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PREFACE

Every so often an issue arises which crystallizes or dramatizes for politicians and commentators alike a broader set of concerns. The implications of such issues go far beyond the particular circumstances which gave rise to them. Coming to terms with them forces us to reconsider some basic assumptions. Within Canadian federalism the debate over the Crow grain transportation rate is such an issue; so is the current discussion of the proposed Canada Health Act. The former raises questions about the nature of regional interests and the capacity of a federal government to reconcile them; the latter poses questions about the tension between federalism and the pursuit of national standards in an era of fiscal restraint. Both also highlight the relationships between federal-provincial relations and the interests of underlying economic and social groups.

Bill S-31, analyzed in this paper, fits the same mould. As Allan Tupper demonstrates, it highlights on one hand the debate over the relative powers of federal and provincial governments in managing the economy, and the implications of that for the Canadian economic union. And on the other hand it shows how another debate about government intervention in the

economy generally, is intimately wrapped up in the intergovernmental struggle. Thinking through a position about Bill S-31 requires a response to both dimensions.

Tupper's analysis clearly sketches out the arguments, and points to the larger dimensions they entail. Not everyone will agree with his criticisms of Bill S-31, but few will doubt his conclusion that it is imperative to work out a more satisfactory conception of the role of each order of government in economic development, or that the rise of state enterprise as a central tool of government intervention poses new and difficult problems for federal-provincial relations.

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Richard Simeon
Director
August 1983

1 BILL S-31

In November 1982, Canada's normally sedate Senate suddenly found itself at the centre of an important and virulently political debate. The controversy concerned the unexpected introduction of Bill S-31, The Corporate Shareholding Limitation Act, by Senator H.A. Olson, the Liberal government's Senate leader. The Bill's nominal purpose was to limit the capacity of provincial governments and their agencies to invest in corporations engaged in interprovincial and international transportation. It precipitated an unusually spirited and informative debate about two vexing issues - the proper economic role of the federal and provincial governments and the impact of governments' expanding role on the private sector. Indeed, so wide-ranging were the implications of S-31 that Peter C. Newman was prompted to remark: "The debate is really just starting, but on its outcome will depend much of the future economic decision-making that will shape Canada's economic future."¹

Bill S-31 is a microcosm of an array of significant issues in Canadian public affairs. On one level, it is a particularly telling example of the economic conflicts of interest between interventionist federal and provincial governments and the associated debates about the economic union and the appropriate rules of each order of government. But the bitter conflict over S-31 flows from much more than the clash of governments jockeying for advantage. For the driving force behind S-31 is an alliance

between the federal government and certain large Canadian corporate and financial interests, notably Canadian Pacific Ltd. Ottawa's primary interest was to reduce the provincial governments' capacity to influence economic activity beyond their borders, while the corporations concerned attempted to preserve their decision-making prerogatives by blocking, through federal legislation, provincial government investment in firms. Ranged against these forces is the potent combination of the Quebec government which believes S-31 is explicitly designed to curb the investment strategy of its Caisse de dépôt et placement and other Quebec Crown corporations, those francophone businessmen in Quebec who see a powerful provincial government as a vehicle for promoting their interests, and the governments of Alberta, British Columbia, Saskatchewan, Ontario, and Newfoundland who see S-31 as further evidence of Ottawa's desire to limit their economic options. Beyond this confluence of conflicting interests lies several paramount issues including the place of large provincial pools of capitals like Quebec's Caisse de dépôt et placement and the Alberta Heritage Savings Trust Fund in Canada's political economy, the accountability of such institutions, the political power of business, and the role of federal and provincial governments in directing the economy.

At time of writing, Ottawa's plans for Bill S-31 are unclear.² The Bill was allowed to die on the order paper in the spring of 1983, but government spokesmen, and some reporters, have suggested that a slightly revised measure will be reintroduced, this time in the House of Commons. Regardless of Ottawa's intentions, the issues raised by Bill S-31 are not likely to disappear. Our purpose, therefore, is to review the debate surrounding Bill S-31, to evaluate the Bill, and to address a number of questions it has raised but left unanswered. However, before addressing these issues, S-31 must be placed in its political and economic context.

Background

A widely noted feature of modern Canadian federalism is the extensive economic role played by the provincial governments. Over the last two

decades all the provinces have rejected both federal policy and unhindered market forces as the prime determinants of economic development within their borders and have intervened deeply in their economies.³ However, the expansion of the provincial public sector, while general, has not been uniform across the provinces. In this vein, a particularly prominent development is the active role of the Quebec state over the last two decades. Since the Quiet Revolution, successive Quebec governments have abandoned their once passive role and intervened deeply in the province's social, economic, and cultural development. As Alan C. Cairns has argued: "Since 1960 a succession of Quebec governments has constructed and employed the Quebec state as a powerful instrument of social and economic transformation... a process was stimulated by which French Canadian Quebecers were transformed into a political people, whose nationalism no longer cast government as an enemy."⁴ In Alberta and Saskatchewan in the 1970s, governments embarked on ambitious schemes of intervention aimed at maximizing the provincial return from valuable, but depleting, natural resources, diversifying their volatile resource-based economies, and shifting economic and political power westward.⁵

An inescapable feature of the provinces' growing economic role is their expanded and aggressive use of public enterprise as a policy instrument. Until recently, provincial entrepreneurship was generally limited to the provision of economic infrastructure, notably the generation and transmission of electricity in all the large provinces except Alberta, telephone service in the prairie provinces, and railroads in British Columbia and Ontario. One obvious exception to this general statement is the group of Crown corporations established by the CCF government in Saskatchewan in 1944. These firms which competed directly with private enterprise and which ventured into the manufacturing and natural resource sectors, were the objects of unrelenting attack and ridicule by business interests. However, three decades later, Saskatchewan's once heretical example has been emulated by several provinces. Provincial crown corporations are now noteworthy in the oil and natural gas industries, industrial financing and reorganization, steel, automobile insurance in four provinces, and a range of manufacturing concerns. The election of

NDP governments in Manitoba, Saskatchewan, and British Columbia in the 1970s helps account for some of the recent growth in provincial entrepreneurship, but their nominally more conservative counterparts in other provinces have also been active. For example, Alberta's Progressive Conservative government purchased Pacific Western Airlines, Canada's third largest common carrier, in 1974 and the government of Ontario, through acquisition of a major interest in a large oil company, has recently abandoned its passive posture in this area. Moreover, through such hitherto unconventional devices as "mixed enterprises," joint ventures, and the acquisition of equity in private firms, the provincial governments have extended their tentacles deep into the private sector and established controversial and intimate new relationships with business interests.

Nowhere have these tendencies been more visible and pronounced than in Quebec. Since the nationalization of hydro-electricity by the Lesage Liberals in 1962, Quebec's stable of Crown corporations has proliferated to include Sidbec (steel), Soquem (mineral exploration), Soquip (oil and gas) and la Société de développement industriel (industrial financing and reorganization).⁶ Boasting assets in excess of \$20 billion, Quebec's crown corporations and their wholly and partially-owned subsidiaries now number several hundreds.

In mixed economies like Canada's, state corporations undertake political and social functions, as well as purely economic ones. This is particularly true of Quebec where, since the early 1960s, provincial Crown corporations have been committed to the promotion of French as a working language in industry, the employment and advancement of francophone managerial and professional cadres, and the sustenance and development of robust Quebec-based and controlled firms in the private sector. As we shall see, the Quebec government's swift and vociferous response to Bill S-31 attests both to its commitment to public corporations as vehicles for economic development and to the depth of its hostility to federal measures perceived to limit Quebec's investment strategy.

The financial heart of Quebec's industrial strategy and Crown corporation sector is la Caisse de dépôt et placement du Québec. Recently described by its general manager as "an economic agent of a special kind" and "the magnet to attract both private and public enterprises,"⁷ the Caisse was established in 1965 by the government of Premier Jean Lesage to invest and administer the assets of the Quebec Pension Plan. In addition, it now receives deposits from several other sources including the Government and Public Employees Retirement Plan and the government-operated automobile insurance plan. Its constituent act confers wide-ranging investment powers on the Caisse. As well as enjoying unfettered capacity to invest in government bonds, the Caisse may also acquire the common stocks of corporations, with the proviso that such investments cannot exceed either 30 per cent of the common stock of a single firm or cumulatively 30 per cent of the Caisse's total assets. The current assets of the Caisse now amount to more than \$16 billion.⁸ Of this total, \$3.5 billion are invested in the common stocks of Canadian corporations. The Caisse's portfolio is now the largest in the country. It currently boasts holdings in such major firms as Alcan Ltd. (\$271 million), Bell Canada (\$224 million), Canadian Pacific Ltd. (\$258 million) and Domtar Inc. (\$88 million). By industrial sector, the Caisse has invested \$704.8 million, \$545.7 million, \$375.4 million and \$263.5 million in financial institutions, mining and metals, oil and natural gas, and transportation respectively.

Outlining the rationale for the Caisse in 1965, Premier Lesage argued forcefully that it was destined to be much more than a passive investor of Quebecers' pension contributions. According to Lesage: "La Caisse de dépôt et placement est appelée à devenir l'instrument financier le plus important et le plus puissant que l'on ait eu jusqu'ici au Québec."⁹ At the same time Lesage was adamant that the Caisse should be used neither to underwrite normal government expenditures nor to finance risky undertakings in the private sector. Rather, it would enhance its contributors' deposits through judicious investment in corporate activities deemed both profitable and in the long-term interests of Quebec's economic development. As such, the Caisse would pursue

investments which simultaneously strengthened francophone firms, reduced the dominance of anglophone financial institutions, and promised healthy returns. The Caisse's explicit fusion of developmental and fiduciary goals has been repeatedly acknowledged by government spokesmen since 1965. And in one of the few political analyses of the Caisse, Pierre Fournier has noted two clearly political functions of the fund - its large purchases of Quebec government and private-sector bonds during such periods of "instability" as the October crisis and in the aftermath of the Parti Québécois' election in 1976 and its clear and continuing commitment to the promotion and development of large and medium-sized francophone businesses.¹⁰ Moreover, Fournier's analysis of the Caisse's investment strategy led him to conclude: "The priority for investment has been the following: first Quebec companies, then the "francophone wing" of the Canadian bourgeoisie, finally Canadian monopolies."¹¹

Since 1980, the Caisse's investment strategy and performance have been the subject of unprecedented debate both inside and outside of Quebec. A leading strand of criticism is that after seven years of Parti Québécois government, the Caisse has lost its autonomy and become the instrument of a government which espouses two paramount evils -- separatism and socialism. Underpinning this argument is the view that the Caisse has abandoned its role as guardian of Quebecers' pension contributions and become instead a reckless and "politicized" engine of intervention. Not surprisingly, the Quebec government rejects such arguments, maintains that the Caisse has been employed as a policy instrument by successive Quebec governments, and contends that the Caisse-government relationship has not changed significantly under the Parti Québécois.

It is impossible to judge such conflicting claims given the lack of public information about either the Caisse's investment strategy or its relationships with Quebec governments. However, two aspects of the Caisse's recent policy raised the eyebrows of the federal government and large Canadian corporations in the private sector. The first controversy stems from the Caisse's view that Crown corporations are not subject to federal and provincial company law and securities legislation unless they

are specifically mentioned therein. Much to Ottawa's chagrin, the Quebec Superior Court supported the Caisse's argument when it ruled in August 1982 that the Caisse was indeed immune from certain provisions of the Canada Business Corporations Act.¹² After this decision, the federal government was alarmed by its diminished capacity to scrutinize certain of the Caisse's activities. Similarly, the Caisse's position that it need not follow Ontario law governing "insider trading" led the Ontario Securities Commission to ban it from trading in Ontario.¹³ Such debates focussed attention on the hitherto neglected question of the applicability of securities legislation and company law to Crown agencies. A second source of concern is the Caisse's view that it should now have representation on the boards of those corporations in which it has a major stake. The Caisse has recently sought and won seats on the boards of eleven major corporations including Noranda, Domtar, Gaz Metropolitan, and Provigo. Critics of the Caisse assail this policy for two reasons. First, they see it as evidence that the Caisse has eschewed its role as a "passive" investor and opted instead for an active role in corporate management. The Caisse's new aggressiveness is also criticized for introducing unsavoury "political" influences into corporate decision-making. As we shall see, executives of Canadian Pacific stated unequivocally that the Caisse's determination to have representatives on Canadian Pacific's board prompted them to request federal legislation which would make such representation difficult. In its defense, the Caisse maintains that board membership is an obvious corollary of significant share ownership and a legitimate protection of its investments.

The Alberta Heritage Savings Trust Fund (hereafter referred to as the Trust Fund) is the only other provincial government agency even roughly comparable to the Caisse.¹⁴ However, significant differences exist between the two institutions. For one thing, unlike the Caisse which receives and invests pension contributions and other deposits, the Trust Fund annually receives a percentage of Alberta's royalties from its valuable reserves of oil and natural gas. Moreover, the Trust Fund, while smaller than the Caisse, has generated considerably more debate and controversy. The Trust Fund, which now exceeds \$11 billion, provides the

Alberta government with a pool of capital with which it pursues several objectives including the improvement of the quality of life, the development of long-term revenue to be tapped as non-renewable resources are depleted, and the diversification of Alberta's resource-based economy. To date, Trust Fund monies have not been widely invested in common shares of Canadian corporations. However, with the recent establishment of a Commercial Investment Division within the Trust Fund, the government is now committed to investing systematically in corporate stock with a view to enhancing the Trust Fund's yield. The Trust Fund's annual report for 1981-82 said of the Commercial Investment Division:

Investments in this Division are made with the sole objective of yielding a commercial return. At March 31, 1982, the Commercial Investment Division consisted of \$98 million in money market securities and \$91 million in Canadian common shares and convertible bonds. The investment in equities is being undertaken using a passive, balanced approach with stock holdings representing a broad range of Canadian industrial sectors and public companies.¹⁵

In contrast to the Caisse, the Trust Fund's investment in a corporation cannot currently exceed five per cent of the shares outstanding. The Trust Fund thus seems content to be a passive investor at least for the foreseeable future. However, the government of Alberta, always jealous of its prerogatives, sees Bill S-31, which limits provincial government investment in certain firms to ten per cent, as an unnecessary threat to the long-term flexibility of its investment strategy.

* * *

The preceding pages briefly sketched the growth of provincial entrepreneurship and the emergence, in provinces renowned for their strained relationships with the federal government, of two unique financial institutions, la Caisse de dépôt et placement du Québec and the Alberta Heritage Savings Trust Fund. It would be misleading, however, to ignore Ottawa's capabilities and its efforts in the early 1980s to reassert its power and influence in Canadian federalism. Although obviously leery of burgeoning provincial public ownership, the federal

government is itself no stranger to the world of state enterprise. Over the past decade, Petro-Canada, the national oil company, embarked on an ambitious scheme of expansion through the acquisition of private firms. In the mid-1970s, the federal government also purchased Canadair and de Havilland Aircraft of Canada, two major firms in the aerospace industry. The Canada Development Corporation acquired in the 1970s the Canadian assets of several large foreign-owned firms. The federal government also undertook to refinance, or to employ the vernacular, "bail out," such firms as Chrysler Canada, Massey-Ferguson, and Dome Petroleum. In a basic way, the rationale for and effectiveness of Ottawa's recent interventions have become a major political issue.

Since the Liberals' return to power in 1980, the federal government has launched several important initiatives designed to curb provincial governments and enhance Ottawa's role. The most obvious manifestations of Ottawa's new aggressiveness are the National Energy Program and the government's constitutional proposals. The former attempted, among other things, to assert federal paramountcy over resource pricing and regulation while the latter's heavy emphasis on an entrenched Charter of Rights and Freedoms and stronger protection for the Canadian common market sought to strengthen Canadians' apparently attenuated commitment to national institutions and symbols. In the same vein, Ottawa's renegotiation of fiscal arrangements with the provinces in 1981-1982 was dominated by a federal desire to maximize its visibility and to extract from a seemingly ungrateful public due recognition for its financial commitment to the welfare state. Stephen Clarkson's description of the federal government in the early 1980s as a "recentralizing, assertive, state-capitalist"¹⁶ regime neatly describes the prevailing mood in Ottawa. Bill S-31 is a further manifestation of this desire to enhance Ottawa's potential economic role and influence.

Prior to the introduction of Bill S-31, neither political debate nor scholarly study exhibited much concern with the intergovernmental implications of federal and provincial state capitalism. However, an important exception to this general statement was Alberta's sudden

purchase of Pacific Western Airlines (PWA) in 1974.¹⁷ Justified as a measure necessary both to the maintenance of Alberta control over the airline and to the enhancement of Edmonton's position as "Gateway to the North," the acquisition was quickly and secretly engineered by a small group of prominent Alberta politicians and civil servants. In its haste, this group failed to comply with a provision of the National Transportation Act which stipulated that "persons" engaged in the transportation business (Alberta already owned the Alberta Resources Railway) must receive Canadian Transport Commission (CTC) approval before acquiring another transportation firm. To get around this problem, Alberta argued that provincial governments were not "persons" and that the federal legislation did not apply. Worried about the possible threat posed to its jurisdiction by this ingenious argument, the CTC requested a Federal Court of Appeal ruling on the matter, a ruling which rejected Alberta's view and which was appealed by Alberta to the Supreme Court of Canada. This problem became entangled with another one, when Alberta announced its intention to move PWA's headquarters from Vancouver to Calgary. This action enraged the government of British Columbia which unsuccessfully petitioned the CTC for a restraining order. The resulting interprovincial squabble apparently led Ottawa to reconsider its position on the question of provincial ownership of firms engaged in interprovincial transportation. And in response, Ottawa blocked the headquarters' move until the Supreme Court had ruled on the initial takeover and began to hint publicly that it might force Alberta to divest itself of PWA. Underpinning Ottawa's position over PWA, and later Bill S-31, was a fear that provincial governments might employ their ownership prerogatives to discriminate against other provinces and to evade federal regulatory authority.

When the Supreme Court ruled in 1977 that Alberta did not require CTC approval for its acquisition of PWA, Ottawa relented, but it did amend the Aeronautics Act to ensure that future provincial acquisitions of airlines received federal approval. In turn, the Alberta government dutifully proclaimed its respect for federal regulatory authority and has since, as PWA's owner, enacted no policies which threatened another

province's interest. In the face of continuing ideological opposition in Alberta to its ownership of PWA, the Lougheed government has moved to return the airline to at least partial private ownership. However, the recent activism of the Caisse seems to have re-ignited Ottawa's fears about provincial ownership of significant national firms.

2 THE FEDERAL CASE

As introduced in the Senate on 4 November 1982, the Corporate Shareholding Limitation Act was a short, but complex, Bill. Its central provisions are summarized below:¹⁸

- No provincial government can hold or beneficially own (through a trustee or other agent) more than 10 per cent of the voting shares of any transportation company involved in interprovincial or international energy pipelines, railways, airlines, shipping, trucking, bus companies and commodity pipelines.
- The legislation is not retroactive. It applies to voting share purchases on and after 3 November 1982. A provincial agency which already holds more than 10 per cent of a private transportation company can continue to vote those shares. But if a provincial agency, which already holds more than 10 per cent of a firm, increases its holdings, it loses the right to vote any of its shares.
- If a provincial agency owns less than 10 per cent of a company's shares and exceeds the 10 per cent limit after 3 November, 1982, it will only be able to vote those shares held before 3 November.
- Significantly, if a provincial agency acquires its holding after 3 November 1982, it cannot vote any of its shares. By this provision, the provinces are relegated to the role of passive investors.

Bill S-31 empowers the Governor-in-Council to exempt provincial agencies from such restrictions, although the criteria for granting exemptions are

not specified. The Bill also contains important enforcement powers. Under section 8, the federal director of corporations (as designated under section 253 of the Canada Business Corporations Act) may apply to the Federal Court - Trial Division to force a provincial agency to reduce its holdings to the 10 per cent limit. Another provision compels private corporations to provide the federal government with information about their ownership. Failure to comply with such a request may result in a fine or jail term.

In their defense of S-31, federal spokesmen downplayed the Bill's significance, maintained that it involved neither a radical reduction of provincial economic powers nor a significant extension of Ottawa's role. They argued that it was not aimed at particular provincial governments or their agencies. However, an analysis of the debate surrounding Bill S-31 belies these federal assertions and attests to the importance Ottawa attached to the measure.

Three separate, but ultimately intertwined arguments, underpinned the federal rationale for Bill S-31. First, the Bill was designed to maintain the integrity of federal jurisdiction over interprovincial and international transportation. In particular, it sought to prohibit provincial governments from using investment in major transportation companies as a vehicle for thwarting federal regulatory authority and policy initiatives. The existing regulatory and legal framework was, for unspecified reasons, deemed inadequate, a situation which demanded direct federal action to curb provincial investments. As André Ouellet, the federal minister of Consumer and Corporate Affairs, argued: "Under this Bill we are trying to ensure that when we know it is a federal responsibility and not a provincial responsibility, the province will not be able to do indirectly what it cannot and should not do directly."¹⁹

A second strand of federal reasoning saw S-31 as an essential protection of the Canadian common market against "balkanizing" provincial interventions. In the absence of such legislation, nothing would prevent

provincial governments, as shareholders in nationally significant firms, from using their ownership prerogatives to favour local interests and to discriminate against extra-provincial interests, both public and private. The federal government, as defender of the national interest, could not allow this to happen.

In advancing this legitimate argument, federal spokesmen were forced to rely on deductive reasoning. Indeed, Ottawa's case flowed from the assumption that provincial governments were by definition primarily interested in the prosperity of their own jurisdictions. Accordingly, they were unlikely to exercise their prerogatives neutrally. However, the federal case was weakened by Ottawa's inability to give examples of provincial manipulation of private corporations through shareholding. For example, the prime minister suggested that the Caisse might use its 7.39 per cent holding in Alcan to force that company to shut facilities in British Columbia and expand operations in Quebec. But other than the spat over PWA's headquarters, he could cite no concrete instances of provincial wrongdoing. In fact, Ottawa's case ultimately rested on the need for immediate action to prevent future conflicts. Mr. Ouellet's employment of the well-worn cliché that "an ounce of prevention is worth a pound of cure"²⁰ struck the provincial governments as a questionable basis for policy-making in an interdependent federation. They pounced on Ottawa's hypothetical arguments and declared that the provinces had been pronounced guilty until proven innocent.

While arguing that provincial governments could not be trusted to exercise their ownership rights in the national interest, the federal government maintained that its role and interventions were "fundamentally different." As such, Bill S-31 should not be applied to federal agencies. This debatable, but quite comprehensible, federal assertion weakened further Ottawa's defence of S-31. It did so by forcing federal spokesman to advance an interpretation of Canadian political economy which rather simplistically portrayed certain provincial interventions as the primary source of economic distortion. Illustrative of this federal tendency is Senator Jack Austin's defence of S-31:

God decides when it's going to rain or hail or snow or when we'll have sunshine. In a sense, the private sector, by making its decisions on a commercial basis, is making the same kind of neutral choices about the corporate climate -- on the basis of the marketplace and consumer preferences. The federal role is to maintain such neutrality and fair competition among the commercial interests involved. Now, provinces such as Alberta or Quebec want to step in and interfere with that neutrality by making corporate investments and guiding their decisions on the basis of regional interests. They want to make the weather. The federal government must stop the provinces from destroying that essential neutrality in the way our economy works.²¹

Austin's statement reflects Ottawa's failure to anchor Bill S-31 in a realistic and comprehensive assessment of either governments' economic role or the behaviour of corporate capitalism. It ignores the extent of Ottawa's interventions, the capacity of both levels of government to erect barriers to the economic union, and the well-known tendency of large corporations to make political decisions about the location, timing, and nature of investments. This flaw exposed the federal government to criticism from both the opponents and supporters of state intervention.

Ottawa's third, and most controversial argument, was that the Caisse de dépôt et placement had abandoned its role as a passive investor and embarked on a path of socialism. It was Ottawa's duty to force the Caisse back to its proper course and to act as a bulwark against the Quebec government's brand of socialism. Before the Senate's Standing Committee on Legal and Constitutional Affairs, André Ouellet, made clear his views about the Caisse's recent behaviour:

Are you going to tell me that a company such as the Caisse de dépôt which, basically, has a mandate to invest pension funds and to play a role of trustee, is justified in changing its mandate into that of a shareholder? In taking control by purchasing shares in certain companies? In making capital risk investments? In changing over from trustee to shareholder? In taking the place of the private sector? In upsetting the private's sector economy by indirectly practicing socialism?²²

The irony of Ottawa's new-found role as the defender of free enterprise was not lost on Michel Nadeau who, in a sarcastic editorial in *Le Devoir*,

noted that the federal government had invested \$5 billion in energy and aerospace firms over the last three years alone.²³

The most vocal private sector supporter of S-31 was Canadian Pacific Ltd. In testimony before the Senate's Standing Committee on Legal and Constitutional Affairs and in a number of public statements, CP Chairman, Fred Burbidge, revealed the genesis of S-31. He noted that CP was worried about the Caisse's intention to increase its interest in CP beyond 10 per cent and to have representation on CP's board. Accordingly, Burbidge approached the federal government to enact legislation which would limit the investment options of provincial agencies. As well as solving CP's immediate problem with the Caisse, S-31 would serve a longer term goal of certain Canadian capitalists -- a reduction of the capacity of provincial pools of capital, especially the Caisse and the Trust Fund, to invest in significant national firms and to thereby threaten corporate autonomy and the integrity of private enterprise. In his testimony, Burbidge expressed anxiety about the growing capacity and determination of provincial governments to convert private firms into "quasi-public corporations."²⁴ Particularly threatening were recent actions by Quebec's "separatist" government which indicated a desire to convert national firms "into instruments which will serve the collective interest or will of Quebec in a manner to be determined by that government from time to time."²⁵ In Burbidge's view, federal regulatory authority provided inadequate protection for private firms from the predatory designs of provincial governments. This was so because federal regulators held no sway over certain crucial management prerogatives:

... , decisions as to the amount, the time and the place of investment, the location of labour forces, sourcing of purchases, and the management of pension funds, can be of critical importance, but they are normally regarded as the preserve of management and boards of directors and not of regulators.²⁶

Only federally-imposed prohibitions on provincial control and ownership of companies could preserve essential management rights.

Canadian Pacific's views were endorsed by the Canadian Chamber of Commerce which lamented the "intrusion" of partisan influences into corporate decision-making. Interestingly, during questioning by members of the Senate committee studying Bill S-31, Chamber spokesmen admitted that the logical extension of their brand of free enterprise fundamentalism was the application of S-31 to both federal and provincial agencies.

A recurring theme in businessmen's analysis of S-31 was the capacity of institutions like the Caisse to engineer "back door nationalizations." A good example of this argument was provided by Lucien Rolland, president of Rolland Inc., a Montreal-based paper company, when he discussed the Caisse's acquisition of a major stake in Domtar Inc., Rolland's major competitor:

Let's not play with words. A takeover by the State whether it's on the stock exchanges or through insider trading is well and truly a kind of nationalization.

Every intervention of that size deserves to be discussed in parliament or the National Assembly to make the minister defend their (sic) decision and submit to a rigorous examination by the opposition and the press.²⁷

Such a viewpoint points to a fundamental dilemma in modern states -- how to reconcile public entrepreneurship with appropriate levels of public discussion, debate, and accountability. However, businessmen's interest in this issue flows from more than a concern with the quality of democracy. For them, institutions like the Caisse and the Trust Fund, which operate through financial markets, in secret, and without advance debate about their investments, represent a particularly threatening mechanism of intervention. Such flexibility and secrecy allows provincial investment funds to acquire interests in corporations much more easily than when governments employ conventional legislative processes. In other words, the autonomy of provincial agencies allows them to operate free from the allegedly constraining influences of public debate and

parliamentary scrutiny. Businessmen fear the Caisse precisely because its *modus operandi* prevents them from mobilizing political opposition to government investment in firms.

Bill S-31 was widely interpreted as a classic case of the federal government acting at the behest of corporate interests. *Le Devoir* captured the essence of this argument when it concluded: "M. André Ouellet est devenu le ministre d'une corporation."²⁸ Such an account is not surprising given Canadian Pacific's "problems" with the Caisse and the federal government's acknowledgement of the pressures brought to bear by Canadian Pacific and other corporations. But this explanation, by reducing Ottawa to a mouthpiece of corporate interests, is simplistic. It fails to explain why Ottawa would introduce such a radical policy when even a rudimentary review of recent Canadian political economy suggests that S-31 would precipitate a bitter conflict between and among governments and fractious business groups. Is it plausible to maintain that the Trudeau government would knowingly provoke a confrontation with the provinces and risk alienating public opinion in Quebec simply to placate Canadian Pacific? A richer explanation sees S-31 as resulting from a confluence of corporate and state interests. For corporations, the Bill provided a bulwark against provincial government influence in profitable, nationally significant firms. For the federal government, S-31 promised to curb provincial government investment strategies, enhance federal control over such strategies, and strengthen federal jurisdiction over transportation. In this alliance, corporations were defending themselves against threatening provincial interventions while Ottawa was once again on the offensive in its continuing struggle with the provinces.

However, Ottawa appears to have significantly overestimated the potency of its alliance with corporate elites and underestimated the tenacity, skill, and power of its opponents. Bill S-31's adversaries quickly marshalled political support and counterarguments which exposed both serious flaws in Ottawa's reasoning and ultimately, the federal government's rather curious failure to anticipate the nature and intensity of opposition to S-31 in Quebec.

3 THE OPPOSITION'S CASE

In decrying S-31 as a "heavy menace" to Quebec, the Parti Québécois government launched a potent counterattack. To a degree, Quebec's case rested on the obvious and appealing strategy of denouncing S-31 as a conspiracy engineered by the anglophone business elite against Quebec-based business interests and the Parti Québécois itself. Ultimately, however, Quebec depicted S-31 as a frontal attack on Quebec's economic strategy and the legitimate economic activities of the provincial state.

In his condemnation of S-31, Quebec's minister of finance, Jacques Parizeau, skillfully stressed the continuity between the economic policies of his administration and those of successive Quebec governments since 1960. In so doing, he emphasized the important roles played by Quebec's Crown corporations in nurturing a francophone capitalist class. He remarked:

During the Quiet Revolution of the 1960s, Quebecers began to realize that they would not be able to catch up, that francophone society would not emerge strongly in the business world unless, in the end, it could depend on the most powerful instrument at our community's disposal: its government, or as Mr. Lesage said at the time, its State. Thus, a series of Crown corporations appeared which specialized in business financing and in certain industrial sectors.²⁹

In a related argument, Parizeau attacked Ottawa's contention that the Parti Québécois was practising socialism. On the contrary, the PQ government, through the Caisse and other state firms, sought to nourish a dynamic, private enterprise economy. S-31 was a calculated attack on Quebec's coherent development strategy. The Quebec government also maintained that, contrary to Ottawa's assertions, S-31 singled out Quebec, and in particular, the Caisse, for special treatment. For purely political reasons, the federal government was determined to limit Quebec's options and to make the province follow a passive approach to economic development.

Leaving no stones unturned, Quebec argued that S-31, far from being an innocent measure, would render the Caisse impotent. The legislation was ambiguous, poorly drafted, and full of loopholes. For one thing, it applied to the subsidiaries of specified corporations and thereby provided firms hostile to the Caisse with a perfect defence. For example, a major resource firm, by acquiring a tiny interprovincial transportation firm, would be forbidden territory for the Caisse.³⁰ Moreover, if the Caisse invested in a firm not currently involved in transportation, that firm would apparently have to refrain from any future investment in the sorts of commerce specified by S-31. Under these circumstances, the Caisse's investment strategy, and those of many corporations, would be curtailed. As well, Ottawa's open-ended capacity to exempt provincial agencies from S-31's provisions would render certain Caisse decisions subject to a federal screening process. For these reasons, S-31 would circumscribe the Caisse's investment options and thereby impair its ability to invest profitably Quebecers' pension contributions. According to the Quebec government, the "bottom line" was that S-31, if enacted, would cost the Caisse \$100 million in lost revenues by 1986. S-31 was therefore portrayed as compelling evidence of Ottawa's insensitivity and federalism's bad economics for Quebec.

Quebec spokesmen also challenged one of S-31's core assumptions -- that provincial investment in large corporations necessarily implied the

politicization of corporate decision-making. They argued that the Caisse remained an autonomous institution dedicated to its dual roles of enhancing its deposits through profitable investments and promoting Quebec's economic development. Jean Campeau, the Caisse's general manager, ridiculed Ottawa's assertion that the Caisse, at the government's behest, would wilfully direct corporations to pursue "political" goals at the expense of profitability.

Bill S-31 alleges that since November 3, any share acquired by the Caisse or any share held or acquired exceeding the 10 per cent limit is acquired, not for profitability purposes but for the purpose of sidetracking a company from its initial corporate goals for the benefit of Quebec. This is ridiculous. When one invests \$200 million in a corporation, it would be ridiculous to think one does not seek profitability.³¹

In other words, the Caisse's internal drive toward profit maximization was defence enough against the politicization of corporate life.

Quebec's case against S-31 was endorsed by some Quebec businessmen, notably the District of Montreal, Chamber of Commerce, and Pierre Lortie, president of the Montreal Stock Exchange. The views of francophone businessmen contrast starkly with those expressed by Canadian Pacific and the Canadian Chamber of Commerce. For one thing, francophone spokesmen exhibited a more sophisticated understanding of and sympathy for government intervention in the economy. And while Canadian Pacific's case rested on the need for the "senior government" to act, francophone capitalists saw the Quebec government as their salvation. For example, representatives of the District of Montreal, Chamber of Commerce, maintained that S-31 was unnecessary. Ottawa had advanced no compelling evidence of the political and economic threats posed by the Caisse. Why, they wondered, had the Caisse suddenly become a "bad guy" after nearly two decades of peaceful co-existence between governments and business?

In their testimony before the Senate committee charged with assessing S-31, francophone businessmen expressed some anxiety about governments' expanding role in the economy. But they also recognized two other things

-- their marginal position in Canadian corporate capitalism and the commitment of successive Quebec governments to changing that situation. Serge Saucier, chairman of the District of Montreal, Chamber of Commerce, noted and resolved unequivocally, a dilemma frequently confronted by Quebec businessmen: "We agree that the concentration of economic power in government hands is wrong. However, the absence of French-Canadians in real decision-making is worse. Of these two evils, we choose the lesser of the Caisse."³² In other words, Quebec businessmen need the provincial government's support and for this paramount reason they fear a radical reduction in Quebec's capacity to serve their interests.

Quebec's position was buoyed by the support of Pierre Lortie, president of the Montreal Stock Exchange, who was the only stock exchange official to condemn S-31. Lortie advanced several considerations, including his support for the advancement of francophones in the corporate world, a respect for the integrity of provincial government powers, and more interestingly, a sophisticated grasp of governments' capacity to promote the private sector. In a fundamental way, his critique flowed from a conviction that S-31 was rooted in an outmoded conception of governments' role in the economy. In arguing that provincially-controlled pools of capital could and should be used to fund equity-starved firms, Lortie stressed the naiveté of those who decried the state's role in industrial financing and challenged Canadian Pacific's view which saw provincial government investments as necessarily insidious. To Lortie, S-31 was another unnecessary impediment to the financing of industry. His views clearly recognized that government investment in firms is not necessarily socialism. His ideas about the state differ from those of most of his peers in Canadian business.

Bill S-31 received an icy reception in the provincial capitals and was opposed by the governments of British Columbia, Alberta, Saskatchewan, Ontario, and Newfoundland. The provinces denounced Ottawa for failing to consult with them, criticized the bill as unnecessary, and portrayed it as evidence of Ottawa's "centralizing" tendencies. Not surprisingly, several

of the more conservative provincial governments, notably British Columbia, argued that their opposition to S-31 did not imply support for widespread public ownership. In fact, they downplayed the Bill's implications for relationships between the public and private sectors and stressed instead its intergovernmental dimensions. For example, British Columbia argued that S-31 limited provincial options but left the field open for an expanded federal role.

Alberta's critique of S-31 did not address directly the measure's possible impact on the Trust Fund. However, during the Senate committee's hearings, S-31's supporters frequently mentioned the Caisse and the Trust Fund as institutions whose influence should be curbed. Such references did not go unheard in Edmonton. For although it has so far adopted a passive investment strategy, the Lougheed government will resist federal measures which prohibit certain Trust Fund investments and thereby limit the flexibility of Alberta's most potent instrument of intervention.

Except for the governing Liberals, S-31 had no friends in Parliament. The NDP saw the Bill as an unnecessary and unacceptable limitation on provincial entrepreneurship. Indeed, its critique of S-31 rested on the view that the scope of the provincial public sectors was an issue to be determined by the provincial governments, not Ottawa. In the NDP's view, it was sheer hypocrisy for Ottawa to limit provincial investment in major corporations while at the same time allowing such corporations to wield virtually unfettered power.³³ For their part, the Conservatives denounced the government for pursuing centralist policies and for failing to consult with the provinces. Curiously, the government in responding to opposition criticism, made no effort to point to the contradictions in its opponents' views. For example, the NDP, while supportive of public ownership, has long argued that a strong federal state is required in the interests of national planning. By reminding the NDP of its historical commitment to a potent federal authority, the government might have aggravated the festering tension within NDP ranks between social democrats who worry about contemporary provincial power and those who see the party as wedded to an old-fashioned centralism which ignores the potentially creative

contribution of provincial governments to economic development. On the other hand, the Conservatives who allegedly favour a more co-operative federalism are also committed to reducing the role and influence of Crown corporations. Their opposition to S-31 could easily have been portrayed as a contradiction of the latter principle. However, the government's heavy-handed introduction of S-31 and its awkward handling of the Bill left it exposed to a barrage of criticism both inside and outside of Parliament. The Liberals were unable to move from a defensive posture or to point to contradictions in their opponents' views.

As noted earlier, Bill S-31's future is uncertain. For one thing, the Senate's Standing Committee on Legal and Constitutional Affairs gave the Bill a lukewarm assessment when it reported on 16 December, 1982. Among other things, the senators questioned the federal government's capacity to pass such legislation:

Bill S-31 as presently drafted extends to any company, either federally or provincially incorporated, which is engaged in extra-provincial transportation, even in a minor way as compared to the total range of its activities. It can therefore be characterized as being in essence legislation in relation to company law. This raises a question as to its constitutionality in respect of provincially incorporated companies.³⁴

Another blow to the government's cause was the rebuke issued by Gérard Lévesque, interim leader of the Quebec Liberal Party. Lévesque criticized the Parti Québécois' administration of the Caisse, but also noted that the Caisse had been sired by a Liberal government and that it was now an integral part of the Quebec state.

Ottawa's assumption that S-31 could be passed without alienating public opinion in Quebec now seems suspect. But notwithstanding the lack of support for S-31 outside of corporate boardrooms, the government maintains that it will forge ahead. And through a bold procedural move in the Senate, the government allowed the Bill to die on the order paper, but with the proviso that a reintroduced Bill would still take effect on 3 November, 1982. Thus, if Bill S-31 is reintroduced and passed in the

current parliamentary session, any provincial acquisition of shares in designated firms on or after 3 November 1982 will be limited to ten per cent and without voting rights. In a bizzare way, therefore, S-31 already exerts important constraints on provincial investment strategies even though it has not been passed, and might continue to do so even if left in suspended animation for a very long time.

4 ANALYSIS AND EVALUATION

A recent article in the *Financial Post* about S-31 bore the perhaps premature headline, "Transportation bill runs out of gas."³⁶ One can only hope that the *Post's* prediction is correct. For Bill S-31 is a mixture, par excellence, of bad politics and inadequate economics. Its heavy-handed introduction, by souring relations between governments and segments of the business community, has hampered rational debate about a range of important economic issues. More importantly, S-31 has been widely interpreted in Quebec as a serious, threatening, and discriminatory impediment to that province's industrial strategy. Following close upon the heels of Quebec's dangerous exclusion from the constitutional accord, S-31 has provided the Parti Québécois with additional ammunition for its renewed drive toward separatism.³⁷ Through Bill S-31, Ottawa sought to curb province-building, but it has done nothing to inspire confidence in its ability to engineer an industrial renaissance in Canada. For these reasons, S-31 is an incomplete and ineffective measure which should be abandoned by the federal government.

Ottawa's handling of S-31 was politically inept and confrontationist. It introduced a Bill with significant implications for the provinces, especially Quebec, without prior consultation. Little effort was expended on explaining the Bill or building a political consensus in its favour. The process was further tainted by the visible alliance between the

federal government and corporate interests. More fundamentally, Bill S-31 rests on the politically offensive notion that the federal government should curb legitimate and established provincial institutions simply because such institutions exhibit some vaguely-defined potential for wrongdoing. Put simply, Ottawa's desire to force the Caisse into a passive investment strategy, and ultimately, to ensure that the Trust Fund does not stray from its present course, represents a paternalistic effort to discipline provincial governments. Pierre Lortie, president of the Montreal Stock Exchange, captured the essence of Ottawa's approach when he remarked: "The very basis of this Bill seems more influenced by anger than by careful thinking about how to bring government intervention into line."³⁸

To make matters worse, S-31 ultimately fails to deal with the issue of how to integrate large, provincially-controlled pools of capital into Canada's political economy. Nor does it satisfy either those interests exercised about governments' expanding role in the economy or those who advocate a stronger, better co-ordinated, more active role for governments in resolving economic problems. As noted earlier, S-31 portrayed provincial economic institutions like the Caisse as malign and threatening institutions whose investment strategies ought to be curbed. However, Ottawa never made clear why certain provincial interventions were inherently improper, and why no federal interventions were suspect. Indeed, in response to the argument that S-31's provisions ought to be extended to federal agencies, Ottawa simply asserted that its interventions, through Crown corporations and other devices, were somehow different in kind from provincial ones and hence immune from the criticisms directed towards provincial actions. The federal government's stubborn stance on this question left it exposed to the criticism that S-31 limited provincial interventions but left the field open for Ottawa. If government involvement in industry is the evil to be exorcised, then the activities of both levels of government deserve scrutiny.

By the same token, Ottawa refused to acknowledge that provincial financial institutions have a potentially constructive role to play in the

financing and reorganization of industry, and that S-31, by limiting provincial investment options, might be enforcing a remedy worse than any disease diagnosed to date. The latter point is particularly significant. For in an indirect way, S-31 focussed attention on the essence of "balkanizing" policies. It did so by raising an interesting question: which is more damaging to the health of Canada's economy -- the potential threat of provincial "extra-territoriality" or federally-imposed constraints on the investment activities of provincial governments and their agencies? Apparently blinded by its own expansionary tendencies and by its desire to discredit the government of Quebec, Ottawa was unable to grasp that S-31 itself was viewed by the provinces and some business interests as a form of "balkanization."³⁹ In a fundamental way Ottawa's definition of the problem led it to constrain and discipline provincial governments and to ignore the question of how to harness the capacities of both levels of government. For those supportive of an active role for the state, S-31 symbolizes an abdication by Ottawa of its leadership role and an unnecessary reduction of provincial government capacity.

The controversy over S-31 resurrected the debate about the economic costs of government-imposed barriers to the economic union and more generally, the extent to which economic efficiency has been sacrificed on the altar of interventionism. In this vein, Ottawa's case for S-31, and its more general efforts to protect the common market, tend to assume that various provincial interventions exert a significant and perverse impact on economic prosperity. But do they? No consensus has emerged among economists in response to this paramount question. Moreover, the provinces, with the exception of Ontario, maintain that Ottawa has frequently exaggerated the extent and economic significance of provincial barriers to the common market. Underpinning the provincial counterattack is the assertion that the federal government has employed economic arguments about provincially-inspired "balkanization" to mount and sustain a political offensive against province-building. In the face of conflicting evidence and political controversy, hard choices must continue to be made between the integrity of the common market and the legitimate economic activities of the provincial governments. My view is that Bill

S-31 is too heavily biased in favour of the former principle, too coercive, and in the absence of compelling evidence of provincial misconduct, too restrictive of established provincial institutions.

The debate over S-31 highlights the deep schism between the federal and provincial governments and in a different way, between governments and business, during an era when Canada faces serious economic problems. The very language of debate, replete with its frequent references to the terminology of international politics, bears witness to the dismal state of intergovernmental relations. The suggestion by several provincial governments that they might adopt provincial versions of S-31 reflects their almost reflex willingness to retaliate against insensitive federal measures.

The conflict over S-31 also illustrates a unique feature of contemporary Canadian federalism -- the commitment of both levels of government to intervention through various forms of public enterprise. Indeed, a "federalism of state capitalism" is in some ways a more precise depiction of the character of modern Canadian federalism than Alan C. Cairns' general label of a "federalism of big governments."⁴⁰ The controversy of S-31 underlines the problems posed by this qualitative expansion of the governments' role, the willy-nilly growth of intervention and the attendant problems of policy co-ordination, and most distressingly, the paucity of solutions.

The secular expansion of the public sector has added neither coherence nor effectiveness to the substance of Canadian economic policy. Governments have grown and expanded their functions, but such growth has not been matched by any demonstrated governmental capacity to control the state apparatus. In short, the Canadian state is large, but ineffective.

No simple solution presents itself to this problem. The neo-conservative dogma of privatization has few supporters, even among those governments which rhetorically endorse the concept. It is patently unclear, moreover, how to dismantle the modern state even if there were a strong political

commitment to do so. Similarly, the omnipresent option of centralizing economic power in Ottawa, and thereby eliminating the nagging problem of economically powerful regional governments, is unattainable in the face of contemporary provincialism -- witness the provinces' swift and savage opposition to S-31. Neither level of government appears willing to renounce any significant economic powers.

In the face of such obstacles, the only realistic solution is for governments to recognize the extent of their interventions and to get on with the task of employing their public sectors in mutually beneficial ways. But as attested to by the intense conflict over S-31, such a prescription will not be quickly or easily translated into practice. The political and economic diversity which gives rise to federalism makes difficult any overarching agreement on either the role of government or the proper responsibilities of Ottawa and the provinces. Moreover, efforts to strengthen and better co-ordinate the state apparatus will be resisted on ideological grounds by those governments and business groups who see in such proposals the spectres of socialism and planning. These inherent problems of managing a federalism of state capitalism are of course exacerbated by prevailing levels of distrust among elites. However, ranged against such barriers to effective co-operation are the obvious and demonstrated inadequacies of the increasingly unwieldy status quo.

Finally, Bill S-31 raises to new prominence the perennial issue of how to render accountable autonomous government agencies engaged in entrepreneurial activities. This is not a new problem, but it is one whose complexity has recently been exposed and magnified by Canadian governments' heavy reliance on public enterprise. Indeed, one of S-31's few benign effects has been to force powerful institutions like the Caisse into the limelight of public debate. In response to criticisms from their supporters in the Quebec business community, the Caisse and the government of Quebec have already committed themselves to fuller disclosure of the Caisse's portfolio and investment strategy. Progress towards more sophisticated regimes of control will be slow, however. For

democratic governments, when dealing with autonomous state agencies, face several dilemmas. On one hand, clearly inadequate regimes of control, by exposing public corporations to charges of excessive secrecy, inefficiency, and insensitivity to public opinion, serve to discredit state ownership. On the other hand, governments recognize that the autonomy of public corporations rests on the need to shield them from the excesses of partisan politics and to allow them the flexibility requisite to the pursuit of effective investment strategies. With regard to the latter point, it is not accidental that opponents of government ownership see in tighter regimes of control the possibility of reducing governments' capacity and desire to intervene.⁴¹ Likewise, governments and the managers of state enterprises frequently resist accountability frameworks which might limit their flexibility and autonomy. For example, the Alberta government's continuing refusal to permit prior legislative debate about major Trust Fund investments stems from the belief that such debate would render the Trust Fund impotent as an instrument of intervention. The often tense union between democratic politics and effective public entrepreneurship becomes even more unwieldy when one realizes that the accountability "problem" is intertwined in complex ways with controversies about governments' role in the economy.

Conclusions

My central argument is that Bill S-31 combines bad politics and half-baked economics. The Bill was poorly conceived, presented in an unnecessarily high-handed way, and extremely divisive in impact. At the same time, it provides no long-term solution to the problems posed by the co-existence of statist federal and provincial governments. As such, it should be abandoned.

Unintentionally, S-31 evoked debate about two questions which are seldom explicitly fused in Canadian political discourse -- the balance between public and private sectors and the division of labour between federal and provincial governments. In so doing, the controversy revealed conflicts of interest between and among governments and business. More interestingly,

the S-31 debate exposed the outmoded conceptions of Canadian political economy that linger in business and government circles. Businessmen's opinions, with the exception of those expressed by francophone Quebecers, emphasized and prescribed a clear demarcation between state and industry while governments generally downplayed their obvious interdependence. Perhaps by exposing the complexity of Canada's mixed economy, the storm over S-31 will bring actors' visions more in line with reality. The federalism of state capitalism will not be mastered until its advent is more broadly acknowledged.

NOTES

1. Peter C. Newman, "Ottawa's new war with Quebec," *Maclean's*, 20 December 1982, p. 37.
2. For details see Hyman Solomon, "Transportation bill runs out of gas," *Financial Post*, 9 April 1983, p. 12 and Gilles Gherson, "Bill S-31 due to be revived," *Financial Post*, 14 May 1983, p. 4.
3. For a general discussion, see Allan Tupper, *Public Money in the Private Sector*, (Kingston: Institute of Intergovernmental Relations, 1982), especially chapter 3.
4. Alan C. Cairns, "The Constitutional, Legal and Historical Background" in Howard R. Penniman (ed.) *Canada at the Polls, 1979 and 1980: A Study of the General Elections*, (Washington and London: American Enterprise Institute for Public Policy Research, 1981), pp. 16-17.
5. For details, see John Richards and Larry Pratt, *Prairie Capitalism: Power and Influence in the New West*, (Toronto: McClelland and Stewart, 1979).
6. For an overview see Pierre Fournier, *The Quebec Establishment* (Montreal: Black Rose, 1976), pp. 179-195.
7. Wendie Kerr, "Caisse role termed in spirit of free enterprise," *Globe and Mail*, 26 October 1982, p. B-15.
8. For details see "Caisse portfolio heavy in financial institutions," *Globe and Mail*, 1 April 1983, p. B-4, and David Olive, "Caisse unpopulaire," *Canadian Business*, May 1982, pp. 94-101.
9. Québec, *Assemblée nationale, Debats*, 9 juin 1965, p. 3311.

10. Pierre Fournier, "The New Parameters of the Quebec Bourgeoisie," *Studies in Political Economy*, #3, Spring 1980, especially pp. 78-80.
11. *Ibid.*, p. 79.
12. For details see Wendie Kerr, "Caisse contends Crown agencies need not follow CBCA," *Globe and Mail*, 16 June 1982, p. B-6 and Wendie Kerr, "Court rules Crown agencies must be specified in law," *Globe and Mail*, 1 August, p. B-2.
13. For details see Wendie Kerr and Dan Westell, "OSC moves to bar Caisse from Ontario," *Globe and Mail*, 16 January 1982, p. B-20.
14. For an overview of the Trust Fund's activities see, "The Alberta Heritage Savings Trust Fund: An Overview of the Issues," *Canadian Public Policy*, volume 6, supplement, February 1980.
15. Alberta Heritage Savings Trust Fund, *Annual Report, 1981-2*, p. 3.
16. Stephen Clarkson, *Canada and the Reagan Challenge*, (Toronto: James Lorimer and Company in Association with the Canadian Institute for Economic Policy, 1982), p. 22.
17. For details see Allan Tupper, "Pacific Western Airlines," in Allan Tupper and G.B. Doern (eds.), *Public Corporations and Public Policy in Canada*, (Ottawa: Institute for Research on Public Policy, 1981), pp. 285-317. And for a general discussion of some of the intergovernmental and constitutional problems posed by state enterprise see John D. Whyte, *The Constitution and Natural Resource Revenues*, Discussion Paper 14, (Institute of Intergovernmental Relations: Queen's University, 1982).
18. The following precis is derived from Jennifer Lewington, "Caisse target of federal ownership bill," *Globe and Mail*, 4 November 1982, p. B-1.
19. Canada, Senate Standing Committee on Legal and Constitutional Affairs, *Proceedings*, 17 November 1982, p. 10. Hereafter cited as Senate, Standing Committee, *Proceedings*, date, page.
20. Canada, House of Commons, *Debates*, 3 November 1982, p. 20347.
21. As quoted in Peter C. Newman, "Ottawa's new war with Quebec," *Maclean's*, 20 December 1982, p. 37.
22. Senate, Standing Committee, *Proceedings*, 17 November 1982, pp. 14-15. In a slightly different vein, a story in the *Toronto Star* warned investors to be leery about investing in firms in which the Caisse is, or might become, a shareholder. For details see Jack McArthur, "If government's part owner, it's shareholder beware," *Toronto Star*, 17 May 1983, p. D-3.

23. Michel Nadeau, "Les perturbations de M. Ouellet," *Le Devoir*, 19 November 1982, p. 16.
24. Senate, Standing Committee, Proceedings, 2 December 1982, p. 6.
25. *Ibid.*
26. Senate Standing Committee, Proceedings, 2 December 1982, p. 7.
27. Wendie Kerr, "Caisse role termed in spirit of free enterprise," *Globe and Mail*, 26 October 1982, p. B-15.
28. Michel Nadeau, "Les perturbations de M. Ouellet," *Le Devoir*, 19 November 1982, p. 16.
29. Senate, Standing Committee, Proceedings, 25 November 1982, p. 7.
30. The federal government appears willing to amend bill S-31 to take this into account. For details see Gilles Gherson, "Bill S-31 to be revived," *Financial Post*, 14 May 1983, p. 4.
31. Senate, Standing Committee, Proceedings, 2 December 1982, p. 35.
32. *Ibid.*, 7 December 1982, p. 16.
33. See the remarks of Ed Broadbent in Canada, House of Commons, Debates, 4 November 1982, p. 20391.
34. For details see Canada, Senate, Debates, 16 December 1981, p. 5201.
35. Pierre O'Neill, "Le chef du PLQ réproouve le projet de loi S-31" *Le Soleil* 6 December 1982, p. 1. Mr. Lévesque described the Caisse in the following way: "..., l'une des meilleures décisions du gouvernement libéral, une politique de vision, la création de la Caisse de dépôt et placement."
36. See Hyman Soloman, "Transportation bill runs out of gas," *Financial Post*, 9 April 1983, p. 12.
37. For excellent overviews of Quebec's bitter reaction to the constitutional settlement and federal economic policies see Raymond Hudon, "Quebec, the Economy and the Constitution" and Pierre Fournier, "The Future of Quebec Nationalism" in Keith Banting and Richard Simeon (eds.), *And No One Cheered: Federalism, Democracy, and the Constitution Act*, (Toronto: Methuen, 1983), pp. 133-153 and 154-173 respectively.
38. Senate, Standing Committee, Proceedings, 30 November 1982, p. 32.
39. I am indebted to Jim de Wilde for pointing this out to me.

40. Alan C. Cairns, "The Other Crisis of Canadian Federalism," *Canadian Public Administration*, volume 22, #2, Summer 1979, pp. 175-195.
41. A striking example of this strand of thought is provided by James Gillies who has recently called for parliamentary reform so as to limit the interventionist tendencies of the current executive-dominated legislative process in Ottawa. "For the private sector, the absence of a powerful legislature is particularly critical given the proclivity for the executive to increase the role of government in society." James Gillies, *Where Business Fails*, (Montreal: The Institute for Research on Public Policy, 1981), p. 114.

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