoting the product to possible buyers. If the product had not been aimed at export markets to such a degree, we wouldn't have considered a duty."⁵

The Michelin and Honeywell cases evoked heated discussion on both sides of the border. In Canada, for example, the *Globe and Mail* portrayed the Honeywell decision as a serious threat when it denounced the American action as "a brutal blow against Canada's hopes to develop its share of the market for new technology products."⁶ Another strand of thought downplays both decisions by portraying them as isolated episodes which are better seen as examples of U.S. "sabre-rattling" than harbingers of a trade war. The implications of these decisions probably lie between the extreme reactions of outrage and complacent indifference. The Honeywell decision is probably the more ominous one for Canada, for it reflects a growing protectionist sentiment in the United States and also constitutes a further constraint on Ottawa's ability to promote export-oriented industries. But the extent of American opposition to Canadian industrial incentives remains unclear, as Washington has not yet launched a general assault on Canadian practices.

The United States' reluctance to raise questions of principle about Canadian non-tariff barriers is best explained by the recent extension of protectionist American practices and the United States' related vulnerability to criticism from other governments. Canada has recently taken exception to the upsurge in protectionist American procurement practices and has argued that such measures are exerting a very harmful impact on Canadian exporters. Indeed, in 1979 Peter Towe, Canada's ambassador to the United States, claimed that callous U.S. procurement policies "appear to be an attempt by some in the U.S. to push Canadian backs to the wall."⁷ As evidence, Towe cited recent amendments to the Surface Transportation Act which specify that transportation equipment for federally funded projects must contain at least 51 percent U.S. content and be finally assembled in the United States. Similar clauses appear in the Clean Water Act and the Public Works Employment Act, the latter of which stipulates that American materials must be used in projects where federal funding exceeds 50 percent of total costs. More ominous still are proposed amendments to the "Buy America" Act which, if passed, would establish a 15 to 50 percent bid preference for American products in all federal purchasing, while also compelling state and local governments to "Buy American" when federal funds were involved in shared-cost projects.

Only impressionistic evidence is available about the economic impact of such measures on Canada. But Peter Towe has argued that a mere ten percent of U.S. federal purchasing is open to foreign competition.⁸ One area where the stakes are high and amenable to rough calculation is the burgeoning American market for urban transportation equipment. According to one American official, there now exists potential sales of \$325 million worth of such equipment along the eastern seaboard alone, while a recent Canadian government study suggests possible sales of \$640 million during the 1980s.⁹ U.S. policy now raises barriers to Canadian exporters in an industry where Canadian firms enjoy an international reputation for efficiency and excellence.

Many American states have also been gripped by the protectionist fever. And while no exhaustive study of state purchasing policy has been prepared, it now appears that thirty-four states favour domestic or state producers in government procurement.¹⁰ During 1978 alone, five states, including Pennsylvania, Indiana, and Ohio announced new protectionist purchasing practices, while Minnesota went so far as to prohibit the purchase of any foreign goods or services with state funds. State legislation and regulations generally apply to a range of goods, but steel has recently been singled out as a product requiring special protection. In states like Ohio and Pennsylvania, where steel-making is a key industry, governments have implemented measures designed to limit the use of imported steel in state-funded projects.

"Steel protectionism" recently prompted a political controversy when the governor of New York pondered the wisdom of legislation which would limit the use of imported steel in government-funded projects.¹¹ Passed by New York's legislature as a measure to maintain employment in troubled upstate steel mills, the statute, if approved, would have adversely affected Canada's export-oriented steel industry. Accordingly, Ottawa launched an anti-protectionist campaign which stressed New York's need for easy access to Canadian markets. As well as facing Canadian opposition, New York's policy was attacked by free traders, U.S. importers, and such influential papers as the *Wall Street Journal*. The protectionist forces, led by the U.S. steel industry, also included organized labour. Caught between rival domestic interests and Canadian opposition, the governor initially vetoed the bill and thereby accorded freetraders a victory. However, the bill was reintroduced and ultimately passed.¹²

Competition for industry between groups of Canadian provinces and American states is a fascinating feature of North America's political economy. While not a new phenomenon, such rivalry has recently intensified and involved new actors. As we have already seen, governments in Quebec and Atlantic Canada have long argued that state intervention was required to lure investment to their borders. Such a view has also been

routinely espoused by the governments of such southeastern American states as Georgia, the Carolinas, and Mississippi. In their efforts to bolster their economies, governments in these two areas have often competed against one another, as illustrated by the struggle between Nova Scotia and the Carolinas for Michelin's first North American plant. But recently Ontario and the heavily industrialized northeastern states have emerged as competitors in the race for investment. In both areas, the acceleration of industrial development efforts is a defensive response to the threats posed by economic decline and the emergence of rival centres of political and economic power. In domestic affairs, Alberta is Ontario's challenger while such states as New York, Ohio, and Pennsylvania fear the "sunbelt's" growing prowess.

The expansion of the continental struggle for industry has intensified domestic and bilateral tensions. For example, relations between the northeastern U.S. states have recently soured as governments there find themselves in direct competition for scarce investment.¹³ State-provincial relations have also been influenced as various U.S. states actively strive to lure Canadian firms southward.¹⁴ For example, an official in New York's Department of Commerce stated rather bluntly to a group of Canadian capitalists: "We want your plants, your capital, your business expansion."¹⁵ Similarly, Kentucky now bills itself as the "eleventh province" and thereby informs Canadian businessmen of its proximity to Canadian markets. And as competition for industry intensifies, provincial governments, especially Ontario, have stressed the need to offer incentives comparable to those of various U.S. states.

In competing for industry, governments on both sides of the border exhibit distinctive styles, as dictated by their ideologies, their constitutional powers, and their economic circumstances. The southeastern U.S. states, for example, stress their low minimum wages, their virulently pro-business labour legislation, and their favourable corporate tax structures. Some of these states have even waived corporate taxation for as long as a century as part of a package deal for a major investor. The northeastern states normally stress their willingness to provide loans and guarantees and also extoll the impressive economic infrastructure available in that still potent centre of North American capitalism. As the *Financial Post* has concluded, it is rather difficult to determine which jurisdiction offers the "best" industrial incentives.¹⁶ But the Canadian provinces' greater reliance on outright grants remains the distinguishing feature of Canadian, as compared with American, industrial policies. And in Canada there is a more established tradition of joint federal-provincial funding of industrial projects. As we shall see, Washington has sometimes portrayed such intergovernmental collaboration as a source of "unfair competition" for the American states.

Have governments' efforts to alter the location decisions of firms had a demonstrable impact on the continental distribution of industry? To this

decidedly complex question, no clear answer emerges. For example, a recent report by the Canadian Senate's Standing Committee on Foreign Affairs expressed anxiety about the number of Canadian firms being lured to the United States by policy measures.¹⁷ And recent negotiations between governments and the "Big Three" automakers indicate that location decisions in that industry result from the interplay of various political and economic considerations. Counterpoised against such evidence, however, is the view that industrial location remains primarily an economic matter, with policy measures playing a secondary role.¹⁸ But, while the effectiveness of their industrial incentives remains unknown, North American governments manifest little interest in curtailing such interventions. New capital and jobs are increasingly viewed on both sides of the border as scarce commodities and the related fears of economic decline and being "outbid" by other governments seem destined to ensure a competitive edge to future industrial policy-making. While tensions between the two national governments may be reduced by the successful conclusion of bilateral agreements, competition between regional governments is more difficult to curtail, for, armed with important economic powers, the states and provinces cannot presently be compelled by their federal governments to eschew competitive policy-making.

The Struggle for New Autoplants

In the eyes of modern governments, the automobile industry is one "pas comme les autres." As well as employing complex technologies, auto manufacturing has traditionally paid above-average wages and generated impressive numbers of jobs, both directly and indirectly. The "Big Three" automakers rank among the world's largest firms and often make decisions that have vitally important consequences for nations. Recent years have witnessed unprecedented turmoil in this vital industry, as Chrysler struggles to survive and all the major manufacturers wrestle with the challenge of producing more fuel-efficient vehicles. This latter development in particular has heightened governments' interest in the industry, for during the 1980s, the automakers are expected to invest \$60 billion in new North American plants. And while governments are aware of the magnitude of proposed investments, they are much less certain about *where* the industry will expand and how new investment will be divided among nations. The major automakers, while U.S. based, have long operated as transnational enterprises whose plant location decisions have been shaped by political and economic considerations. Fearful of losing existing plants or failing to garner a share of new investment, modern states have recently undertaken to lure the automobile industry to their borders. Indeed, the late 1970s witnessed competition in western Europe and North America as governments strove, through offers of subsidies, trained labour forces, and cheap

infrastructure, to influence the location decisions of Ford and General Motors (GM).¹⁹ And in testimony to their economic clout, Henry Ford III and GM's potentates are accorded royal treatment as they traverse Europe in their quests for new plant sites. France's recent offer of \$440 million (U.S.) to Ford to construct a new plant in Lorraine, a high-unemployment area now dominated by France's ailing steel industry, is indicative of the industry's importance as an employer.

In North America, the state-industry relationship in the automobile industry is partially governed by the Canada-United States Automotive Products Trade Agreement. The "Autopact," which was concluded in 1965, is a sectoral free trade agreement designed to eliminate tariff barriers, to create a larger market for autoproducts (thereby achieving economies of scale), and to develop conditions in which market forces would determine "optimal" patterns of trade, investment, and production.²⁰ The Autopact has sparked much controversy, especially about the benefits accruing to Canada and the U.S. from their experiment in free trade. Presently, Canada is particularly exercised about the mounting trade deficit in parts, the concentration of research and development in the U.S., the less skilled labour component in the Canadian industry, and Canadian-U.S. price differentials.

As negotiated, the Autopact said little about the continental distribution of plants and jobs and thereby left location decisions in the manufacturers' hands. Ottawa's growing uneasiness with this feature of the Autopact and Canada's lagging share of investment and jobs underpins recent disputes about plant location. For, well aware of the industry's ability to locate on either side of the 49th parallel, the Canadian government decided to offer large grants to Ford and General Motors in an effort to make Canada a more attractive location. More specifically, the federal government announced in May 1978 offers of a \$30 million grant to Ford for a new Windsor plant and a huge \$86 million grant to GM, which was then considering a new plant in Quebec.²¹ These grants, undertaken in "partnership" with Ontario and Quebec respectively and designed to offset higher Canadian costs, quickly became subjects of bitter controversy.²²

The dispute began in earnest when the state of Ohio announced its intentions "to compete" for a new Ford plant. There thus emerged, during the summer of 1978, a "bidding war" which ultimately involved as principal actors the two federal governments, Ohio, Ontario, and of course Ford itself.²³ The governments involved saw a great deal at stake. For its part, Ottawa viewed the Ford grant as a means of garnering for Canada a share of the auto industry's North American investment. Ontario, the province embracing 83 percent of Canada's vehicle assembly employment, saw the new Ford plant as a major boost to a key provincial industry. And, while professing an aversion to the subsidization of large and very profitable firms, Ontario's premier, William Davis, argued that the 5,000 jobs at stake

and the interventionist posture of several American states forced his hand. He remarked: "My job is to provide jobs in Ontario and if that means competing with other jurisdictions we'll compete."²⁴ Similar sentiments were also expressed by the government of Ohio which undertook to persuade Ford to expand its facilities in that state. But in offering aid to Ford, Ohio, unlike Ontario, proceeded without direct federal government assistance.

In Canada, the controversy assumed a new dimension when Ford announced that the initial Canadian offer of \$30 million was too small and that \$75 million was required to offset the higher costs of a Canadian location. As well as causing the federal and Ontario governments to reassess their positions, Ford's posture also ignited an Ottawa-Queen's Park dispute about cost-sharing. According to John Rhodes, then Ontario's minister of Industry and Tourism, Ottawa had "betrayed" Ontario by reversing its original position (a 75-25 percent federal-provincial split) and opting instead for a 50-50 split.²⁵ After several bouts of name-calling and further negotiations with Ford, a new deal was struck, this time featuring a \$68 million grant, with Ottawa putting up \$40 million and Ontario the remainder. After rejecting pressure from the U.S. secretary of the Treasury, the governor of Ohio, and Ohio business interests, Ford ultimately accepted the Canadian incentive and undertook to construct forthwith a new \$535 million engine plant at Windsor.²⁶ In arguing that the tax revenues and economic prosperity generated by the plant would recoup the grant within a year, Canadian politicians heralded Ford's decision as a "victory" for Canada.

The sense of elation in Ottawa and Queen's Park was quickly dispelled, however, when Washington denounced the whole affair. Indeed, immediately after the announcement of Ford's decision, senior American officials descended upon Ottawa to voice their government's opposition. Two central themes underpinned their objection to the Canadian intervention.²⁷ First, Ottawa's efforts to persuade Ford to locate in a prime Ontario location violated Canada's practice of assisting firms to locate in "depressed" areas only. Second, since Washington had not directly assisted Ohio, Ottawa's aid to Ford constituted an element of "unfair competition." Warning sternly that Washington could not tolerate further Canadian efforts to lure autoplants northward, the American envoys also raised the spectre of retaliation. And while Ford's decision was irreversible, the U.S. delegation urged Ottawa to withdraw its even larger grant to General Motors which was then considering a new plant in Quebec. Given unemployment in America, Washington would not stand idle while Ottawa offered huge grants in an effort to capture at least 5,000 jobs and capital investment in excess of a billion dollars.

The Ford case illustrates how questions about the continental distribution of industry are intertwined with debates about the location of industry within Canada. For as well as evoking Canadian-American conflict, the struggle for autoplants also precipitated tensions between Ontario, Quebec, and the federal government. The Lévesque government was particularly incensed by the affair. It portrayed the Ford subsidy as a "flagrant injustice" and further evidence of Ottawa's obsession with Ontario.²⁸ Particularly offensive was Ottawa's provision of assistance to a firm locating in the "Golden Horseshoe," one of the few areas of the country not eligible for DREE assistance. As well, Quebec argued that a federal decision to defer to American protests and to withdraw its offer of financial assistance to GM would be a "sellout." The Quebec government's strong views about the new GM plant stem from its belief that Quebec, by virtue of its abundant aluminum resources, enjoys some "comparative advantage" in auto production, particularly during an era when the need for lighter cars is a paramount concern. A new \$450 million GM plant was thus seen as a major step in Quebec's quest for a greater share of the North American automobile industry.²⁹ For its part, Ontario joined the fray by arguing that GM should consider various Ontario locations, even though federal assistance might not be available. Indeed, Queen's Park lamented that a city like St. Catharines was not eligible for DREE assistance, since unemployment there was as high as in parts of Quebec.

The domestic bickering about the Ford and GM grants reveals the provinces' tendency to evaluate federal interventions almost exclusively in terms of their regional impact. Indeed, the provinces' singular obsession with their own well-being often leads them to discount the possibility that federal decisions, while not necessarily conferring equivalent short-term benefits on all the provinces might, over the long term, strengthen the national economy. And while it is tempting to dismiss such provincial assessments as myopic, they seem to be taken seriously by Ottawa and therefore constitute an important constraint on the federal government.³⁰ Ottawa must not only face hostile foreign states and manipulative corporations, it must also take into account the views of provincial governments about the location of industry within Canada. The existence of domestic rivalries also inhibits the establishment of common fronts against external powers, both public and private. In their efforts to win a new GM plant, for example, Ontario and Quebec publicly debated the merits of their cases and repeatedly stressed the importance of the automobile industry for their respective economies. Under such circumstances, corporate bargaining power is undoubtedly enhanced.

As a perhaps modest consolation to those disturbed by Canada's tradition of incessant intergovernmental wrangling, it should be noted that debates about the Ford grant extended beyond the mere venting of regional

grievances. For example, the *Financial Post* called the grant into question when it denounced the secrecy of the negotiations, the lack of information provided about the economics of competing locations, and the failure of governments to state precisely the benefits accruing to Canada.³¹ But more thought-provoking still are the views of those critics who depicted the Ford grant as evidence of Canada's industrial crisis. As Don McGillivray put it:

Even more ominous is the fact that this grant technique—usually limited to slow growth regions and underdeveloped countries—has to be used to lure a plant to southern Ontario, the very heart of Canadian industry, and the most favorable location in the country.

The implication is that all of Canada is now, in the context of the AutoPact, a Cape Breton or a Gaspé region.³²

Conclusion

Rumours of an impending bilateral agreement on purchasing policy have recently provided a slender ray of hope for those Canadian exporters currently excluded from lucrative American markets.³³ For, in exchange for greater opportunities to bid on certain Canadian government contracts, the Carter administration was apparently prepared to exempt Canadian firms from "Buy America" provisions. Businessmen are viewing such an accord with guarded optimism, however, as legislative changes will be required at a time when Congress is decidedly protectionist. As well, the Reagan administration has expressed little real interest in a new bilateral agreement, although there have been some inconclusive discussions about Canada-U.S. cooperation in the international marketing of urban transportation equipment.³⁴

The current crisis in the automobile industry provides little grounds for optimism in Canada. Unemployment currently exceeds 20 percent in Windsor, and Ford, as a recipient of a \$68 million grant, has recently enraged Canadian governments by closing one of its existing plants in that city. And, while industry leaders bullishly proclaimed a return to normal conditions in 1981, the industry's future in Canada looks rather shaky. During the current recession, for example, Canada has been unable to extract any firm, long-term employment guarantees from the major producers. Indeed, Ottawa's recent decision to refrain from formally reopening Autopact negotiations is a candid admission of this country's weak bargaining position.

7 Industrial Assistance Policies and Canadian Federalism: An Evaluation

The preceding chapters have stressed two issues of perennial concern to observers of Canadian society—the role of government in the promotion of economic growth and the characteristically uneven economic development of Canada's regions. We have seen how in the last twenty-five years the federal and provincial governments have relied on such policy instruments as activist purchasing policies, industrial incentives, and state financial services in their efforts to foster economic growth. But we have also observed how governments' growing reliance on such measures has evoked intergovernmental conflict and focused attention on longstanding rivalries between metropolitan and hinterland areas.

To a greater degree than most other public policies, industrial assistance policies have prompted bitter debates, debates which have stressed the heterogeneity of the Canadian polity. Provincial reaction to the Foreign Investment Review Agency, clashes about the location of petrochemical and automobile plants, and arguments about the need for "buy provincial" purchasing policies or DREE programs have all revealed enduring economic and political conflicts. Tensions between resource-producing and resource-consuming regions, between the centre and the peripheries, and between rich and poor provinces have all been intensified by industrial assistance policies.

Our study also reveals an increasing trend toward state-assisted industrial developments at both levels of government, but particularly in the provinces. Led by Alberta, the three most westerly provinces are struggling to reduce their dependence on natural resources, to diversify their economies, and to promote a westward shift of political and economic power. And in response to this latter development and to a series of external challenges, Ontario is now relying heavily on industrial incentives in an effort to maintain its dominance. As well, the need for state intervention to modernize Quebec's industry is an article of faith among the politically influential in that province. Even those governments allegedly in the

vanguard of "neo-conservatism" have few qualms about the use of industrial assistance policies. Because they are generally seen as measures requisite to the maintenance of a proper "climate" for capital accumulation, most industrial policies are ideologically palatable even to governments of the right. Indeed, as the political economy school has so persuasively argued, state-supported economic development is the norm in Canada, not the exception. Accordingly, sensible constitutional alternatives must be based upon the continuing existence of interventionist federal and provincial governments. Nostalgic yearnings for a return to *laissez-faire* and a simpler, "disentangled" federalism, while perhaps ideologically appealing to some interests, are useless as guides to reform.

The Twin-Edged Sword of Constitutional Flexibility

To discount federalism's impact on the substance and effectiveness of Canadian industrial assistance policy would be a serious error. For our review of current constitutional arrangements reveals how both levels of government deploy an impressive range of policy levers. Like most states, Ottawa has enacted policies designed to promote exports, to enhance the competitiveness of industry, and particularly through DREE, to influence the location of firms. The most remarkable feature of the constitutional status quo, however, is the role of the provinces. Without approval from other members of the federation, provinces may subsidize firms, offer financial services to industry, own firms engaged in interprovincial commerce, and even enact purchasing codes which explicitly favour provincial firms. The last two decades have also witnessed provincial efforts to establish or strengthen important firms and industries. Leading examples are Alberta's efforts to nourish a petrochemical complex, Ontario and Quebec's struggles to garner a share of new autoplant investment, and Manitoba's attempts to foster an aerospace industry. Given Ottawa's continuing pre-eminence in tariff policy and the regulation of interprovincial trade, the capacity of the provincial states to control their economies is certainly not complete. On the other hand, there are few important constitutional barriers to the provinces' use of subsidies, financial services, and activist purchasing policies. Under present arrangements, it is by no means accidental that observers often compare Canadian intergovernmental relations with the behaviour of sovereign states.

For many observers, the main strength of the constitutional status quo is its flexibility. The absence of clear spheres of authority, for example, is seen to permit both levels of government to respond quickly to novel circumstances and to allow the provincial states to develop industrial policies fine-tuned to provincial priorities. As well, the constitution has tolerated a variety of federal-provincial agreements, notably the DREE GDAs, all of which reflect the need for intergovernmental collaboration in the face of

interdependence. The mainstream of opinion is, however, decidedly more negative in its evaluation of current arrangements. Many observers argue that the present system's blurred lines of authority have allowed industrial policy-making to degenerate into a political free-for-all. In the ensuing struggles, constitutional niceties *and* sound economics are said to have been subordinated to the drives of opportunistic governments. Interprovincial competition for industry, the existence of conflicting federal and provincial industrial incentives, and constant intergovernmental wrangling about the location of industry all point to a constitutional order that does little to restrain the interventionist governments it has spawned. While perhaps somewhat exaggerated, Alan C. Cairns' general conclusions about the failings of Canada's "flexible constitution" seem generally sustained by our study. Writing in 1977, Cairns remarked: "Up to a point the flexibility attained by these strategies served the country well, but the contemporary success in playing fast and loose with the division of powers has begun to produce diminishing returns. Flexibility now looks dangerously like intergovernmental anarchy."¹

How do industrial policies differ from what might emerge if Canada were a unitary state? Does federalism favour certain interests and ignore others? To the latter question in particular, the governing elites of the Atlantic and prairie provinces have consistently advanced a straightforward answer. As chapter four revealed, leaders in these regions have consistently argued that the federal state responds first to the heavily-populated, industrialized core and generally ignores the thinly-populated, resource-producing hinterlands. Accordingly, federal industrial assistance policies, particularly purchasing practices and those programs administered by the Department of Industry, Trade and Commerce, are seen to increase, or at least tolerate, the concentration of secondary industry in Ontario and Quebec. Even those federal policies explicitly designed to promote regional growth are portrayed by hinterland governments as measures incapable of promoting self-sustaining growth and as embarrassing symbols of dependence on Ottawa. Debates about the regional impact of federal industrial policies have been complicated, moreover, by the Parti Québécois' firm insistence that the mainstream of federal economic policy has seldom benefitted Quebec. Indeed, the contemporary chorus of provincial grievances suggests that Ontario alone benefits from federal policy.

The regional impact of federal industrial policy is a decidedly complex issue which has been little illuminated by the politically-inspired "battle of the balance sheets" debates. A more thought-provoking perspective is that which challenges the assumption that "discriminatory" federal policy constitutes the foremost obstacle to regional industrial diversification. In his account of prairie economic grievances, for example, Ken Norrie has argued that the fundamental impediments to prairie development are distance from

markets, inadequate infrastructure, and a small population.² Quebec's litany of grievances about the impact of federal policy on that province has also been criticized as unconvincing. For example, the PQ's assertion that the Autopact "centralized" the automobile industry in Ontario is said to ignore the industry's tradition of locating in the "Golden Horseshoe" and the importance of southwestern Ontario's proximity to Detroit.³

It is naive, however, to think that economic reasoning will somehow magically emerge as a prime determinant of the future course of Canadian industrial assistance policy. For one thing, a desire to limit federal government and central Canadian involvement in the processes of western development is a cornerstone of Alberta's development strategy. And in Quebec, the burden of "discriminatory" federal policy is seen, at least by the PQ, as a legitimate reason for dismembering the Canadian state. But more important, Canadian federalism, by conferring important economic powers on the provinces, allows the provincial states to offset federal policies and to chart autonomous industrial strategies. Intergovernmental conflict obviously flows from such a constitutional setup, but so too does a distribution of economic activity that would be highly unlikely in a unitary state. And while the provinces enjoy different capacities to counteract federal policies, recent experience highlights how federalism allows Alberta, a resource-rich, but relatively sparsely-populated, hinterland, to launch an offensive against metropolitan interests.

While Alan Cairns is probably correct in asserting that centralists are now fighting a "rearguard action," there does remain considerable concern about Ottawa's capacity to direct the course of Canadian economic development.⁴ Indeed, Garth Stevenson, a forceful contemporary critic of provincialism, has recently argued that a further decentralization of power would have "disastrous" consequences.⁵ Of Ottawa's current role in economic policy-making, Stevenson has rather bluntly remarked: "Ottawa's economic policies, if it has any, can reflect little more than a lowest common denominator of consent among regional factions of the ruling class jockeying for advantage."⁶ While Stevenson exaggerates the demise of federal power, there is no question that federalism places important constraints on Ottawa's capacity to make industrial policy independently of provincial governments. As we have seen, the increasingly regionalized structure of the Canadian economy makes it difficult for the federal government to formulate industrial policies acceptable to all regions. This factor, combined with the widely-noted failure of federal institutions to accommodate regional interests, has made the provincial states leading spokesman for aggrieved regional interests. And as Richard Simeon has so clearly argued, provincial governments have a vested interest in stressing questions about the regional impact of federal policies.⁷ As a result, debates about Canadian industrial policies are at heart intergovern-

mental debates and controversies about such perennial Canadian issues as regional disparities and centre-periphery relations. Why doesn't Manitoba receive a "fair share" of federal defence procurement expenditures? Has federal policy served to concentrate the automobile industry in southern Ontario? Why has Ottawa not supported Alberta's ambitions in petrochemicals? These and other questions about the location of industry undoubtedly assume greater importance under federalism than in a hypothetical unitary Canada. Federalism, by "institutionalizing regionalism," makes difficult, if not impossible, the pursuit of federal policies which are indifferent to the spatial distribution of industry.

Federalism also impairs Ottawa's capacity to deal with foreign interests, both public and private. Our analysis has revealed two rather different dimensions of this phenomenon. As we have seen, the Foreign Investment Review Act precipitated federal-provincial conflict when Quebec and the maritime provinces depicted it as a measure favouring Ontario. While provincial opposition can scarcely be seen as the sole reason for Ottawa's reluctance to pursue policies of economic nationalism, Canadian federalism, with its combination of active provincial governments and a federal government that must take provincial viewpoints into account, certainly provides obstacles to the effective implementation of such measures. More recently, intergovernmental tensions have hindered Ottawa's efforts to enhance Canada's share of new investment in the North American automobile industry. In particular, we have observed how debates about the continental distribution of such investment became intertwined with arguments about the location of plants *within* Canada. During the complex recent negotiations with Ford and General Motors, both Ontario and Quebec portrayed as "discriminatory," federal efforts to lure new investment to the other province. Ottawa is hence in the unenviable position of trying to make policies acceptable to two influential provinces, to Washington, and to the major automakers. Such a situation sustains Garth Stevenson's remark that the struggle for industrial expansion "contributes to the unusual degree of tension, conflict, and mistrust in federal-provincial relations, by contrast with other established federations."⁸

The provincial governments, particularly the more prosperous ones, may also act to counterbalance federal efforts to bolster slow-growth regions. As we have observed, a central federal regional development program is the Regional Development Incentives Act which provides grants to certain firms willing to locate or expand in depressed areas. Symbolic of the deeply ingrained Canadian tendency to define poverty in regional terms, the RDIA has evoked interprovincial strife and wide-ranging debates about the role of the state. Led by Ontario and British Columbia, the so-called "have" provinces, have described such federal measures with a series of well-worn clichés, including "Robbing Peter to pay Paul." And in Ontario's view,

industrial strategy should be concerned with maximizing existing strengths and resisting politically-inspired regional development schemes. As we have observed, such a posture is correctly depicted as parochial by governments in the maritimes who, with certain misgivings, continue to laud federal regional development expenditures. More important, the provincial governments, if they are so inclined, may undertake policies designed to counteract federal initiatives. As Professor Springate has argued:

The wealthier provinces can afford, if they wish, to try to thwart federal regional development efforts if they perceive such action to be in their own best interests. Ontario is a prime example If the provincial authorities felt that there were too many plants being lost by Ontario, the province would find it relatively easy to increase its aid to overcome the attraction of DREE offers in the designated regions.⁹

Ontario spokesmen have recently shown an increased disposition to criticize and resist federal regional development policies.¹⁰

Industrial assistance policies have also intensified interprovincial competition for industry, especially between governments in Quebec and Atlantic Canada where the creation of jobs is a central policy goal. Such competition obviously leads to certain problems and outcomes which are not found in unitary states. Most simply, a desire to emulate the policies of neighbouring governments becomes an important determinant of provincial policy-making. Particularly in those provinces east of Saskatchewan, the spectre of another province offering "superior" locational incentives is a common justification for new or more generous industrial assistance programs. Similarly, "buy provincial" purchasing codes are sometimes portrayed as a necessary response to other provinces' barriers to trade. Interprovincial competition for industry, especially when it takes the form of "bidding wars," makes new investment costlier under federalism than in a unitary state. To the extent that competition occurs, corporations are the principal beneficiaries. In addition, interprovincial rivalries and a related desire to impress potential investors probably leads to less stringent environmental safeguards and "tougher" labour legislation than would be implemented in the absence of competition.

Interprovincial competition for industry may well be a rather lopsided struggle. Ontario, and to a degree Quebec, enjoy such advantages as proximity to markets and well-developed infrastructure, while the same factors constrain the more remote provinces. And in order to compensate for their natural disadvantages, the weaker provinces may be forced to offer very large incentives in order to compete with the better-situated provinces.

Are there any signs that interprovincial competition for industry will moderate in the future? One encouraging development is the various state-

ments from leaders in Atlantic Canada which imply that future provincial development strategies will emphasize the fisheries, shipbuilding, and other areas of perceived comparative advantage. Related to this is a growing skepticism of grandiose industrial projects and a stated desire to develop smaller industries. Such statements, if they have any substance, imply a reduction in the long-standing goal of luring manufacturing industry to the maritimes. On the other hand, recent statements by the Alberta government that it might use cheap energy as a locational incentive evoked prompt and angry responses from the Ontario government. So far remaining a war of words, recent Ontario-Alberta exchanges are harbingers of further tensions between the two provinces. More ominous still is the escalating struggle for industry between various Canadian provinces and the American states. As chapter six revealed, slow economic growth and high unemployment have prompted governments in both countries to intensify their industrial development efforts. This recent flurry of intervention has in turn soured intergovernmental relations within and between Canada and the United States.

Federalism, Business, and the State

Canadian federalism, by conferring important economic powers on both levels of government, sustains a rather different government-business relationship than is found in unitary states. Accordingly, several questions arise about the state-industry nexus in Canadian industrial assistance policy-making. These include: what are capital's views about the current division of powers? do business interests tend to seek alliances with one level of government rather than another? and is business planning frustrated by intergovernmental conflict? While easily asked, such questions defy simple answers for several reasons. First, Canada's secondary manufacturing industries are obviously heterogeneous and hence sometimes divided over the sort of industrial assistance policies required. As well, intra-industry relationships may well be fractious and feature tensions between large and small firms, Canadian firms and foreign-controlled enterprises, and so on. The recent debates about government purchasing policy reflect the diversity of manufacturers' interests and highlight the related problem of developing "iron laws" about business behaviour and attitudes. Various trade associations have recently called for an end to "buy provincial" purchasing codes.¹¹ But, on the other hand, a report prepared for the federal government in 1978 by the electrical equipment industry lamented that the purchasing practices of the provincial hydros were often too *laissez-faire* and not sufficiently geared to the industry's needs.¹² As well, the differing needs of its membership led the Canadian Chamber of Commerce to refrain in 1977 from articulating a position on constitutional reform.¹³

A review of recent statements by industrialists about future directions in industrial assistance policy reveals two dominant themes. First, business spokesmen are virtually unanimous in their endorsement of continuing, indeed extended, state support for their industries. For example, a synthesis of the twenty-two recent "sector task force" reports reveals insistent appeals for import restrictions, better export promotion measures, and the extension of "buy Canadian" purchasing policies.¹⁴ Noting the contradiction between such requests and businessmen's publicly expressed hostility to "government interference," Don McGillivray, the able economic journalist, remarked: "The reports generally come out against any increase in the size or intervention of government. But if the government took all the specific actions suggested to aid the industries one by one, it would amount to a considerable increase in government involvement."¹⁵

Analysis of recent debates about industrial assistance policy also reveals capital's general indifference to questions about the division of powers. Discussions about federalism, when they occur, tend to focus on the need for intergovernmental coordination, particularly in such areas as purchasing policy, export promotion, and business loans. But ringing calls for constitutional reform or the radical strengthening of one or the other level of government are indeed rare. Businessmen's general indifference to questions about the division of powers suggests a degree of satisfaction with the status quo and a belief that both Ottawa and the provinces have important roles to play.

Capital's indifference to jurisdictional concerns is not, however, complete. In a 1977 speech to the Canadian Club, for example, J.H. Stevens, president of the Canadian Manufacturers Association, complained at length about federalism's frustrations for businessmen.¹⁶ In portraying provincial economic strategies as pretentious and generally ineffective, Stevens seemed to be providing some grist for the centralists' mill. Almost apologetically, however, he begged his audience not to interpret his remarks about federalism's "irrational" aspects as a plea for "more centralization and control in Ottawa."

As we have seen, recent years have witnessed a debate about the appropriateness of provincial policies which fracture the Canadian "common market" by impeding the free flow of people, goods, services, and capital within Canada. Of big business views on such policies, Peter Leslie has recently remarked: "Those who run the country's largest manufacturing firms and financial institutions are afraid that the provinces are balkanizing the Canadian common market. If that happens we all lose, they say."¹⁷ Our review of arguments about "buy provincial" purchasing practices provides a measure of support for Leslie's generalization. In its recent litany of neo-conservative principles, entitled *Agenda for Action*, the Canadian Manufacturers Association denounced as "parochial" the recent trend toward "buy

provincial" purchasing codes. The CMA further remarked that "this balkanization does not assist the development of a Canadian manufacturing industry able to meet international competition."¹⁸ The report of the Pepin-Robarts Task Force on Canadian Unity also mentions growing concern among businessmen about provincial protectionism.¹⁹ But while capitalists seem increasingly disposed toward criticizing particular provincial initiatives, it is more difficult to link their displeasure with any powerful desire for a strengthened federal state. For businessmen's reservations about provincial purchasing practices, while often calling for an end to such measures, have seldom been extended into a general assault on the economic powers of the provinces.

While businessmen's public pronouncements generally ignore constitutional niceties, it must also be asked if analysis of their *actions* holds any general lessons about capital's stance toward federalism. One group in particular—export-oriented manufacturers—tends to look toward Ottawa for assistance in penetrating foreign markets. For example, the so-called Hatch report on export promotion policies acknowledged the need for greater intergovernmental cooperation, but at the same time was adamant that Ottawa must be the dominant actor.²⁰ A particularly urgent requirement was that the federal government enact export assistance policies comparable to those offered by other states. As well, export-oriented firms, such as MLW Bombardier Ltd. and the major steel producers, see Ottawa as an important ally in their struggle to gain exemptions from protectionist measures in the United States.²¹ Beyond these observations, however, other trends, patterns, or "alliances" are indeed difficult to discern.

Some evidence suggests that business interests seeking financial assistance from Ottawa have found the provincial states to be useful partners in their campaigns. For example, the governments of British Columbia, Nova Scotia, Ontario, and Quebec have loudly echoed the shipbuilders' pleas for larger federal subsidies. As well, Manitoba and provincially-based aerospace companies have temporarily joined forces to lobby Ottawa for a "fair share" of any industrial offsets negotiated as part of the fighter acquisition program. On the other hand, our research reveals no cases where capitalists have used either level of government to pressure the other one to *curtail* or *reduce* assistance currently extended to a business competitor. Recent government industry negotiations in the North American automobile industry reveal, moreover, a decidedly self-interested corporate approach to federalism. Particularly during the last three years Chrysler, Ford, and General Motors have discussed subsidies and other forms of assistance with job-hungry politicians in Ottawa, Washington, Quebec City, Queen's Park, and various American state capitals. And, while it is difficult to prove that these giant firms consciously conspire to evoke bidding wars, it is also obvious that such companies are well aware of their

economic and political significance and of the benefits to be reaped from the exploitation of intergovernmental rivalries. Interestingly too, the available tidbits of information about the behaviour of entrepreneurs like Malcolm Bricklin reveal a tendency for such promoters to lobby several governments simultaneously in their quests for state assistance.

What lessons flow from these admittedly disparate cases? First, manufacturing interests, with the exception of exporters, do not seem to have particularly strong preferences for dealing with or strengthening one level of government or the other. Both Ottawa and the provinces are seen to have important roles in the provision of industrial assistance. Second, the evidence supports the view that current constitutional arrangements provide business interests with a capacity for trading off governments and hence pursuing their interests in ways unavailable to them in a unitary state. Our admittedly preliminary analysis thus supports John Richards and Larry Pratt's conclusions about government-industry bargaining under federalism. "About all that can be concluded is that big business understands that a federal system provides interest groups with a number of potential sources of leverage and veto points and that capital, like perfidious Albion, has no permanent allies or enemies, only permanent interests."²²

The relative indifference of business to the federal-provincial dimension of industrial assistance policy is perhaps easily explained when one recalls certain salient characteristics of the policies themselves. Such state initiatives as grants to influence plant location decisions, government financial services and state-funded infrastructure, all involve a degree of government underwriting of corporate costs and profits. As such, it is hardly surprising that businessmen, despite their public commitments to *laissez-faire* ideals, have few objections to governments' efforts to offer handouts. Indeed, businessmen tend to conceive industrial assistance policies as normal and acceptable undertakings for the modern capitalist state rather than as examples of government "intervention." For example, in outlining the rationale for a "neutralist" (*laissez-faire*) approach to a Canadian industrial strategy, J.E. Newall, chairman and president of Du Pont Canada Inc., proclaimed that the market must be allowed to work. But at the same time he cited export promotion policies, activist purchasing codes, industrial grants, and even DREE, as legitimate state activities.²³ In Newall's view, an "interventionist" approach embraced such crackpot notions as the provision of extensive state support to "leading" industries. Thus, by their very nature, industrial assistance policies pose a rather different set of issues for capitalists than do regulatory or fiscal regimes, for example, which, if enacted by both levels of governments, may differ markedly and thereby complicate business planning. And while it is tempting to pontificate about the apparent hypocrisy of business attitudes toward the state, it is probably necessary to compare capital's posture with that of other interests. As

Michael Bliss has argued in his rich historical account of Canadian businessmen's thinking: "Is what has been called the 'homestead psychology' of Canadian businessmen—an instinctive resistance to government interference—a mentality common only to businessmen? Surely educators, trade unionists, and publishers all adopt a stance towards government of welcoming support and subsidies but prophesying catastrophe if governments attempt to regulate or control universities, trade unions or newspapers."²⁴

Industrial Policy in Canada: The Triumph of Politics?

This study has stressed the intergovernmental tensions evoked by the recent rise to prominence of industrial assistance policies. But beyond the clash of state priorities lies the broader concern that the present combination of interventionist federal and provincial governments accounts for significant economic distortions. According to some critics, governments in their lusty and competitive quest for industrial expansion have undertaken initiatives which mock conventional economic theory and which exert a cumulatively perverse economic impact. Important decisions about plant location are now the subjects of political bargaining, intervention is decried as the reflex reaction to every economic woe and, more specifically, ill-conceived regional development policies are portrayed as frightful examples of economically irrational interventions. Indeed, far from being our saviour, the active state is depicted as the source of many economic problems. Rather ironically, given its record of intervention, the government of British Columbia has provided us with a classic statement of the latter position:

There has been no attempt to apply the test of economic efficiency and international competitiveness to rationalize Canada's industrial base toward what we can do best. Industrial policy, as it has evolved in this ad hoc sectoral approach has seen governments become ever more involved in attempting to alter natural economic forces by means of grants and various incentives.

The results have been widely recognized: a weak and vulnerable industrial structure, often characterized by high costs and frequent subsidization of the less efficient by the more efficient industries, and a general decline in international competitiveness in all sectors. Industrial policies have created at least as many problems as solutions, and all Canadians have paid heavily for them.²⁵

While hardly an original contribution to Canadian debate, such sentiments have loomed large in recent debates about the future course of Canadian industrial policy.

Federal efforts to spur the economic fortunes of lagging areas have been a particular target for critics and reformers. Ottawa's attempts to decentralize Canadian manufacturing, recently described by one economist as a "charade,"²⁶ are increasingly portrayed as intolerable, given contemporary international conditions. Similarly, the recent Senate Committee on Canada-U.S. relations lambasted as naive a federal policy which tried to combine regional development with the goal of increasing industrial research and development. Particularly offensive in the Senate's view was a federal tax credit scheme which allowed greater writeoffs for "R and D" undertaken in Atlantic Canada and Quebec. In calling for an end to this practice, the Senate committee argued:

. . . , any natural tendency by industry to concentrate its research activity in the optimum Canadian centres should not be influenced by extraneous considerations. It may well be that Halifax, for example, will prove to be a natural centre for R and D work in fields such as maritime research. But such a development should not be artificially stimulated in order to promote regional development simultaneously. . . . Canada's need for R and D is too pressing to permit an incentives policy to be used for other purposes.²⁷

While federal policies have been severely criticized, many more invectives have been hurled at provincial industrial policies. Indeed, the widely reported failures of provincially-sponsored industrial developments have created a stereotype of the provincial state as an incompetent entrepreneur and a mere door mat for large corporations. As well, commentators have concluded that many provincial industrial policies have been little informed by economic reasoning and that the resulting "forced growth" policies have weakened the overall economy. As Garth Stevenson has argued: "Politically inspired locational decisions are unlikely to increase the international competitiveness of Canadian industry, and considerations of comparative advantage have been ignored in the desire of each province to emulate the industrial structure of Ontario on a smaller scale."²⁸ A related concern is that the provincial states, armed with important economic powers, may undertake policies which, either by accident or design, disadvantage other regions and/or undermine national prosperity. This concern is revealed in the remarks of two economists who have recently argued that the "province-building" role of the Alberta Heritage Savings Trust Fund is really an "economic distortion" role.²⁹

An already gloomy picture becomes even more depressing when one considers the costs associated with the proliferation of conflicting industrial incentives. T.N. Brewis has argued, for example, that several provinces have undertaken policies to expand their pulp and paper industries

"notwithstanding misgivings about overproduction in the industry as a whole."³⁰ Similar concerns have been expressed about the wisdom of the simultaneous expansion of petrochemical facilities in Alberta, Ontario, and Quebec. And as we have noted in this study, some observers worry about the forced firms and industries that might be fostered by protectionist provincial purchasing policies and other "balkanizing" practices. Critics also revel in pointing to the woeful inadequacies of existing mechanisms for intergovernmental collaboration. Perhaps prematurely, some observers have written off the recent First Ministers' conferences on the economy and the so-called "sector analyses" as exercises incapable of generating anything more than platitudes about the need for a robust private sector and greater cooperation between governments, capital, and labour. Indeed, in true Canadian fashion, recent exercises in "economic planning" have apparently degenerated into scraps about such perennial controversies as freight rates and the regional impact of the tariff. Such behaviour has prompted Richard Starks to bemoan the "crippling problems" posed by federalism as Canada struggles to renew its industrial base.³¹

Arguments about the economic inefficiencies associated with modern Canadian federalism remind us that our thinking about constitutional reform must transcend the immediate concerns of contemporary governments and elites. But, on the other hand, those exercised about the economic atrocities routinely committed by Canadian governments are remarkably vague when delimiting the actual costs incurred. For example, few sophisticated studies have been undertaken on the economic effectiveness and consequences of federal and provincial industrial development schemes. Nor is much rigorous research available on such topics as the economics of preferential provincial purchasing, or even DREE programs, for that matter. Interestingly, even T.N. Brewis, a prolific analyst of regional development policies and an outspoken critic of intergovernmental conflict, was forced to concede that the economic consequences of provincial development policies were not really known. "What the net effect of all this activity is on the industrial structure and the location of industry across the country one can only *speculate*. I *suspect* that incentives are to some extent self-cancelling, the incentives offered in one province being offset by those offered in another."³² In short, we must assume that significant distortion occurs and that the overall economic costs are high. Indeed, it is rather difficult to avoid the conclusion that many of the "economic" critiques of federalism are really statements of hostility toward the positive state or expressions of frustration with the complexity, slowness, and apparent irrationality of economic policy-making in a decidedly complex federation.

If the critics are correct, however, in arguing that current constitutional arrangements account for serious economic distortions, what then is to be done? One normal response is to advocate "letting the market work," a

prescription having a rather unrealistic ring to it for those familiar with the historical patterns of Canadian economic development. Moreover, as chapter 6 of this study has stressed, government subsidization of firms and "politically inspired location decisions" are hardly occurrences unique to the Canadian experience. Political power is obviously an important determinant of the industrial organization of modern states, even though this fact is deplored by conventional economics. To quote *Prairie Capitalism* once again: "In the real, as opposed to the academic, world, power tends to be as important as the principles of textbook economics in determining the regional distribution of industry, jobs, and wealth in capitalist societies; a fact which can be confirmed through the most rudimentary survey of Ontario's historical hegemony with Confederation."³³

Are there any reforms which might minimize intergovernmental competition and the resulting economic inefficiencies? It is to this question that we now turn.

8 The Prospects for Reform

It is rather tempting to conclude this study quickly and very pessimistically by arguing that the problems engendered in the Canadian federation by industrial assistance policies are simply insoluble. Indeed, it is equally tempting to update and elaborate the following statement by Frank Scott concerning the enduring regional economic conflicts in Canada and thereby to lay the issue of constitutional reform to rest. Writing in 1951, Scott asked rhetorically:

What division of powers is appropriate for a country where 90% of the people live in a narrow ribbon of settlement, broken in the middle, stretching 4,000 miles across the continent, and now including the detached island province of Newfoundland, particularly when the principal regions vary so widely in their economic activities? The wheat economy of the west, even though broadened by new industrial growth, would make an uneasy companion for the manufacturing central provinces under any form of government.¹

The analysis presented in this study supports the conclusion that there will be no "salvation through constitution."² The conflicts associated with the growth of interventionist governments, both in Ottawa and the provinces, are now ingrained features of the Canadian polity and recent developments reveal, if anything, a further deterioration of intergovernmental relations. Accordingly, Canadians desirous of a restructured political community should expect neither miracles nor panaceas to flow from the contemporary drive toward a "renewed federalism."

Some Options for Reform

In his lucid critique of recent constitutional debates, Alan C. Cairns has argued that constitutional discourse to date has really been an exercise in "shadow-boxing" and that a serious debate about the future of the

Canadian community has not yet been joined.³ Our review of reform proposals in the sphere of industrial assistance policy attests to the accuracy of Cairns' general observation. For perhaps in testimony to the complexity of issues, few substantive reform proposals have been articulated to date. We are thus forced to infer certain strands of thought about industrial assistance policy from a variety of general statements about constitutional reform. While perhaps running the risk of oversimplification, such an exercise in inference yields the following general observations:⁴

- (a) both the federal and the provincial governments have an important role to play in economic development;
- (b) there is a pressing need for improved processes of inter-governmental collaboration in the face of interdependence;
- (c) the federal state must retain sufficient constitutional and fiscal capacity to perform its regional development functions;⁵
- (d) efforts should be made to clarify the roles of governments with a view to eliminating unnecessary duplication, friction, and intergovernmental conflict;
- (e) there should be stronger constitutional guarantees of the Canadian common market.

With the significant exception of the last point, the above list entails no particularly novel prescriptions. Indeed, the general lack of specificity in contemporary constitutional proposals suggests that industrial assistance policy-making will not stray from the conflict-ridden status quo.

One omnipresent option for reform, but one which has seldom been thoroughly debated recently, is to entrust the federal state alone with control over the levers of industrial assistance policy-making. Under such a constitution, Ottawa would be the focal point of economic policy-making, with the provinces being relegated to a decidedly minor role. The virtues of such a reform appear numerous and include an allegedly enhanced capacity to cope with external economic forces, a potentially significant reduction in internecine domestic policy-making, and a conceivably greater degree of coherence in national policy-making. As well, by reducing the influence and policy-making powers of the provincial states, a "centralizing" constitution might help shift debates about industrial policy away from our territorial obsessions and toward a clearer focus on issues such as the state-industry nexus, economic planning, and the distribution of benefits between social classes. The quest for a more centralized federal state is, however, destined to flounder on the shoals of contemporary provincialism. Our study has revealed an unprecedented provincial commitment to the flexing of their economic muscles and recent developments suggest that the political and economic forces underpinning contemporary province-building will not soon wither away. Deeply suspicious of the federal state's motives and

commitment to their prosperity, the hinterland provinces, particularly the resource-rich western ones, are singularly unwilling to cede important powers to Ottawa. As J.A. Corry has cogently argued: ". . . , as far as formal constitutional doctrine and powers are concerned, Canada is properly described as having one of the most decentralized constitutions in the modern world. We had better come to terms with that. Canada, because of Quebec and the great regional diversities, is an incorrigibly federal country."⁶

And what of a constitution which permitted only the provinces to wield the important levers of industrial assistance policy? Such an arrangement, by eliminating the federal state's capacity to enact "discriminatory" industrial development policies, would permit the provinces to nurture their economies free from the nagging complications engendered by Ottawa's meddling. It is difficult, however, to see many virtues in a wholesale decentralization of industrial assistance policy-making and economic powers generally. As Professor Smiley has argued, a more potent provincial role would probably lead to the further erection of non-tariff barriers and a widening of interprovincial economic disparities.⁷ The latter point is a particularly important one. For our analysis has demonstrated that the provincial states' capacity to promote industrial development is ultimately determined by their industrial structure, their location, and their fiscal capacity. A very decentralized federalism would undoubtedly permit the already wealthy provinces to further dominate the interprovincial struggle for industry. A revised constitution, dedicated to the aggrandizement of provincial power, would also restrict, if not eliminate altogether, Ottawa's already tenuous capacity to redistribute the increasingly slender fruits of economic union. The recognition of this reality explains the perennial commitment of governments in Atlantic Canada to a strong central authority.⁸ Finally, decentralization would replace federal-provincial acrimony with more frequent and intense interprovincial rivalries. As we have argued above, such interprovincial competition would be in favour of the already prosperous provinces.

While neither centralization or decentralization are likely to be our constitutional saviours, there may be a middle ground in "disentanglement." This ugly contemporary buzzword implies a constitutional order, wherein both levels of government are active, but also one wherein the roles of government are more clearly specified than under the status quo. Indeed, the notion of "disentanglement" is so important to the Quebec Liberal party that it enshrined the principle in its recent constitutional document. "The division of powers must recognize that each level of government is autonomous in its sphere of activity. As a corollary, we favour a clear and precise division of powers which, as much as possible will avoid overlaps, duplication, and steer away from grey areas."⁹ As a "grey

area" par excellence and a sphere characterized by considerable conflict, industrial assistance policy appears to be a prime candidate for the application of as yet unspecified principles of disentanglement. But in our view several major obstacles complicate the quest for a simpler division of powers. First, what principles of disentanglement should be applied? The reflex response to this question is that the federal state should be concerned with matters of national significance, while the provinces should be empowered to nurture the provincial economies.¹⁰ Such a prescription is a singularly useless guide to reform. Second, in their efforts to promote industrial development, Ottawa and the provinces have come to rely on an essentially similar arsenal of discretionary industrial policies. And given the importance of industrial development for governments, it is unlikely that either level will renounce the right to employ such levers as locational incentives, grants, subsidies, and state financial services. This is not to argue that there is no hope for a more streamlined federalism, but merely to suggest that disentanglement is no panacea and that agreement is most likely to be reached on such relatively straightforward matters as the provision of information and management services to businessmen.

The Common Market Debate

The contemporary controversy about the integrity of the Canadian "common market" provides us with several substantive reform proposals. Two paramount concerns lie at the heart of current debates; the apparent proliferation of provincial policies which restrict the flow of capital, goods, people, and services within Canada and the current constitution's silence on the legitimacy of such practices. With respect to the latter point, Peter Leslie has described the BNA Act as "a notoriously weak fundamental law for the operation of a common market."¹¹ While section 121 of the act seems to prohibit the erection of provincial tariffs, our written constitution ignores the problem of such provincial non-tariff barriers as preferential purchasing policies.

The mainstream of scholarly analysis and a majority of important recent reform proposals have decried the secular demise of the "common market."¹² The steadily lengthening list of provincial non-tariff barriers, the critics argue, impedes interprovincial trade and thereby ensures that the factors of production are not employed efficiently. Weak industries are thus fostered and Canada's already modest domestic markets are further fractured. Moreover, to the extent that provincial protectionism invites retaliation by other provinces, the potential effectiveness of such measures is correspondingly reduced. More political accounts depict provincial non-tariff barriers as little more than new forms of patronage and measures designed to enhance the power of economic and state elites in the provinces.

In an effort to reduce economic fragmentation, various commentators and constitutional reports have prescribed stronger constitutional guarantees of the flow of goods, services, people, and capital. For example, a cornerstone of the Quebec Liberal party's constitutional blueprint is the following proposal: "To strengthen the Canadian economic union, we recommend that a clause be inserted in the constitution effectively guaranteeing this free circulation of goods and capital."¹³ Similar recommendations are found in the report of the Task Force on Canadian Unity, the report of the Canadian Bar Association on constitutional reform, and the writings of A.E. Safarian. Interestingly, while calling for a strengthening and clarification of section 121, the Pepin-Robarts report suggested that preferential provincial purchasing practices should be governed by inter-provincial agreements, rather than by the constitution.¹⁴

In July 1980, the debate about the Canadian common market assumed increased significance when the federal government released a strongly-worded position paper entitled "Securing the Canadian economic union in the Constitution."¹⁵ The essence of Ottawa's position was that a recent proliferation of government policies had substantially eroded the Canadian common market and that explicit constitutional reforms were required to rectify this serious problem. The federal government buttressed this general argument by contending that present constitutional provisions, especially section 121 of the BNA Act, provided inadequate protection for the Canadian economic union under contemporary circumstances. Particularly problematic in Ottawa's view was the current constitution's silence on the issue of provincially imposed non-tariff barriers to trade. In Ottawa's view, provincial protectionism was exerting an adverse impact on Canada's already shaky economic performance and also denying Canadians the full benefits of citizenship. As the federal minister of justice argued in September 1980: "We don't want discrimination based upon a kind of concept that there is a kind of citizenship within a province."¹⁶

At the heart of Ottawa's reform proposals were three intertwined constitutional revisions:

- (a) the constitutional entrenchment of the mobility rights of citizens;
- (b) the revision and expansion of section 121 of the BNA Act with a view to limiting governments' capacity to impede economic mobility;
- (c) the broadening and clarification of federal powers over trade and commerce.

In making its case for such changes, the federal government acknowledged that certain legitimate provincial initiatives would necessarily create obstacles to economic mobility and that "absolute economic mobility

within Canada" was neither a desirable nor an attainable objective under federalism. But in recognizing the inevitability of certain challenges to the common market principle, the federal government was adamant that the excesses of contemporary provincial protectionism warranted constitutional changes.

Shortly after the release of Ottawa's proposals, the government of Saskatchewan unveiled a critique of the federal analysis and reform proposals.¹⁷ Among other things, Saskatchewan argued that the federal document employed unwarranted hyperbole and that the Canadian common market had not been seriously threatened by recent provincial actions. Moreover, while the federal proposals, if enacted, would restrict the scope of provincial economic policies, they were silent about the "big economic levers" of taxation, transportation, and tariff policy. Historically, the latter policies had exerted a regionally discriminatory effect and ironically, provincial "protectionism" was often a defensive response to insensitive federal initiatives. Finally, Ottawa's proposals would transfer to the courts the onerous task of enforcing the economic union, a task the Canadian judiciary was ill-equipped to perform. Sensitive decisions about the tradeoffs between the achievement of legitimate provincial objectives and the integrity of the common market were more properly the domain of politicians. As an alternative, Saskatchewan proposed that a revised Canadian constitution should include nothing more than a statement of commitment by governments "to the effective operation of the economic union." Such a statement might also include a reference to an "ongoing review" by Ottawa and the provinces of economic policies with a view to "enhancing our economic union."

The federal proposals were debated at the ill-fated First Ministers' Conference on the Constitution in Ottawa in September 1980. Only the government of Ontario endorsed wholeheartedly the federal position and not surprisingly, many premiers attacked the apparent alliance of convenience between Ottawa and Queen's Park. The provincial assessment of Ottawa's position embraced three distinct arguments.¹⁸ First, the federal proposals, if accepted, would limit significantly the provinces' economic powers and would represent a significant expansion of Ottawa's control over the Canadian economy. Second, many premiers argued that provincial protectionism was a necessary antidote to the regionally discriminatory effects of federal policies. A variation of this theme was Prince Edward Island's argument that a rigorously pursued economic union was a ruthless and inherently discriminatory concept.¹⁹ Far from making all the provinces better off, the federal proposals would favour the economically strong regions at the expense of the less well advantaged. Finally, a number of provinces endorsed Saskatchewan's views about the judiciary's capacity to referee the economic union.

While the provinces, with the exception of Ontario, were hostile to Ottawa's proposals, they were willing to entertain a constitutionally enshrined statement of commitment to the principle of an economic union. But as Prime Minister Trudeau replied: "If it is going to be just a statement in principle, it is not enough."²⁰ Accordingly, the September 1980 constitutional conference concluded with no firm commitment to any constitutional guarantees of the Canadian economic union.²¹

The debates at the September 1980 conference revealed deep intergovernmental disagreement about the desirability of strong constitutional guarantees of the common market. At present, only Ontario, as the province with the largest stake in economic integration, and the federal government are committed to sweeping reforms in this area. For those familiar with Canadian federalism, the reaction of the other provinces to an Ottawa-Queen's Park alliance is rather predictable, if not necessarily always rational. As well, the hinterland provinces are deeply committed to economic diversification and are hence unlikely to accept a potentially sweeping reduction of their economic powers.

And what of the prospects for interprovincial agreements to limit "balkanizing" practices? As chapter 5 of this study suggests, past efforts of this nature have failed, Ontario's very recent initiatives have been icily received (at least in Edmonton), and other recent developments reveal no harbingers of a more benign era in interprovincial relations. Our analysis thus reinforces Donald Smiley's pessimistic, but realistic, assessment of the situation: "Within the context of the strong currents of provincialism which now prevail, it is unlikely that there will be significant relaxation of provincial challenges to the Canadian common market by way of either constitutional amendment or agreements among the provinces to forego such practices."²²

Conclusion

If the central arguments of this monograph are broadly correct, there is little hope for either sweeping general reforms or the imminent emergence of a broad intergovernmental consensus on the substance of industrial assistance policy. For in modern Canada, debates about industrial strategy are shaped by a complex confluence of international constraints, political posturing, competing corporate interests, and the often conflicting goals of eleven interventionist governments. In advancing such a pessimistic argument, I remain hopeful that other students of industrial policy, and indeed, policy-makers themselves, find it easier than I have done to prescribe solutions to the myriad problems posed by Canadian federalism.

Epilogue

Since this monograph was first drafted, debates in Canada about constitutional reform, the state's role in the economy, and the substance of industrial policy have continued with renewed vigour. As well, the literature on such questions continues to proliferate as scholars probe the political and economic underpinnings of contemporary controversies. Accordingly, the purpose of this epilogue is to review briefly a number of recent political developments and scholarly contributions.

Turning first to scholarship, three recent contributions are noteworthy. First, Richard D. French, in his admirable study, *How Ottawa Decides: Planning and Industrial Policy-Making 1968-1980*,¹ has provided rich insights into the internal politics of the federal bureaucracy. French shows effectively how the confluence of competing "agency philosophies" and "planning systems" led the federal government to eschew the adoption of either the "technological sovereignty" option or the "free trade" approach to a Canadian industrial strategy. *How Ottawa Decides* reminds us forcefully that the federal bureaucracy is a complex and heterogeneous entity replete with internal controversies about the scope of state intervention and the content of an industrial strategy.

A second provocative contribution is Donald J. Savoie's recent book on the impact of the General Development Agreements (GDAs) on governments in Atlantic Canada.² As chapter 4 of this study has noted, the GDA concept was heralded by Ottawa as a major advance in federal-provincial co-operation. But Savoie maintains that the implementation of GDAs has had far-reaching, and generally negative, influences on politics in Atlantic Canada. Indeed, he argues, in stark contrast to federal rhetoric, that the GDAs have been used to extend the federal bureaucracy's influence over provincial priorities. Federal officials seem little impressed by the fact that most of the GDAs fall in areas for which the provinces hold constitutional authority. As well, the GDAs have altered the relationships between politicians and civil servants and have eroded further the role of legislatures in

the Atlantic region. More speculatively, Savoie argues that maritime politicians are reluctant to criticize the status quo lest federal funds be reduced or even withdrawn. At a time when DREE is a much maligned institution, the Atlantic provincial governments are reluctant to join the growing chorus of criticism.

A third significant contribution is Michael Bliss' interpretative essay entitled "Rich by Nature, Poor by Policy": The State and Economic Life in Canada.³ Bliss attacks the assumption that government intervention has generally been effective in Canada and lauds the recent work of Canadian scholars which has explicitly questioned the desirability of past and contemporary interventions. However, even though the "heroic" interpretation of the Canadian state is under attack by scholars, Bliss argues that Canadians' "addiction to big government," is likely to continue. For contrary to businessmen's rhetoric, there is little sustained support in the private sector for a substantially reduced role for the state. As well as providing a penetrating antidote to some of the arguments advanced in this study, Bliss' essay points to the need for objective economic analysis of industrial assistance policies.

And what of recent government actions? The government of Ontario continues to propose a number of measures to bolster that province's faltering economic performance. Indeed, shortly before the 1981 provincial election, the Conservative government published a document entitled "Building Ontario in the 1980's."⁴ Predicated upon the need for a more active economic role for the provincial government, the policy paper announced the establishment of a new cabinet committee—the Board of Industrial Leadership and Development (BILD). Chaired by the provincial Treasurer, BILD was empowered to plan and implement the government's "total economic development effort." Policy priorities were defined in vague terms and included the transition of Ontario's economy from oil and gas dependence toward reliance on electricity and nuclear power, the improvement of transportation infrastructure, the encouragement of resource upgrading, and the promotion of high-technology industries. Programs in these and other areas would involve expenditures of \$1.5 billion during the 1980s, although substantial federal support was anticipated.

The BILD proposals were denounced by some critics as mere political gimmicks and evoked controversy about the adequacy of Queen's Park's diagnosis and prescription.⁵ As well, recent events suggest that the federal and Ontario governments disagree on how to rejuvenate Ontario's declining manufacturing industries. Accordingly, Ottawa has been reluctant to commit itself to any of Ontario's cost-sharing proposals. Rather ironically, given the currently wretched state of Alberta-Ottawa relations, one Ontario cabinet minister has argued that the federal government's

lukewarm response is best explained by Ottawa's growing desire to promote industrial development in western Canada.⁶

The government of Ontario continues to spearhead a campaign against provincially-imposed barriers to mobility and in favour of greater inter-governmental cooperation in industrial development. Ontario's now familiar arguments have most recently been summarized in a document released by the province's Ministry of Industry and Tourism.⁷ In arguing that any further erosion of the common market will threaten Canada's survival as a nation, Ontario has urged other governments to eschew their "balkanizing" practices and to abandon their currently competitive approach to industrial development policy-making. A central theme in Ontario's pronouncements is that government procurement, if coordinated properly, can be employed to strengthen Canada's industrial base. As well, cooperative government action is urgently required to ensure that Canadian materials are employed to the extent possible in a number of impending resource-related "mega-projects." Ontario's specific proposals include:

- (a) a more active role for the federal-provincial procurement committee;
- (b) the development of import-replacement programs for selected industries;
- (c) the bilateral exchange of senior civil servants;
- (d) the establishment of procurement guidelines for "mega-projects"; and
- (e) the establishment of a Canadian Domestic Market Development Agency (CDMDA). Funded jointly by all eleven governments, the CDMDA would be empowered to develop, in cooperation with the private sector, a range of import-replacement programs and coordinated procurement policies.

There is little reason to believe that the 1980s will witness the emergence, at Ontario's behest, of a new era in intergovernmental cooperation. On the positive side, governments have recently worked together on what Ontario calls the "health care import replacement program." However, the federal-provincial procurement committee has made little real headway and governments have been unable to hammer out even a nonobligatory "Code of Understanding on Public Procurement." Indeed, with the exception of Ontario, the provinces currently appear rather uninterested in the subject of common market reform.

The Major Projects Task Force (MPTF) reported in the summer of 1981. Chaired by Robert Blair, president of Nova Corporation, and Shirley Carr, executive vice-president of the Canadian Labour Congress, the MPTF comprised ninety members from prominent business and labour organizations.⁸ It was charged with examining ways of ensuring maximum Canadian

industrial benefits from the major resource development projects of this decade. The task force had been at work for more than two years and had received secretarial support from the federal government. Ottawa and all the provincial governments except Alberta endorsed the task force's work and sent observers to its deliberations. In refusing to participate in what has been described as a model of cooperation between governments, business, and labour, Alberta advanced a number of rather suspect arguments. Among other things, the provincial government contended that the task force was a federal creature and "a federal initiative to justify their involvement in mega-project purchasing."⁹

Alberta's rejection of the MPTF by no means foreordains the task force's failure. However, a number of "mega-projects" are scheduled for Alberta and the negotiation of substantial industrial benefits for Canada will certainly be complicated if policy-making is undertaken in the context of another bitter Ottawa-Alberta feud. As well, Alberta's rationale for refusing to participate—that the federal government is involved—reflects the continuing suspicion in Alberta government circles of the present federal government.

Over the last year, the federal government has taken the offensive in constitutional matters and resource policy. Indeed, the National Energy Program's plans for "Canadianizing" the oil and gas industries have evoked heated debates about the role of federal and provincial governments and, equally important, about the relationship between public and private enterprise. As a third prong in its recently launched offensive, Ottawa is rumoured to be charting a new "industrial strategy." Indeed, the *Financial Times of Canada* published, in September 1980, excerpts from a confidential cabinet document on federal industrial policy.¹⁰ The document was prepared by the Department of Industry, Trade and Commerce, and advocates additional federal expenditures of \$1.75 billion on industrial development over the next four years. And in arguing for a more active and nationalistic federal role in restructuring Canada's manufacturing industries, the report proposed a number of policy initiatives. These include:

- (a) efforts to promote such "high-technology" industries as aerospace, health care products, transportation equipment, and electronics;
- (b) efforts to increase exports through reliance, if necessary, on concessionary export-financing;
- (c) assistance for Canadian firms wishing to "repatriate" foreign-owned assets;
- (d) more extensive scrutiny and control of foreign firms doing business in Canada;

- (e) a more active role for the Canada Development Corporation in the manufacturing industries;
- (f) the development of "industrial benefits" legislation to govern Canadian participation in "mega-projects"; and
- (g) accelerated programs of adjustment and rationalization for such troubled industries as primary textiles, footwear, and clothing.

Despite considerable speculation about the possible content of a new Canadian industrial strategy, little of substance has so far emerged from Ottawa. For example, the industrial policy document, released as part of the November 1981 federal budget, has been widely criticized as a vague document which breaks no new ground.¹¹ In fact, the content of that document is generally seen as a major retreat from the interventionist and nationalistic industrial strategy hinted at by the prime minister and actively championed by Herb Gray, the minister of Industry, Trade and Commerce. One possible explanation for Ottawa's failure to articulate a new industrial policy is that the constitutional and energy struggles have severely taxed the federal government's political resources and that under these circumstances further controversial policy measures have been postponed. A rather more convincing explanation points to continuing disagreements within the federal government about the goals of an industrial policy, the tradeoffs between intervention and market forces, and the desirability of further efforts to extend Canadian ownership and control, given Washington's hostile response to the National Energy Program.¹²

In early January 1982, Prime Minister Trudeau announced a reorganization of those federal government agencies charged with industrial and regional development responsibilities.¹³ Salient features of the reorganization include:

- (a) the disbandment of DREE and DITC and their replacement by a single department, the Department of Regional Industrial Expansion (DRIE);
- (b) a clarification and expansion of the roles of the former Ministry of State for Economic Development. Now referred to as the Ministry of State for Economic and Regional Development (MSERD), the revamped ministry will assist the Cabinet Committee on Economic and Regional Development; and
- (c) a major expansion of the Department of External Affairs' role in the development and implementation of trade policy.

It is, of course, difficult to speculate about the policy consequences of such institutional changes. Federal spokesmen claim, however, that the reorganization underpins an effort to reduce long-standing tensions between the

often conflicting goals of national economic growth and balanced regional development. Indeed, if successful, the changes will make regional considerations much more important, for better or worse, in the formulation of most federal economic policies. But in my view, the recent "elevation" of regional considerations to new prominence by no means guarantees a more harmonious era in federal-provincial relations. For when announcing the reorganization, Ottawa expressed a desire to renegotiate federal-provincial development agreements with a view to enhancing federal control. Such a plan is likely to be bitterly resisted by some provincial governments. Nor is it obvious that the provincial governments will universally welcome Ottawa's intention to play, through MSERD, a major role in the negotiation and promotion of forthcoming "mega-projects."

Notes

Notes to Chapter One

1. For a general discussion of the reasons for modern governments' increasing reliance on industrial assistance policies, see Bela Balassa, "World Trade and the International Economy: Trends, Prospects and Policies," World Bank Staff Working Paper no. 282 (The World Bank: Washington, D.C., May 1978).
2. For a review of the Parti Québécois' views on these matters, see Government of Quebec, *Québec-Canada: A New Deal*, especially pp. 26-30.
3. Larry Pratt, "The State and Province-Building: Alberta's Development Strategy," in Leo Panitch (ed.), *The Canadian State*.
4. In reviewing the industrial assistance sphere, I am persuaded by Alan C. Cairns' general argument about the balance of power between Ottawa and the provinces in the contemporary Canadian federation. Writing in 1979, Cairns argued: "The resultant federal system can no longer be captured under yesterday's labels as either centralized or decentralized. Rather it is characterized by strong government at two levels, with the admitted exception of the weaker provincial governments of the Atlantic region." For details, see Alan C. Cairns, "The Other Crisis of Canadian Federalism," *Canadian Public Administration* 22, no. 2: 181.
5. *Ibid.*, p. 194.
6. J.A. Corry, "Pendulum on long swing toward decentralization," *Financial Post*, 29 April 1978, p. 7.
7. "Conference of Federal-Provincial Ministers of Industry, 30 January 1978," *Canada Commerce*, April 1978, p. 2.
8. "True north: Northern Ontario wants its destiny back," *Financial Post*, 18 June 1977, pp. 20, 21.

Notes to Chapter Two

1. C.J. Wenaas, "Provincial Roles in Regional Development Programs," in *Regional Poverty and Change*, p. 217.
2. D.V. Smiley, *Canada in Question: Federalism in the Seventies*, second edition, p. 134.
3. For useful descriptions of the current range of federal industrial assistance programs, see *Canada Yearbook 1976-77* (Ottawa: Minister of Supply and Services Canada, 1977), especially pp. 821-25; Peter E. McQuillan et al., *Industrial Assistance Programs in Canada*; and John Volpe, *Industrial Incentive Policies and Programs in the Canadian-American Context*, especially ch. 2.
4. Canada, House of Commons, *Debates*, 7 June 1963, p. 802.
5. Canada, House of Commons Standing Committee on Finance, Trade, and Economic Affairs, *Minutes of Proceedings and Evidence*, 25 March 1969, p. 1908.
6. A notable exception to the latter tendency was the NDP's 1972 election campaign which portrayed DITC programs as a form of "welfare" for large corporations.
7. Canada, Department of Industry, Trade and Commerce, *Annual Report, 1970-71*, p. 12.
8. For a review of federal assistance for Canadian shipbuilders, see Canada, Committee on Shipbuilding in Canada, *Report*.
9. Department of Industry, Trade and Commerce, *Canadian Federal Government Services to Business* (Ottawa: 1977), p. 9.
10. Michael Jenkin, "The Prospects for a New National Policy," *Journal of Canadian Studies* 14, no. 3: 129.
11. Wayne Cheveldayoff, "New Cabinet must leap toward interventionism," *Globe and Mail*, 17 February 1980, p. B-2.
12. Canada, House of Commons, Standing Committee on Finance, Trade, and Economic Affairs, *Minutes of Proceedings and Evidence*, 30 March 1971, vol. 32, p. 4.
13. See, for example, Anthony Careless, *Initiative and Response: The Adaptation of Canadian Federalism to Regional Economic Development*; G.B. Doern and Richard W. Phidd, *The Politics and Management of Canadian Economic Policy*, especially ch. 9.
14. For a comparison of DREE and DITC expenditures on industrial assistance, see Economic Council of Canada, *Living Together*.
15. For a brief review of the data surrounding the question of incrementability, see *Ibid.*, pp. 161-62.
16. See, for example, Alan G. Green, "Regional Economic Disparities," in Lawrence H. Officer and Lawrence B. Smith (eds.), *Issues in Canadian Economics*, pp. 354-71.
17. Robert S. Woodward, "The Effectiveness of DREE's New Location Subsidies," *Canadian Public Policy* 1, no. 2.
18. Dan Usher, "Some Questions About the Regional Development Incentives Act," *Canadian Public Policy* 1, no. 4, especially p. 564.
19. *Ibid.*
20. *Ibid.*, p. 575.

21. Judith Maxwell (ed.), *Policy Review and Outlook*, 1978, p. 90.
22. Judith Maxwell, "Regional Disparities: The Economic Challenge for Confederation," Staff Speech no. 17 (Montreal: C.D. Howe Research Institute, 1978).
23. See, for example, Paul Phillips, *Regional Disparities*.
24. For a general discussion, see Wallace Clement, "A Political Economy of Regionalism in Canada," in Daniel Glenday et al. (eds.), *Modernization and the Canadian State*.
25. "DREE does not have an overall development plan into which it is trying to force or cajole private investment. Rather, the private sector is left to dictate if there will be manufacturing in certain locations and, if so, what type of manufacturing this will be." David Springate, "Difficulties Associated with DREE's Current Approach," in N.H. Lithwick (ed.), *Regional Economic Policy*, p. 274.
26. R. Ian McAllister, "Some Economic Problems of a Federal System," in Lawrence H. Officer and Lawrence B. Smith (eds.), *Issues in Canadian Economics*, p. 405.
27. Ontario, Ministry of Industry and Tourism, *Interprovincial Economic Co-operation*, especially p. 16.
28. See, for example, Klaus Stegemann and Keith Acheson, "Canadian Government Purchasing Policy," *Journal of World Trade Law* 6, no. 4.
29. Wayne Cheveldayoff, "New federal approach to buying gets mixed review," *Globe and Mail*, 5 May 1979, p. B-3.
30. Stegemann and Acheson, p. 465.
31. An interesting illustration of the conflict engendered by the exercise of "ministerial discretion" in the awarding of government contracts is the 1978 controversy about a computer service contract. The dispute occurred when the minister of Supply and Services, Jean Pierre Goyer, awarded a contract to a Quebec firm on the basis of "socio-economic considerations." The department refused to clarify the nature of such considerations or how they were applied. For details, see Robert Stephens, "Computer service industry upset about recent tendering process," *Globe and Mail*, 25 May 1978, p. B-1.
32. For competing views of the proper nature of a Canadian "industrial strategy," see John N.H. Britton and James M. Gilmour, *The Weakest Link*; Economic Council of Canada, *Looking Outward*; and Richard Starks, *Industry in Decline*, especially ch. 7.
33. Donald V. Smiley, "Canada and the Quest for a National Policy," *Canadian Journal of Political Science* 8, no. 1.
34. *Ibid.*, p. 56.
35. For details of Horner's views, see Carol Goar, "An industrial strategy is complex process," *Edmonton Journal*, 29 April 1978, p. A.3. Horner's views about the problem of articulating an "industrial strategy" have been echoed by other recent ministers of Industry, Trade and Commerce. Alistair Gillespie, for example, remarked in 1975: "I have steadfastly resisted the temptation to announce one masterplan for industrial strategy development in Canada. You know, it sounds great but when you look behind it, it is not much more than cosmetics." See Canada, House of Commons, Standing Committee on Finance, Trade, and Economic Affairs, *Minutes of Proceedings and Evidence*, 6 May 1975, p. 16. For an excellent account of Ottawa's efforts to shape an industrial strategy, see Richard D. French, *How Ottawa Decides*.

36. For details, see Mary Trueman, "Trudeau would strengthen FIRA," *Globe and Mail*, 13 February 1980, p. 9.
37. Wayne Cheveldayoff, "Stormy cabinet debates ahead over industrial policy initiatives," *Globe and Mail*, 10 March 1980, p. B-2.
38. *Ibid.*

Notes to Chapter Three

1. Anthony Careless, *Initiative and Response*, p. 92.
2. J.A. Corry, "Pendulum on long swing toward decentralization," *Financial Post*, 29 April 1978, p. 7.
3. Philip Mathias, *Forced Growth*.
4. John Richards and Larry Pratt, *Prairie Capitalism*, especially ch. 1.
5. See, for example, T.N. Brewis, "Regional Economic Planning at the Provincial Level," in N.H. Lithwick (ed.), *Regional Economic Policy*; Peter E. McQuillan et al., *Industrial Assistance Programs in Canada*; and Carl J. Wenaas, *Provincial Economic Policies*.
6. For a review of the ministry's activities, see Ontario Ministry of Industry and Tourism, *Ontario Review: 1977-78*.
7. For details, see Quebec Industrial Development Corporation, *Annual Report*, 1972.
8. For a useful, critical analysis of the EIOL program, see John Calvert, "Unforgivable loans: How Stanley Randall developed Ontario," *Canadian Forum* (June 1971): 23-30.
9. For details of the OBIP program, see Ontario, Ministry of Industry and Tourism, *Ontario Review: 1977-78*, especially pp. 49-51.
10. For background material on the differences between the two provincial economies, see Canada, *Canadian Manufacturing Prospects From a Regional Perspective* (Ottawa: January 1978).
11. For details of the Financial Assistance Program for Certain Industrial Sectors, see Quebec, Department of Industry and Commerce, *Annual Report*, 1971-72.
12. "Yes, there is room for new Quebec industrial agency," *Financial Post*, 12 June 1971, p. 91.
13. For details, see Quebec, Executive Council, *A Quebec Policy on Foreign Investment* (Quebec: Editeur officiel du Québec, 1973).
14. Quebec, Department of Industry and Commerce, *Annual Report*, 1973-1974, p. 20.
15. For details, see Joan Fraser, "Incentives in Quebec: Saulnier lays out new language rules," *Financial Times of Canada*, 22 September 1975, p. 15.
16. For a useful review of Quebec's public enterprise sector, see Pierre Fournier, *The Quebec Establishment*, especially ch. 10.

17. René Paré, chairman of the General Investment Corporation, as cited in Claude Forget, *Economic Policies of the Province of Quebec*, pp. 20-21. In a still influential article, Albert Breton portrayed Hydro-Quebec as "a form of public works for the middle class." See "The Economics of Nationalism," *Journal of Political Economy* 72, no. 4: 585.
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13. *Ibid.*, p. 20.
14. *Ibid.*, p. 119.
15. For details, see Rober Newman "Manitoba increases investment to 81.7% in Saunders Aircraft," *Globe and Mail*, 17 December 1974, p. B-3.
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2. John Richards and Larry Pratt, *Prairie Capitalism*, especially ch. 1.
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20. Canada, Senate, Standing Committee on Foreign Affairs, *Minutes of Proceedings and Evidence*, 9 June 1977, p. 8.
21. Terry Dodsworth, "World tire industry pace-setter Michelin is secrecy-shrouded and eccentric," reprinted in *Globe and Mail*, 10 December 1979, p. B-6.
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30. For the reaction of the Atlantic provinces, see Bill Fox, "Premiers like DREE; Ottawa in doubt itself," *Edmonton Journal*, 15 February 1978, p. 8.
31. For details, see Lisa Balfour Bower, "The Big Pitch for Business," *Globe and Mail*, 23 February 1980, p. 8 and Nordahl Flakstad, "Ontario content sought in oil plants," *Edmonton Journal*, 29 February 1980, p. C-10.
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3. Volpe, *Industrial Incentive Policies and Programs in the Canadian-American Context*, especially pp. 47-49.
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5. *Ibid.*, p. 12.
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11. *Ibid.* See also "Big steelmakers still confident on capital plans," *ibid.*, 26 January 1980, pp. 1, 4.
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13. For details of recent interstate rivalries in the northeastern United States, see Roderick Oram, "States skirmish over Canadian firms," *Globe and Mail*, 11 June 1977, p. B-5.
14. For reviews of the promotional activities of the American states, see Susan Goldenberg, "U.S. says 'come on down'," *Financial Times of Canada*, 21 January 1980, pp. 1, 12; Roderick Oram, "How Canada competes with U.S. for new plants," *Financial Post*, 21 October 1978, p. 13 and "U.S. states woo Canadians," *ibid.*, 12 May 1979, p. 10.
15. "N.Y. seeks plants," *Edmonton Journal*, 8 June 1979, p. F-5.
16. "U.S. states woo Canadians," *Financial Post*, 12 May 1979, p. 10.
17. Canada, Senate, Standing Committee on Foreign Affairs, *Canada's Trade Relations with the United States*, especially pp. 29-30. Recently, Bombardier Inc., a Quebec-based producer of transportation equipment, announced that it was considering shifting some of its production facilities to the U.S. as a response to recent "Buy America" provisions. See "Bombardier may move some operations south," *Edmonton Journal*, 8 December 1979, p. E-6.
18. See, for example, "A place in the sun," *Financial Post*, 12 May 1979, p. 9.

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20. Canada, Department of Industry, Trade and Commerce, Sector Profile Discussion Paper, *The Automotive Industry in Canada*, Ottawa, n.d.
21. "Incentives proposed for U.S. auto giants," *Financial Times of Canada*, 15 May 1978, p. 14.
22. As first proposed, Ottawa would provide 75 percent of the grants, with Ontario and Quebec providing the outstanding 25 percent. Interestingly, it appears that the federal government offered Ford the full \$30 million grant *before* Queen's Park had agreed to the principle of cash grants to the "Big 3." As David Leyton-Brown has argued: "While the Ontario government considered its position on incentives, Mr. Horner *unilaterally* offered the full \$30 million to Ford, but continued to request that Ontario contribute 25 percent." David Leyton-Brown, "The mug's game: automotive investment incentives in Canada and the United States," *International Journal* 35, no. 1, p. 172 (emphasis added).
23. For overviews of the different actors' positions, see Alan D. Gray, "The scramble for autoplants," *Financial Times of Canada*, 4 September 1978, p. 10 and Roger Worth, "Power plays over plant location," *Financial Post*, 24 June 1978, p. 39. For an analytical perspective, see Leyton-Brown, "The mug's game," p. 172.
24. Roger Worth, "Doubt over GM plants as auto war drops to low gear," *Financial Post*, 12 August 1978, p. 2.
25. Peter Mosher, "Betrayed by Ottawa on Ford plant deal, Rhodes tells house," *Globe and Mail*, 24 July 1978, pp. 1, 2.
26. Leyton-Brown, "The mug's game," p. 176. The new plant was to employ 2,600 persons directly, create 2,400 jobs indirectly, and pay \$60 million a year in taxes.
27. For details, see Jeff Carruthers, "Canada, U.S. call for an end to bidding war," *Globe and Mail*, 5 August 1978, p. 1.
28. For Quebec's views, see Estelle Dorais, "GM, Ford considering parts foundries in Quebec," *Edmonton Journal*, 8 August 1978, p. C-11 and Alan D. Gray, "The scramble for autoplants," *Financial Times of Canada*, 4 September 1978, p. 10.
29. In addressing the autoplant location controversy, Jacques Parizeau, Quebec's minister of Finance, remarked: "These plants will use considerable quantities of aluminum. Quebec is, in this respect, at a compensation (sic) advantage and intends to make this position known. The federal government must support Quebec's moves in this matter, and not undo with one hand what it does with the other." Quebec, Minister of Finance, *Statement*, Federal-Provincial Conference of Ministers of Finance, 6 July 1978, Winnipeg, p. 15.
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- Financial Post*, 8 December 1979, p. 1. Finally, Leyton-Brown's analysis suggests that Ottawa's concern with bringing industry to Quebec complicated Ontario-Ottawa negotiations about autoplant investments. See "The mug's game," p. 173.
31. See "There must be a better way" and "More information needed on Ford deal" in *Financial Post*, 12 August 1978, p. 1, and 7 July 1978, p. 6, respectively.
 32. Don McGillivray, "The pact that binds," *Report on Confederation*, October 1978, p. 9.
 33. Hyman Solomon, "U.S. deal may clear line for subway orders," *Financial Post*, 5 April 1980, p. 4.
 34. Christopher Waddell, "U.S. tie-in sought for transit sales," *Financial Post*, 5 December 1981, pp. 1, 2.

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1. Alan C. Cairns, "The Other Crisis of Canadian Federalism," *Canadian Public Administration* 22, no. 2: 186.
2. Kenneth H. Norrie, "Some Comments on Prairie Economic Alienation," *Canadian Public Policy* 2, no. 2.
3. The government of Ontario has frequently attacked the PQ's assessment of the Autopact on these grounds. For details, see Deborah Dowling, "Cool 'no' to PQ proposals," *Financial Post*, 8 December 1979, p. 40.
4. Alan C. Cairns, "Recent Federalist Constitutional Proposals: A Review Essay," *Canadian Public Policy* 5, no. 3: 350.
5. Garth Stevenson, *Unfulfilled Union*, p. ix.
6. Garth Stevenson, "Federalism and the Political Economy of the Canadian State," in Leo Panitch (ed.), *The Canadian State: Political Economy and Political Power*, p. 79.
7. Richard Simeon, "Regionalism and Canadian Political Institutions," *Queen's Quarterly* 82, no. 4.
8. Garth Stevenson, "Continental Integration and Canadian Unity," in Andrew Axline et al. (eds.), *Continental Community?*, p. 203.
9. David Springate, "Difficulties Associated with DREE's Current Approach," in N.H. Lithwick (ed.), *Regional Economic Policy*, p. 280.
10. Duncan Allan, an assistant deputy minister in Ontario's Ministry of Industry and Tourism, has recently criticized Ottawa for "being hung up on the political niceties of seeing that every region gets its fair share. It's a luxury we can no longer afford." For details, see "Canada Into the 1980s: Ontario," *Financial Post*, 17 November 1979, p. S-12.
11. Canadian Manufacturers' Association, *Agenda for Action*, Toronto, 16 September 1977, pp. 19-20.
12. Jennifer Grass, "Electrical suppliers hustle to increase export trade," *Financial Post*, 9 February 1980, p. 33.

13. Sheldon E. Gordon, "Business moves into the debate on how to change the constitution," *ibid.*, 18 February 1978, p. 6.
14. Don McGillivray, "Old-style protection in fashion," *Financial Times of Canada*, 9 October 1978, p. 8.
15. *Ibid.*
16. James Rusk, "Political process held first block to developing industrial strategy," *Globe and Mail*, 15 November 1977, p. B-1.
17. Peter M. Leslie, "Big questions on resources still unanswered," *Financial Post*, 19 January 1980, p. 6.
18. Canadian Manufacturers' Association, *Agenda for Action*, pp. 19-20.
19. The Task Force on Canadian Unity, *A Future Together: Observations and Recommendations*, p. 65.
20. For details, see Les Whittington, "More export aid urged," *Financial Times of Canada*, 26 November 1979, pp. 3, 12.
21. For a review of Bombardier Inc.'s position, see "Bombardier may move some operations south," *Edmonton Journal*, 8 December 1979, p. E-6.
22. John Richards and Larry Pratt, *Prairie Capitalism*, p. 8.
23. Robert Gibbens, "Neutralist school, not interventionism, thought best for industrial strategy," *Globe and Mail*, 4 February 1980, p. B-5.
24. Michael Bliss, *A Living Profit*, p. 144.
25. British Columbia, *Towards an Economic Strategy for Canada: The British Columbia Position*, February 1978, p. 8.
26. A. Milton Moore, "Fact and Fantasy in the Unity Debate," *Canadian Public Policy* 5, no. 2: 210.
27. Canada, Senate, Standing Committee on Foreign Affairs, *Canada-United States Relations: Canada's Trade Relations with the United States*, volume II (Ottawa: Queen's Printer, 1978), pp. 57-58.
28. Garth Stevenson, *Unfulfilled Union*, p. 113.
29. T.J. Courchene and J.R. Melvin, "Energy Revenues: Consequences for the Rest of Canada," *Canadian Public Policy* 6, supplement (February 1980): 203.
30. T.N. Brewis, "Regional Economic Planning at the Provincial Level," in N.H. Lithwick (ed.), *Regional Economic Policy*, p. 317.
31. Richard Starks, *Industry in Decline*, p. 116.
32. Brewis, "Regional Economic Planning at the Provincial Level," p. 315.
33. Richards and Pratt, *Prairie Capitalism*, p. 247.

Notes to Chapter Eight

1. Frank Scott, "Centralization and Decentralization in Canadian Federalism," in his *Essays on the Constitution*, pp. 254-55.
2. The term "salvation through constitution" was coined by Edwin R. Black in his *Divided Loyalties*, p. 231.
3. Alan C. Cairns, "Recent Federalist Constitutional Proposals: A Review Essay," *Canadian Public Policy* 5, no. 3: 350.
4. The following list is principally derived from these sources: Canadian Bar Association, Committee on the Constitution, *Towards a New Canada*; The Constitutional Committee of the Quebec Liberal Party, *A New Canadian Confederation* (Montreal: The Quebec Liberal Party, 1980), The Task Force on Canadian Unity, *A Future Together*; and the various documents and position papers contained in R.D. Olling and M. Westmacott (eds.), *The Confederation Debate*.
5. Various commentators have expressed doubts about whether particular reform proposals, despite their stated commitment to the maintenance of a federal state strong enough to redistribute income, will in fact leave Ottawa with enough powers to perform effectively its redistributive role. See, for example, Donald Smiley's comments on *A New Canadian Confederation* in his *Canada in Question: Federalism in the Eighties*, p. 329.
6. J.A. Corry, "Pendulum on long swing toward decentralization," *Financial Post*, 29 April 1978, p. 7.
7. Donald V. Smiley, "Territorialism and Canadian Political Institutions," *Canadian Public Policy* 3, no. 4.
8. Of the Atlantic provinces' position at the October 1978 First Ministers Conference, Edward McWhinney has remarked: "For the four Atlantic 'have-not' provinces, a strong federal government remained necessary to redress the economic imbalance existing, now as before, between the rest of Canada and themselves. They showed no interest at all in proposals from far wealthier provinces for carving up federal competences or for weakening the main federal institutions in the name of constitutional 'reform'." See *Quebec and the Constitution 1960-1978*, p. 149. Premier Peckford of Newfoundland has, however, made several statements indicating a preference for a more decentralized federalism.
9. Quebec Liberal Party, *A New Canadian Federation*, p. 64.
10. "The Constitution should contain a statement of principle that Canada constitute an economic union a) in which the federal role is to establish national policies for the efficient functioning of the national economy consistent with balanced regional development and equality of opportunity for all Canadians, and b) in which the provincial role is to establish policies for the efficient functioning of the local economy taking into account the national interest." Canadian Bar Association, *Towards a New Canada*, p. 85.
11. Peter Leslie, *Equal to Equal*, p. 13.
12. See, for example, Task Force on Canadian Unity, *A Future Together*, especially ch. 6; Quebec Liberal Party, *A New Canadian Federation*, especially ch. 23; and Canadian Bar Association, *Towards a New Canada*, especially ch. 15. See also Tim Creery, "Canada's uncommon market," *Report*, November 1979, pp. 29-32; Judith Maxwell and Caroline Pestieau, *Economic Realities of Contemporary Confederation*; John S. Pattison,

- "Dividing the Power to Regulate," in *Confederation at the Crossroads* (Vancouver: The Fraser Institute, 1978), pp. 122-236; A.E. Safarian, *Canadian Federalism and Economic Integration*, a study prepared for the Government of Canada (Ottawa: Information Canada, 1974); and Donald V. Smiley, *Canada in Question, Federalism in the Eighties*, third edition, especially pp. 160-63.
13. Quebec Liberal Party, *A New Canadian Federalism*, p. 105.
 14. "... , we think preferential provincial purchasing policies should be permitted only in those cases where the province requires them to alleviate acute economic hardship. We suggest that the justification for such practices and the time they are expected to last should be specified and should be agreed to by other provinces." Task Force on Canadian Unity, *A Future Together*, p. 71.
 15. Canada, Minister of Supply and Services Canada, *Securing the Canadian Economic Union in the Constitution* (Ottawa, 1980).
 16. Federal-Provincial Conference of First Ministers on the Constitution, *Verbatim Record of Proceedings*, Ottawa, September 8-12, p. 802.
 17. Government of Saskatchewan, *Powers over the Economy: Securing the Canadian Economic Union in the Constitution*, a discussion paper submitted to the Continuing Committee of Ministers on the Constitution, Vancouver, 22-25 July, 1980.
 18. For a review of provincial responses to the federal proposals, see Government of Manitoba, *Statement on Powers over the Economy*, Ottawa, 11 September 1980; Government of Ontario, *Powers over the Economy*, Ottawa, September 1980; and Government of Saskatchewan, *Powers over the Economy: An Analysis of Federal Proposals*, Ottawa, September 1980. See also Federal-Provincial Conference of First Ministers on the Constitution, *Verbatim Record of Proceedings*, Ottawa, September 1980, especially pp. 770-889.
 19. Federal-Provincial Conference of First Ministers on the Constitution, *Verbatim Record of Proceedings*, Ottawa, September 1980, pp. 821-22.
 20. *Ibid.*, p. 888.
 21. For an excellent review of the "common market" debates, see Richard Simeon, *Some Observations on Powers over the Economy* (Kingston: Institute of Intergovernmental Relations), September 1980.
 22. Donald V. Smiley, *Canada in Question*, third edition, p. 163.

Notes to Epilogue

1. Richard D. French, *How Ottawa Decides* (Toronto: James Lorimer and Company in association with the Canadian Institute for Economic Policy, 1980).
2. Donald J. Savoie, *Federal-Provincial Collaboration*.
3. Michael Bliss, " 'Rich by Nature, Poor by Policy': The State and Economic Life in Canada," in R. Kenneth Carty and W. Peter Ward (eds.), *Entering the Eighties*.

4. Honourable William G. Davis, *Building Ontario in the 1980's* (Toronto: 27 January, 1981).
5. For a sample of reactions, see Stan Oziewicz and Rosemary Speirs, "\$1.5 billion strategy unveiled for Ontario," *Globe and Mail*, 28 January 1981, pp. 1, 2.
6. Deborah Dowling, "Ottawa may not be partner in Ontario BILD programs," *Financial Post*, 23 May 1981, p. 9.
7. Ontario, Ministry of Industry and Tourism, *Interprovincial Economic Co-operation*.
8. For details, see Patricia Best, "Megaproject strategy upcoming," *Financial Post*, 14 March 1981, pp. 1, 2.
9. "Myopic paranoia," *Edmonton Journal*, 26 March 1981, p. 4.
10. Les Whittington, "Herb Gray's pleas to cabinet," *Financial Times of Canada*, 15 September 1980, pp. 1, 2.
11. Government of Canada, *Economic Development for Canada in the 1980s* (Ottawa: November 1981).
12. For a review of present divisions within the federal cabinet, see Stephen Duncan, "Gray unlikely to get the tougher FIRA he wants," *Financial Post*, 21 March 1981, p. 8.
13. For details, see "External Affairs gets trade role," *Globe and Mail*, 13 January 1982, pp. 1, 5 and John Gray, "Rejigging of roles risks a clash with bureaucrats," *Globe and Mail*, 13 January 1982, p. 5.

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