

# **Canada: Its Framework, Its Foibles, Its Future**

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**The 1988 Kenneth R. MacGregor Lecturer**

Institute of  
Intergovernmental  
Relations

Queen's University  
Kingston, Ontario  
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## Canadian Cataloguing in Publication Data

Blakeney, Allan

Canada, its framework, its foibles, its future

(Reflections - Réflexions, ISSN 0838-4460 ; 1)

"Originally presented as a two-part lecture series, the MacGregor lectures in inter-governmental relations, at Queen's University, 2 and 3 February 1988".

ISBN 0-88911-452-8

1. Nationalism - Canada. 2. Canada - Economic policy. 3. Federal government - Canada. 4. National characteristics, Canadian. I. Queen's University (Kingston, Ont.). Institute of Intergovernmental Relations. II. Title. III. Series: Reflections (Kingston, Ont.) ; 1.

FC60.B53 1988

971

C88-094498-6

F1008.3.B53 1988

## The Institute of Intergovernmental Relations

### *Reflections/Réflexions*

*Reflections/Réflexions* is a publications series of the Institute of Intergovernmental Relations. Contributions present the personal thoughts and arguments of their authors on a variety of subjects having to do with federalism and intergovernmental relations. The series is intended to place new ideas into the public forum, where they will be open to challenge and rebuttal.

## FOREWORD

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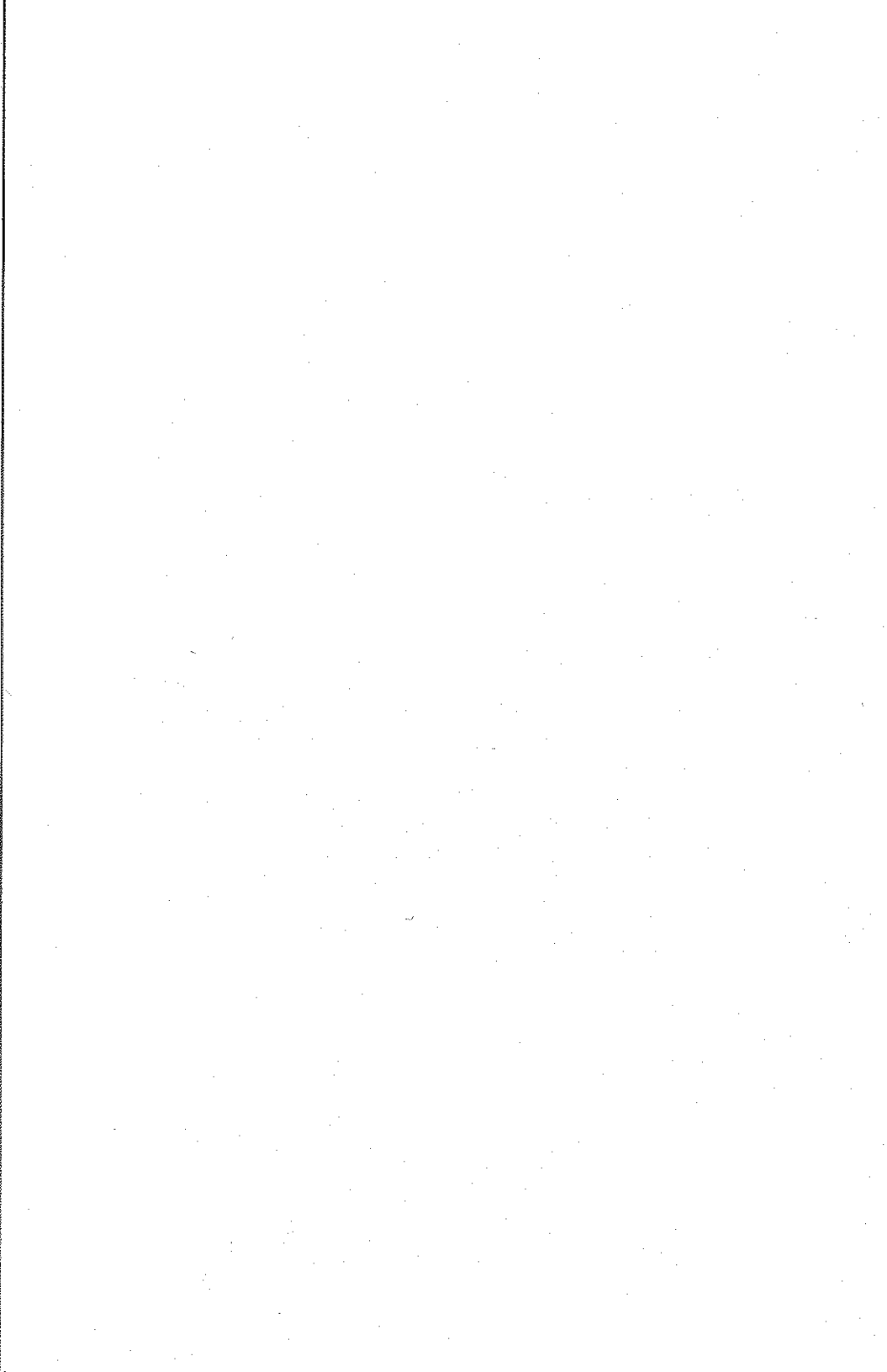
This essay initiates a new line of publications of the Institute of Intergovernmental Relations, under the series title *Reflections/Réflexions*. The contributions to this series will present the personal thoughts and arguments of their authors on a wide range of subjects touching in some way on federalism and intergovernmental relations. Many but not all of them will be specifically about Canada, its provinces and regions, and will focus on a variety of public issues affecting our future development as a nation and a federation. Some will be experimental, intended to place new ideas into the public forum without necessarily conforming to the normal canons of academic publishing. While, obviously, such ideas will be open to challenge or rebuttal, the title *Reflections/Réflexions* has been chosen to suggest solidity and carefulness in the development of argument.

Allan E. Blakeney's *Canada: Its Framework, Its Foibles, Its Future* perfectly exemplifies the characteristics of the new *Reflections/Réflexions* series. His essay was originally presented as a two-part lecture series, the MacGregor Lectures in Intergovernmental Relations, at Queen's University, 2 and 3 February 1988. The Institute of Intergovernmental Relations is proud to be able to publish the text of these lectures.

The MacGregor Lectureship was established in order to bring annually to Queen's University a distinguished individual who has made an important contribution to the understanding or practice of federalism, intergovernmental relations and related issues in Canada or other countries. The lectureship honours Kenneth R. MacGregor, a Queen's graduate, longtime member of the Queen's Board of Trustees, former Superintendent of Insurance for Canada, and Honorary Chairman of the Mutual Life Assurance Company of Canada. It is funded through the generosity of the company, members of the Queen's Board of Trustees, and friends.

Mr. Blakeney practices law in Regina. He was Premier of Saskatchewan 1971 to 1982, and retired from the leadership of the Saskatchewan New Democratic Party in October 1987.

Peter M. Leslie  
Director  
June 1988



## SOMMAIRE

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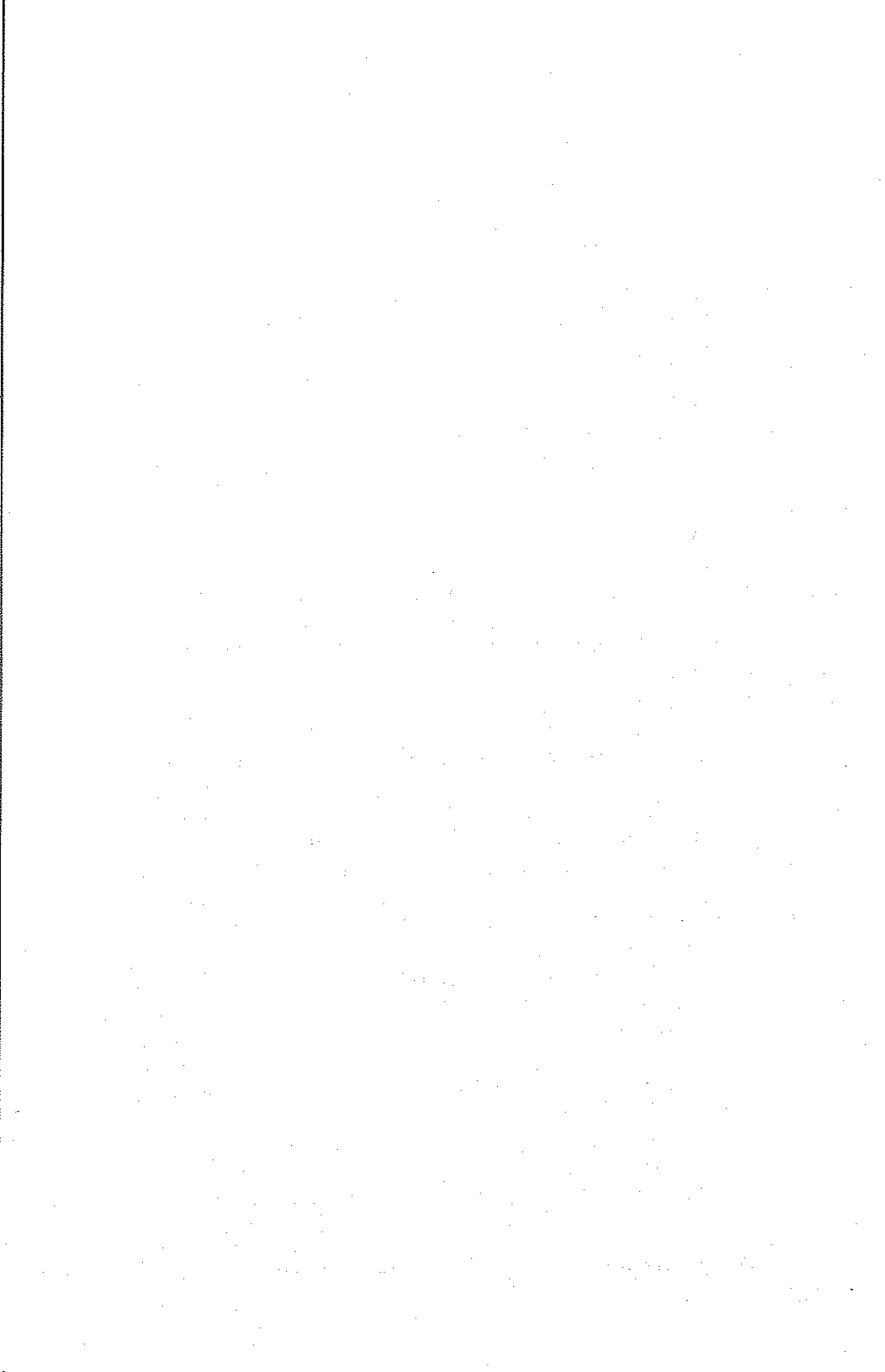
Le Canada étant un produit du droit, et non l'émanation d'une guerre d'indépendance ou d'une révolution quelconque, son histoire ne recèle aucun mythe ou héros militaires qui, dans nombre de pays, servent de ciment unificateur à la nation. Les thèmes récurrents de son histoire sont plutôt les relations entre Francophones et Anglophones et les relations avec les Etats-Unis. Néanmoins, certaines caractéristiques de son évolution laissent entrevoir des perspectives intéressantes pour l'avenir: 1) nous avons unifié le pays en intégrant deux langues, une population dispersée et cinq régions distinctes et uniques; 2) nous avons développé un système fédéral qui permet l'expression des régionalismes; 3) nous avons élaboré un système de coopération et de partage entre les régions et un des meilleurs systèmes de sécurité sociale au monde; 4) et au niveau international nous avons une réputation bien établie de gardien de la paix.

Ces caractéristiques ne représentent pas seulement ce qu'est le Canada, mais renferment également l'idée de ce que le Canada peut devenir. Pour que le Canada se développe et s'épanouisse dans le futur, des efforts devront être déployés dans trois domaines: économie, culture et institutions nationales.

Pour assurer sa prospérité économique le Canada se doit de devenir plus compétitif au niveau international, et non exclusivement à l'intérieur de la "forteresse Amérique". Par conséquent, il doit développer une stratégie industrielle et commerciale axée sur le multilatéralisme, et dont l'accent sera mis sur les entreprises internationalement compétitives. Le libre-échange avec les Etats-Unis, notamment à cause de l'impact qu'il aura sur la redistribution de la richesse au Canada, n'est pas une option de développement économique.

Ce qui fait la richesse culturelle du Canada c'est la diversité de ses régions et des gens qui y habitent. C'est pourquoi cette disparité culturelle doit être promue et non amalgamée dans un moule national étroit et réducteur. De cette diversité culturelle émergera finalement une identité nationale renforcée et une meilleure compréhension de ce que nous sommes vraiment. Toutefois, le traité de libre-échange fait courir un risque à notre épanouissement culturel en rendant la protection (nécessaire) de ce domaine d'activité sujet à des mesures de rétorsion de la part des Etats-Unis.

L'évolution de nos institutions nationales s'est effectuée au fil des ans par le biais de conférences et d'initiatives fédérales-provinciales, plutôt que par amendement constitutionnel. Il appert qu'avec l'Accord du lac Meech les actions conjointes fédérales-provinciales seront plus difficiles à obtenir, la réforme du Sénat impossible et le pouvoir du gouvernement central d'offrir des services égaux à tous les citoyens atténué.



# CANADA: ITS FRAMEWORK, ITS FOIBLES, ITS FUTURE

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## INTRODUCTION

The temptation on an occasion like this is take a narrow subject, to work it through, and to do a reasonably solid job of covering it. However, it seemed to me that this is a bane of modern society. The explosion of knowledge has forced us all to specialize, to get to know our business, or our profession, or our field of knowledge and in the course of so doing, to forego the effort to fit our special area into some broader framework. As a result, much of our effort and much of our scholarship is disintegrative, or if not disintegrative, then not integrative. By that, I mean that it does little to contribute to providing a framework within which we can govern our communities and live our lives.

Consequently, greater pressure is put on those public institutions that, perforce, must decide between competing values, competing objectives, and competing life styles. Universities, I feel, have a special role to play in the attempt to integrate the flood of knowledge into something coherent upon which the public and their servants can base wise decisions in order to integrate the lives of communities and individual citizens. Therefore, those associated with universities, even as occasional lecturers, should be forgiven if they attempt to offer frameworks which they hope will assist in interpreting the events which we encounter.

With that excuse, I wish to offer some comments about Canada—about the country I see today and what I see in our future. Before we turn to the future, however, let us briefly consider our past.

## HISTORY

The first question I would ask is this: Why Canada? Why are we a separate nation and structured as we are? I suggest that we are a product of accidents of history.

- The accident that 500 years ago a rich continent, North America, was inhabited by people who were technically less advanced than those in Europe, as that continent emerged from the Middle Ages.
- The accident of the growth of nationalism on the continent of Europe, which created competing states and dynasties, and led to their colonizing adventures.
- The accident that French explorers favoured the St. Lawrence, and English ones favoured more southerly points on the Atlantic seaboard.

- The accident of European wars, precipitated by European events, spilling over into the fertile valleys and rocky shores of Nova Scotia and the Plains of Abraham.
- The accident, perhaps more predictable, of the American colonists' War of Independence, of the fateful decision of the French settlers of Quebec not to join that war, and of the flood of settlers that came to Canada as a result of that War of Independence—which was also a civil war.

Out of these events of history came the two basic and enduring themes of Canada's history and of its current reality: *French and English*—tossed together by history—can we live in harmony? *United States and Canada*—finding ourselves separate—can we share this continent in harmony? These two themes have dominated Canada's history and its national life since 1763—not only as events that have shaped us in the past, but also as themes which continue to shape us.

I like the way one of our distinguished Canadian academics, Malcolm Ross, expressed this idea. He said that he always felt an urgency in Canadian life, the urgency of unfinished business. He writes: "I have always felt that whereas the Fourth of July celebrates something that has already happened, July First celebrates something still happening." Ross is right. In the last 25 years we have a new flag, a new constitution with big changes likely in the next couple of years following the Meech Lake Accord, and possibly a new economic relationship with our giant neighbour to the south.

Besides the two overarching themes, French—English relations and Canada—U.S. relations, there have been subsidiary themes. One has been the struggle for independence from Britain—a largely peaceful struggle which ended 50 years ago and which was symbolized by the constitutional changes of 1982, with the patriation of the Constitution. Another has been the settlement of the west and the growth of a multi-cultural reality first on the prairies and now in the great metropolitan centres of Canada. A further, more recent theme has been the emergence of the first Canadians, people of native origin, in the North and elsewhere in Canada, into the mainstream of Canadian society. These have been strong themes in our national life; but the enduring reality still is that Canada is largely shaped by the course of relations between French and English and between Canada and the United States, and now, to a somewhat lesser extent—as an outgrowth of coast to coast settlement—relations between the center and the regions, between the federal government and the provinces of East and West.

The ebb and flow in these relationships keep us, in a sense, off balance in Canada. One result is that Canadians always seem conscious—some would say obsessed—with constitutional questions in one form or another. In Canada almost anything can be a constitutional issue—trade treaties, day care, appoint-



ment of judges, the law of abortion, even (you may be surprised to hear) the question of whether margarine could be sold in Newfoundland and whether it can be transported from Newfoundland to other provinces.

Why are Canadians always talking about the constitution, or federal-provincial relations? The answer is that Canada is, to a remarkable extent, a creation of law. Laws and constitutions are what brought us into being, and why we continue to exist. Most other countries are inhabited by people sharing a common language, common history, common heroes and common myths, perhaps even some famous military victories. Not so Canada, where some of these attributes of nationhood are only now evolving. The U.S., while made up of widely diverse peoples, has a history of a successful revolution and a widely accepted common economic ideology. This ideology equates market capitalism, the doctrine of Adam Smith and his disciples—with liberty, and then recognizes personal liberty as the basis of national life. Canada has no such unifying military history and no common economic ideology—from the earliest days, our governments have embraced the doctrine of reluctant intervention (if this pragmatic approach can be called a doctrine), and Canadians expect this of their governments. However, there is no quasi-religious fervour, no unifying belief here.

Canada's unifying bonds are not ethnic nationalism, nor glorious military victories in a war of independence, nor a shared ideology of liberal capitalism. They are the bonds of law and commerce—of conscious decisions by Canadians acting through their governments. Wine and cigars have been the weapons, and smoke filled rooms have been the battlegrounds of our national struggles. Indeed, we Canadians need a greater sense of a common history, common heroes and common myths. We can hope that in the fullness of time these will develop. That is why the protection of our culture is so vitally important. However, we are not there yet.

I said that one result of the continuing importance of these changing relationships was our consciousness of legal frameworks, the things which we substitute for a more generally acknowledged "national identity" which some other nations take to themselves. Another result of the changes in these relationships, and of the absence of some of the more traditional bonds of nationhood, is that Canadians suffer from periodic bouts of flagging confidence and self deprecation. We wonder why we are not like other nations, stirred by our flag and anthem in the same way some others are. However, I think that our self deprecation is often misplaced. It is just too easy to accept the position that Canadians have made a total mess of things (particularly if you are addicted to the media). Certainly there is evidence to support this position, but there's a great deal more contrary evidence.

Canadians of this generation and the ones before it have created and nurtured a country that, despite some obvious flaws, has much of which to be proud. In

an individual, modesty is often an appealing characteristic. But in a nation built by generations of men and women who showed strength and vision, it is less so. Too often we hear Canadians say something akin to:

- "All is lost—the clever Japanese are destroying our industry."
- "All is lost—the big bad Americans are going to crush our economy."
- "All is lost—the arrogant E.E.C. is destroying our world markets."
- "True—the Swedes can go it alone—but they're so smart and disciplined."
- "True—the Austrians can do fine—but they're such hard workers."
- "The Australians and New Zealanders seem to be making it out there alone—but they're isolated by geography."
- "Here in Canada, we're in big trouble." We have our full quota of members of the *crepe hangers club*.

Let us consider some facts that cast a different light on our past and on our prospects for the future. Consider the following:

1. In a short hundred years and over enormous distances, we have forged a unified country out of two languages, vastly disparate people, five unique and distinct regions—all in the attic of a continent swayed by our zealous and expansive southern neighbour. We have done it without revolution and with little upheaval.
2. Within that union, we have evolved a federal system that allows a genuine and clear expression of the regional character. We have had the wisdom to recognize and, in some sense, encourage those regional differences. We have learned that sea-to-sea homogeneity is not only impossible, it is undesirable, certainly at this time in our development.
3. In national affairs, we have developed a system of cooperation and sharing among the regions that is unparalleled in any federal state in the world, and a social safety net among the world's best.
4. In international affairs, we are known as peacekeepers, not as belligerents.

We have built a country of population centres often separated by vast distances of formidable terrain—a string of pearls held together by the thread of commitment to the idea of what Canada is, and perhaps even more, the idea of what Canada can be. Canada has much of which to be proud. I say this in the full knowledge that there have been, and will be, times when severe strains are placed on our confederation, tensions so strong that we all must wonder if our country can long survive. It will survive, and what is more, it will flourish as a country rich in regional diversity, yet built on a foundation of strength and unity. This will not happen automatically, however. It will require effort on the part of this generation and the next to parallel that of past generations. I wish to dis-

cuss that effort under three headings: our economy, our culture, and our national institutions.

#### OUR ECONOMY

Canada has to make some tough decisions. There are no easy answers, but I suggest that we need a vision of what we want this country to be. Only then can we set out to get there. I invite you to look around the world and note the successful economies of the last twenty or thirty years. It is illuminating to examine how many have had leaders who decided that they could let the unseen hand of Adam Smith guide their economy along its natural course, and how many have had leaders who, such as those in Japan, Singapore, Sweden, the Netherlands, Germany, Austria and France, formed their objectives and pursued them by making conscious hard-nosed decisions.

Canada needs to lay out a long term strategy, with objectives and policies dealing with how to get from here to there. We must not shape our long term strategy to respond to the latest bill before Congress or the latest excesses of the European Common Agricultural policy. There are any number of things happening in a troubled world which might cause us to react; we need to pro-act.

Let us consider long term trends. The present position of dominance of the U.S. in the world economy is not immutable. In fact, this is the basis of our current economic problems in North America. In the 1980s, the U.S. investment rate has become the second lowest in the western world, better only than Britain. The U.S., in six short years, has moved from being the largest creditor nation in the world to being the largest debtor nation. Current U.S. trade deficits cannot continue. It is clear that the U.S. must export more and import less. What Peter G. Peterson calls the "cruel and inescapable arithmetic"<sup>1</sup> will produce, in the U.S., a climate hostile to imports and supportive of all exports. There will be walls against imports, subsidized exports, and other measures. These will not be measures of short duration because the reasons which will precipitate them are not of short duration. They will continue, fuelled by the "inescapable arithmetic" of the U.S. economy. Therefore, a *fortress U.S.* attitude is all but inevitable.

Canada too has its problems, and our largest trading partner is the U.S. The tough decision Canadians face is this: as the trade walls are erected by the U.S.,

1 For a discussion of this reality, see the article in the October issue of the Atlantic Monthly by Peter G. Peterson, former Secretary of Commerce under President Nixon, and former Chairman of the Wall Street firm of Lehman Brothers Kuhn Loeb.

do we want to be inside or out? Do we want to be part of a *fortress North America* or outside, trying to make our way in a world of tough trading blocs where we are only a mid-sized player in a world which is not experiencing the U.S. problems.

The right decision is by no means self-evident. Hence the scrambling for a new trading relationship with the U.S. and the profound doubts about it. If it were self-evident, we would not see Canadian opinion so divided. The fact that the proposed deal involves much more than tariffs has raised once again the question of the shape and scope of our relationship with the U.S.

The advocates of the U.S.—Canada trade deal make the following assertions:

1. The deal will eliminate U.S. regular tariffs, over time. This is a minor plus but nonetheless a plus.
2. It will assist in controlling other kinds of U.S. barriers to trade, such as non-tariff barriers like countervailing duties and anti-dumping duties permitted by the U.S. trade remedy laws. If this could be achieved, it would be a major gain, and the treaty would help.
3. The deal will lower Canadian tariffs and this will lower consumer prices and make Canadian industry more competitive.
4. The deal will, by securing improved access to U.S. markets, lead to better access to markets of our other trading partners.

The counter arguments are several. Some of them are as follows:

1. The reduction of U.S. tariffs is a minor plus, but these tariffs have not been a major trade barrier. Canada traditionally used tariffs as a protective device, while the U.S. used non-tariff barriers. Accordingly, the elimination of all regular tariffs removes more protection for Canadian producers than for American producers. Put another way, we are giving up the weapon we ordinarily use and they are not giving up the weapon they ordinarily use, the non-tariff barrier.
2. The deal does not put limits on what trade remedy laws the U.S. can pass or apply. Whether the U.S. will agree at some time in the future to limit its trade remedy laws is purely speculative—a *leap of faith*. Notwithstanding Canada's insistence during the negotiations that the right to apply duties and tariffs under the trade remedy laws had to be part of the deal, the U.S. refused. Accordingly, the deal does not assure full access to U.S. markets.
3. Lowering Canadian tariffs was always open to Canadians through government action. The best move is to lower them multilaterally as we have been doing with such conspicuous success.
4. The argument that the creation of a North American trading bloc will lead to freer, multilateral trade is founded on nothing but faith. There

is no logical relationship between an expansion of trade between Canada and the U.S. and an expansion of trade multilaterally.

5. The appropriate Canadian strategy is one which pursues reduced trade barriers on a multilateral basis; leaves open to Canada the use of all the measures to improve our international trading position that have been used with such great success by other smaller powers; and, finally leaves open to Canada the use of all measures we have used in the past to promote Canadian culture, regional development and the social security safety net. All of these are part of the Canadian heritage and ethos, but are not part of the U.S. heritage and ethos. The proposed deal does not allow us to promote our way of life.

The opponents of the proposed trade deal, argue that the deal has the potential to be a major disaster. It may, in effect, allow the U.S. to sell more to Canada in goods, and particularly services, and still allow the Americans, through trade remedy laws, such as anti-dumping and countervail, to bar Canadian goods, such as Saskatchewan potash. That would certainly achieve the U.S. imperative—exporting more and importing less—but it would be devastating to Canada, injuring our ability to compete multinationally without providing any guarantee of being able to compete bi-nationally in North America.

Without the firmest guarantees of access to U.S. markets, I would not enter into this bilateral agreement with the U.S. If the agreement gave firm guarantees of access, the decision would be more difficult. However, that is not the case. Clearly commodity deals such as the Auto pact, which is more a market-sharing than a no-tariff deal, could be and should be pursued. Nevertheless, any overall deal must retain considerable flexibility to evolve our own economic strategy.

### *Building Our Economy*

In my judgment, we Canadians need to do more to build our own economy based on our own resources, and using our own technology and our own administrative and management skills. This should not be a Canadian economy insulated from the rest of the world. Indeed, much of our branch plant manufacturing sector is just that, and it is increasingly less satisfactory. For example, our trade deficit in manufactured goods has risen from \$3 billion in 1970 to \$18 billion in 1986. Something is wrong with our manufacturing sector.

Throughout the world we have been seeing a gradual change in the nature of manufacturing, from plants structured to serve a small local market, to plants designed to compete on a world scale. In the past, much of Canada's manufacturing has been of the branch plant variety and was never intended or allowed to compete internationally. The arena in which we should seek to be competi-

tive is the world arena, not simply Canada, nor *fortress North America*, as is urged by the proponents of the trade deal with the U.S. Nobody should suggest that the process of making ourselves world competitive will be easy. Canadians can delay the process, plan it, stage it. However, we must learn to live with the changes that will be necessary to get more industries located in Canada that can compete in the international market.

Perhaps we can learn from those who are already successful and who operate in high wage economies similar to Canada. Who are the high flyers in international competition in the key manufactured goods sector? They are:

- The Japanese—Toyota, Sony and Hitachi
- The U.S.—I.B.M. and Dupont
- The Germans—Volkswagen and Telefunken
- The Swedes—Volvo and Sandvik
- The Italians—Fiat and Olivetti
- The Dutch—Phillips and so on.

Now we may ask how many of these highly successful international marketers are foreign owned and how many are owned by nationals of the country concerned. Overwhelmingly they are locally owned. Toyota is not a branch plant, nor is General Motors nor Telefunken, nor Volvo, nor Olivetti nor Phillips. They are basically all owned by people in the countries where they produce and this is not just portfolio ownership. Essentially the managerial decisions of Olivetti are made in Italy. None of these companies depends solely on imported research; overwhelmingly, it is home grown research. If this analysis is correct, it makes sense to encourage that type of manufacturing development in preference to branch plants using imported technology and imported research.

Some will argue that the trade deal with the U.S. will do just that. Branch plants will be threatened, and they will need to be efficient or they will die. The efficiency, however, will be measured only in North American terms, not world terms. We have no guarantee that if we become more efficient, we will have access to U.S. markets. The U.S. will be able to bar any goods that threaten U.S. jobs. Since they have and will continue to have a pressing need to reduce imports, they may well bar our goods. This is not to allege any bad faith on the part of the U.S., as they have clearly told us that they reserve the right to use the current trade remedy laws and any new ones which may be passed. If in the future, they do so, Canada cannot reasonably cry foul.

Some countries, of course, do have foreign owned plants that compete briskly in international markets. The key to their success, however, is low wages—something we do not offer and do not wish to offer. The better comparisons are Sweden and Austria. Clearly the evidence suggests that while not rejecting all branch plants, we should carve out our own niche in the world of manufacturing. I know that some will say this is old fashioned economic nationalism, and

they will assert that the world is international now. However, they are misreading developments. It is because the trade in manufacturing goods is international, that we must have industries that can compete internationally.

We can do this in only two ways, with low wages or with superior technology and research. Since we cannot offer low wages, it has to be superior technology and research. This comes from plants controlled in the country of manufacture with the research located there, and with the national government giving encouragement and support for the research and for the export efforts. I want to suggest that every one of these successful international marketers has a national government that gives encouragement and support to their research and export effort. The Japanese do it overtly and openly. While the Austrians, the Germans and the Dutch, as well as the Americans do not do it overtly and openly, they are not hidden about it. They do it through their defence contracts; the Boeings and the IBMs of this world get their research paid for out of their defence contract. Canada will have to do the same thing, through its government. We need to take some calculated risks but to stay away from leaps of faith advocated by those who rightly see troubles ahead, but who wrongly believe that Canadians cannot compete successfully on the world-wide stage, although other countries less favoured than we are successful. This approach calls for an industrial strategy, as outlined.

It also calls for a trade strategy. For more than 25 years Canada has been pursuing vigorously a strategy of expanding trade through multilateral approaches, particularly the General Agreement on Tariffs and Trade (GATT). Canada lives by trade. Few major countries consume less of what they produce and produce less of what they consume, than does Canada. While on the general matter of increasing our economic growth and trade, we have done very well, indeed, using the multilateral approach. In terms of trade multilateralism has worked.

The Canadian Ambassador to the U.S., Alan Gottlieb, recently outlined the accomplishments of the Canadian economy:

- We have the seventh largest economy in the non-communist world.
- Since 1970 our nominal gross domestic product has quintupled.
- Since 1983 our growth rate has been greater than all members of the Group of Seven major industrialized countries.
- By 1985 total Canadian direct investment in the U.S. was three-fifths the comparable U.S. investment in Canada. We are even making substantial progress in direct investment in the U.S. to counterbalance their direct investments in Canada.

I could recite other statistics to the same effect. That is the "status quo" denigrated by some. The argument goes, however, that this era is gone, that we cannot hold onto the status quo. I am not so ready to write off the obvious gains that have come to us from the expansion of multilateral trade. Nor am I as ready

as some to wed our future even more fully to that of the U.S., a country described by Ambassador Gottlieb as a pluralistic, competitive, confrontational, litigious, turbulent society. That description explains why many Canadians are concerned about keeping our flexibility—about preserving what is distinctive in Canadian life. Ambassador Gottlieb speaks in favour of a trade deal with the U.S. However, he ends his speech on this note: "We would be foolhardy to ignore U.S. power. But we would be foolish to allow myths about our vulnerability to obscure our vision, to discount our prospects."

My second reason for favouring multilateralism is that we simply do not know where the growth economies and the trade opportunities will be thirty years from now. It might be as unhelpful to lock ourselves into the U.S. economy today, as it would have been to create a Commonwealth Trading Bloc thirty years ago, a fashionable idea of that time.

Perhaps the main reason for choosing the multilateral approach is that the GATT rules do not stop us from using some important ways to increase our competitiveness. I believe a U.S. trade deal will make it impossible for us to use the weapons which many of the smaller nations of the world have used to assist their manufacturing sector in becoming internationally competitive. For example, the norm in a country like Sweden or Japan or Austria is to select which industries to promote and which to phase out. Those to be promoted get extra research, development help and staff training assistance, while those to be phased out have programs to retrain and relocate workers. These policies are elaborate and expensive. However, they solve the public policy problem of what to do with an uncompetitive industry and we are going to have to solve that problem in Canada. At the moment, Canadians tend to resort to prolonged protection for uncompetitive manufacturing industries. On the other hand, we cannot simply refuse to protect these industries and allow the casualties—personal and regional—to fend for themselves. Neither of those options is going to work in political terms in Canada. We have to find ways, as other countries have to spread the economic and social cost of the readjustment necessary to make industry competitive. This is not going to be done by long-term protection, and it is not going to be done by letting the law of the free market lie where it falls; neither of these holds out the appropriate promise for Canada.

This pursuit of an industrial strategy is scorned as unworkable. It may be unworkable for Canadians. It certainly is unworkable if we embrace the *hands off the economy* ideas implicit in the Canada—U.S. trade deal. However, it has been used with great success by many countries, and we should be free to attempt to apply it in Canada. Under the proposed trade deal, however, I think those methods would be attacked as being unfair and outside the deal.

Let me recapitulate: Canada needs to become more internationally competitive, particularly in manufactured goods. To do this, we need an effective trade strategy and for us the most effective trade strategy is multilateral trading ar-



rangements which have served us well in the past. We should not tie ourselves to the U.S., whose economic problems are leading to a *fortress North American* approach not in Canada's best interests. We need a strategy which allows us to pursue an industrial policy of targeted world competitive industries of the kind used with such success by countries like Austria, Holland and others.

This debate on how we structure our economy to compete internationally has become another debate on Canada—U.S. relations. In this, we will need to recall our history, when we were convulsed before by these arguments in 1911. Then Canada chose to retain its ability to go its own way, to play on the international, not just the North American stage. I trust we will show the same courage and vision again.

### *Free Trade and Redistribution*

The people who support the trade agreement are fond of saying that they argue facts while the opponents argue emotion, that they argue economics while the opponents argue sovereignty. This is a superficial argument and, in its fundamentals, false. Sovereignty is a code word for emotional arguments. It is, however, a code word for solid economic arguments as well. I believe that there is more agreement in all sectors on the long-term effect of the proposed trade agreement than is acknowledged.

Most would agree that the long-term effect will be to make our Canadian economy more like the U.S. economy, and most would agree that the U.S. economy is one where the rich are richer and the poor are poorer. The rich have more wealth, more power and fewer regulations. In relative terms, the poor are poorer in wealth, power and regulations that protect them. Relative to Canada, taxes are often lower, consumer goods cheaper and entrepreneurial opportunities less restricted by regulation. Hugh Segal, an articulate supporter of the trade agreement, recently put it this way: "What is truly at stake are the respective roles of the public and private sector in this country and the ultimate balance between motivating forces in Canadian life." This is a view that I share.

The business community make their choices. They like what they see in the U.S. and they argue the economics of wealth creation—the bigger pie. As a result, we see the Business Council on National Issues, the Canadian Manufacturers' Association, the Canadian Petroleum Association, the Canadian Chamber of Commerce, and economists and professors of business administration supporting the agreement. Working people, farmers, fishermen, and many academics who do not like what they see in the U.S. argue the economics of the distribution of wealth. So we see the Canadian Labour Congress, Ontario, Quebec and Saskatchewan farm organizations, Atlantic fishermen's organizations, and political scientists and professors of social work opposing the agreement.

The opponents have usually phrased their arguments in terms of sovereignty. This includes the right to maintain a fair distribution of wealth, to have trade unions with more than two per cent of the work force organized (which is the level in Texas), to have an economy where there is effective workers' compensation, unemployment insurance, health insurance and the rest. The arguments may be called emotional by the supporters of free trade, but they are hard nosed economic issues about how wealth is to be distributed.

I think of my days as Premier. I met many of these same groups—or groups like them—on both sides. The business people expressed their concerns: taxes were too high, unions were becoming too strong, minimum wages were too high, there were too many government regulations, and too much red tape, and we need to privatize and deregulate. These people see the proposed trade agreement as a step in their ongoing campaign for a more privatized, deregulated, market-driven economy, and for them the agreement is totally sensible.

The farm groups, unions, teachers and the like argued differently. They called for government action to strengthen unions and farm organizations: Price support plans for farm products and fish; higher minimum wages, better workers' compensation, more day care, easier access to universities and technical schools, and more consumer protection. In short, they wanted more government action to protect those who they believed were not well served by the market system. These people see the trade agreement as a threat to their ongoing campaign for more government action to soften the hard effects of a market-driven economy. Those are real issues, real economic issues. They are emotional but they are also economic issues, the economics of the distribution of wealth.

The supporters of the trade agreement contend that the social programmes are not threatened. Surely, this is not credible. Hugh Segal is right when he says the trade agreement is talking about the ultimate balance between the motivating forces in Canadian life—the mix of a private, public and cooperative economy which Canada has developed in contrast with an overwhelmingly private ownership, market-driven economy in the U.S. It is naive, or disingenuous, to contend that Canada's economy can be market driven and relatively unregulated and competitive in North America while, at the same time, have a broad range of social programmes (medicare, unemployment insurance and the rest) which are certainly costly to business and individual taxpayers and which undoubtedly distort the whole idea of a free market.

These issues are certainly issues of economics, issues of sovereignty, and issues of justice and morality. That is why it is surprising, to be charitable, to see major newspapers like the *Ottawa Citizen* argue that clergymen should not be speaking in public on free trade. When it is argued that these issues have no conceivable bearing on religion or morality, it says not so much about the issues as about the *Citizen's* views on morality. To suggest that a decision between a more privatized, deregulated, market-driven economy on the one hand

and a more mixed, regulated and interventionist economy on the other does not have major moral elements is to reduce morality to issues of sex and Sunday observance. If religion is in fact concerned with morality, and I hope it is, and if politics is in fact concerned with morality, and I hope it is, then religion and politics must be concerned with some of the same ground. I commend the clergy for entering the lists, not to argue for or against any party or politician, but to call attention to the impact of specific policies on the people these clergy seek to serve.

The debate is not only, or primarily, about economics in the narrow sense. It is about the nature of the society Canadians wish to build in the decades to come.

#### OUR CULTURE

Just as we need to do more to guide our economic destiny, we need to assert more aggressively our cultural and intellectual distinctiveness. We need, then, to make more movies and T.V. programmes in Canada and publish more books about Canada. We need industrial research, medical research, research in public policy, historical research, and pure research—research of all kinds in Canada. On this broad point let me share with you the words of Dr. Al Johnson, past President of the C.B.C.:

The existence of a nation depends upon much more than territorial boundaries and common institutions, a single economic market, and the hardware of transportation and communications. The existence of a nation depends equally upon more human, less tangible things. It depends upon the members of that society knowing themselves and their common experience; knowing their shared values and perceptions and perspectives; knowing their achievements, their mythology, their history. Above all, the existence of a society depends upon its members knowing and understanding and valuing one another.

I share that opinion, and hope that we will continue the intellectual ferment which we have seen in Canada in the last 20 years.

Out of all this activity, will come a Canada whose outline we can still only dimly perceive. It will, I hope, be a confident Canada—not with a jingoistic confidence but a confidence firm enough to stir Canadians to resist the overwhelming cultural pressure of our neighbour to the south. It is no easy thing to steer a middle course between unthinking admiration and acceptance of other cultures and equally unthinking attempts to bar outside cultural influences; but steer that course we must. Nor should we be particularly worried if we do not yet have a clear idea of the Canada we wish to build. As I have noted, this is a country still in the process of being formed with much growing and much maturity still to come.

Politicians are aware of tensions between the regions of Canada. However, some of us believe that these tensions—in Quebec, in Western Canada, and in Atlantic Canada—provide us with opportunities as well as with problems; opportunities to continue to define who we are, as well as opportunities to build a tolerant society by blending modern technology and ancient wisdom. I do not wish to suggest that out of competing forces in our society will necessarily emerge a synthesis which will meet our aspirations. There is nothing inevitable about the process. Rather, it will require immense good will and a firm commitment to protect the cultural integrity of our country. It will require, too, a commitment to assert the truth that we are not orphans abandoned in the frigid latitudes of North America by people possessing superior cultures south of us or across the ocean. We are a proud people seeking to define more clearly who we are.

Today in Canada, the regions are breaking out of the old mould. The old mould was almost feudal. In cultural terms there were regions which were noble and others which, if not serfs, were at best, vassals. Like feudalism, the arrangement was stable but not very exciting. Today these patterns are breaking down. There are tensions, but the likely result is a country which is both dynamic and exciting. A country in which no region is, so to speak, to the manor born, and all regions make their particular contribution to the national life.

As this happens, I expect that our scholars will, even more than in the past, search out what is unique about each region and each province, what separates its people from those of the rest of Canada. In doing so we will not only get a better understanding of ourselves but also a better understanding of all Canadians. On this point, I suggest that we should recognize regional achievements and regional identities without trying to put them into a tidy coherent national pattern, and that we have confidence that out of this process a stronger national identity will ultimately emerge. We are well along the way in this process. The last 25 years have seen a remarkable resurgence of self-awareness and self-confidence in almost every part of Canada. This is true in Newfoundland. It is true in most of the English speaking parts of the Maritimes and is certainly true in Acadia. There is a totally new feeling there about Acadian culture. That this is true in Quebec needs no emphasis. The growing self-confidence of the prairies and British Columbia is equally self-evident. Of course, the self-confidence of Ontario is of long standing.

Out of this is coming a better appreciation of who we are, a recognition by Québécois that they and their language are accepted from coast to coast. While a Canada in which most Canadians are bilingual may be a will-o-the-wisp, a Canada where both languages are respected and used for official purposes is within our grasp. That accomplishment has torn a gaping hole in the walls that created the two solitudes of pre-1960 Canada. We survived perhaps our greatest

crisis in French-English relations—the 1980 referendum—and the gains in understanding since then have been nothing short of spectacular.

My vision is a continuation of this movement, which starts with a recognition of the distinctiveness of Quebec and the special features of the other regions, and goes on to underline that uniqueness and those special features do not need to give rise to animosity. Rather, they contribute to the uniqueness of Canada; the distinctiveness that makes it different—not better, nor worse—but different, from any country in the world; the quality that, in Professor Ross's words, makes July First our celebration of events yet to come.

We are all conscious of the ambiguous nature of the word *culture*. In one sense it means the sum total of the ways of living built up by a group of people in a country like Canada and passed on from one generation to the next. That is the broad definition of culture. In this broad sense, culture is heavily influenced by the economic organization of a country. However, the word *culture* is used in a somewhat narrower sense to mean those activities associated with education and the arts, broadly defined, by which a people expresses its feelings, thoughts and tastes. In this sense, Canada does not have, nor need, a common culture. There are already common elements, and we will continue to look to our federal government for support for national cultural institutions like the C.B.C., the National Film Board, and the Canada Council. These institutions are important. However, the provincial governments, and non-governmental agencies will play a strong role, particularly in developing the activities in the regions. This should be the direction of our development in the next period in the evolution of our country.

While much of economics is national and international, much of culture is regional and local. This explains a great deal of the unease of the Canadian artistic community with the proposed Canada—U.S. trade agreement. In the U.S., the arts are part of private enterprise—part of the normal commerce of the nation. Elsewhere, they are not. They are a separate and distinct activity of national life. This is a startling difference between the U.S. and the rest of the world. The leaders of the U.S., as is true of all powerful nations, feel that their policies are normal. Powerful nations are ethnocentric. They believe that the map of the world should show their country at the centre. The proposed trade agreement reflects the U.S. view that their practice in dealing with the cultural industries is normal. The agreement provides that if Canadian governments act to protect Canadian culture—as they have done and as almost all western countries do—then this is grounds for retaliatory measures by the U.S. against another Canadian sector.

A few figures will help illustrate my point. They deal with government support for the arts in several western countries:

- For ballet, total government support ranged from five per cent in the U.S., to 50 per cent in Canada, to over 90 per cent in Sweden and Italy.
- For theatre, total government support ranged from five per cent in the U.S., to 25 per cent in Canada, to over 80 per cent in Sweden, Germany, Holland and France.
- For symphony orchestras, the figures ranged from five per cent in the U.S., 40 per cent in Canada, and over 70 per cent in France and Germany.
- For museums, the figures ranged from 15 per cent in the U.S., 70 per cent in Canada to over 90 per cent in Germany and France.

This spending pattern is the same throughout. The U.S. is the lowest, Canada is second, Britain is about the same as Canada or a bit more, and then the other Western European countries are far more. The estimated total spending per capita on the arts, in 1982 (all expressed in U.S. dollars) are:

- Germany \$27.00 per capita,
- France \$32.00 per capita,
- Holland \$29.00 per capita,
- Canada \$32.00 (Excluding the C.B.C.),
- U.S. \$13.00 of which \$10.00 was tax expenditures and \$3.00 was direct government spending.

The individual figures do not mean much, perhaps, but they do show that the western world has a pattern for support of the arts through government which does apply in Canada and which does not apply in the U.S.

It is small wonder, then, that the artistic community are apprehensive as they see this U.S. approach being *normalized*, and see the possibility of conflict between the arts and some other sector that may be selected for retaliation because Canada continues to do what it has done, and must do, to protect and foster Canadian cultural and artistic activities. I think this represents yet another problem, yet another indication of Hugh Segal's definition of what the trade agreement involves: the shape of our country, the extent to which it will be essentially market driven or driven partially by the market and partially by government intervention.

#### OUR NATIONAL INSTITUTIONS

We have a country whose national institutions are very different from those envisioned by the Fathers of Confederation. The most profound changes have come about not through formal constitutional changes, but rather through the remarkable Canadian devices—the Federal Provincial Conference and shared cost programmes.

Our 1867 constitution provided, sensibly for that day, that matters of local concern—schools, hospitals, care of the elderly and unemployed, roads, universities and research, and the local courts—would be handled by the provinces. Over the next century, the vast changes in social conditions produced the conviction that many of these were now matters of national concern or, at least, joint national-provincial concern. For example, we changed the constitution to deal with old age pensions and unemployment insurance, moving them from the provincial domain to the federal domain. However, most matters were made joint concerns, by elaborate deals which let the administration remain provincial, but under broad rules set by the federal government. The costs were shared between federal and provincial governments, according to sometimes bewilderingly complex formulas.

We developed a range of federal-provincial initiatives, and thus contributed to the birth of national medicare and hospitalization plans, trans-Canada highway projects, federal funds for legal aid, a Canada Assistance Plan with companion provincial plans for the indigent, federal funds for universities, for research, and much more. It works. Canadians are perhaps not fully aware of how well it works, but it works as well, I suggest, as any other federation in the world. In terms of the funding from the appropriate level of government, as well as the appropriate mix of the range of governmental services to be offered, then it becomes very complex.

The fear of many is that the Meech Lake Accord will stall the continued development of joint approaches to problems, not only with respect to shared cost programmes but with respect to its other aspects as well. I have been troubled with the accord because there are some things in it that I strongly favour and some that I think have substantial potential dangers. It is, incidentally, the latest chapter in the ongoing saga of relations between French and English, and the centre and the regions. Like most compromises, the Meech Lake Accord is good in parts.

The part of this resolution that is most important in a political and public policy sense is the recognition of the role of Quebec in Canadian society. It is of paramount importance that the constitution of Canada have full legitimacy in Quebec as well as elsewhere in Canada. I refer, not to black letter law (for in that sense the Constitution applies in Quebec in the same way as in other provinces), but to political reality—to what is in the hearts and minds of Canadians. Meech Lake will mean that the governments and legislatures of ten provinces have given assent to the current constitution. That is important for the long term history of Canada.

However, what of the words of the Quebec provisions? They are remarkably imprecise. The Constitution is to be interpreted in a manner consistent with the recognition that Quebec constitutes, within Canada, a distinct society. Read one way, that is a recognition that the sun rises in the east. Obviously Quebec

is a distinct society, but a wider definition can be given to the term *distinct society*. How wide? Who knows? Then we affirm that the role of Quebec is to preserve and promote the distinct society of Quebec. One must conclude that this provision is a straight wild card. It is a compromise—apparently drafted with studied vagueness in order to allow each participant to give it a particular interpretation and declare victory.

The main structural problems with the Canadian federation are the imbalance in the size and wealth of the component provinces, and the lack of effective representation of the regions at the centre. Several federations have the component-state-imbalance problem, but few have our problem of no effective representation of the regions at the centre. Ordinarily in a federation, that is what the second chamber is supposed to do. That is how the Senate of Canada was devised, but today our Senate is seen to represent no one. Our party structures are becoming less cohesive, meaning that a voice in a party caucus is a less effective regional voice than it once was. Our parties are no longer as comprehensive, and no longer have clear support from coast to coast. For substantial periods, mainline parties are shut out of some regions.

We have evolved another method of regional influence on central government decisions—the federal-provincial conference. As parties ceased to be national in scope, and the governing party in the House of Commons, therefore, was no longer regionally representative, and as the Senate also ceased to be representative, we have come to rely on the federal-provincial conference. It is, at best, a makeshift solution. Almost every major study has identified the need to provide a more effective regional voice at the centre. Meech Lake makes this task harder to achieve. There are few things in Canadian public life that would be more widely accepted than change in the Senate. Yet Meech Lake ensures that there can be no Senate reform without unanimous agreement of the provinces. It is, surely, unwise to make it more difficult to proceed with a widely acknowledged need—Senate reform. It is unwise but, perhaps, not surprising. Everybody wants Senate reform except:

- the present Senate who are satisfied with the status quo,
- the House of Commons who may not want a competing chamber with real stature,
- the federal Cabinet who will have the problems associated with controlling two chambers rather than one, and
- the provincial premiers who may not want a competitor with status to speak for the provinces.

For whatever reason, the existing Senate will be embedded in cement. To advocates of a Triple-E Senate (equal, elected, effective), I can only repeat the comment of Eugene Forsey who is quoted as saying that after Meech Lake, it would be easier for him to become the Dalai Lama than for Canada to get an



equal and elected Senate. As for the proposals for provincial nomination of Senators, they will change little. Perhaps they will have some tendency to change a chamber of federal patronage to a chamber of federal-provincial patronage. I would hardly have thought it possible to find another field for a joint federal-provincial programme, but we seem to have done so.

I will touch on only two other aspects of the Accord. The entrenchment of the Supreme Court is sound and necessary. But less desirable is the virtual provincial appointment of Supreme Court judges. There is no right way to appoint Supreme Court judges, however. The current rule, which leaves it to the federal government, gives a basis for René Lévesque's comment that the Supreme Court of Canada is like the leaning tower of Pisa—always leaning and always leaning in the same direction. In the U.S., they deal with this problem by having the central government nominate a person and then have the nomination ratified by the Senate which, we should note, is the voice of the states at the centre. That method is not without its difficulties, however, as we can read in the press.

The Meech Lake proposal ensures that the Government of Quebec will nominate three judges. The appointment of Supreme Court judges in Canada is a complex business with unofficial rules about regional representation. However, they are beginning to harden these rules, and now three must *officially* come from Quebec. This will be constitutional if Meech Lake goes ahead. There is the unofficial rule that three will come from Ontario, which has been occasionally breached, but not often. The unofficial rule for the rest is that one will come from Atlantic Canada, and two will come from Western Canada, and that these two will rotate. That rule is varied from time to time but not often. For example, if Chief Justice Dickson resigned or retired as a judge, then it would be Saskatchewan's turn. I suspect that a practice will develop that if the custom of rotation dictates that a judge come from British Columbia for example, then the federal government will have to take the nominee of the B.C. government, or allow a vacancy to continue. The Meech Lake Accord, however, gives the federal government the right to province shop and to find a more acceptable nominee from another province. I believe that customs will develop which will make that politically unpalatable and eventually a politically impossible alternative. With the Senate, it does not matter if a vacancy continues for a month or a year. This is not so with the Supreme Court, and there will be great pressure to make appointments to get its work done. There is, however, real danger of another leaning tower of Pisa, this time leaning in a different direction. There is no right way to do this, but it would be nice to think that we had explored some other methods whereby in the case of a deadlock between the federal and Provincial governments, some arbitration committee would operate.

I am uneasy about a Supreme Court with a pro-provincial tilt. I am uneasy because I was born in Nova Scotia, and I have spent my working life in Sas-

katchewan. The smaller provinces need a central government with sufficient power to protect the citizens who live in provinces with volatile and poorer economies. We do not need a Supreme Court that enervates the economic power of the federal government. The ability of the central government to make opportunity and services more equal for all citizens across Canada is an essential part of my vision of Canada.

In the same vein, it is my hope that the Meech Lake proposals dealing with shared-cost programmes do not impede the adoption of appropriate programmes in the future as has happened in the past. We are familiar with shared-cost programmes. Hospital insurance is an example. The federal government enacts general guidelines, and if a provincial government operates a programme which meets its guidelines, it is entitled to money from the federal government to pay part of the cost of the programme. The Meech Lake Accord ensures that in any new shared-cost programme set up by the federal government, a provincial government will no longer have to follow the federal guidelines in order to get its share of the money. It will be entitled to get the money if it "carries on a programme or initiative that is compatible with the national objectives." Some say that there is no great change—that there is no harm done if the programmes are purely provincial, rather than federal-provincial in nature. However, will any new shared cost programme come into being?

For example, let us suppose that a federal government decides it wants to set up a special programme for university post-graduate education, and let us agree that this is an area of exclusive provincial jurisdiction although a legitimate area of federal concern. The cost will be \$100 per capita or \$2.5 billion a year. Quebec, Ontario and Alberta decide to run their own programmes. The other provinces agree with the federal programme. That will mean that of the federal government's \$2.5 billion, more than \$1.8 billion, three-quarters of it, will simply be handed over to provincial governments, to run programmes or initiatives which are compatible with the national objectives. As far as the federal government is concerned, 75 cents is gone from the point of view of getting any political credit for it. Federal governments are not going to launch programmes where 75 cents on the dollar goes to gain political brownie points for other governments and 25 cents is left for the public to recognize as a federal effort. That is the danger; not that the Quebec or Ontario or Alberta programme would not be a good one, but that there will be no programme at all.

I remember a speech in 1977 when federal funding for medical and hospital care was changed from sharing of actual costs to block grants. The speaker said that while federal politicians on the hustings can point with pride to the federal government sharing actual hospital costs, it is going to be hard to quicken the pulse of the voters with declamations about the federal contribution of equalized tax points. It cannot be a political issue, therefore it cannot be a matter of political credit. And this has proved to be the case. In short, I fear that for the

federal government to launch a major new initiative, it will be necessary to be assured in advance of either Quebec or Ontario participation. If that test had been in effect in the past I am not sure we would have national medicare yet. As it happens, each of those provinces was dragged, kicking and screaming into national hospitalization.

It may be that I am magnifying the dangers. That is possible. I feel that unemployment insurance, the Canada Pension Plan and the shared cost programmes have done so much to make Canadian society more civilized. I would greatly regret anything that would inhibit the continuation of an evolutionary process, unique to Canada and clearly beneficial, that brought those programmes into being.

On balance, I favour the Accord because of the need to give our constitution legitimacy in all provinces. I will regret any changes that weaken our ability as Canadians to deal with a key problem of confederation, the representation of the regions at the centre and that weaken our ability to use the federal government to help provide more equal services and opportunities for all Canadians in all provinces. This is our badge of common citizenship.

## CONCLUSION

I do not share the view that we are heading for an economic collapse, and that the U.S. is not. I do, however, share the view that we have economic trouble ahead and that a policy of drift is the worst option, while a policy of a determined effort to make our economy a Canadian-owned economy, world competitive in selected fields, is the best option.

I believe that Canadians are unwilling to become Americans. Therefore, we should nourish our cultural industries so that we see ourselves as proud Canadians, both anglophone and francophone, rather than apologetic non-Americans, as we sometimes seem to be.

I believe that our national institutions have served us well. They are untidy, but flexible and effective, resulting in a high level of political awareness and a civility and compassion for our fellow citizens which does us credit.

I believe the Meech Lake Accord has been a long step forward in relations between French and English in Canada. Other parts of the Accord, however, have the potential to weaken the federal government's power to act in a way which offers all Canadians some reasonable measure of equality of services and opportunity. This will require vigilance and, where possible, counter-action.

Clearly, we face some real and tough challenges in the years ahead, but I believe that most countries of the world would be glad to have our problems, in exchange for theirs. We Canadians can continue to enjoy a humane and reasonably prosperous existence if we lay aside any quest for this or that quick fix. We must continue to pursue the course of flexibility and pragmatic idealism

which has characterized our history to date, and we must continue to celebrate July 1st as the day when we honour a process of nation building which has yet to be completed.