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THE IMPASSE OF CAPITALIST EMPLOYMENT POLICY?
CANADA'S UNEMPLOYMENT EXPERIENCE, 1956-1974

By

Gregory Albo, B.Comm., B.A., M.A.

A thesis submitted to the
Faculty of Graduate Studies and Research
in partial fulfilment of the
requirements for the degree of
Doctor of Philosophy
Department of Political Science

Carleton University

Ottawa, Ontario

25 August 1994

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**THE IMPASSE OF CAPITALIST EMPLOYMENT POLICY?:
CANADA'S UNEMPLOYMENT EXPERIENCE, 1957-1974**

submitted by

Gregory A. Albo, B A.(Hons), B.Comm., M A

in partial fulfilment of the requirements
for the degree of Doctor of Philosophy

Chair, Department of Political Science

Thesis Supervisor

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Carleton University
October 7, 1994

Abstract

The golden age of capitalism from 1945 to 1974 produced high employment based on a Fordist accumulation regime combining mass consumption and production and regulated on a national basis through productivity bargaining, Keynesian employment policies of market control and a managed international sector. Countries demonstrated divergences in their capacity to contain unemployment. The national growth models and employment policy regimes established during the postwar boom appear crucial to explaining the national unemployment experiences of the boom and divergent unemployment trajectories since the crisis period after 1974. Canada's postwar national unemployment trajectory was distinct: as the rest of the advanced capitalist countries moved toward full employment, Canada started the postwar period with full employment, ended the boom with high employment and proceeded toward mass unemployment during the crisis period. Canada's inability to contain unemployment is to be located particularly in the mature years of the economic boom from 1956 to 1974. Canada's experience as a high unemployment country can be explained by its growth model: an open economy reliant on resource exports, a tendency to continental economic integration which lessened the capacity for national employment policies, a relatively poor productivity performance, and a rapidly growing supply of labour. This limping Fordist growth model contained a secular tendency to rising unemployment and placed substantial constraints and pressures on employment policy. Canada adopted a Keynesian employment policy regime of limited market control which attempted to reinforce capitalist sector led growth, especially in exports, to supply employment demand. The management of capacity utilization in the short period was consistent, but dominated by a passive fiscal policy of industrial and tax subsidies to business and income support for the unemployed and a hard currency monetary policy oriented toward external stability of capital and trade flows. The short run instability of labour market policies did not establish the training structures and employment planning capacities necessary to redistribute employment and income. The short run pattern of economic growth and employment policy of the postwar period established the long period unemployment problem confronting Canada: high and secularly rising unemployment and the displacement of national regulation of employment by international regulation. The crisis period has been marked by an international regulation of competitive austerity caused by competition between export-led growth strategies, deteriorating international demand conditions and domestic policies of austerity. In the absence of the political basis for an employment policy regime for market disengagement, the leaden age conditions of competitive austerity of falling working class living standards, rising unemployment and declining public services are likely to continue in Canada.

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Preface

For the past two decades Canadian public policy has been preoccupied by a long and dismal list of economic problems. Stagnation, mass unemployment, branch-plant rationalization, currency instability, and falling living standards are all signs pointing to a fundamental economic malaise and turning point in the Canadian economy. There is now a large, provocative and deeply pessimistic literature on Canada's historical trajectory: from the promise of an integrated national economy in the National Policy period of the 19th century to a declining disintegrating economic periphery of the American empire that now constitutes Canada's present and foreseeable future. This evolution sparked the reformation of Canadian political economy in the late 1960s, and inspired passionate debate about the origins and impact of foreign ownership on the structure of Canadian industry and its ruinous consequences for Canadian sovereignty. The discussion moved on to the threat of de-industrialization of the Canadian manufacturing base in an increasingly unstable and competitive international environment. It was impossible to reverse economic decline without a state-led industrial policy, it was argued, given Canada's resource-dependant industrial structure and the financial and comprador dominated capitalist class. Continental free trade--such as has been pursued since 1989--would only bring further economic dislocation if past history was a signpost for the future.

This dissertation aims to contribute to this literature. It is as pessimistic as the 'left-nationalist problematic' on Canada's economic and political trajectory. Canada's path of dependent accumulation launched over the postwar period is now racked by declining resource rents, a

collapsing industrial economy and low wage competitive pressures. Relative competitive decline has meant an inability to absorb rapid labour supply growth still premised on settling 'empty spaces', extending the size of the market, and 'poaching' skilled workers from the global labour market. The national politics of employment policy has, moreover, failed to form labour market institutions with the capacity to control the market; instead, employment policy has historically been, and continues to be, scourged by policy instability and corrosion. The secular rise in unemployment that commenced just after the 'postwar settlement' promise of full employment capitalism persists unabated. There appears little reason, then, to abandon the central theoretical position forwarded by Canadian political economy since the early 1970s of continued economic decline, political disintegration, environmental degradation and social exploitation in Canada under the present economic model and balance of power between the social classes.

This dissertation provides an historical analysis of the economic institutions of employment policy making over the postwar period in Canada. It is concerned with the limits to the reduction of mass unemployment posed by the historical processes of accumulation and the institutional capacities of employment policy formed during the postwar boom. Its origins can be traced many years back to time spent scouring the book stacks of Elizabeth Dafoe Library at the University of Manitoba in pursuit of the writings of Karl Marx, J.M. Keynes, Joan Robinson, Harold Innis and Mel Watkins. My teachers at Manitoba were exceptional models of what the study of economics and politics should be, and I wish to acknowledge the formative influences of Clarence Barber, Bob Chernomas, Cy Gonick, Richard

Lobdell, John Loxley and Paul Phillips. It is similarly necessary to signal out Leo Panitch and Donald Swartz, at York and Carleton Universities, both exceptional teachers and engaged socialist intellectuals. I am indebted and grateful for their friendship and solidarity.

All this could also be said of Jane Jenson and George Warskett, who I was fortunate enough to have as teachers and committee members. Their sound advice and confidence always came at much needed points in time. Rianne Mahon has been an exceedingly generous supervisor in terms of patience, judicious and wise comments and insightful editorial advice. These are virtues that all students seek out in a supervisor and Professor Mahon has them in abundance. Yet, it is her own theoretical and political writings whose importance to my thinking I wish to underline. That which is good in this thesis resides with this group of friends and teachers.

Finally, the encouragement and perseverance over the years that is required to complete a large manuscript came from Elaine Whittaker. I can never thank her enough for this and so much else. This thesis is dedicated to my parents, Francesco Antonio Paul Albo and Gudrun Sigridur Abrahamson, from the southern hills of Calabria and the northern waters of Iceland to the Canadian prairies, in the hope for a more just society.

Part I Theoretical and Historical Considerations

Chapter 1

Capitalism and Employment Policy

But if a surplus labouring population is a necessary product of accumulation...this surplus population becomes, conversely, the lever of capitalist accumulation, nay, a condition of existence of the capitalist mode of production. It forms a disposable industrial reserve army of labour, that belongs to capital quite as absolutely as if the latter had bred it at its own cost. Independently of the limits of the actual increase of population, it creates, for the changing needs of the self-expansion of capital, a mass of human material always ready for exploitation.

Karl Marx

From the perspective of the 1990s, the postwar period from 1945 to 1974 appears as a unique episode in the economic history of capitalism. The economic and political conditions necessary to produce a 'golden age of capitalism' of high growth coupled with high employment unexpectedly converged. Rapid economic growth during postwar reconstruction soaked up labour reserves, and buoyant demand conditions sustained accumulation into the 1970s, producing full employment for a time. Unemployment dropped below 2 per cent in several countries in the 1960s, and averaged less than 5 per cent in the Organization for Economic Co-operation and Development (OECD) zone for most of the period.' The unprecedented economic boom was aided by Keynesian employment policies based on the doctrine that governments could manage effective demand to stabilize growth and employment at high levels. As long as the boom continued, most of the advanced capitalist countries moved towards high employment, despite widely varying versions of employment policy.

Since the onset of economic crisis in 1974, however, mass unemployment has again spread across the advanced capitalist countries, and has continued to rise into the 1990s. The escalation of unemployment levels-- which are now double, and often two and three times, what they were in the

boom--underscores the fragility of maintaining the conditions for a high employment market economy. Yet there has also been wide divergence of unemployment experiences since the crisis: some countries have sustained relatively low unemployment, while others have suffered chronic high unemployment. The variability of national unemployment experiences, despite common economic pressures of crisis, emphasizes the significance of politics and history in constructing economic outcomes.

This study explores the historical processes of accumulation and the labour market effects of employment policy institutions conditioning the capacity of Canada's national social formation to maintain high employment. It asks how did these processes evolve over the postwar boom and configure Canada's long run unemployment trajectory. In situating the answers in a historical analysis of Canada's postwar employment policies, we employ a political economy approach to analysing public policy and the relationship between state institutions and economic processes. A political economy approach pays particular attention to the historical evolution of accumulation and state institutions in forming national economic and policy capacities. This study examines the unemployment pressures and constraints of Canada's growth model, the formation of the institutions of employment policy of postwar Canada and their results in containing unemployment.

In this study, the political economy approach adopted draws upon some of the concepts and analyses of the Marxian tradition that focus on the role of institutions in supporting accumulation. In particular, the notion that the long postwar boom that provided the conditions for high employment stability was based upon unique institutional structures of

accumulation centred on mass production and defined through national growth models is developed. As well, the conceptualization from the comparative political economy literature of different national employment policy regimes which structure the supply and demand for labour is elaborated. The general proposition is that national growth models and employment policy regimes are the two central factors determining unemployment, and conditioning the long run national unemployment trajectory.

This chapter prefaces the historical narrative of postwar Canadian employment policies which follows by introducing several key concepts. The first section on Canada as a high unemployment society summarizes the argument of this thesis in brief. The second section notes the varying views of unemployment and defines what can be called the capitalist unemployment problem, arising from the labour surplus character of capitalist production. A third section develops more fully the conceptual framework used in the historical account of Canadian employment policies. Finally, an outline of the chapters which follow is presented.

1.1 Canada as a High Unemployment Society

This study of the unemployment experience of postwar Canada is guided by three questions. How did employment policy evolve during the mature years of the postwar boom, when countries were fully institutionalizing their full employment commitments? By the end of the postwar 'golden age of capitalism', why did Canada not have in place the institutional structures which could have contributed to containing the pressures of unemployment? What policy legacies and institutional barriers will have to be overcome to lower unemployment in Canada today? This thesis

addresses, in particular, the path of Canadian unemployment and employment policy over the postwar period. The postwar period offered two distinct openings to reshape the Canadian unemployment trajectory formed by the growth model and employment policy regime of the reconstruction period of 1945-56. These historical moments coincided with the major postwar business cycle of 1956-66 and 1966-74 and presented two distinct unemployment challenges: in the first, the problem of maintaining effective demand and forming active labour market policies; and, in the second, the difficulties posed by stagflation and developing the redistributive institutions necessary to contain unemployment. A discussion of the employment policy responses to these openings--which tended to reinforce Canada's long run unemployment trajectory--form the majority of this thesis.

The argument developed in this dissertation may be summarized as follows. Unemployment has been a general characteristic of the history of capitalist development even during the most dynamic periods of economic growth. Because capitalism is a system of production based upon labour surpluses, and the high employment conditions are fragile, all capitalist societies are characterized by some measure of unemployment (and often mass unemployment). Thus the capitalist unemployment problem emerges from the nature of production in a private market: employment is a consequence of the accumulation of capital resulting from the pursuit of profits, yet a pool of unemployed workers must be continually produced for this expansion to occur. For high employment to be sustained, appropriate conditions of adequate demand, employment stability and distribution of hours of work and income must all be present.

Nevertheless, different national social formations have demonstrated

remarkable divergences in their capacity to contain the tendencies within capitalism to produce unemployment. Even during the postwar boom the advanced capitalist countries differed in their unemployment experiences. North America, for example, persistently had higher rates of unemployment than the rates experienced in most of Europe. Moreover, since the economic crisis in 1974 the diversity of national unemployment outcomes has magnified; some countries, such as Sweden, Japan and Austria, have maintained high employment, while countries such as Canada and France, have become mass unemployment societies. The national models of growth and the employment policy regimes established during the postwar boom are crucial to explaining the divergent unemployment trajectories in the crisis period. That is, unemployment tends to follow a time-dependent path conditioned by the historical processes and forms of accumulation structuring labour demand and the effects of the institutions of employment policy on labour market structures.

Even during the postwar 'golden age' Canada was a high unemployment society, and since the present crisis-prone transitional period, Canada has been securely placed in the mass unemployment group of advanced capitalist countries. Canada's striking inability to contain the pressures of unemployment has thus to be initially situated in the postwar period, and particularly in the mature years of the economic boom from 1956 to 1974. Canada followed in this period a variant of the 'North American model' of economic growth and market-led employment policy regime. Part of its experience as a high unemployment country can be explained, therefore, by its relatively 'extensive' growth model: an open economy reliant on resource exports; a steady continental integration of

manufacturing and resource industries which lessened the capacity for national employment policies; a relatively poor productivity performance; and a rapidly growing supply of labour. This growth model placed substantial constraints and pressures on employment policy. Notably, the long term stability condition of matching labour supply growth with employment growth was under constant pressure in Canada from the rates of growth of the domestic and immigrant labour forces. Cyclical downturns always left large pools of unemployed competing with a flood of new job entrants and, at the end of the cycle, a higher average rate of unemployment. The 1957-62 downturn, for example, pushed Canadian unemployment rates to postwar highs and they remained high even during the 1960s boom. The 1969-71 economic clampdown left a similar unemployment legacy. In both periods of unemployment challenge efforts to forge an alternate growth model and to lessen labour supply pressures stalled in favour of both systemic pressures toward continental integration and ad hoc industrial policy measures proposed as a solution to Canadian economic problems. As a consequence, any sustained period of slow growth, such as occurred after 1974, threatened to explode into mass unemployment.

In comparative terms, Canada adopted an employment policy regime which attempted to reinforce capitalist sector led growth to supply labour demand. The management of capacity utilization in the short period was consistent, but dominated by a 'passive' Keynesian stabilisation policy structured around industrial subsidies to business, external stability to maximize capital and trade flows, and countercyclical income support policies. The realisation conditions for maintaining high employment in Canada were, in consequence, widely variable in the short run, and increa-

singly dependent upon capitalists' expectations of future profits for investment and conditions in international markets in the long run. In each major period, the instability of labour market policies in terms of both strategy and institutional base failed to establish the redistributive labour market structures which might have contributed to containing unemployment pressures. During the 1956-1966 unemployment challenge produced by recession and the 'Great Automation Scare', this led to a failure to co-ordinate and deploy Keynesian policies or to establish strong active labour market policies. The challenge of rising unemployment and inflation of the 1966-1974 period was met by more interventionist stabilisation and labour market policies, but these policies too failed to establish a permanent institutional and strategic capacity. At the end of the postwar period, therefore, Canada's employment policy regime still lacked stabilisation, training and adjustment institutions and employment planning capacities to contain the burgeoning unemployment crisis.

The pattern of the postwar growth model and employment policy regime in the short run established the long run capitalist unemployment problem of the Canadian economy: high and secularly rising unemployment across the business cycle and the steady erosion of national employment policies by the widening of the international constraint. The national politics of employment policy in Canada traces, therefore, a movement from passive Keynesian policies of demand management and active, albeit unstable, labour market policies toward policies of domestic austerity and high unemployment labour market flexibility. The origins of the market-led employment policy regime that formed after the reversals of growth and high employment with the economic crisis is to be located in the history

of postwar economic policies. Such a strategy, however, given the labour market pressures arising from Canada's growth model, could do little to halt Canada's trajectory toward a high unemployment society. The unemployment crisis in Canada can only be resolved, it will be concluded, by radical measures to constrain market-led determination of employment levels and an extensive overhaul of Canadian economic policy institutions.

1.2 The Capitalist Unemployment Problem

The vast majority of writing on unemployment outside the Marxian tradition consider capitalist economies to be labour shortage economies, with unemployment seen largely as a temporary or voluntary phenomenon. In the Marxian view, capitalist economies are labour surplus and unemployment an interminable problem. Unemployment is subject to variable meanings, therefore, and before we proceed further it is useful briefly to distinguish some of them and to define the capitalist unemployment problem.

The official rate of unemployment--the proportion of the labour force without work actively seeking employment--is useful as a general indicator of labour market slack and it will be extensively relied upon in this study. Yet the official rate--derived as it is from neoclassical economics--has severe drawbacks. It varies across countries in definition and collection. Those that have given up looking for work are not counted unemployed.³ It also pays no attention to the proportion of the population employed, under-representing, for example, the underemployed (in terms of skills and hours).⁴ In more precise terms, 'unemployment' should refer to the labour reserves of unemployed, underemployed, discouraged and potentially employable workers--the unutilized potential capacity to

contribute to the total social output.'

The concept of full employment suffers from a similar imprecision.⁶ Today it is commonly defined with reference to price stability--the clumsy neoclassical non-accelerating inflation rate of unemployment (NAIRU) concept--and not in terms of conditions specific to the labour market. A more useful definition, closer to the postwar conception, is Beveridge's--vacancies exceeding unemployed (at a targeted rate of unemployment).⁷ This still implies substantial numbers of involuntary unemployed even when 'full employment' exists. As Robinson noted, it may be "preferable to take a simple-minded definition, and to say that there is 'full employment' when no one is unemployed." Even this definition has a political dimension, and it ignores what Robinson would later call the 'second crisis of economic theory', the question of what should be produced at full employment. Full employment would be more adequately defined, too, if its political and distributional objectives were explicitly stated (rather than arbitrarily and falsely separated as 'normative issues' apart from the technical issue of labour market tightness causing inflationary pressures). In this alternate view, full employment might be seen to be the maximization of voluntary participation of the adult population in socially-useful paid work at full-time hours for solidaristic wages.⁸

As Marx insisted, the problem posed by unemployment--and thus full employment--is specific to the capitalist form of production. Capitalism is uniquely organized in the form of free markets comprised of commodities and labour-power. Individual capitalists own the means of production and control the economic surplus to meet private needs; workers individually sell their labour-power in a market--for the wages necessary to purchase

the means of subsistence--to capitalists, who must in turn extract actual labour from workers. Employment is created for workers as a product of the pursuit of profitable investment (a process unconcerned for social need, use value or loyalty to a spatial location). In contrast, unemployment, as Marx emphasized, exists as a fundamental characteristic of the system, in that capitalists need a pool of workers, or a 'reserve army of labour', to be available for expanded accumulation and to maintain the discipline of employed workers.

A high level of employment in a capitalist market depends on a number of unique conditions holding in both the short and long periods. In the short period, conditions for realisation must exist: capitalists have a given technical capacity to produce goods, but there must also be sufficient demand for them to sell their goods and thus to realize their investment. If there is a shortfall of effective demand, goods are unsold, stocks build up, and unemployment results. The spatial and class composition of demand is also important in the long run. A more equal distribution of income between the social classes, and an economy more nationally-centred and less open, is likely to provide greater stability of effective demand.

Strict growth conditions are required for employment stability. The rate of growth of the labour force must be matched by the rate of growth of employment which, in turn, must correspond to a full employment rate of growth of output (for a given economic space, in this case the national economy). If output grows too fast for the labour force, an inflationary crisis develops and this raises investment uncertainty. In addition, workers gain the leverage of tight labour markets to push wage and labour

process control claims, thereby squeezing profits, slowing investment, and raising the likelihood of layoffs. If output grows too slowly, or the labour force too quickly, unemployment will arise even if the economy moves to full capacity utilization. These short period or conjunctural crises of employment stability also have a long run dimension. If there is long period of economic growth with output consistently exceeding labour force growth, overaccumulation is likely to set in with productivity falling and the structural capacity of workers to push for high wages braced by high employment. An economic crisis with spiralling unemployment is likely to break out. Alternatively, if economic growth is consistently too slow, or labour force growth is consistently too fast, unemployment will experience a secular increase with mounting stagnant pools of the permanently unemployed.

Finally, appropriate distributional conditions need to prevail. Income must be distributed in such a way that workers have the purchasing power to consume the goods produced; hours of work need to be distributed amongst employed workers so that wages can meet living needs; taxes on capitalists and employed workers need to be high enough to meet the income, retraining, and alternate employment needs of the unemployed; and productive capital needs to be spatially distributed such that employment is regionally balanced. If any of these three conditions for high employment fail, an unemployment crisis is likely to develop. If all three fail to be met in the long run, a mass unemployment disaster is in the making, in a society becoming acutely polarised between those with and those without work in a capitalist labour market.

Capitalist competition adds to the difficulty of achieving the

conditions for high employment. To earn profit rates above the average, and thus to accumulate a greater mass of capital, individual capitalists seek to reduce their wage costs, lowering total demand and employment in other sectors. Investment is unplanned and is based on uncertain expectations about the future. Disturbances always raise the possibility of slipping off the growth path and the development of a crisis. Finally, capitalists tend to compete by lowering costs through labour-saving technological change. New techniques reduce the hours of work necessary to produce the old volume of output. Without an appropriate sharing-out of productivity gains between capitalists and workers, and redistribution of reduced hours of work, unemployment is likely to rise.

The economic and political conditions necessary to produce high employment are, therefore, exceedingly precarious. The capitalist unemployment problem is a general property of production organized in a private market, and a specific consequence of the accumulation regimes and distributional structures regulating employment in particular time periods and societies. Capitalist employment policy is the set of macroeconomic and labour market measures for regulating effective demand and adjustment to cope with the tendencies within capitalist economies to produce unemployment. Employment policy in capitalist societies confronts a problem that is constantly re-emerging and escaping the barricades erected in one period in the next.

1.3 Unemployment in National Societies

The characteristic of labour surplus, and the conditions for high employment, describe the 'abstract-logical' structure of the unemployment

problem in the capitalist mode of production. Actual production and unemployment, however, occur in real historical time and space. By stating that accumulation takes place in history we also mean that the neoclassical adjustment notion of 'the economy moving toward equilibrium'--a point in conceptual space, abstracted from time, always tending toward full employment in the sense that all unemployment is voluntary--is a problematic conception. No such state can or does exist in an actual economy. All economies are continually 'out-of-equilibrium' in that they are undergoing constant adjustments and heading in no predestined direction of 'market-clearing'. Economies, and hence unemployment, should be studied as social processes set in time.¹⁹

Capitalism and Reproduction

Time, however, is not a linear concept. History does not exhibit an essential homogeneity in all periods. In this sense, theoretical and historical analysis constructs a social temporality of the reproduction of social and economic structures that is distinguished from a purely chronological temporality. The study of historical movements and the reproduction of societies "necessarily involves the construction of a temporality" abstracted from, but quite distinct from, the concrete-real.¹ The processes and relations of internal transformation of a socio-economic system--what Marx termed reproduction--are, therefore, central to the periodization of history. The concept of reproduction carries a number of implications. The reproduction of a socio-economic system is also the reproduction of its contradictions and thus contains within it the possibility of instability and crisis. There is a hierarchy of the constituent

elements necessary for reproduction which defines the character of a historical scheme of reproduction separating one period from the next. Finally, the 'logic of transformation' exhibits a stability for which historically determinate tendencies can be formulated. Thus capitalism reproduces itself through a "set of internalized rules and social procedures" specific to historical periods, which regulate the economic structure (and the general characteristic of unemployment)."

Thinking about time as socially reproduced is impossible without a similar conception of 'social space'. Actual production processes and economies exist in a physical space in that capital must be fixed in place for a length of time--what David Harvey has called a socio-spatial fix." This space is variable in that capital, and consequently economic reproduction, alters its spatiality across time, shifting production processes and 'condensing' distances to exploit spatial advantages and new transportation and communication techniques. The reproduction of capital must, however, gain a certain 'coherence' and 'materialization' in time and space if capital is to valorize itself and accumulate. Space as the material form of existence of the socio-economic practices which structure capital accumulation has typically been compartmentalized within nation-states which have provided a common currency, legal structure, class formation and social institutions. National economic spaces, therefore, have been the key locus in the 'hierarchy of space', although not uniformly and not without significant local and international dislocations, for capitalist production." The postwar national economies of the advanced capitalist countries is the spatial unit, and temporal period, that will preoccupy us here.

Regulation and National Growth Models

The continual transformation of accumulation through time and particular places requires a means to conceptualize these changes. There is a need for an intermediate level of analysis between the abstraction of a mode of production and the details of history. The utility of the 'periodisation debate' has been the clarification of concepts useful to compare capitalist social formations across space within a constructed social temporality abstracted from particular historical cases. This study will adopt the terminology of the French regulation school, and consequently some of its hypotheses, to situate the Canadian postwar social formation. The basic concepts can be briefly summarized.'

It is necessary to initially draw an elemental division in the forms of accumulation, as Marx emphasized in terms of absolute and relative surplus value techniques, between 'extensive' and 'intensive' depending on how accumulation proceeds." Intensive accumulation is essentially the application of science and technology to production, embodied in skills and machines, so that productivity advances rapidly (although growth may be slow if demand is weak). Intensive accumulation will increase unemployment through labour displacement unless economic growth compensates by increasing labour demand. Extensive accumulation, in contrast, is capital accumulation on the basis of extending the scale of production, with given production techniques, by drawing upon new sectors, workers, or land, a larger portion of the day or more intensity during the existing workday. In this case, productivity advances slowly, although growth may be rapid through the enlargement of the market. If extensive accumulation is broadening the market through demographic growth, aggregate employment may

increase yet still be accompanied by increases in the absolute and relative size of the numbers unemployed if growth is too slow.

The forms of accumulation which have emerged in actual history are numerous, and it is useful, therefore, to identify dominant patterns of development. The technical paradigm is the general principles of the labour process for the organization of labour, the level and distribution of skills, and the techniques of production. This process governs the transformation through human effort of one set of use-values into another that is the foundation for accumulation. The continual transformation of the production conditions of capitalism requires a scheme of reproduction whereby there is a "fairly long term stabilisation of the allocation of social production between consumption and accumulation."¹ This may be termed a regime of accumulation and it describes the conditions for effective demand and production and employment stability. The postwar regime of accumulation may be called Fordism in the sense that its stability depended upon a synchronisation of mass production and mass consumption through workers' wages moving in line with productivity advances.

No regime of accumulation will be uniformly intensive or extensive in its specific historical conditions. By its competitive logic of transformation through advancing productivity capitalism tends toward intensive accumulation. But extension of the market is always important to profitability and spatial restructuring. The expansion of Fordism, for example, was partly extensive through declines in the numbers of self-employed, introduction of new sectors into commodity production, and further rationalisation of time-management in the labour process. North America, in particular, experienced postwar growth resulting from both the

extension of the size of the market through rapid increases in the size of the labour force and exploitation of new lands and resource rents.

A reproduction scheme that establishes itself over a period of time must have internal to its structure "forms of adjustment of the expectations and contradictory behaviour of individual agents to the collective principles of the regime of accumulation."¹⁹ This process may be termed the system or mode of regulation. Although this formulation is general, it is useful in insisting that we "look at the total package of relations and arrangements that contribute to the stabilization of output growth and aggregate distribution of income and consumption in a particular historical period and place."¹⁹ Several distinctions about forms of regulation are necessary to draw. There can be competitive forms of regulation relying on price and quantity adjustments to ensure stability; there can also be monopolistic (or, here, Keynesian) forms of regulation such that productivity and effective demand rise together through a series of compromises in collective bargaining for productivity sharing and the advance of credit-money. The mode of regulation concept is often used in two quite distinct senses: as the a posteriori means of stabilisation of a regime of accumulation and as the mechanism of adjustment in the short period. It is helpful, therefore, to use the mode of regulation to refer mainly to the long run stabilisation of an accumulation regime and to identify specific national rules of co-ordination for the intended adjustments of economic agents in the short period.²⁰

The Keynesian form of regulation is associated with the Fordist regime of accumulation. It was embedded in national social formations in that the collapse of world trade in the depression and war mobilization

made the internal market paramount. Thus it is possible to speak of Keynesian regulation as the pre-eminent national form of regulation. The world economy can be conceptualised in this period, and as it necessarily exists, as a product of national regimes of accumulation. This is not to say that the world economy does not take on its own logic and force to act as an external restraint on national regimes. It is to speak more properly, however, of a world configuration which, through trade flows, international monetary constraints, differential growth patterns, supports or hinders divergent national growth trajectories.²¹ It is even possible to argue, as Warskett recently has, that forms of 'external regulation' exist to the extent the open sector in the form of trade or capital flows plays a large role in stabilizing (or beginning to destabilize) a national regime of accumulation.²² Yet it is not possible to identify a 'world regime of accumulation' (for such a concept applies to no particular space of actual production nor to a system of reproduction that could be internally coherent). The postwar history of employment policies, it will be argued, tracks a decline of national regulation to an unstable external regulation.

A regime of accumulation is a generalization of the characteristics for balanced reproduction of a historical period. It is not established in all countries on a uniform basis. It is thus necessary to specify a national growth model,²³ which may be defined as the national matrix of production, distribution and consumption, and the nature of incorporation into the world economy. There are three dimensions to its specification: the technical structure of production, macroeconomic balance, and the structure of labour adjustment. Growth models may be distinguished, then,

by national characteristics such as labour supply growth, size of the export sector, and the proportions of the different branches of industry. It is basic, for example, to identify the 'closed' U.S. economy over the postwar period as against the 'open sector' growth models of Scandinavia, or to identify the 'machine goods' German economy as against the 'resource goods' Canadian economy.

National growth models may entail differentiated employment processes for maintaining the macroeconomic balance of an accumulation regime. This has already been noted in terms of the extent of national or external regulation of effective demand, and in the balance between extensive and intensive accumulation incorporating the labour supply. Robinson has most developed conceptually the different hypothetical growth and employment paths and their unemployment consequences.²⁴ The growth paths are set out in 'logical time' with the level of accumulation being sustained according to the desired rate of capitalists (savings out of profits matching intended investment). Robinson marks several golden age conditions whereby stable reproduction is occurring, but with different employment results: 'golden age' growth accompanied by full employment; a 'restrained golden age' where desired accumulation is greater than labour supplies; a 'bastard golden age' where workers resist the erosion of their wages and a shift to profits thereby creating an inflationary spiral; and a 'limping golden age' where steady growth occurs but without enough plant to employ the labour force causing unemployment to climb secularly.

These relationships define abstract growth models, but it is possible to refer to historical periods and specific countries as depicting a particular growth trajectory. The postwar period of Fordism may be

referred to as a golden age on the basis of stable growth, and that the ratio of unemployed workers to population is declining or stable so that full employment is being approached or sustained. Postwar European and Japanese growth, for example, reproduced golden age conditions of high growth due largely to productivity increases and moved to full employment; however, it is better to characterize North America as a limping golden age with growth coming from both intensive and extensive accumulation, with an underlying tendency to high unemployment. Canada also depended upon resource exports and a massive increase in the labour stock for its growth so it is possible to allude to Canada's limping Fordist growth model.²⁵

Employment Policy Regimes

Employment policies can in general be considered the regulation of the conditions of effective demand and labour adjustment so as to maintain the employment conditions for accumulation by mobilizing the labour supply and controlling unemployment. Employment policies are comprised of several types each with different options (and consequent impacts on unemployment).²⁶ Fiscal policies consist of budgetary and tax policies and can either be expansionist or restrictive by adding or taking effective demand out of the national economy. Monetary policies manage the external value of the currency and regulate the money supply and access to credit through control of foreign exchange accounts, bank reserves and interest rates. A hard currency policy attempts to preserve or revalue the national currency in relation to other countries; a weak currency policy allows resort to competitive devaluations. A tight monetary policy controls

credit access and raises interest rates to restrict investment and consumption; a loose monetary policy has an expansionary objective and reverse policies. Labour market policies consist of adjustment, mobility, training, unemployment insurance and direct job creation measures. These policies may be market-led, compensatory, or redistributive according to their strict reliance on market allocation of labour, private sector labour demand and market wage determination, their attempt to compensate for market failures by adjustment, training and income assistance, or their effort to actively control and limit the market determination of employment, training and incomes.

Employment policy is not, however, a simple concept in conceptual or practical terms in capitalist societies. The unemployment target, for instance, is a balance between the 'discipline' of workers produced by unemployment, and the rapid accumulation and low welfare costs coinciding with high unemployment. Similarly, the policy mixture may contain a variety of targets and objectives--such as currency stability, low inflation, low taxes, high growth--in which controlling unemployment is only one. National employment policy regimes will have these strategic objectives embedded in specific institutional structures and rules of co-ordination of the supply and demand of the labour force with the national growth model.

Employment policy regimes can take on quite diverse character to the extent they defend the market system, identify unemployment as a specific market failure, or criticize capitalism as a producer of unemployment. Capitalist employment policies can be classified, then, into three general regimes, distinguished according to their interpretation of unemployment

and central strategic objective: reinforcement of the market which allows employment conditions to be set primarily by market forces; control of the market which attempts to establish high employment through technical management of capacity utilization and adjustment policies; and disengagement from the market meaning limits to the capitalist market through planned production, the sharing-out of work and productivity gains, and employment planning to meet social needs.²⁷

The policies of market reinforcement have long been associated with the defence of the market system and the attribution of unemployment to 'natural economic forces'.²⁸ In the classical accounts of Smith, Malthus and Ricardo, 'trade depressions' were acknowledged, but they assumed a tendency for the economy to return to equilibrium, or more precisely, 'natural' price, profit and employment levels through market flexibility. The marginal revolution associated with the names of Jevons, Walras and Marshall, which swept through economic theory in the late 19th century, and which provided the theoretical legitimacy to laissez-faire economic policies, defended the market as a self-equilibrating system that eliminated the possibility of a 'general glut' and hence unemployment. This became popularly known as Say's law, after the French economist J.B. Say, that supply creates its own demand by generating the income to purchase the output produced. Unemployment, in this view, was a voluntary decision to not accept existing wage offers. The 'wage gap' cause of unemployment appears in Pigou's classical account from the 1920s:

...there is strong reason to believe, that, partly through direct state action, and partly through the added strength given to work peoples' organisations engaged in wage bargaining by the development of unemployment insurance, wage-rates have, over a wide area, been set at a level which is too high...and that a large percentage of unemployment which has

prevailed...is due in considerable measure to this new factor in our economic life."

The marginalist view has regained currency since the inflation-crisis of the 1970s with the monetarist doctrines developed by Hayek, Friedman, Phelps and others, that only 'real market forces' can determine the level of output, leaving no role for the determination of aggregate demand that is at the heart of Keynesian policies. Hence in a market system of voluntary exchange "there is a 'natural rate of unemployment', which is consistent with the real forces and accurate perceptions."² The equilibrium 'natural rate of unemployment' is, of course, purported to be at its lowest when markets are undistorted by economic intervention. Unemployment is always, then, a voluntary short period result of market adjustments that evaporates in the long run with flexible price markets, and the pursuit of rational self-interest, which assure the conditions for high employment."

Both the Keynesian and Marxist lines of dissent to 'market reinforcement' employment policies place the unemployment problem at the centre of their analyses of capitalist societies. Both highlight two features of the post-crisis unemployment spiral: policies of market reinforcement have tended to add to the unemployment problem by taking effective demand out of the system and raising levels of unused capacity; but different countries, based on their historical employment policies, have had different levels of success in containing unemployment pressures."

Keynesian and Marxist views have, however, differed significantly on their prescriptions for routes out of the unemployment crisis. The Keynesian position of 'controlling the market' has always seen unemployment as a specific short run failure of the capitalist market to meet the

realisation condition for employment. Unemployment could be eased by a policy reversal to reflate the economy and lower unused capacity; economic growth can always overcome unemployment problems in the long run. The Marxist view, in contrast, has argued that unemployment is a general failure of capitalist markets in both the short and long periods. Short run problems of realisation can quickly compound into long run problems of stagnant unemployment; employment stability and distributional problems soon form chronic unemployment. Unemployment crises can only be solved by structural measures which 'disengage employment from the market' through a planned reflation and a redistribution of work and income to the jobless.

It will be argued below that the economic boom supplied favourable conditions for containing the capitalist unemployment problem, supported by a Keynesian employment policy regime that kept the realisation conditions favourable. But these conditions eroded as the boom matured. The crisis of unemployment today is more Marxist than Keynesian in its sources: it stems not just from failures of realisation, but also from changed conditions for employment stability and distribution. This argument is informed by the observations of Robinson:

When technical development is markedly capital-using (with rising organic composition), as Marx believed to be normal, employment per unit of industrial productive capacity is falling over the long run but this may be masked by rising expenditure sustaining profits in the economy as a whole. Perhaps we should regard the high employment in the Western world for twenty years after the end of the Second World War as a long boom, helped out by expansionist 'Keynesian' fiscal and monetary policies when it threatened to flag, while an underlying tendency to long period unemployment has come to the surface during the present stage of stagnation.³³

The short period management of employment during the boom illustrated the limits to Keynesian employment policies, and contributed to the long

period employment problem now confronting the advanced capitalist countries and Canada in particular.

Historical Time and Path-Dependency

It is clear that once the concept of equilibrium is abandoned, and economies are conceived as moving through actual time rather than 'conceptual space', history 'matters' to the formation of national growth models and employment policy regimes. David's definition of path-dependency is helpful:

A path-dependent sequence of economic events is one of which important influences upon the eventual outcome can be exerted by temporally remote events, including happenings dominated by chance elements rather than systematic forces.... The dynamic process itself takes on an essentially historical character."

There are several propositions which follow from this general thesis which are central to the historical narrative which follows.

As accumulation occurs through time in a particular space, the 'institutional context of accumulation' is an important determinant of its character." As Boyer argues, according to the initial conditions of accumulation, and the institutional features of an economy, a particular growth configuration is likely to be reproduced--rapid growth with low unemployment in one country, stagnation and high unemployment in another." The past conditions, but does not determine, the present. Each short term conjuncture poses the possibility of altering the long term trajectory of accumulation of the national growth model. Yet path-dependency implies that certain options are foreclosed--we cannot go back--without fundamental ruptures with existing institutions, policy routines, and social relations. As Robinson intends: "Today is a break in time between an unknown future and an irrevocable past. What happens next will

result from the interactions of the behaviour of human beings within the economy. Movement can only be forward."²⁷

In analysing actual economies as the cumulative consequence of socio-historical practices, at a point in time and in a particular space, it is useful to draw a logical distinction of time referring not "to a length of time but to a state of affairs."²⁸ Within political economy, it is traditional to differentiate the short and long periods. By the short period we mean a situation where existing productive capacities--physical and human--are, more or less, fixed and are a result of whatever past history has created. By the long period we mean that productive capacities are variable: social practices and events in the remote past have constructed what exists now, and struggles and decisions taken in the present will have consequences in the distant future. It is most common to draw this temporal distinction between the short and long runs with respect to the effect of technological change and economic growth on capacity output. Capacity is fixed and output variable according to demand conditions in the short run; capacity and output are both variable depending on accumulation in the long period.

It goes without saying that all history is located in the short period in Marx's sense that history is made in 'circumstances not of our own choosing, but inherited from the past.' And all short period conjunctures have long period consequences in the sense of shaping the conditions of the future and allowing new points of departure. In these terms, the long period refers to all of history, but it would be absurd "to talk of being in the long period...as though it were a date in history."²⁹ The importance of the historical long period is, then, primarily analytical

and strategic: understanding the social processes--periodized in social time--that have brought us to where we are, and thinking through the strategies and practices which might take us to where we would like to go.

The logical distinction of temporality may also apply to the wider balance of power and variability of institutional structures as shaped by social practices. Short run conjunctural crises within a 'mode of regulation', for example, can accumulate into long period structural crises of a 'mode of regulation', although we experience both only in their temporal immediacy. In this sense, the path-dependency of economic movements patterns the short period of cyclical crisis and also conditions the form of structural crises that constitutes the transition between long periods of reproduction. In terms of containing the capitalist unemployment problem, this suggests the proposition forwarded by Piore:

When interruptions in work activity are a frequent occurrence, some kind of social structures must be developed to handle it. When that unemployment exhibits a fairly regular seasonal and/or cyclical pattern, those structures must anticipate these patterns and predicate responses upon their existence. This suggests a distinction between normal periods, when the unemployment experience is anticipated and the social structures that respond to it are stable, and abnormal periods or... crises, when the nature and extent of unemployment are unanticipated and the social structures with which people have traditionally accommodated that unemployment break down.⁴³

It is possible, then, to identify a 'national politics of unemployment and employment policy' which structures the distribution of employment and unemployment and reinforces the trajectory of the national growth model.⁴⁴ A national politics will form around the employment policy regime as the social practices regulating employment will be condensed into actual institutional structures within the labour market. A national regime will, therefore, have specific short period rules of co-ordination

between the national growth model and labour adjustment determining the national form of the wage-relation, and, consequently, the capacity to contain unemployment. As an employment policy regime also follows a path-dependent course, long period national policy legacies and institutional capacities can be identified." Therborn concludes his influential study of the 'West on the dole' noting that: "Historical economic policy is the main explanation of the 1974 divide between low and high unemployment countries, a divide which, unless met by radical reversals of power and policies, is most likely to set the stage for the 1990s."⁴ A historical path of economic decline and high unemployment is likely to reproduce further decay and joblessness. This study contends that the failings of Canada's postwar national politics of unemployment and employment policy set it on the road to its present march down the path of mass unemployment.

Labour Movements and National Employment Policies

The sale of labour-power in a capitalist market produces a basic conflict between capital and labour over employment: workers prefer high employment and job security and capitalists favour labour reserves and flexibility. The labour movement, in both its political parties and unions, tends to be the major social force behind full employment policies. In explaining why certain states have the employment policy regimes they do, it is therefore necessary to look at the relative strength of the labour movement. Employment policy regimes of market control or disengagement will tend to correlate with powerful labour movements (although not necessarily with low unemployment), and regimes of market reinforcement will correspond with weak labour movements. This

relation can be assessed, following Therborn, in terms of the historical processes that led to the 'existence is non-existence of an institutionalized commitment to full employment' in the postwar period." Politics refers here to the socio-political conflicts of the social classes over the nationally-specific institutions of capitalism and, more specifically, the national politics of economic adjustment.

The variability of employment policy regimes, according to the balance of power and through history, underlines the point that the state cannot be reduced to a functionally-determined structure of the economic circuit of capital. The state can be considered the 'institutionalisation of class conflict' and hence as a strategic field and as a set of institutions. The state interests us here as a "historically specific institutional form" in terms of its 'strategic selectivity' of modes of state intervention." In this case, the "specific institutional logic in policy-making" of employment policy will be focused upon."

The strategies of employment policy conditioning economic intervention are developed in complex conjunctures overdetermined by short run economic pressures, long run growth and institutional trajectories, and by national and international constraints. The strategic context of employment policy is interpreted through the 'policy discourses' of the central economic actors debating the causes of unemployment and alternate courses of action. While national growth models and employment policy regimes materialise a single accumulation and employment strategy, they are institutional ensembles and strategic political compromises articulated in a conditional unity at particular times and places. The accumulation strategy and employment policy regime themselves thus contain potentially

contradictory elements and unevenly developed institutional capacities.

The actual modes of employment policy intervention are embedded in specific state institutions and rules of co-ordination for the intended adjustment of the labour supply to the growth model. Employment policy capacities form, therefore, economic policy routines by which we mean typical courses of action adopted by policy makers.⁴⁷ In periods of stable reproduction, the rules of co-ordination of state actors adopt normal policy routines in which intended and actual results are usually in the right direction (if not always of the proper magnitude).⁴⁸ In periods of economic crisis, however, normal policy routines no longer achieve intended results. The rules of co-ordination enter into a crisis and the discourse and actors debating employment policy strategies are likely to polarize.

In Canada, the labour movement, as we will argue, played a major ideological role in forming the postwar employment policy regime. But it had a limited organizational capacity to push its claims onto the policy agenda, and only an indirect role in economic policy. In comparing postwar political full employment commitments Jenson has argued:

The literature of the 'postwar compromise' was difficult to apply in Canada...because it appeared to be an 'exception' to many of the generalizations. After 1945 the commitment to full employment was weak. Neo-corporatism set down only the feeblest tendrils, so it was unconvincing to write the postwar history of the country in terms of a new mode of representation.... Instead, the wage relation was more privately organized A discourse of productivism, which granted social and political power to industrial workers because of their place in the postwar boom, never took hold in Canada.⁴⁹

Economic policy tended "to emerge out of intrabureaucratic discussion" in which the union movement "appeared as just another lobby for concessions which could not be extracted through collective bargaining."⁵⁰ In

analysing economic policy in Canada, therefore, it has become most common to treat the role of the labour movement as an important parameter in determining the general character of the Canadian regime--its pluralist mode of accommodation and market-led policy regime--but to turn to examining the state itself for the details of policy making.³¹ The definitive study of the Canadian labour movement's economic policy strategy in the postwar period has concluded even more adamantly on their marginal role in federal policy:

[The CLC's] broader views on economic policy had little legitimacy with government. The Congress's positions on economic and trade policy were presented to government with no expectation that government would actually respond to the CLC's agenda. On economic policy issues, the CLC was an outsider in federal politics.... Labour in Canada in the postwar period...had to face exclusion from policy making at the federal level. It has been effectively shut out of key decision-making processes, even when it pursued lobbying strategies that conformed to the rules of the game. The classic route of the European labour movements--through a social democratic party whose electoral success could guarantee some measure of recognition for union interests--has never been open to Canadian labour at the federal level.³²

The 'labour exclusionary politics of Canadian economic policy,' as Smith terms it, is a premiss of this study. The influence of the labour movement on employment policies is examined, therefore, in terms of the overall balance of power in each conjuncture, the employment and wage pressures emerging out of collective bargaining, and the labour movement's economic strategy for employment as a parameter of the 'unemployment policy discourse' of each period.

It is the strategic and institutional context of employment policy that is examined in detail. The analysis of the strategic context of employment policy focuses on the significant ideas, policy documents and actors forming the unemployment discourse in each major conjuncture. The

'insiders' to Canadian employment policy, who occupied the central economic ministries, largely defined the problem of unemployment as a lack of economic growth, even though economic conditions often varied substantially in the different phases of the postwar period. The Canadian labour movement was the most consistent advocate of an employment policy regime of market control. The CLC remained an 'outsider' to economic policy, although it, too, endorsed rapid economic growth as the only viable solution to the capitalist unemployment problem. The institutional context of employment policy details the employment policy routines adopted by the economic ministries. They persisted with policy routines which favoured the stimulus of the supply side to increase productivity and the constraint of domestic costs to boost Canadian exports and thus employment.

1.4 The Postwar Canadian Unemployment Experience

The history of postwar Canadian employment policies is organized into three parts. Part One provides the framework that guides the historical examination of postwar Canada's two major conjunctural unemployment challenges. The employment policies of the short period, it is argued, shape the political and economic conditions for containing the tendency of capitalism to produce unemployment in the long period. Chapter 2 discusses the political economy of unemployment and elaborates upon the conditions for containing the capitalist unemployment problem; it places Canada's reconstruction from 1945-56, which formed Canada's growth model and political settlement, within this context.

The next two parts are devoted to a historical analysis of the

structures of Canadian employment policy from 1956 to 1974. These were the 'mature years' of the postwar golden age when the tasks of reconstruction had already been accomplished, and the national growth models and employment policy institutions were being built up and consolidated. They bore the weight of the attempt by national governments, in Canada and across the industrial countries, to contain the pressures of unemployment when the economic crisis after 1974 enveloped the industrial countries and reformed a mass reserve army of unemployed.

This history is divided into Part Two, covering the period 1956 to 1966, and Part Three from 1966 to 1974. These dates represent the major turning points of the postwar business cycle as registered by the movement of unemployment in the labour market.¹ The two historical moments represented, as well, two distinct unemployment challenges: in the first, during the maturing of postwar Fordism, it was to develop national employment policy capacities to co-ordinate and maintain effective demand and to aid adjustment to technological change in a high growth economy; in the second, at the end of the age of growth, it was to control the stagflation pressures of high inflation and unemployment, and to develop the redistributive employment policies necessary to contain unemployment.

Parts Two and Three are each divided into three chapters. An initial chapter to specifies the pressures and constraints impinging on employment policy over the business cycle period. This has three dimensions: the macroscopic of the international and national accumulation constraint; the microscopic of labour market pressures; and the national political context shaping the accumulation strategy of the national growth model. Two empirical policy chapters follow. These are again divided by

the business cycle as registered in the labour market: the first from cyclical peak to trough and the second from trough to peak. The chapters provide a detailed account of the employment policy regime in the short run with output capacity essentially fixed and a primary unemployment problem posed. They place the Canadian employment policy debate in a comparative context as part of a 'North American model' dominated by policies of market reinforcement, and trace the evolution of the macroeconomic and labour market policies leading to the long period employment policy impasse.

Chapters 3, 4 and 5 in Part Two accordingly discuss the maturing of the postwar accumulation regime, the 'automation scare' of the 1950s downturn, and the origins of active labour market policies for high growth and employment. Chapters 6, 7 and 8 in Part Three recount the peak and decline of the accumulation regime from the late 1960s to the economic crisis of the 1970s, the failed attempt to develop national incomes and labour market policies to ease inflationary pressures, and the shortlived redistributive effort to contain a growing unemployment crisis in the early 1970s. The sustained internationalization of the Canadian economy over this period, the passive management of demand conditions and industrial policy, and the institutional instability of labour market policies all laid the basis for a turn to the use of unemployment, after 1974, to break inflationary pressures. The origins of the economic strategy of competitive austerity--competing in export markets on the basis of lowering domestic wages and social costs in a widening deflationary international environment--which is now central to Canadian economic policy resides there.

The concluding chapter summarizes the features of the Canadian unemployment experience, and the failure to meet the realisation, employment stability and distributive conditions for sustaining high employment. This experience paved the way for Canada's move toward mass unemployment, and the growth of labour surpluses in the next period of economic crisis. The chapter briefly outlines the unemployment experience since 1974, confirming the prediction of the impasse of the Canadian growth model, a secular deterioration in unemployment conditions, and a complete withdrawal from an active employment policy in favour of the competitive austerity policies of market reinforcement.

The unemployment breakdown in Canada today traces its origins to the postwar period, and it is doubtful, given the structures of capitalism and employment policy analyzed in this study, that the unemployment crisis can easily be reversed. Unemployment levels approaching a fifth of the labour force, a withdrawal from the labour market of a substantial segment of the adult population, or the beginnings of population decline are the likely, if deeply pessimistic, implications of this analysis of the continued parting of the conditions for combining high employment and capitalism in Canada. An alternative employment policy model to begin to reverse the long descent into mass unemployment will, therefore, be put forward. The likelihood of this alternative is, as in all economic matters, essentially a political question, and will pivot around the capacity of democratic forces to re-establish the credibility of their traditional objectives of 'popular rule' and 'collective ownership' which are the necessary core to any program for disengagement from the capitalist market.

Endnotes

1. K. Marx, Capital, Vol.1 (Moscow: Progress Publishers 1954), 590-2.
2. P. Armstrong, A. Glyn and J. Harrison, Capitalism Since 1945 (Oxford: Basil Blackwell 1991).
3. Unemployment counts also miss those unemployed who are transient or without a set domicile. They may, however, be looking for work and are most often unemployed and a significant portion of labour reserves.
4. There is a specific literature on the history and meaning of unemployment statistics. See: C. Long, 'The Concept of Unemployment,' Quarterly Journal of Economics, 57 (1942); A. Keyssar, Out of Work: The First Century of Unemployment in Massachusetts (New York: Cambridge University Press 1986); J. Garaty, Unemployment in History (New York: Harper and Row 1978), Chs. 1-3; M. Piore, 'Historical Perspectives and the Interpretation of Unemployment,' Journal of Economic Literature, 25 (1987); and C. Sorrentino, 'Unemployment in International Perspective,' in B. Showler and A. Sinfield, eds., The Workless State (Oxford: Martin Robertson 1981). For Canada see: K. Farrall, 'Theories, Concepts and the Art of Measurement: Economic Theories' Relationship to the labour Force Survey Concepts,' Notes on labour Statistics 1973 (Ottawa: Statistics Canada 1973); D. Leadbeater, 'The Evolution of the Official Measurement of Unemployment,' (Mimeo, 1987); and R. Stirling and D. Kouri, 'Unemployment Indexes: The Canadian Context,' in J. Fry, ed., Economy, Class and Social Reality (Toronto: Butterworths 1979).
5. The differentiation of voluntary and involuntary unemployment by orthodox economists is a difficult distinction: it is tied to some notion of a hypothetical wage offer, yet neglects the distributional dimension to all unemployment. Innumerable sociological studies have showed its flimsy basis in the responsiveness of the unemployed to adequate wage offers or the sharing of limited amounts of work to preserve communities. Just as acceptance of wages low enough are likely to price everyone into the labour market, so will offers of wages that are high enough. There is no logical reason why adjustment should all fall, as Joan Robinson repeatedly pointed out, in the direction of wages and not profits.
6. Indeed, the current debate ranges widely. The political Right argues that unemployment does not measure hardship and thus full employment carries no particular meaning. A traditional defence of unemployment as lost output, relative to price stability, is held by liberals. The Left is split between those who see full employment as a 'productivist and sexist' notion ignoring ecological concerns and female work, and those who see the right to work as a basic condition of citizenship. See: M. Feldstein, 'The Economics of the New Unemployment,' The Public Interest, 33 (1973); H. Ginsburg, 'Full Employment as a Policy Issue,' Policy Studies Journal, 8 (1979); L. Osberg, 'Economic Theory and Unemployment: An Essay on Constraints, Choices and Blind Spots.' (Ottawa: Report to the Commission of Inquiry on Unemployment Insurance 1986); A. Gorz, A Critique

of Economic Reason (London: Verso 1989); J. Keane and J. Owens, After Full Employment (London: Hutchison 1986); M. Rustin, For a Pluralist Socialism (London: Verso 1985); J. Schor, 'The Economics and Politics of Full Employment,' Socialist Review, 15:3 (1985); S. McBride, 'The State and Labour Markets: Towards a Comparative Political Economy of Unemployment,' Studies in Political Economy, 23 (1987); and A. Yalnizyan, 'Full Employment: Still A Viable Goal?' in D. Drache, ed., Getting on Track (Montreal: McGill-Queen's University Press 1992).

7. W. Beveridge, Full Employment in a Free Society (London: Allen & Unwin 1944). The postwar discussion is presented in: J. Robinson, Economic Philosophy (New York: Penguin 1962), 86-92.

8. J. Robinson, Collected Economic Papers. Vol. 1 (New York: Augustus M. Kelley 1951), 105.

9. See: G. Albo, 'What Comes Next? Canadian Employment Policy,' in J. Jenson, R. Mahon and M. Bienefeld, eds., Production, Space, Identity: Political Economy Faces the Twenty-First Century (Toronto: Canadian Scholars' Press 1993).

10. See: J. Robinson, What are the Questions? and Other Essays (Armonk: M.E. Sharper 1980), 86-95; and K. Bharadwaj, 'History versus Equilibrium,' in I. Rima, ed., The Joan Robinson Legacy (Armonk: M.E. Sharpe 1991).

11. M. Aglietta, A Theory of Capitalist Regulation (London: Left Books 1979), 12; A. Lipietz, Mirages and Miracles (London: Verso 1987), 12-5; and J. Jenson, 'All the World's a Stage: Ideas, Spaces and Times in Canadian Political Economy,' Studies in Political Economy, N. 36 (1991).

12. Lipietz, Mirages and Miracles, 15.

13. The Limits to Capital (Chicago: University of Chicago Press 1982).

14. A. Lipietz, 'The Structuration of Space, The Problem of Land and Spatial Policy,' in J. Carney, R. Hudson, and J. Lewis, eds., Regions in Crisis (London: Croom-Helm 1980); Lipietz, Mirages, 19; and Harvey, Limits, 422-3.

15. This section draws upon: R. Boyer, The Regulation School (New York: Columbia University Press 1990); M. De Vroey, 'A Regulation Approach Interpretation of the Contemporary Crisis,' Capital and Class, N. 23 (1984); and B. Jessop, 'Regulation Theories in Retrospect and Prospect,' Economy and Society, 19:2 (1990).

16. M. Davis, 'Fordism in Crisis,' Review, 2:2 (1978), 213ff; and R. Boyer, 'Technical Change and the Theory of Regulation,' in G. Dosi, et al., eds., Technical Change and Economic Theory (New York: Pinter 1988), 79-82.

17. Lipietz, Mirages, 14. For a critique of this notion suggesting effective demand is not a problem for capitalism as competitive forces sustain realisation conditions see: R. Brenner and M. Glick, 'The Regulation Approach: Theory and History,' New Left Review, N. 188 (1991).
18. A. Lipietz, 'An Alternative Design for the 21st Century.' (Paris: CEPREMAP, mimeo 1987), 3.
19. D. Harvey, The Condition of Postmodernity (Oxford: Basil Blackwell 1989), 123.
20. This term is adapted from, where it is used for long and short term adjustments, S. Marglin, 'Lessons of the Golden Age,' in S. Marglin and J. Schor, eds., The Golden Age of Capitalism (Oxford: Clarendon 1991).
21. Lipietz, Mirages, 40; and M. Aglietta, 'World Capitalism in the Eighties,' New Left Review, N. 136 (1982).
22. G. Warskett, 'The Regulation of Unstable Growth,' International Review of Applied Economics, 5:3 (1991).
23. B. Jessop, 'Neo-conservative Regimes and the Transition to Post-Fordism: The Cases of Great Britain and West Germany,' in M. Gottdiener, ed., Modern Capitalism and Spatial Development (New York: St. Martin's Press 1988).
24. J. Robinson, The Accumulation of Capital (London: Macmillan 1956).
25. A. Glyn, A. Hughes, A. Lipietz and A. Singh, 'The Rise and Fall of the Golden Age,' in S. Marglin and J. Schor, eds., The Golden Age of Capitalism (Oxford: Clarendon 1990), 53.
26. G. Therborn, Why Some Peoples are More Unemployed Than Others (London: Verso 1986), 92-4.
27. The first two strategies and regimes are, properly speaking, capitalist strategies while the third is a socialist employment policy in that it has transitional objectives but must work 'in and against the market' in a capitalist social formation.
28. On this history of economic doctrine see: F. Mills, Contemporary Theories of Unemployment and of Unemployment Relief (New York: Columbia University 1917); J. Harris, Unemployment and Politics: A Study in English Social Policy, 1886-1914 (Oxford: Oxford University Press 1972); M. Casson, The Economics of Unemployment: An Historical Perspective (Oxford: Martin Robertson 1983), Chs. 1-3; and B. Showler, 'Political Economy and Unemployment,' in B. Showler and A. Sinfield, eds., The Workless State (Oxford: Martin Robertson 1981), 27-33.
29. A. Pigou, 'Wage Policy and Unemployment,' Economic Journal, 37 (1927), 355. Also see: A. Pigou, Theory of Unemployment (London: Macmillan 1933); and H. Clay, The Post-war Unemployment Problem (London: Macmil-

lan 1929).

30. M. Friedman, Inflation and Unemployment (London: Institute of Economic Affairs 1977), 15.

31. See the critique of this notion, in terms of its implications for planning, developed in: G. Warskett, 'Post-planning Socialism and Markets: The Economic Conflicts,' Economic and Industrial Democracy, 13 (1992).

32. In their survey of the postwar economy, Armstrong, Glyn and Harrison conclude that "there is no strong correlation within the advanced countries as a whole between the extent to which output growth slowed down after 1973 and the extent to which employment growth declined." See: Capitalism Since 1945, 333.

33. J. Robinson, What are the Questions? and Other Essays (Armonk: M.E. Sharpe 1980), 200-1.

34. P. David, 'Clio and the Economics of QWERTY,' American Economic Review, 75:2 (1985), 332.

35. This term is adopted from D. Gordon, R. Edwards and M. Reich, Segmented Work, Divided Workers (Cambridge: Cambridge University Press 1982), 32.

36. R. Boyer, 'The Paradoxes of the 1980s: Conventional Economic Theories at Bay,' in D. Foray and C. Freeman, eds., Technology and the Wealth of Nations (Paris: OECD 1993), 104.

37. Robinson, Accumulation of Capital, 26.

38. J. Robinson and J. Eatwell, An Introduction to Modern Economics (London: McGraw-Hill 1973), 176.

39. Robinson and Eatwell, Modern Economics, 176. M. Kalecki also argues that: "The long run trend is but a slowly changing component of a chain of short period situations; it has no independent entity." Selected Essays on the Dynamics of Capitalist Economies (Cambridge: Cambridge University Press 1971), 165.

40. Piore, 'Historical Perspectives,' 1846-7.

41. Robert Solow, a leading analyst of unemployment, argues that: "One of the few good ways we have to test analytical ideas is to see whether they can make sense of international differences in outcomes by appealing to international differences in institutional structure and historical environment. The right place to start is within each country separately...[with] the peculiarities of its history and its data." 'Unemployment Getting the Questions Right,' Economica, 53:supp. (1986), S23.

in explaining postwar Germany and Japan, for the post-crisis period, and for virtually all social democratic parties outside northern Europe. A simple left-right political divide explained little of the political arrangements of the boom and nothing of subsequent national trajectories of unemployment.

Modes of Representation and Unemployment

As even Hibbs came to concede, the most that could be argued is that governing social democratic parties were a necessary but not sufficient condition for full employment. What, then, had been the postwar conditions for social democratic control of unemployment? The most frequent response was a linkage between low unemployment and corporatist institutions embedded in economic policy institutions.¹³ The corporatist argument boiled down, in fact, to one central point: concertation provided the basis for a consensus for wage restraint from unions which, in turn, allowed the Phillips tradeoff to be kept lower and competitiveness higher over the boom. Similarly, during the 1970s corporatist countries absorbed the supply-side shocks more quickly, reflatd and kept full employment. In contrast, pluralist countries such as Canada and the U.S. faced a less favourable tradeoff over the boom, and industrial conflict and disciplinary unemployment since the crisis.

Cameron's influential analysis of OECD countries found a concurrence of low inflation, unemployment, and strike activity in one group of countries, and the opposite group of characteristics in another. What distinguished the former group (notably Germany and the Scandinavian countries), from the latter (largely the Anglo and Latin democracies), was the existence of corporatist 'labour acquiescence'. A tradeoff existed,

Chapter 2

Reconstruction: Employment Policy and Postwar Fordism

It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated--and, in my opinion, inevitably associated--with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.

J.M. Keynes¹

The instability of capitalist economies means that periods of rapid accumulation seem invariably to explode into periods of crisis. Labour processes, systems of production and patterns of exchange harden into institutional structures and social relations that eventually reach an impasse. The mode of regulation no longer reproduces profitable accumulation. The quantitative expansion of the economic system stalls. A qualitative process of restructuring and exploration, marked by lengthy and indeterminant political struggles, ensues to find a new pattern of development for expanded reproduction. The Marxian notion of restructuring speaks to a much broader process than the re-establishment of equilibrium, 'getting the prices right', and adjustment evoked by mainstream public policy.

There is a simple explanation--accepted by Keynesians and Marxists alike--of why the reconstruction of institutional structures to support accumulation follow a crisis. For accumulation to proceed capitalists must have profits, which depend upon expectations of future returns. So "without a stable and favourable external environment, capitalist investment in production will not proceed."² This suggests that in periods of stagnation capitalists explore new technical paradigms in the labour process, and new economic arrangements for distribution and exchange as a way out of the crisis. The crisis also engages other social forces so

that the reconstruction of a new mode of stabilizing production can only be "resolved through institutional innovations that either overwhelm or integrate the mode of worker resistance to the new structure." There has to be, in other words, some stabilization--albeit uneven and always with new emerging contradictions--of the class basis of accumulation alongside the economic logic of reproduction and surplus appropriation. The economic depression and decay of social institutions--which vary in time, place and intensity--is followed by efforts at far reaching solutions and reconstruction.

This chapter has two purposes: to develop further the debate over the nature of postwar unemployment policy, and to place Canada's 'national politics of employment policy' within this context. The general hypothesis suggested is that the exceptional length, pace and stability of the postwar 'golden age' "must be found in a unique economic regime rather than in a chance set of particularly favourable economic circumstances." This regime was Fordism. The economic arrangements formed over the postwar period played a central role in stabilizing the capitalist unemployment problem. Out of the chaos of the 1930s depression, and the destruction and mobilization of war, the economic system was reconstructed. This system may be called Fordism for two reasons. The dominant postwar technical paradigm combined Taylorism and flowline assembly. In addition, the economic arrangements for distribution and exchange stabilized mass production and mass consumption through the effective demand provided by productivity sharing in collective bargaining and Keynesian regulation of effective demand. Canada's postwar economy shared in these favourable circumstances and, in particular, rode the American

boom. Yet Canada's national growth model that emerged out of the reconstruction process would encounter enormous pressures and constraints for maintaining high employment over the course of the postwar period.

Indeed, the capitalist unemployment problem steadily mounted from business cycle to business cycle, tracing a limping golden age trajectory.

This examination of Canada's truncated postwar settlement and limping Fordist growth model has three sections. The first considers the debate over the politics of postwar unemployment, and situates Canada's employment policy regime within it. The second section considers the discussion of the nature of the postwar regime of accumulation and the varying national growth models. Finally, the initial reconstruction period of Canada's postwar unemployment experience will be presented. The period of reconstruction shows the political contingency of the formation of the institutional contexts of accumulation. This point has been made by Noel: "crises are moments...of social creation. No outcome is predetermined. It is in fact precisely that capitalism has so many problems building adequate institutional frameworks for itself that crises last so long." In periods of exploration and reconstruction, the framework for the national politics of unemployment and employment policy is established, constructing institutional structures in the economy and state which can only be reformed by more sustained political strategies and ruptures.

2.1 The Politics of Postwar Unemployment and Employment Policy

The employment policy regimes established for distributing unemployment and employment are important, it was argued in the prior chapter, for containing the capitalist unemployment problem. Once we grant history a

role in conditioning unemployment outcomes, economic reproduction and national unemployment trajectories cannot be separated from political arrangements. But what political conditions and arrangements contribute to containing unemployment? How did they form in the postwar period? Can political arrangements supply the economic conditions for high employment?

The theme that 'politics matters' to postwar unemployment experiences has come from an eclectic group of studies. Strictly economic explanations fail to withstand empirical scrutiny: "[They] can contribute only a little to the explanation of the reversals of long waves of unemployment and its variation between countries."⁶ The argument that politics has an impact on economic processes no longer generates controversy. There is little consensus about which political and institutional variables, forming 'policy regimes', accounted for low and high unemployment performances. The answers can be divided into three groups: parties and political coalitions; modes of regulating economic processes; and the relation between labour movement strength and strategic choices.

Parties and Political Business Cycles

The initial thesis that 'politics mattered' to unemployment experiences was simple: societal actors, as either classes or groups, affect policy outcomes. These actors formed parties and coalitions and then bargained at the level of the state over policies for unemployment. The critical questions were, therefore, which parties, under what bargaining conditions, and enlisting which policies, seemed to correlate with low unemployment?

The answers were first stated in terms of the 'partisan effects' of low unemployment on electoral chances. At the end of the war, Kalecki

warned of the potential for a 'political business cycle' as capitalist governments wavered between low unemployment and high profits and the need for disciplinary unemployment to keep workers subordinate.' This view was transformed, much later, into the thesis that governments not supplying full employment were being punished by the electorate.⁸ This tended to cause, it was argued, reflationary policies just before an election, and changes of government to correlate with high unemployment. Varied studies showed, however, that the relationship between unemployment records in office and electoral performance were weak and extremely sensitive to time periods and countries chosen.⁹

If a general relationship between partisanship and unemployment did not hold, it was still possible that a specific one might exist between social democratic governments and low unemployment as their working class voters are likely to demand full employment. Social democratic Scandinavia was, in this view, a full employment zone, while bourgeois North America was blighted by high unemployment. Several important crossnational studies came precisely to this conclusion. Tufte, for example, argued that "the single most important determinant of macroeconomic performance...is the location on the left-right spectrum of the governing political party."¹⁰ Hibbs' study of macroeconomic performance suggested that the attainment of full employment depended on the presence of a social democratic government.¹¹ Variations on the theme explain special cases: the strength of a 'right wing political bloc' prevented full employment, while the presence of labour-farmer coalitions supported reflationary policies.¹² These studies, too, were overly sensitive to the sample and the time periods selected. They performed poorly

in explaining postwar Germany and Japan, for the post-crisis period, and for virtually all social democratic parties outside northern Europe. A simple left-right political divide explained little of the political arrangements of the boom and nothing of subsequent national trajectories of unemployment.

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Cameron's influential analysis of OECD countries found a concurrence of low inflation, unemployment, and strike activity in one group of countries, and the opposite group of characteristics in another. What distinguished the former group (notably Germany and the Scandinavian countries), from the latter (largely the Anglo and Latin democracies), was the existence of corporatist 'labour acquiescence'. A tradeoff existed,

Cameron concluded, whereby "labour exchanges wage militancy and, more generally, militancy in collective bargaining for employment... The essential quid pro quo of labour quiescence is full employment over an extended period."¹⁴ Similarly, Campbell's recent study divided countries into high, medium or low institutional capacity to control unemployment. Central to the high capacity cases, including the vastly different experiences of Japan and Sweden, is concertation: "In the absence of collaborative processes and a consensual political economic culture, it is highly unlikely that these countries would have been able to pursue the fiscal and monetary policies that they did."¹⁵ Schmidt, too, differentiated between corporatist and pluralist countries, but is more sensitive to varying national roads. Two postwar full employment paths passed through corporatism: the social corporatism of Sweden, Austria and Norway, and the paternalistic capitalism of Japan and Switzerland. And two postwar roads to mass unemployment passed through pluralism: the pluralist-sectoralist mode of Germany and Britain, and the pure pluralism of Canada and the U.S. The "balance of class forces which is institutionalized in corporatist arrangements," Schmidt contended, "make the implementation of full employment strategies politically and economically feasible."¹⁶

The corporatist case essentially pivoted around 'consensus' amongst the social partners in postwar policy regimes allowing real wages to be kept low--largely through incomes policies--and the economy to run at higher utilization rates. Real wage levels, however, appear to be a dubious explanation of unemployment experiences over the postwar period as many low unemployment countries had the largest gains and narrowest wage differentials. It is unclear, then, what corporatism accomplished. As

Therborn demonstrates, there was also no agreement on what corporatism meant in these various studies.¹⁷ It is only by stretching the notion of consensus and corporatism that it was possible to include the low unemployment cases of Japan and Switzerland. But how can we legitimately treat postwar Japanese capitalism as similar to Austrian tripartism? Or how do we explain the low postwar unemployment (and now mass unemployment) of diverse cases such as statist France and fragmented Canada which suffer from a lack of corporatism?¹⁸ As an explanation of postwar unemployment, corporatism is limited to the contention that consensus was best able to control real wages--a highly suspect conclusion--and this contributed to maintaining high employment.

Labour Movements and Strategic Choices

The social democratic thesis depends, therefore, on institutional arrangements other than corporatism to explain low postwar unemployment and specific national cases and a more careful statement of the conditions that allowed them to arise. In Martin's view, it is less that the party that is decisive than that "the political strength of organized labour is the single most important political factor affecting the extent to which governments approximate full employment."¹⁹ Political strength is defined as labour market power--proportion of labour force organized in unions, degree of centralization and scope of collective bargaining, extent of concertation institutions--and, secondarily, social democratic voting strength. These 'power resources' provided the basis for the labour movement to institutionalize policies which favoured the collective goals of workers. Korpi's study of unemployment, for example, relates the postwar golden age to "the result of a political strategy generated in the

conditions for party competition that were present in the years following the end of the Second World War...as well as the improved credibility of the [labour movement's] traditional full employment alternatives."²⁰ In other words, state policy, under pressure from the strategic choices of the labour movement, had substantial autonomy from the economy to establish policy regimes able to control the capitalist unemployment problem.

The capacity to control employment levels has been depicted as virtually unlimited in studies which place ideas as pivotal to policies adopted. McBride, for example, dismisses corporatist and balance of power explanations of low unemployment. Instead, "variation in unemployment rates can...be explained by differences in the ideologies hegemonic in particular countries and by variation in policy decisions derived from these ideologies."²¹ In this view, Sweden and Japan had a dominant full employment ideology, while Canada and Britain did not. Weir's history of U.S. unemployment suggests that social coalitions had to be formed to support employment, but crucial to their success was the role of employment policy strategies in establishing the 'boundaries of what is possible'. She makes the useful point that these strategies created a path-dependence in that "decisions at a point in time can restrict future possibilities by sending policy off onto particular tracks, along which ideas and interests develop and institutions and strategies adapt."²² The U.S. failed to institutionalize a full employment regime and this policy legacy led to high unemployment. Nonetheless, giving 'ideas' such a decisive role tends to equate the achievement of high employment to (social democratic) political will at the end of the war, begging the questions of which policy regime is most appropriate and whether all

economic growth models provided the same potential for full employment.

Other studies have helped to delineate more prudently the specific postwar conditions which determined state capacity to control unemployment (in addition to labour movement strength). Martin, for example, argues that national institutional capacities need to be evaluated relative to the international constraint: the more open the economy, the narrower the room for employment policy, and the greater the need for co-ordinated institutional arrangements for economic policy.²² Kurzer's study of small, open economies makes a similar point. If the financial sector was internationalized and capital goods imported (two features important to postwar Canada), countries were more likely to favour restrictive monetary policy over high employment. Countries protective of their national economic space in terms of trade and capital flows--such as Austria and Sweden--maintained their capacity for employment policy over the boom. Facing similar constraints, social democratic countries that ceded policy control to trade alliances or financial capital, such as the Netherlands or Britain, ended up with mass unemployment. Past policy decisions relinquishing national regulation to external regulation, Kurzer concludes, "structure the nature and extent of economic vulnerability and therefore the opportunities for more or less successful labour market rescue programs."²⁴

Studies of the postwar politics of central banks have made a parallel point.²⁵ The more insulated the central bank's postwar policies were from political control--such as the Bank of Canada or the German Bundesbank--the more likely that monetary policy favoured hard currency policies and sacrificed employment goals. In countries like Sweden, where the

central bank had less autonomy, inflation was a lower priority and use of competitive devaluations more frequent. Political arrangements, in other words, supported or hindered national control over employment.

The importance of institutional arrangements to full employment strategies has been generalized in Scharpf's policy trinity of strategic choice, economic feasibility and institutional constraint. In Scharpf's analysis, social democratic strength has typically been a precondition for full employment, but can lead either to British and German failures or Swedish and Austrian successes according to the mix of the policy regime in different economic conditions (especially openness of the national economy):

It is necessary to emphasize three points: that national 'strategies' are contingent, that they are fragile, and that they are resistant to purposeful change.... It is the dominant interests that have the best chance to define national strategies. But even when that is allowed for, there will be differences in the interpretation of an uncertain economic environment, in the rank-ordering of priorities, and in the evaluation of the efficacy of different courses of action, leading to differences in strategy choices that cannot be explained entirely by differences in relative power.... Under capitalist conditions, therefore, even the most powerful and institutionally unconstrained class or interest associations may fail economically if their strategies should not fit the economic environment.... On the other hand, strategies which are well designed economically may equally fail if institutional conditions should prevent their adoption or frustrate their implementation.⁷⁶

As with all the 'social democratic model' explanations, the mix of institutional arrangements and strategic choices allowed, and still allow, Keynesian forms of market control to regulate employment levels. Social democratic consensus-making with unions over wage restraint to control inflation is the essential political basis for Keynesian regulation. Strategic choice and economic feasibility, Scharpf insists, must be set

against the constraint of "the varying institutional arrangements of the individual countries."

The 'social democratic model' contains a number of important insights into the postwar political arrangements--accountable central banks, active labour market policies, controls on financial capital--which supported the integration of a national economic space and Keynesian regulation of employment. As well, the political strength and strategic choices of the labour movement were important determinants of different national employment policy regimes and capacities to contain unemployment. But even with the specification of the strength and strategic choices of the labour movement the social democratic model is unpersuasive as a general account of postwar reconstruction and subsequent unemployment trajectories. No single or set of political variables withstands scrutiny. The low unemployment across the West during the 'golden age', despite vastly different politics and institutions, remains unexplained. The low unemployment cases of Japan and Switzerland, and the general deterioration of unemployment even in Sweden and Austria, since the crisis are unexplained. There are postwar experiences of low unemployment countries with strong capital and weak labour and there are countries of strong labour movements with high unemployment. The most that can be claimed, as Scharpf's emphasis on strategic choice suggests, is that strong labour movements increased the potential capacity of workers to demand a full employment policy regime, but were by no means singularly causal of its achievement during the postwar boom or its maintenance during the crisis in all cases.

Postwar National Employment Policy Regimes

The development of economic policy institutions is important to explaining why different national societies had a particular level of postwar unemployment. Following the institutionalist position, Therborn has demonstrated that the range of national unemployment experiences shows that mass unemployment does not follow an inexorable 'logic of capitalism'. Mass unemployment has been confined to specific countries and periods such that it is possible to speak of a 'national politics of employment policy' related to class formation and state structures.

Therborn's study is directed at the divergence of unemployment rates after 1974 in sixteen OECD countries, but it carries important implications for analysis of the postwar boom. It is in the reconstruction period that he finds the origins of national unemployment variations in "the location of the commitment to full employment in the set-up of national political economic systems."²⁹ The source of strong full employment commitments came from divergent working class pressures--a strong labour movement of the Swedish kind, or conservative fears for social stability as in Japan. It was the translation of this commitment into an appropriate combination of social arrangements and economic policies which was critical to containing unemployment. The social arrangements, moreover, were characterized by different national patterns for dealing with unemployment--exclusionary policies in Switzerland, inclusionary policies in Sweden--developed through historical employment policies. The point here is crucial: the 'political' range for distributing unemployment and employment is extensive and national states experimented with quite diverse postwar policy regimes for containing unemployment.

The political struggle over the distribution of unemployment has

been extended into the historical pattern of economic policies. Notably, to stay on the road of high employment, the 'success stories' avoided the use of unemployment shocks, stuck to Keynesian policies, and expanded the use of direct and indirect active labour market policies. In contrast, the countries on the trajectory of mass unemployment--such as Canada and Britain--had 'defeated postwar settlements', resulting in social arrangements whose success in containing unemployment depended upon high growth, and have resorted to disciplinary unemployment and austerity:

The rise in unemployment and the international divergence...- is, first of all, a historical event.... The differentiation...suggests that it is the capacity and the resolve to resist the onslaught of the international storm, rather than the ability to ride the waves of recovery that have been decisive.²⁹

Therborn's analysis historically situates, then, the postwar political-institutional conditions under which unemployment came to be contained--the "national politics of economics."³⁰

Therborn's formulation requires qualification, however, in its focus on exclusively national conditions without any periodisation of the postwar socio-spatial configuration. This limits spatial comparisons of the general types of distributional coalitions that formed over the postwar period and the kinds of employment policies they supported. Not all distributional coalitions and labour market institutions developed the same capacity, or adopted similar policies, to contain unemployment even if the full employment commitment was strong in both cases. There is a world of difference between, say, the export-led Japanese low unemployment strategy over the postwar boom and the Swedish solidaristic labour market institutions, that attribution of all full employment cases to working class pressure (or fears of these pressures) misses.

Esping-Andersen's study of postwar welfare states usefully comments that there was a politics of distribution even within full employment regimes. Thus even if a social contract to 'accommodate full employment' was formed during reconstruction, "the institutional arrangements came to diverge sharply across nations." " The three welfare state regimes Esping-Anderson identifies--the liberal Anglo-American, the conservative French Germanic, and the Scandinavian social democratic--tended to have different full employment commitments, labour market profiles and employment policy regimes. The Anglo-American model, for example, tended to be market-led, have weak trade unions and only a minimal commitment to full employment; French-Germanic regimes engaged in policies of market control and adjustment based on corporatist institutions; and the Scandinavian states, where the labour movements were strongest and the full employment commitment most extensively institutionalized, extensively disengaged employment from the market through expansive public sectors and tax policies. Esping-Andersen's analysis points to the diversity of ways that postwar unemployment and employment came to be distributed according to national employment policy regimes with different strategic orientations and policy orientations.

The focus on variations in postwar national employment policy regimes neglects, however, the economic conditions that were necessary for stable reproduction. There is no explanation, for example, of the economic conditions which led toward high employment during the boom across the advanced capitalist countries (although institutional variation was present and unemployment experiences diverse). As well, it is dubious to explain Japanese postwar employment by reference to a commitment to full

employment and not to its technical production structures and its 'beggar-my-neighbour' export policies shifting unemployment outside its borders." Nor do all high unemployment experiences fit easily within Iherborn's thesis: as the labour movements of Canada and the U.S. diverged in strength over the postwar boom so did unemployment, but in the inverse direction expected." Economic conditions and unemployment pressures need to be stated, therefore, in their temporal and spatial specificity. This is especially the case, as Rowthorn and Glyn conclude, for long run unemployment trajectories:

Over the long term, of course, it is not sufficient merely to protect existing employment and create new jobs in the public services.... An acceptable rate of growth must be achieved and fundamental weaknesses in the economic structure eliminated. If this is not done the institutions of social solidarity will come under increasing strain and eventually disintegrate."

It is to the economic arrangements formed during reconstruction that provided for the boom, and the capacity to contain the capitalist unemployment problem, that we now turn to situate the postwar employment policy regimes alongside national growth models.

2.2 Fordism and Postwar Economic Arrangements

Setting the postwar economic boom against the experiences of the Great Depression, and the wild instabilities of the interwar period, has constantly raised one question: what institutional and economic arrangements generated this spectacular period of capitalist growth and stability? The question has engaged no small controversy. One contention has been to situate the depression in a series of policy errors which shut down international markets, while the boom is seen to be created by the foresight of an internationally co-ordinated move to liberal markets.

This view--while perhaps most common--is exceedingly misguided: the 1930s crisis was well underway before tariffs started spiralling out of control; and more liberal markets since the late 1960s have coincided with economic crisis." It is preferable, therefore, to start from national production conditions and ask how international arrangements frustrated or supported stable economic growth.

The conditions that produced high employment, as was argued in the previous chapter, need to be looked at from two angles: the economic mechanisms which limit the fluctuations of the market and the distributive political context of employment policies. As David Harvey recalled, the problem was posed in the depression,

...in a context of confusion...[with] highly diversified attempts within different nation states to arrive at political, institutional and social arrangements that could accommodate the chronic incapacities of capitalism to regulate the essential conditions for its own reproduction."

The problem of configuring institutional arrangements that could maintain purchasing power with the expansion of output capacity, and keep employment growth in line with the labour supply, was only settled after 1945. Postwar reconstruction began to form the relationships, within each nation state and between them, that allowed the economic boom to emerge.

Technological Innovations and Capitalist Booms

Yet how should the exceptional period of postwar growth and low unemployment be conceptualised? And how can different national experiences be accounted for? One line of explanation has been to emphasize the technological determinants of 'historical waves of growth' which cause the secular rise and fall of unemployment. In this Schumpeterian view, the economic crisis of the interwar period (and the post-1974 impasse)

resulted from the transition from an old to a new socio-technical paradigm. Because technology tends to be embedded in discrete techniques, a period of transition wipes out the old capital stock causing a slump, and is then followed by an investment surge in new technologies causing a boom. As technologies also entail distinct organizational and financial structures, "development is punctuated by periods of unusual structural change to which market economies find it difficult to adapt."³⁷ A specific problem of labour adjustment is also raised: new technologies cause a shift in labour demand so that some industries and skills become redundant and sources of unemployment while others become dynamic growth poles.

Schumpeter's theory of 'disequilibrating' economic growth--which he posed as an alternative to Keynesianism--is the foundation of this position. Schumpeter approached the difficulty of the transition for unemployment in these terms: "cyclical unemployment is technological unemployment...periods of prolonged supernormal unemployment, coincide with the periods in which the results of inventions are spreading over the system."³⁸ This places the capitalist unemployment problem on grounds closer to the Marxian position: although real wage and Keynesian unemployment may occur with structural change, it will not be alleviated by lower reservation wages or conventional demand management.³⁹ Unemployment will only decline with the restructuring of the production process.

The problem of structural adjustment is, then, cast in the long period terms of technological change. The shift to a new growth regime depends on two factors: the extent to which 'bunching' of new technologies occurs, and, second, the period of adjustment of the capital stock and the labour force. Schumpeter, for example, argued that innovation tends to

occur in a 'creative gale of destruction' that forms long cycles of about fifty years, termed Kondratiev waves. The waves produce investment booms with low unemployment followed by periods of structural decline and mass unemployment. Similarly, Mensch has recently argued that large shifts in autonomous investment in new technologies can be traced historically, with the crises of the 1930s and 1970s signalling a transitional period. Thus the 1930s depression arose from changes in the technical composition of the capital stock which was resolved only through the industrial restructuring--the destruction of old plant and investment in new industries--from war mobilization and reconstruction.⁴⁰ The Schumpeterian position cast in such broad terms is, however, rather rudimentary: it leaves the sense that structural crises will inevitably be followed by long booms, with the structure of the accumulation regime located entirely along the technical dimension. It is quite impossible to explain postwar reconstruction as a result of a bunching of technological inventions, or to correlate diverse unemployment trajectories to the composition of the capital stock without attention to national institutional contexts.

The neo-Schumpeterian study of Freeman, Clarke and Soete also argues that the unevenness of technological change produce long waves of growth and unemployment. They do not suggest such a close correlation between investment clusters and depressions and attempt to set technological transitions in a more historical and institutional context.⁴¹ Yet they maintain the Schumpeterian contention that investment fluctuations and technical changes to the system of production lead to long waves of growth that determine unemployment and that explain both the depression and reconstruction. Investment in a new technical system, they argue,

initially creates a boom and employment expansion. Scale economies eventually take over the new technique, however, and investment and employment levels decline. Once this 'mature' stage is reached the problem is making the leap to a new vintage technology. The period of transition from the old capital stock and skills is likely to entail extensive structural unemployment as old industries decline and capital intensity in the new vintage increases. In contrast to the Keynesian view which offers support for declining industries and protectionism to keep up employment, the neo-Schumpeterian view argues that delays in the transition to new technologies can only make things worse. Competitiveness and payments difficulties are likely to mount and unemployment will become prone to secular increases.

The transition between technological paradigms presents, in the structural view, the long period policy problem of establishing the institutions to support a permanent adjustment of the capital stock and skills to a new work regime.⁴² As the structural crisis lies on the supply side, shifting investment out of old industries to new technology capital stock is the priority. Indeed, Keynesian reflation without industrial policies is quite inadequate, Freeman warns, because the new industries where demand will go might well be at full capacity with skill shortages, causing a burst of inflation and speculative pressures (such as developed in the 'roaring' 1920s).⁴³ The 1930s unemployment crisis was due, then, to the lag of adjustment of skills and the capital stock reinforced by deteriorating macroeconomic conditions. The successful transition between technological systems explains the postwar boom. The older vintage plant was either destroyed in the war or made obsolete by

reduced capital values in the depression. Further, an investment surge at the end of the war, in new industries such as chemicals, electrical goods and autos, alongside pent-up consumer demand from the austerity of the war economy, produced a long wave of growth and high profits.⁴⁴ Postwar industrial planning helped alleviate the 'capital shortage' unemployment, but long term employment only disappeared with the expansion of new sectors and the growth of demand to absorb new capacity during the boom.⁴⁵

The neo-Schumpeterian view states, therefore, the capitalist unemployment problem in much wider terms than the neoclassical or Keynesian positions, while incorporating the obstacle of adequate conditions for realisation. Although unemployment is not considered a general problem of capitalism, it also is not reduced to a short period problem of market adjustment. The structuralist case falters, however, in two significant areas. It is hard to draw an association between the sudden onset of crisis in 1929 (or in 1974) with the abrupt exhaustion of old innovations. Indeed, there are indications of large productivity advances in the 1920s as new assembly production techniques were spreading. Nor is it clear why if the exhaustion of an old technological paradigm is critical to the slump, and new process and product innovations to the boom, North America should have suffered the worst of the depression when it contained the 'leading edge' technologies of Fordism and had become the major capitalist power well before the 1930s. In addition, the structuralist account does not explain why unemployment rates should have diverged so widely during the depression, although the advanced countries must have faced similar old and new technical systems given the degree of economic openness and trade levels from the turn of the century. Slower capital adjustment and

diffusion of the new technologies might explain part of the divergence but not all of it.

Similarly, the structuralist view raises the distributional question of unemployment in the postwar period, but tends to reduce it to adjustment policies for high growth in new sectors as the roots of unemployment are always technical in origin.⁴ If technical change is capital-using, as structuralists contend, economic growth alone will be sufficient to contain unemployment only in exceptional circumstances. Thus the low unemployment of the boom would also have had to depend upon the balance between a decline in the average hours of work, the redistribution of income, and the spread of work outside the industrial sector. There is also no clear linkage in the structuralist view between postwar productivity gains and their distribution so as to provide stable effective demand. These arrangements seem essential to explain the divergence of the technologically leading but high unemployment North America from technologically lagging but low unemployment Europe. A clearer formulation of the linkages between the technical paradigm of the labour process and macroeconomic balance that formed during reconstruction is needed.

Fordism and the Postwar Structures of Accumulation

The residue of technological determinism in the structuralist position ultimately dissolves the capitalist unemployment problem into the 'laws' governing technological change and innovation waves. While the technical paradigm is crucial to accumulation, as we argued in Chapter 1, it leaves much unexplained about the economic arrangements which allow the investment in new techniques to be valorized, the goods produced consumed, and the labour market pressures forming labour reserves to be contained.

The contribution of both the 'social structures of accumulation' and 'regulation' schools' has been to specify the institutional context of accumulation of capitalist boom and crisis.⁴⁸ Rather than generalizing the same abstract 'logic of capitalist competition' across different periods and spaces--which leaves unexplained the specific way the depression and reconstruction unfolded--there is an attempt to generalize across space different historical conditions of accumulation and forms of competition.

Capitalist markets, in this view, are historically-situated institutions structuring and condensing 'specific and contingent' social struggles. An economic boom is situated in a long period reproductive cycle that keeps unemployment low, forms a viable class compromise and prevents a crisis from emerging. Eventually, however, economic reproduction and class conflict can no longer be contained within existing institutions, and the evolving contradictions develop into a crisis. The normal business cycle becomes 'non-reproductive' in that a downturn no longer "endogenously restores conditions for rapid accumulation without requiring fundamental changes in the structure of the accumulation process."⁴⁹ A crisis emerges, therefore, not simply from a decline in profit rates--although this is central to accumulation--but also from an institutional impasse in which the norms and rules of behaviour of economic agents no longer stabilize the regime of accumulation. A focus on crisis and reproduction compels a specification of the historical conditions producing differentiated growth and employment experiences.

The crisis of the 1930s can be seen, then, as a result of new technical conditions of production and the incapacity of institutional

structures to support stable accumulation. The introduction of the factory system in the 19th century began a process of substituting machine-power for human labour-power. It also began breaking down the production process into components and separating craft workers from their control over the tools of production, job definition and product design, embedding these processes in machines and management structures. By the 1920s the introduction of the 'American system of production' of Taylorist work methods and assembly line production was spreading, led--as Gramsci and others noted--by the auto industry. The 'Fordist' system yielded substantial gains in productivity and output capacity through "a major saving of labour-power...a revolution in energy which generalized the industrial use of electricity and made possible the construction of high capacity motors...[and] a straightforward flow of the material under transformation."⁴⁹

The growth in fixed capital and capacity, however, was not matched by a market structure--even with extensive monopolisation from the turn of the century--that provided for investment or consumption stability. Investment swings and speculation, wage instability and compression, and uncertain external markets dependent upon imperial relations meant that national effective demand deviated widely, accentuating the magnitude of industrial fluctuations. As Piore and Sabel argue: "There was no independent institutional regulation of economic activity--regulation that would have stabilized investment activity both directly, through its effect on markets, and indirectly, by reinforcing expectations of continuity."⁵⁰ An economic crisis triggered by any source--whether we locate it in a decline in profits, low workers' consumption, or financial collapse from the stock

market crash of 1929--was likely to spiral out of control as the institutions that might have supported effective demand for the newly developing mass production industries, and limit the worst of the depression, were either entirely absent or just forming. The deflationary cycle from 1929-32 thus quickly saw industrial production collapse by over 40 per cent in the U.S. and unemployment climb above 20 per cent.⁵¹ The competitive wage-cutting, price discounting, government spending cuts and 'beggar-thy-neighbour' trade which ensued throughout the 1930s could not but lead, in these institutional conditions, to a non-reproductive cycle which kept the major capitalist economies stagnant until war preparations began to pump up spending.

The economic arrangements that emerged in the 1940s had to reconcile, therefore, the 'reproductive dilemma' exposed by the 1930s crisis. The problem is summed up by Boyer:

...mass production is technically possible but cannot be sustained since the prevailing 'regulation' strongly moderates real wage increases, at the same time as wage-earners become a dominant fraction of the total labour force. It turns out that such intensive accumulation is highly contradictory (the profit rate is too high to permit adequate effective demand) and unstable... This is not a viable mode of development in the long run.⁵²

To provide the stable accumulation conditions for high employment, compatibility between processes of production and demand formation had to be restored. This depended, in part, on the restructuring of industry through the massive destruction of capital values in the depression and putting in new plant during the war. It also depended upon stabilizing the consumption side of Fordism--the antecedent being Henry Ford's five dollar, eight hour day--providing a system that could balance wages as a cost of production and as a means of realisation.

The re-organisation of the technical paradigm of production along Fordist assembly lines generated a major realignment of class relations. In North America, the class basis for the new industrial system emerged out of flows of immigrant labour, a weaker craft tradition and the labour market pressures of depression which broke the strength of craft unions at the same time that industrial unionism began to form. The 'all-out' war production, and the desire to emulate American productivity levels after the war, spread the organisational system to Europe and Japan.⁵³ The new labour process involved a tripartite occupational differentiation: semi-skilled industrial workers were at the centre, supported by large numbers of unskilled workers in industry and in service and distribution sectors, and a growing number of technical workers.⁵⁴ Yet, if these momentous processes allowed Fordist principles to spread, while conceding 'management rights' over production decisions, union recognition, shopfloor job controls and improved hours and wages were the basis for a 'compromise' on the labour side. The extension of Fordism from a single labour process to entire industries--particularly task fragmentation and economies of scale--"proved to be a powerful machine of productivity increases."⁵⁵ The industries of the new processes and products--cars, rubber, transportation equipment, petrochemicals, electrical goods, consumer durables--provided the industrial basis of the boom and were the cornerstone of strong consumer demand and employment.

The rationalisation of the labour process along Taylorist and Fordist lines applies to a general 'technical paradigm' adapted to particular sectors, places and time periods. Fordism as an accumulation regime, however, hinged on specific reproductive conditions for its

macroeconomic dynamism; notably, productivity and capital stock per worker grew in parallel, and productivity and real wages also grew in tandem.⁵⁶ The first relation meant that the immense capital intensity to obtain the scale economies of Fordist processes did not run down profit levels and, in fact, allowed large productivity gains and profits during reconstruction to reinforce long run investor expectations. The second relation implied that productivity and real wages moved together such that the profit share was stable and effective demand met consumption. Remarkably, the trend of employment growth, given the growth of capital intensity and accumulation, ran parallel to labour force growth so that high employment could be maintained as part of stable reproduction. These accumulation conditions of 'tranquillity' allowed capitalist expectations of profits to stabilize and thus investment flows to be maintained with the initial surge of reconversion and reconstruction. The reproductive problem, noted by Harvey and Boyer, was resolved, through the 'golden age' conditions of postwar intensive accumulation and high employment. Each of the advanced capitalist countries developed, of course, its own national labour processes and institutions of Fordism, but all "enjoyed exceptionally high and regular long term growth," with Japan and Germany especially booming and the U.S., Britain and Canada lagging.

What was the system of regulation which allowed Fordism to stabilize? Although there are many specific social structures which supported postwar accumulation conditions, two features were important to sustaining the conditions for high employment: the processes of price and wage formation and the role of state intervention in sustaining effective demand. The market structure which materialized out of the mass devalor-

isation of capital in the depression, mergers and reconstruction nationalizations, for instance, was highly concentrated. Monopolistic market power was deployed, Harvey contends, "to assure steady growth in investments that enhanced productivity...[through] technological change, mass fixed capital investment, growth of managerial expertise in both production and marketing, and the mobilization of economies of scale through standardization of product."⁵⁰ Firms were in a stronger position, therefore, to establish and control prices as a mark-up on costs and regulate conjunctural movements of demand without violent scaling down of production volumes and employment. (This held less for primary producers--which Canada had a preponderance of--selling on international markets.)

The ability to engage in mark-up pricing depended upon certainty over unit wage costs. This was partly provided by productivity trends and assembly production. It also was an unintended consequence of the Fordist wage bargain. The defeat of the working class movements in the immediate postwar period--after having gained organizational strength and moral force during the war--allowed a 'compromise' between capital and labour in the form of a wage bargain which was central to the regulation of production to demand. Although varying considerably across nations, essentially labour ceded management claims over control of the labour process in return for an 'annual improvement factor'. As long as productivity advanced with real wages effective demand was maintained while profits were preserved. This kept unit wage costs stable which, given fixed exchange rates, was essential to maintaining competitiveness. The process, moreover, stabilized investment as "capital advanced [could incorporate] a future wage movement known with a high degree of probability"

reducing the risk in the massive fixed capital plant for long production runs."

The 'wage norming' often began in a single labour process and group of unionized workers, spread across the company and sector, and finally established a wage pattern encompassing the national economy. This process also standardized working hours, extended vacation time, and continued to reduce working time as productivity advanced (helping offset the employment impact of labour-saving technological change). The collective bargaining system was centred in the mass production industries that were the engines of the postwar boom. These industries, and thus their workforces, tended to be 'spatially fixed' in dense production zones--the Ruhr valley, the northeast U.S., the Midlands of Britain, southern Ontario. These regions drew in raw material and labour supplies from the rest of the world and, with the rising wage levels, provided the effective demand that made these areas of exceptional growth and employment. This form of collective bargaining did not, however, incorporate all zones or sectors of the economy. Where demand was more variable, as in resource industries, large scale layoffs disrupted income flows (although the pace of accumulation over the boom tended to keep commodity prices strong). Declining sectors or regions of marginal production also did not extend high wages and job security as thoroughly. This division of the processes of wage formation was particularly strong in North America where a smaller unionised labour force, and higher rates of unemployment, put less upward pressure on low productivity sectors to improve techniques. This tended to divide the economy into monopoly and competitive sectors. Nonetheless, productivity sharing became so embedded--although dependent upon workers'

capacity to strike to back demands--that "a general law could be said to have emerged...[whereby] the rate of money wages increases correspond to the rate of change of prices plus the rate of change of productivity."²²

The collective bargaining system was one anchor to stabilize demand that emerged out of reconstruction. The other was new modes of state intervention that provided demand stability and new forms of security for waged workers from loss of employment. Through the diverse 'experiments' of the 1930s and 1940s--from the American New Deal to the political traumas of fascism and the war economy--it was Keynesianism that came to supply the 'scientific conception' of new state powers to manage effective demand to support growth and employment. Fordism became associated with Keynesian regulation of state activities.

The institutional forms and modes of state intervention varied considerably, but certain common features can be identified. Fiscal policies, for example, were reconceived so as to support public infrastructure or subsidize private investment with the intent, albeit not always consistent, of countercyclical budgeting to stabilize the economy. Yet more important was the 'automatic stabilisation' from the increase in the 'social wage' through expenditures on social security, health, education, and housing that were an essential part of the postwar settlement. The social wage provided demand stability in two ways. These expenditures automatically increased in cyclical downturns through income flows to the unemployed laidoff in recessions. Their payment levels were, as well, often linked to economic growth so that the incomes of the economically inactive maintained a relatively constant relation to the average industrial wage.

The new monetary policies which emerged out of reconstruction also played an important regulatory role in providing buoyant demand. The collapse of the gold standard in the 1930s 'freed' national monetary policy from basing credit availability on the amount of gold on hand. In contrast, the existence in the postwar period of a "pure credit money system at the national level....was important for facilitating conditions for sustained growth."⁶ This gave a new prominence to central banks, many of which were either just formed in the depression or placed under state control. By adjusting the currency reserves of the banking system, interest rates, and government borrowings from the central bank, the state could stimulate or restrain the economy.

The Keynesian regulation of the Fordist regime of accumulation that began to form within the advanced capitalist countries during reconstruction allowed a "close articulation of relations of production with the commodity relations in which wage-earners purchase their means of production.... between process of production and mode of consumption."⁷ The stability of national production structures was reinforced by the low proportion of trade in national output. This occurred foremost as a result of the relative closing of national economic spaces through the breakdown of international monetary and trade systems in the depression, and the strict control of international commodity and capital flows during the war. The increase in trade that slowly re-established itself during the 1950s largely took place, moreover, within the countries of central Fordism. This meant that external instability was minimised in its capacity to upset national Keynesian regulation. Indeed, as long as the economy was relatively closed, international competition over unit labour

costs was limited. In economies that were more open, or as external regulation became more prominent, competition over unit costs increasingly forced either devaluation or austerity depending upon the extent of the extroversion of capital markets and the existence of hard currency policies. Employment during reconstruction and the initial phase of the boom was established, therefore, largely by the conditions of the national growth model: "It was not until the 1960s that production for international trade absorbed an increasing proportion of labour within the advanced countries--in this sense the golden age growth could be regarded as primarily domestically-based."⁶³

The new international order formed out of the war also embodied a set of principles which, if not reinforcing alternative national development trajectories, provided a complementary 'world configuration'. The new order had two central components: a monetary regime to stabilize exchange rates and international flows between states, and a trading system to facilitate reduction in tariffs and enforce common treatment of goods. The international regulatory framework was stabilized by the military and economic hegemony of the U.S., which no country was capable of opposing, and allowed the U.S. dollar to be the accepted international means of payment in lieu of gold and sterling.

The Bretton Woods agreements of 1944 formally established a gold exchange standard which fixed the price of gold in U.S. dollars and other currencies in relation to this standard.⁶⁴ In effect, international liquidity was equivalent to the stock of U.S. dollars in circulation internationally (limited, of course, by the U.S. payments position and the competitive dominance of its economy). The international regulatory

regime also reflected a compromise which depended upon high growth in a national economy to maintain full employment. This could be seen in the logic of adjustment for payments problems. Chronic deficit countries would bear the burden of restoring balances by deflating (except the U.S. which enjoyed seigniorage privileges) so as to maintain the fixed exchange rate, while surplus countries could continue on as they could not be forced to reflate, curb exports, or appreciate their currencies (the last going against the fixed rate). A more comprehensive international plan to reinforce national full employment policies and control capital flows--associated with Keynes's British plan--was defeated. Thus both the international monetary institutes formed during reconstruction--the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD)--tended only toward the mildest forms of market control while directing the greatest of efforts to re-establishing a liberal international trading order. No international means to control international liquidity and demand was established. A stable international economic order rested, therefore, upon the complementarity of national economies forming a configuration that prevented a competitive spiral and supported national growth models by a desynchronisation of business cycles.

The trading regime also had a similar ambiguous outcome in terms of strengthening national economic policies. The bolder proposals that were initially mooted for managed trade--again associated with Keynes's plans for an international trading organization and the Havana Charter of 1947--were also brushed aside. What emerged was the much less ambitious, but ultimately more debilitating in the long run, General Agreement on Tariffs

and Trade (GATT) in 1948 favouring the U.S. view of steady movement toward liberalized trade and free capital flows. The main principle of GATT was that of 'most favoured nation' which prevented discrimination against single nations by extending similar trading privileges to all GATT members. This predisposed postwar multilateralism to liberal markets, and, through time, would "force its model of development on the rest of the world."²²

The diffusion of fordism, even in the postwar world configuration imposing uniformity of development models, was not an identical process in all national spaces, although competitive pressures did tend to cause the leading Fordist technological paradigm to push out older ones. It would be wrong to treat national economic spaces as the realization of the same phenomena as "the invariant elements of fordism in general are overdetermined through their articulation with elements specific to each social and economic formation."²³ The treatment of postwar national cases as a departure from the ideal-type--the 'flawed fordism' of Britain or the 'pure fordism' of the U.S.--lends a greater sensitivity to differences. Yet, it should be stressed that the intermediate concepts of regulation theory, developed to situate the reproductive conditions of a period, are not directly applicable to the spatially as well as institutionally specific analysis of social formations.²⁴ It is thus necessary, as we suggested in the previous chapter, to accrunt for the divergences, as well as the diffusion, of national growth models during the postwar period.

2.3 Postwar Employment Policy and Reconstruction in Canada

The reconstruction of postwar accumulation needs to be situated,

then, in a 'national politics of unemployment and employment policy'. It has been generally acknowledged for some time that Canada's structure of accumulation has been unique, captured in the notion of dependent industrialization, a form of development combining high levels of income and wealth with an export and production structure skewed towards resource industries and dominated by foreign ownership. In much of the debate over Canadian development, it has been the unique characteristics that have been emphasized, signalling Canada as apart from the dominant core of the advanced capitalist group. As Jenson observed, this view neglects Canada's parallel history and position in the development of central Fordism in the postwar period.⁶⁶ The theoretical problem has been to situate Canada within the advanced capitalist group in terms of the particularities of its national growth model and structure of its employment policy regime. Drache and Glasbeek have appropriately noted:

After World War II, pressures...to grant labour a new standing were felt throughout Western Europe, the United States and Canada. Each nation state responded to these pressures in a manner which suited its macro-economic strategy.... But there was a common understanding in the immediate postwar period to the effect that labour had to be given a new place at the political and economic bargaining tables.⁶⁷

The economic and political forces that shaped Canada's postwar economic order and employment policy arose out of the events of the depression and war. The depression led to a staggering decline in the economic fortunes of Canada. Every year between 1930 and 1933 output declined causing the official unemployment to reach 20 per cent (and much higher in other estimates), and stayed at record levels into the 1940s.⁶⁸ The economic decline was triggered by the collapse of Canada's primary goods exports, especially wheat, but the structure of the entire economy

added to the deflationary spiral. The developing mass production industries cut wages and laid off workers. Government finances took on even heavier debt obligations as revenues, still based on export tariffs, fell off. The effort to balance budgets further took demand out of the system, and left the economy stuck at low levels of output. The economic stagnation appeared to be the proof of the arguments of J.M. Keynes's General Theory (1936), ideas which began to circulate in Canada in 1937-38, that stabilization of effective demand was central to restoring output and lowering unemployment. The New Deal programs of the 1930s, in both the U.S. and Canada, began to head in this direction.⁷¹ They stalled, however, at the first hint of recovery.

The mobilization for war, beginning in the late 1930s, extended government spending into a wide array of new activities, and finally broke the depression. These measures included: subsidizing the cost of new plant or the reconversion of old ones, general use of capital cost allowances, and direct government ownership in such areas as munitions, and aviation. Non-market controls also were implemented over the allocation of many commodities, prices, capital flows and the traded sector. Unemployment dropped below 2 per cent by 1943, where it essentially stayed until 1949, and the government was now also engaged in comprehensive employment planning and training. It is difficult not to conclude that the "Canadian state assumed a degree of control over the economy never equalled in the country's history,"⁷² and that this was what finally provided the impetus to end the mass unemployment of the depression.

An unprecedented degree of working class politicization and job actions during the depression and war formed the political basis for the

compromises with capital and the state that led to the postwar settlement. Industrial workers in the mass production industries engaged in difficult disputes for union recognition and standard wages, stretching from the 1937 Oshawa strike of auto workers to the 1943 strike of miners at Kirkland Lake and steel workers the following year. These events helped double the number of union members. Industrial disputes kept one in three members off the job in 1943.⁷³

Privy Council Order 1003 was enacted in February 1944 to break the battles over union recognition and maintain war production.⁷⁴ Modeled after the American Wagner Act of 1935, PC 1003 made explicit the right of workers to associate in trade unions and bargain collectively, given majority worker support at designated sites. Yet, following earlier Canadian legislation, the ability of workers to mobilize collectively was severely circumscribed: unions could not engage in recognition strikes nor strike during the contract; negotiation stages to delay strikes were compulsory; membership eligibility was limited; and extensive grievance measures were mandated to settle disputes during the contract. Union security was added in 1945, compelled this time by the heated Ford Windsor strike demands for a closed shop to guarantee stability of membership and finances. A compromise begrudgingly recognizing workers' rights was reached in the arbitration ruling of Justice Ivan Rand: automatic check-off of union dues from pay stubs was granted, however, individuals could opt out of union membership and dues would be forfeited in illegal strikes.

The subsequent federal Industrial Relations and Disputes Act of 1948, and parallel legislation enacted by the provinces, gave permanence

to the requirement of union recognition (although public sector workers were still excluded). The 'industrial legalism' of the Canadian postwar settlement strictly defined the legitimate sphere of union activity, and put in place one of the two prongs of responsible trade unionism. The other was tied to the notion of 'free collective bargaining', that is bargaining over the price of labour-power without direct state interference in wage-setting and acceptance of management's control over production. Unions in Canada had gained security, and a hold on a significant portion of the labour force, but this was strictly confined to the industrial sector where union organizing and economic power stalled.

The momentum of 'anti-market' political forces was further setback by the stunning electoral defeat of the social democratic CCF in 1944. The CCF had emerged out of the depression and early 1940s as the major force on the left, and had gained office in Saskatchewan, and won surprising victories in Ontario and in federally by-elections.⁷⁵ The CCF was, as allies of the labour movement, the political party most committed to government intervention to create full employment. This defeat set the project back, and began a process of conservative realignment in Canada as the Liberal and Conservative parties incorporated some of the demands for 'employment security' in their platforms, and the political left posed no further threat. The union militancy and the rise of the CCF nonetheless still raised the question of the Liberal government's plans for after the war. This was the issue passed over to the Advisory Committee on Reconstruction, which became the centre of Keynesian thinking in government, and who worried about "rising unemployment, widespread dissatisfaction, postwar depression."⁷⁶

The Postwar Full Employment Commitment

The political basis for Canada's postwar employment policy was laid, then, in the combination of depression, war mobilization and stall of working class advance in the 1940s. An interventionist state in terms of economic and employment planning had been essential to recovery and war production. However, the Canadian labour movement lacked the political capacity for sustaining strong institutions of market control of unemployment (and even less for a strategy of disengagement). The terms of the postwar employment debate were confined, therefore, to how quickly Canada could return to capitalist sector led growth and how Keynesian views should be adapted to Canada."

From the late 1930s to the mid-1940s a series of government reports began to advance the Keynesian view of controlling unemployment. The 1943 Marsh Report especially made the case, following the Beveridge Report in Britain, that full employment should be the centrepiece of postwar economic policies and that a comprehensive welfare state should be built." The economic thinking and planning of the government for the postwar economy was encased, however, in the more modest ambitions of the 1945 White Paper on Employment and Income, and to a lesser extent the Green Book proposals of the same year." The White Paper became the symbol of Canada's 'high employment' commitment, and it made it clear that containing unemployment would pivot around capitalist investment remaining high and stable.

After the controlled economy (and labour shortages) of the war, the most distinctive feature of the White Paper was its focus on breaking with the interventionist policies of the war and returning to a private economy

as quickly as possible. As the White Paper stated:

The central task of reconstruction...must be to accomplish a smooth, orderly transition from the economic conditions of war to those of peace and to maintain a high and stable level of employment and income.... It follows that a major and early task of reconstruction is to facilitate and encourage an expansion of private industry, including primary with other industries.⁸⁰

To this end taxes would be reduced quickly and private investment stimulated through an expansionary monetary policy in the transition. The economic conditions--exports, investment, consumption, government finances--that would maintain growth were stated in aggregate Keynesian national income terms. Employment was conceived, it followed, as a function of national effective demand arising from the "expenditures which are made."⁸¹

The accumulation strategy envisioned to sustain investment and employment had, as Wolfe has stressed, several unique features.⁸² Notably, the White Paper contended that "export trade has been the greatest dynamic force influencing the level of national income and employment in Canada."⁸³ Unlike most of the capitalist countries, the war massively increased resource exports as Canada became a key supply country, especially to the U.S. as a result of the Hyde Park Agreement, with the wartime trade level of 1943 not being reached again until 1956.⁸⁴ Trade was central, therefore, to the "attainment of high employment." Canada's commitment to multilateralism followed from the premiss that exports were indispensable to the Canadian economy and "postwar collaboration... essential if expanded world trade is to reinforce domestic employment policies."⁸⁵ Canada strongly endorsed the efforts of Bretton Woods and the IMF to re-establish currency stability and the revival of

international capital flows (which had been crucial to Canadian development). As long as external demand was ample there was, from the silence of the White Paper, no particular need to be concerned with industry, except to provide allowances for modernization of manufacturing industry substituting for imports in the home market. An Industrial Development Bank to assist small businesses and additional encouragement for the housing sector were also proposed. Thus other than placing manufacturing capacity back in private hands, no industrial policy was indicated in the White Paper (and none would figure in the postwar period either).

The focus on export markets did not necessarily preclude, although it certainly limited, a strong employment policy regime as the small open economies of Europe suggested. In the White Paper, however, the export-led growth strategy served as the basis for contending that "employment and incomes will be subject to fluctuations in the sphere of international trade, which cannot be wholly...offset."⁶⁶ The White Paper was, moreover, quite explicit in rejecting "the expansion of government enterprise to provide, to any large degree, the additional employment required" for high employment. A 'public works shelf'--proposals for necessary infrastructure projects to be undertaken in recessions--would instead be maintained as part of a fiscal policy to manage "capital expenditures so that they contribute to the...stabilization of employment and income."⁶⁷

The major support for employment was to come from employment security measures that would act as 'automatic stabilizers', as they came to be known, by keeping up consumption. This was especially so for the Unemployment Insurance scheme and Family Allowances, introduced in 1940 and 1944 respectively, but also for proposed pension and health insurance

plans. These schemes, however, did not have a major redistributational component and were conceived as self-financing.⁹⁹ The major role that manpower planning and training played during the war would continue through demobilization, but this would decline as veterans were retrained and placed. A strategy for directly intervening in the labour market, or for co-ordinating the labour supply with the growth model, was left to the "initiative and resourcefulness of the workers themselves."⁹⁹

The politics of the Canadian employment policy regime, as represented by the White Paper, entailed the mildest of commitments to high unemployment. The employment strategy pivoted around the capacity of the capitalist sector to grow and gain long term positions in export markets in a world economy moving toward liberal trade. The national growth model envisioned a development of the primary sector for exports and a slow building up of domestic manufacturing capacity. It was not stated, but implicitly assumed as government policy would soon make apparent, that expanding the size of the national market through immigration would continue to be a central concern. As had been the case in Canada's past, capital inflows would be central to financing development. Although the White Paper, and more generally government thinking, embraced Keynesianism, this was more in the character of investment driven growth and than detailed concerns with demand management. The proposed employment policy regime was, as widely acknowledged at the time, modest in its aim to control the market for high employment. There was to be a somewhat expanded role for fiscal policy and new welfare programs; but there was to be no new institutional capacities established for industrial policy, labour market policies, or economic planning. As W.A. Mackintosh, archi-

tect of the White Paper, would recall:

Any illusions that so open an economy can be subject to close and precise control will be shortlived.... Economic policy since the war, however, has to a degree been based on the conviction that, though subject to the vagaries of wind and tide, there is still scope for navigation."

As would become clearer in the period of reconstruction, the economic conditions for controlling the capitalist unemployment problem in Canada would depend equally upon dynamic growth nationally and securing stable export markets internationally.

Reconstruction and Canada's Postwar Growth Model

Canada's Fordism was led by the capitalist sector-led growth, but it also had many specific features. The progression of continental integration--in trade flows, ownership structures, and collective bargaining patterns--meant that Canada's growth model was less 'auto-centric' than many countries, with macroeconomic balance contingent upon 'external regulation' of trade and capital flows with the U.S., in addition to 'national regulation' from wage-setting and state expenditures. Canadian growth was also relatively extensive in that employment growth contributed enormously to overall growth levels, and productivity growth lagged behind other countries. With an underlying tendency to increasing unemployment beginning from reconstruction, it is appropriate to consider Canada possessing a 'limping Fordist' growth model.

There were, nonetheless, many impressive features of Canada's growth during reconstruction. By 1944 war production had raised Gross National Product (GNP) by 80 per cent over 1938 levels. From 1945-56 national output increased by almost 60 per cent. This level of growth was despite output declines in 1945, 1946 and 1954 (which were unique for the boom)."

The basis of the growth can be looked at from several angles. In terms of macroeconomic aggregates, the main driving force was private investment as export volumes stalled (a point we return to below) and government withdrew from the control economy of the war. Real investment during 1940-44 was almost 70 per cent higher than the average levels of the late 1930s, and business fixed investment had increased by an astonishing 355 per cent between 1944 and 1957. Real consumption also played a role, increasing in virtually every year (except 1948). In contrast, the federal state portion of GNP stood at only 9.2 per cent of GNP in 1938, growing to almost 45 per cent in 1944, and then falling precipitously to under 12 per cent at the end of the decade, before increasing modestly to 1956. Exports grew tremendously during the early 1940s due to the integration of war production, but then declined by 21 per cent between 1944 and 1950, only regaining wartime levels by 1955.

In terms of industrial sectors, the composition of growth reflected both Canada's particular insertion in the world economy and the spread of the Fordist technical paradigm. Notably, manufacturing output had averaged about 22.6 per cent of Gross Domestic Product (GDP) from 1926-39, increased to almost 32 per cent during the war, as rubber, aircraft and electrical industries took-off. The size of the manufacturing sector grew slightly during the period of reconstruction as a proportion of output, particularly in consumer goods industries, as did the public sector and services in the 1950s, while the relative size of agricultural output fell off. The resource sector did not change in its proportion of output significantly, but the 'new staples' of oil and gas, aluminum, hydro-electricity, and pulp and paper were central to the export sector and the

surplus generated from resource rents." Many of Canada's major infrastructure projects of the 1950s--the Trans-Canada Highway, the Trans-Canada Pipeline, and the St. Lawrence Seaway--were conceived as supports to resource production. But it should be stressed, against the common reading of the boom as almost exclusively resource-led, that the investment surge during reconstruction was broadly based although, in terms of the diffusion of Fordism, Canada's "industrial development took place without adverse repercussions upon the older sectors of Canadian economic activity."

This growth was a "respectable performance, certainly, but not impressive in comparison with performances in Western Europe and Japan... [as] Canada and the U.S. lagged behind...both in terms of growth and in terms of productivity." Thus annual output growth in Canada for 1947-56 averaged 5.3 per cent, annual productivity growth increased at a tempo of 3.5 per cent, while annual per capita incomes only grew by 2.6 per cent. The differentials illustrated the extensive and intensive character of Canadian growth in terms of the importance of population growth to demand performance and of employment growth, which grew at an annual rate of 1.8 per cent, to output gains. Per capita income growth in Canada, therefore, while performing better than the U.S., was less adequate than Europe, with a tendency to decline from period to period. This 'limp'--which could be seen in rising unemployment as well as income deceleration--meant that if the capitalist economies entered into the stagnation of a non-reproductive cycle, Canada could be quickly caught in a 'leaden age' crisis of declining per capita incomes and spiralling unemployment.

The relatively low productivity gains during reconstruction--which

trade performance; keeping the currency stable in relation to the U.S. dollar; and maintaining a flow of skilled workers.

The fiscal policies adopted from 1945 to 1956, under Liberal Finance Ministers, were characterised, therefore, by a determined effort to stimulate consumer spending, to 'rationalise' the tax burden and stimulate investment in new plants, and to remove controls on the export and import of goods as part of Canada's pursuit of liberalized trade. The initial budgetary policies introduced from 1945-49 to demobilize the war economy clearly established the capitalist sector led growth strategy which was to serve also as the main employment policy. As quickly as possible considering the war debt, personal income taxes were reduced to stimulate private consumption and investment. The investment incentives were to encourage all economic sectors, but a 'selective sector' industrial policy of investment incentives for specific industries and especially to improve manufacturing capacity also began to form. This largely consisted of ad hoc tax subsidies and special depreciation rates "to companies that needed to modernize or expand so they could provide employment, goods for export or infrastructural development."⁸³ These and other measures continued the import substitution strategy for the manufacturing sector that the earlier National Policy tariffs had launched.

Fiscal policies from 1950-56 largely followed the market-led growth strategy of the transition. The strength of the boom and inflation fears kept the government running budgetary surpluses, which were then used to run down the national debt. The Korean War tripled defence spending from 1950-53, but this was met by 'pay-as-we-go' taxes.⁸⁴ Defence expenditures were destined to become a key component of even peacetime budgets

would continue to plague Canada--contribute to competitive pressures. The size and composition of the open sector added to the external constraint and the challenge of sustaining high employment. As with the rest of the capitalist bloc, the reconstruction boom was internally-driven (despite the projections of the White Paper). Exports were only 20 per cent of GNP in 1950 after being at 27 per cent in 1946. Yet the overall size of the export sector remained high, and a tendency to increase as a share of output began to develop in the 1950s, with exports rising by 17 per cent between 1954 and 1957."

The composition of the open sector that began to form was, perhaps, as critical to the long term internal contradictions of Canada's growth model and capacity for national regulation as the magnitude. Reconstruction economic growth has often been termed the 'American boom in Canada' with good reason. Canadian exports to the U.S. grew from about 40 per cent of total exports before the war to nearly 60 per cent by 1956.⁹⁶ Canadian imports grew similarly, but with a remarkably different structure that added to employment stability: Canada exported a preponderance of cyclically-sensitive resources such as metals, forest products and petroleum, while importing less income-elastic manufacturing and capital goods. The flow of imports, moreover, was such that Canada was running a merchandise trade deficit in the mid-1950s--an unusual occurrence for Canada.

Capital flows were the other defining character of Canada's external regulation, and were the means used to cover the deficit. Although American capital had long had a presence in Canada, the extent of U.S. foreign direct investment exploded in the 1950s with the establishment of manufacturing branch plants to meet mass consumption and the takeover of

resource industries shipping commodities to the U.S. The capital inflows were enormous. Foreign direct investment barely occurred from 1945-49, but jumped from \$84 million in 1949 to \$200 million in 1950 and continued to grow alarmingly. In 1946 about 35 per cent of Canadian manufacturing was foreign-controlled, but by 1957 it was well over 50 per cent; in the resource sector the shift was similar although the degree of foreign penetration was even greater." The branch plant manufacturing structure of 'miniature replicas' of U.S. plants reinforced, as numerous commentators have argued, Canada's dependent industrialization of second-best technology, smaller production runs, and few product innovations. Foreign ownership of resources also stunted industrial development in that profits flowed south and as little processing as possible was undertaken in Canada. The extent of the capital inflows, as well as the import of technology and capital goods, of the 1950s laid the basis for this industrial pattern of dependence and decline, as they were not coupled with any industrial strategy to develop a nationally-controlled manufacturing sector. The competitive pressures on national employment capacities would, therefore, continue to increase from the 1950s on and "create episodic costs for Canada which required special arrangements [with the U.S.]."90

The external features of Canada's growth model at reconstruction, and its postwar trajectory, made precarious the high employment conditions of realisation and stability. The national mode of regulation also made macroeconomic balance complicated from the truncated postwar settlement. The system of wage bargaining that evolved in Canada, for example, provided more wage stability than the prewar period, but did not uniformly

match productivity gains with increased purchasing power. The wage rounds between 1946-49 formed the basis for the reconstruction wage compromise. Strikes by industrial workers, particularly in auto, steel and other mass production industries, went beyond union recognition to demand an 'annual improvement factor' in real wages with rising productivity. This was a spillover from the struggles of U.S. workers. The key case was the 1946 'Treaty of Detroit' between General Motors and the United Auto Workers where the union gained 'productivity bargaining' for wages, but yielded to the company inclusive management rights clauses over production. The agreement set the continental pattern. Canadian auto workers followed the American lead. Canadian steel workers also went out nation-wide in 1946 to establish the pattern and begin the push for the 40 hour work week and two weeks vacation. By the end of the 1940s productivity sharing became established as collective bargaining norm, but the weakness of the national political settlement meant that even workers in "unionized sectors in Canada were unable to make wage gains that matched productivity gains."⁹⁹

A good part of the pressure to constrain wage-led growth came from the extent of external regulation (in a technologically weak economy) of the national growth model. This constraint placed greater pressure on unit labour costs than more closed economies (especially once competitive devaluations are ruled out because of the integration of capital markets). The capitalist sector-led growth strategy also constrained the 'social wage'. During the war period, an unemployment insurance scheme and family allowances were introduced, but the reconstruction plans for a broader welfare and medical reforms stalled. The 1950s brought a modest but universal pension scheme and allowances for the disabled. The welfare

state did not fully blossom until the 1960s when health care, pensions and welfare plans were generalized and upgraded. Social transfers, therefore, provided little in the way of consumption stability in Canada's Keynesian regulation with only a "limited preventive and redistributive orientation."¹⁰⁰

Other aspects of the co-ordination of the labour market and the national growth model should be noted. The employment trends forming during reconstruction illuminated the transformations, particularities and flaws of Canada's industrial structure.¹⁰¹ Manufacturing employment, for example, was less than 16 per cent of the labour force as late as 1939, had risen to over a quarter under the central controls of the war economy, but from 1945 to 1956 largely stagnated (at a modest level in comparison to other advanced countries). In contrast, agricultural employment dramatically declined after 1941, while service activity--both public and private--steadily increased transforming into a majority of employment. Canada's employment growth was, and would continue to be, quite impressive, almost matching the remarkable surge in the labour force, which grew at an average rate of 1.8 per cent from 1947-56, almost two thirds of which came from immigration in the early 1950s. But in contrast to Europe where labour surpluses were large at the end of the war and were slowly absorbed, Canada began the reconstruction phase with full employment and steadily moved away toward high unemployment. Unemployment rates had dropped to only 1.4 per cent in 1944, stayed below 3 per cent until the Korea War slowdown in 1954, and remained at higher levels thereafter. This unemployment 'limp' reflected Watkins' warning that Canada's postwar growth model "created no assurance of a rate of growth sufficient to

maintain full employment, even if the expansion of the labour force be limited to natural increase."¹⁰²

Reconstruction and the National Employment Policy Regime

The high employment commitment of the White Paper, furthermore, established only limited employment objectives for postwar Canada. The main task the government set for itself was the return to a capitalist market economy. This objective meant abandoning many of the institutional capacities gained from war mobilization, notably controls over investment and capital flows and employment planning and training capacities. The employment policy regime that would become established during the reconstruction period, therefore, added little institutional capacity to contain the unemployment pressures emerging from the external constraint or rapid labour force growth. Instead, limited market controls to stimulate private investment and exports would be adopted.

The shift toward a capitalist sector led growth strategy was reinforced by the fact that demobilisation did not lead to widespread unemployment and accumulation gained momentum from 1945-49 after an initial slowdown at war's end. The slowdowns of 1949-50 and 1953-54 were still only brief pauses, and they were in the midst of astonishingly strong growth, especially after defence spending resumed in 1950 with the outbreak of the Korean War. Stabilisation policies were not pressed, therefore, into a more activist employment role. The problems that immediately arose, as the economic authorities saw them, resembled those that would recur over the course of the boom: stimulating private investment (especially while unwinding federal spending from 1945-49); controlling inflation; covering the current account balance and improving manufacturing

trade performance; keeping the currency stable in relation to the U.S. dollar; and maintaining a flow of skilled workers.

The fiscal policies adopted from 1945 to 1956, under Liberal Finance Ministers, were characterised, therefore, by a determined effort to stimulate consumer spending, to 'rationalise' the tax burden and stimulate investment in new plants, and to remove controls on the export and import of goods as part of Canada's pursuit of liberalized trade. The initial budgetary policies introduced from 1945-49 to demobilize the war economy clearly established the capitalist sector led growth strategy which was to serve also as the main employment policy. As quickly as possible considering the war debt, personal income taxes were reduced to stimulate private consumption and investment. The investment incentives were to encourage all economic sectors, but a 'selective sector' industrial policy of investment incentives for specific industries and especially to improve manufacturing capacity also began to form. This largely consisted of ad hoc tax subsidies and special depreciation rates "to companies that needed to modernize or expand so they could provide employment, goods for export or infrastructural development."⁶³ These and other measures continued the import substitution strategy for the manufacturing sector that the earlier National Policy tariffs had launched.

Fiscal policies from 1950-56 largely followed the market-led growth strategy of the transition. The strength of the boom and inflation fears kept the government running budgetary surpluses, which were then used to run down the national debt. The Korean War tripled defence spending from 1950-53, but this was met by 'pay-as-we-go' taxes.⁶⁴ Defence expenditures were destined to become a key component of even peacetime budgets

and one of the few sectors the government exercised a more concerted industry policy beyond the extensive capital cost allowances Canada was renowned for.

Fiscal policies that would strengthen the capacity to control employment levels apart from capitalist sector growth fared less well. Indeed, it soon became apparent that Canada's postwar employment policy regime gave higher priority to both growth and inflation over unemployment. As Campbell has summarized, even though Keynesian views were conceptually dominant in policy-thinking, budgetary policies in the 1940s and 1950s increasingly dismissed unemployment as seasonal, regional or not as 'painful' because of social security.¹²⁹ Given the employment policy regime forming in Canada, it is not surprising that the government opposed the United Nations proposals that full employment commitments be strengthened by the establishment of specific targets. By 1949 the much ballyhooed Keynesian public works shelf, which figured prominently in the White Paper, and which required a commitment to an active employment policy capacity, was dismissed. Thus fiscal policies for unemployment were largely 'passive' in that the government accepted, and largely behaved accordingly, that "when the rate of economic advance slackens, and when the economy as a whole is not fully employed, a moderate budgetary deficit should be no cause or alarm."¹³⁰ The recessions of 1949-50 and 1953-54, and even the underlying rise in unemployment since war's end, did not alter the passive fiscal policy routines that would soon be challenged by more difficult unemployment crises.

Monetary policies figured prominently in postwar full employment strategies as a means to fund government deficits, to spur investment or

to engage in competitive devaluations. In Canada, the task set for postwar monetary policies were much more clouded. As fiscal policy was curtailed from an aggressive stance by the objectives of keeping taxes and spending moderate, the policy of the Bank of Canada had a major role in establishing domestic economic conditions. Yet monetary policy also juggled the objectives--which often were in conflict--of external stability, low inflation and high investment. As with fiscal policy, postwar policy makers assumed unemployment would be controlled by ensuring "maximum growth of the economy."¹⁷ These policies could be partly reconciled through Canada's 'hard currency' policy of fighting inflation through a currency that was often overvalued relative to current account problems and attracting foreign capital inflows to fund the deficit and domestic investment. The contradictions between the two would make for repeated bouts of currency instability, domestic austerity and sacrifice of the capacity of employment policies to meet high employment objectives.

The 1940s reconstruction phase quickly established the outlines of the Bank of Canada's monetary policy and its dilemmas. To finance the transition to the capitalist sector led growth strategy, and to prevent a postwar unemployment crisis, credit conditions were kept loose throughout the late 1940s. This added to the strong consumer demand released by war's end and the sharp reduction in personal income taxes. Inflationary conditions, however, developed with no clear policy to adopt without compromising the commitment to high private sector growth: price controls were being lifted; taxes were being reduced to spur consumption; and credit was loose to finance investment. The only option left was a peculiar use of the exchange rate.

Canada had fixed its exchange rate at a considerable discount to the U.S. dollar in 1939 where it remained for the war. In 1946 the currency was sharply appreciated to par with the dollar to fight inflationary pressures. This move presaged the 'hard currency' policy response to inflation that became a central feature of Canadian employment policies: Canadian inflation was already below the rest of the world, and even the U.S., and this relationship was to be preserved.¹⁹⁶ The appreciation served, moreover, a second purpose: it lowered the cost of importing capital goods that were seen as essential by the Departments of Finance and Reconstruction to support industrial conversion.

Yet the hard currency policy soon ran into problems. As expected, the appreciation brought in large amounts of U.S. imports, and cut the size of the merchandise trade and current account surpluses being run. When Canada also extended loans and export credits to support British and European rebuilding (which were seen as crucial to re-open export markets), a foreign exchange crisis loomed. This was met, as external problems would often be, by forming a 'special relationship' with the U.S. through special allowance of purchases of Canadian goods under the Marshall Plan, import controls and tying increased resource exports to the U.S. These measures stabilized Canada's reserves, but when the British devalued the sterling in 1949, Canada followed suit.⁶⁹

Once the transition from the war economy was completed, and foreign reserves were re-established, the move toward the hard currency policy and integrated capital market with the U.S. began in earnest in 1950. The cheap money policy was abandoned in 1950. With higher interest rates and U.S. resource demands as Korean War spending kicked in, the currency was

now considered undervalued and the fixed rate of the Canadian dollar again under pressure. The dollar was eventually floated in 1950, stabilizing at around par with the U.S., where it would be 'managed' for the rest of the decade. The exchange controls on the acquisition and disposition of foreign currencies were lifted a year later. The end of controls allowed free movement of capital, weakened the capacity of the government to control and direct investment and made it more difficult to depart from American policies.

Yet, starting in 1950, Canada began to run a persistent current account deficit which the monetary policy exacerbated. Moreover, as domestic capital spending remained strong, "in the face of the Bank of Canada's restrictive monetary policy, prospective spenders were forced to resort increasingly to foreign sources for funds."¹⁵ The high returns in Canada also drew in direct American investment. The current account was covered, therefore, by capital inflows which, as interest and dividend payments returned, and the currency remained overvalued, perpetuated the current deficit and the fragility of Canada's payments position (eventually leading to an exchange crisis). Indeed, the uncoordinated increase in capital spending in the short run came at the long run expense of increased foreign indebtedness, loss of internal regulation and higher levels of unemployment in Canada. Emergency measures to deal with an exchange crisis would be repeated (with Canada's special relationship with the U.S. being called on to re-establish currency stability at the purchase of further integration).

The capitalist sector led growth strategy provided the co-ordination of stabilisation policies in the transition period. It also guided--and

Wijnhoven, 'Politics do Matter, But Does Unemployment?' European Journal of Political Research, 16 (1990).

10. E. Tufte, Political Control of the Economy (Princeton: Princeton University Press 1978), 104.

11. D. Hibbs, 'Macroeconomic Policy and Political Parties,' American Political Science Review, 71:4 (1977).

12. F. Castles, ed., The Impact of Parties (London: Sage 1982); and P. Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press 1986).

13. See: D. Soskice, 'Industrial Relations and Unemployment: The Case for Flexible Corporatism,' in J. Kregel, E. Matzner and A. Roncaglia, eds., Barriers to Full Employment (London: Macmillan 1988); and J. McCallum, 'Unemployment in OECD Countries in the 1980s,' The Economic Journal, 96 (1986).

14. D. Cameron, 'Social Democracy, Corporatism, Labour Quiescence and the Representation of Economic Interest in Advanced Capitalist Society,' in J. Goldthorpe, ed., Order and Conflict in Contemporary Capitalism (Oxford: Clarendon Press 1984), 173-4.

15. R. Campbell, The Full-Employment Objective in Canada, 1945-85 (Ottawa: Economic Council of Canada 1991), 29.

16. M. Schmidt, 'The Politics of Unemployment: Rates of Unemployment and Labour Market Policy,' West European Politics, 7:3 (1984), 12. Also see: M. Schmidt, 'The Role of Parties in Shaping Macroeconomic Policy,' in F. Castles, ed., The Impact of Parties (London: Sage 1982); and M. Schmidt, 'Labour Market Performance and Inflation in OECD Nations,' in K. Gerlach, et al., eds., Public Policies to Combat Unemployment in a Period of Stagnation (Frankfurt: Campus 1984).

17. G. Therborn, 'Does Corporatism Matter? The Economic Crisis and Issues of Political Theory,' Paper for the ECPR Joint Workshops, Amsterdam 1987.

18. Corporatism can be correlated with virtually any level of unemployment today: low unemployment Sweden; medium unemployment Germany and Denmark; and high unemployment Netherlands. A similar list could be made for non-corporatist countries.

19. A. Martin, 'The Politics of Employment and Welfare,' in K. Banting, ed., The State and Economic Interests (Toronto: University of Toronto Press 1984), 160. Also see: D. Webber, 'Social Democracy and the Re-emergence of Mass Unemployment in Western Europe,' in W. Paterson and A. Thomas, eds., The Future of Social Democracy (Oxford: Oxford University Press 1986).

20. Korpi, 'Political Explanations,' 329.

National Selective Service Program--that had formed during the war.

The National Employment Service, for example, had been developed as part of the UI program, consolidating the previously regionally fragmented employment exchanges, and it had played a major role in recruitment and employment planning during the war. It was returned to the UI Commission in 1946 to work closely with veterans' training programs. These programs were largely completed by the late 1940s. The detailed labour market information, training and planning capacities were squandered, and the NES returned to its major task of "verifying the unavailability of jobs for workers who were laying claim to UI benefits."¹³

A slightly larger role for the NES was developed with the direct job creation Winter Works program in the early 1950s, but this program could hardly compare to the extent of depression relief work or war planning. The UI program, in contrast, slowly expanded its coverage and benefits, especially after the 1950 legislative overhaul. These extensions became important due to the amount of seasonal work in several provinces. The 1949-50 recession led to the extension of supplementary benefits to certain workers who had exhausted benefits.¹⁴ These UI changes, together with the deterioration of NES capacities, were notable in that they illustrated the lack of a long term labour market strategy, and the formation of a postwar employment policy routine that pivoted around passive income support.

The other significant component of labour market policy also developed during the war. The 1942 Vocational Training and Co-ordination Act (VTCA) developed out of prior programs of support for provincial vocational education institutions, and depression legislation enacted in 1937

and 1939 to train unemployed youth. The use of general skills training to combat unemployment was also a "hallmark of postwar policy," " but it was always a tiny portion of the training budget and a fraction of the unemployed. Except for the periods of the war and of demobilisation, the VICA was quite unsuccessful in expanding the levels of training of the workforce or in building a set of training structures across the country. Vocational education stagnated after the war, and the apprenticeship system, which had collapsed to virtually nothing in the depression, recovered but remained anomalously small. The Vocational Training Agreement signed in 1948, 1950, and 1954 with the provinces, who were the main providers of training, provided matching funds for training through vocational, technical and apprenticeship programs. The general training of workers for industry, therefore, had to depend extensively on immigration flows of skilled workers. With the new immigration regulations passed in 1950, more than two thirds of the growth of the labour force from 1950-56 came from immigration. The Economic Council of Canada observed that "since the Second World War, the high demand for professional, technical and other highly skilled manpower in Canada has been met to a significant degree by immigration from overseas." " The lack of national training structures meant that employment policies could not undertake countercyclical training of the unemployed or provide adjustment assistance. This was, however, quite in keeping with Canada's market-led employment policy regime and the truncated 'high and stable employment' commitment of the 1945 White Paper.

2.4 Conclusion: The 'Golden Age' and Postwar Employment Policy

The reconstruction of the advanced capitalist countries at the beginning of the postwar period saw a unique economic and political configuration emerge. This accumulation regime has become known as Fordism in that the leading technological paradigm was based on assembly line mass production and mass consumption through the spread of productivity sharing in the capitalist sector and the welfare state in the state sector. The diversity of national growth models posed the unemployment problem distinctly, however, according to the role of the external sector, the sectoral composition of industry and the rules for mobilizing labour. The national employment policy regimes established during reconstruction also varied considerably, although they all contained some measure of full employment commitment after the catastrophes of depression and war. The extent of institutionalization of Keynesian measures of market control depended crucially on the strength of national labour movements. Together the dynamic of fordist growth and supportive Keynesian regulation produced a long period 'golden age' reproductive cycle, providing the stability conditions for high employment.

The high employment commitment that Canada adopted in the 1945 White Paper represented symbolically, and in practice, a new period of Canadian economic policy. In comparison to pre-war policy, employment policy was to be more co-ordinated and less ad hoc, more centralized and less dependent on municipal relief, and more countercyclical in financing and less committed to balanced budgets. Several features became key as Canadian employment evolved through the reconstruction period. The government accepted a measure of responsibility for 'high and stable employment' by

smoothing business cycles. The employment policy regime would be oriented, however, to aiding capitalist sector led growth through an erratic array of industrial subsidies and by maintaining capital inflows to aid domestic capital formation. Countercyclical demand policies would largely be passive with no developed fiscal planning or labour market capacities; the institutionally autonomous central bank would be preoccupied with inflation and managing external stability. The Canadian strategy for high employment would pivot squarely on golden age growth conditions materializing, not just within Canada, but across the advanced capitalist countries.

If market led growth faltered, or even severe recessions developed within the golden age cycle, then Canada's high employment commitment would be severely tested as labour supply pressures would soon cause unemployment to secularly climb. The 'limping Fordist' growth model built around an expansionary immigration policy for skills, resource industries, a stunted manufacturing sector and export trade increased the vulnerability to external instability and the possibility for just such an unemployment trajectory. This would especially be the case if Canada began to move down the 'hierarchy of international production' without forming an industrial policy to convert resource rents into an integrated national production structure, while at the time sacrificing national policy autonomy in an attempt to preserve export markets and capital inflows. The frail employment policy regime and weak labour movement would have difficulty providing, or developing, the distributional conditions to contain the mounting unemployment problem. The experiences of the postwar reconstruction period had already begun to raise these issues. The

postwar employment policy regime that began to configure during the period from 1945-56 became an important parameter to the unemployment challenges that would resurface. The test would be for Canada's employment policy to build up the institutional capacities to contain unemployment that had stalled during reconstruction, and to begin to move the national growth model along a different, less extensive and less extroverted, trajectory. If this failed to occur, Canada would fulfil Joan Robinson's wry observation that, for all the admirable Keynesian commitments to full employment, "in practice employment policy is not based on any particular theory but follows the line of least resistance."

Endnotes

1. J.M. Keynes, The General Theory of Employment, Interest and Money (London: Macmillan 1936), 381.
2. D. Gordon, T. Weisskopf and S. Bowles, 'Power, Accumulation and Crisis: The Rise and Demise of the Postwar Social Structure of Accumulation,' in URPE, ed., The Imperiled Economy, Vol.1 (New York: URPE 1987), 47. Also see A. Lipietz, Mirages and Miracles (London: Verso 1986), 15.
3. D. Gordon, R. Edwards and M. Reich, Segmented Work, Divided Workers (Cambridge: Cambridge University Press 1982), 11. This point is also developed more fully in R. Mahon, 'Crises, Transitions and Chance Discoveries: Solidaristic Work as an Historically Progressive Strategy for the Shaping of Postfordism?' (Paper presented at the 7th International Conference of Europeanists, Washington, 1990).
4. A. Glyn, et al., 'The Rise and Fall of the Golden Age,' in S. Marglin and J. Schor, eds., The Golden Age of Capitalism (Oxford: Clarendon 1990), 40.
5. A. Noel, 'Accumulation, Regulation and Social Change: An Essay on French Political Economy,' International Organization, 41:2 (1987), 319. On this point see: J. Jenson, 'Representations in Crisis: The Roots of Canada's Permeable Fordism,' Canadian Journal of Political Science, 23:4 (1990).
6. W. Korpi, 'Political and Economic Explanations for Unemployment,' British Journal of Political Science, 21:3 (1991), 344. Also see: L. Lindberg, 'The Problems of Economic Theory in Explaining Economic Performance,' The Annals, 459 (1982); and L. Lindberg and C. Maier, eds., The Politics of Inflation and Economic Stagnation (Washington: Brookings Institution 1985).
7. M. Kalecki, 'Political Aspects of Full Employment,' Political Quarterly, 14 (1943).
8. See: E.E. Schattschneider, 'Party Government and Employment Policy,' American Political Science Review, 39 (1945); D. Baumer and C. Van Horn, The Politics of Unemployment (Washington: Congressional Quarterly Press 1985); T. Blackman, 'The Politics of Full Employment,' Political Geography Quarterly, 6:4 (1987); A. Alesina, 'Politics and Business Cycles in Industrial Democracies,' Economic Policy (1989); R. Rose, 'The Political Appraisal of Employment Policies,' Journal of Public Policy, 7 (1987); and J. Alt, 'Political Parties, World Demand, and Unemployment,' American Political Science Review, 79:4 (1985).
9. Furthermore, in the 1980s it appeared that governments were no longer being punished for unemployment at all. Any partisan effects of unemployment depended on the much weaker, and circular, thesis that electoral strategies would cause the effects to appear. See: W. Visser and R.

Wiunhoven, 'Politics do Matter, But Does Unemployment?' European Journal of Political Research, 16 (1990).

10. E. Tufte, Political Control of the Economy (Princeton: Princeton University Press 1978), 104.

11. D. Hibbs, 'Macroeconomic Policy and Political Parties,' American Political Science Review, 71:4 (1977).

12. F. Castles, ed., The Impact of Parties (London: Sage 1982); and P. Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press 1986).

13. See: D. Soskice, 'Industrial Relations and Unemployment: The Case for Flexible Corporatism,' in J. Kregel, E. Matzner and A. Roncaglia, eds., Barriers to Full Employment (London: Macmillan 1988); and J. McCallum, 'Unemployment in OECD Countries in the 1980s,' The Economic Journal, 96 (1986).

14. D. Cameron, 'Social Democracy, Corporatism, Labour Quiescence and the Representation of Economic Interest in Advanced Capitalist Society,' in J. Goldthorpe, ed., Order and Conflict in Contemporary Capitalism (Oxford: Clarendon Press 1984), 173-4.

15. R. Campbell, The Full-Employment Objective in Canada, 1945-85 (Ottawa: Economic Council of Canada 1991), 29.

16. M. Schmidt, 'The Politics of Unemployment: Rates of Unemployment and Labour Market Policy,' West European Politics, 7:3 (1984), 12. Also see: M. Schmidt, 'The Role of Parties in Shaping Macroeconomic Policy,' in F. Castles, ed., The Impact of Parties (London: Sage 1982); and M. Schmidt, 'Labour Market Performance and Inflation in OECD Nations,' in K. Gerlach, et al., eds., Public Policies to Combat Unemployment in a Period of Stagnation (Frankfurt: Campus 1984).

17. G. Therborn, 'Does Corporatism Matter? The Economic Crisis and Issues of Political Theory,' Paper for the ECPR Joint Workshops, Amsterdam 1987.

18. Corporatism can be correlated with virtually any level of unemployment today: low unemployment Sweden; medium unemployment Germany and Denmark; and high unemployment Netherlands. A similar list could be made for non-corporatist countries.

19. A. Martin, 'The Politics of Employment and Welfare,' in K. Banting, ed., The State and Economic Interests (Toronto: University of Toronto Press 1984), 160. Also see: D. Webber, 'Social Democracy and the Re-emergence of Mass Unemployment in Western Europe,' in W. Paterson and A. Thomas, eds., The Future of Social Democracy (Oxford: Oxford University Press 1986).

20. Korpi, 'Political Explanations,' 329.

21. S. McBride, 'The Comparative Politics of Unemployment: Swedish and British Responses to Economic Crisis,' Comparative Politics, 20:3 (1988), 303. Also see: S. McBride, Not Working: State, Unemployment, and Neo-Conservatism in Canada (Toronto: University of Toronto Press 1992).
22. M. Weir, Politics and Jobs: The Boundaries of Employment Policy in the United States (Princeton: Princeton University Press 1992), 19. Also see: M. Weir, 'The Federal Government and Unemployment: The Frustration of Policy Innovation from the New Deal to the Great Society,' in M. Weir, A. Orloff and T. Skocpol, eds., The Politics of Social Policy in the United States (Princeton: Princeton University Press 1988); and G. Mucciaroni, The Political Failure of Employment Policy, 1975-1982 (Pittsburgh: University of Pittsburgh Press 1990).
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24. P. Kurzer, 'Unemployment in Open Economies: The Impact of Trade, Finance, and European Integration,' Comparative Political Studies, 24:1 (1991), 25.
25. P. Kurzer, 'The Politics of Central Banks: Austerity and Unemployment in Europe,' Journal of Public Policy, 8 (1988); P. Uusitalo, 'Monetarism Keynesianism, and the Institutional Status of Central Banks,' Acta Sociologica, 27 (1984); and G. Epstein and J. Schor, 'Macropolicy in the Rise and Fall of the Golden Age,' in S. Marglin and J. Schor, eds., The Golden Age of Capitalism (Oxford: Clarendon Press 1990).
26. F. Scharpf, 'Economic and Institutional Constraints of Full-Employment Strategies: Sweden, Austria, and Western Germany, 1973-1982,' in J. Goldthorpe, ed., Order and Conflict in Contemporary Capitalism (Oxford: Clarendon Press 1984), 261-2.
27. Scharpf, Crisis and Choice, 164-5.
28. G. Therborn, Why Some Peoples are More Unemployed Than Others (London: Verso 1986), 23.
29. Therborn, Some Peoples, 20-1.
30. Therborn, Some Peoples, 41.
31. G. Esping-Andersen, The Three Worlds of Welfare Capitalism (Princeton: Princeton University Press 1990), 187.
32. B. Rowthorn, 'Unemployment: The Resistible Force,' Marxism Today (September 1986), 28-31. As well, to speak of Switzerland's full employment commitment today is to ignore employment stagnation and the export of unemployed guest-workers.
33. There is even more damaging evidence to Therborn's location of the obstacles to high employment along only a political dimension: the economic pressures of the crisis which have caused a breakdown of all full

employment cases in the 1990s, including Japan and especially Norway and Sweden, is left unpredicted.

34. A. Glyn and B. Rowthorn, 'West European Unemployment: Corporatism and Structural Change,' American Economic Review, 78:2 (1988), 199.

35. For a discussion of this intersection see: D. Gordon, 'The Global Economy: New Edifice or Crumbling Foundations?' New Left Review, N. 168 (1988); and P. Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press 1986).

36. D. Harvey, The Condition of Postmodernity (Oxford: Basil Blackwell 1989), 129.

37. C. Driver, Towards Full Employment: A Policy Appraisal (London: Routledge and Kegan Paul 1987), 4.

38. J. Schumpeter, Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process, Vol.2 (New York: McGraw-Hill 1939), 515.

39. The unevenness of technological development may, for instance, register in a variety of short period adjustment problems. The dualist structure of the economy, divided between a core group of technologically dynamic firms and a backward periphery presents a structural unemployment problem. Because of blockages in the labour market, caused by barriers of poverty, race or gender, segments of the workforce may lack appropriate skill profiles. These marginal workers find employment in the peripheral sector, suffering higher rates of unemployment, lower pay and unstable jobs. To the extent their acquisition of skills or mobility is impaired, the average rate of unemployment will tend to be higher and adjustment to new techniques slower. Besides individuals, declining regions and sectors may also have a mismatch between existing skills and new employment openings. Yet however successful in defining the obstacle of inappropriate skill profiles, these dual labour market views explain mainly, as Piore notes, the "distribution [of unemployment] among various demographic groups." See: M. Piore, 'Unemployment and Inflation,' in M. Piore, ed., Unemployment and Inflation (New York: M.E. Sharpe 1979), 9. Also see: P. Doeringer and M. Piore, 'Unemployment and the Dual Labor Market,' The Public Interest, 38 (1975); and P. Doeringer and M. Piore, Internal Labour Markets and Manpower Analysis (Lexington: D.C. Heath 1971).

40. See: J. Schumpeter, The Theory of Economic Development (Cambridge: Harvard University Press 1949); and G. Mensch, Stale-mate in Technology: Innovations Overcome the Depression (New York: Ballinger 1975).

41. C. Freeman, J. Clark and L. Soete, Unemployment and Technical Innovation (London: Frances Pinter 1982).

42. This is often depicted, notably in the work of M. Piore and C. Sabel, as the organizational transition between craft economies to fordist economies of scale to postfordist economies of scope. See: The Second

Industrial Divide (New York: Basic Books 1984).

43. C. Freeman, et al., Unemployment, 134.

44. See: C. Freeman and L. Soete, Technical Change and Full Employment (Oxford: Blackwell 1987); and OECD, Employment Growth and Structural Change (Paris: OECD 1985). The point can be extended into the present crisis. By the 1960s output was growing by 5 per cent but industrial employment by less than 1 per cent. So, by the 1980s, unemployment was higher at any particular level of capacity utilization. The old technological system was exhausted and increasing productivity mainly by labour-saving techniques. The wave of new vintage micro-electronics technology added to capital intensity in the most productive sectors. The demand side cuts from oil increases and government restraint meant, therefore, jobless growth, as old vintage industries developed surplus capacity and new ones lacked the demand to expand and increase employment. A major problem of structural decline may also occur, as Britain experienced under Thatcher, if restraint is pursued dogmatically.

45. J. Hudson, Unemployment After Keynes (New York: St. Martin's Press 1988), 27-35. Worker adjustment policies, such as retraining and mobility assistance speed the shift to new techniques and production zones, as the substitutability between capital and labour is not instantaneous or neutral. The massive war-time training and retraining programs and plans for reconstruction aided this process.

46. Even R. Rothwell and W. Zegveld's study of the current crisis, for example, dates the development of jobless growth to the late 1960s, but does not advance an answer beyond policies for higher growth. See: Technical Change and Employment (London: Frances Pinter 1979); and D. Aldcroft, Full Employment: The Elusive Goal (Sussex: Harvester Press 1984), Ch.4.

47. T. Weisskopf, S. Bowles and D. Gordon, 'Hearts and Minds: A Social Model of U.S. Productivity Growth,' Brookings Papers on Economic Activity, 2 (1983); idem, Beyond the Wasteland (New York: Doubleday 1984); and M. Aglietta, A Theory of Capitalist Regulation (London: New Left Books 1979).

48. D. Gordon, T. Weisskopf, and S. Bowles, 'Long Swings and the Non-reproductive Cycle,' American Economic Review, 73:2 (1983), 152. I follow here the argument suggested by Gelb, 'South Africa's Economic Crisis.'

49. M. Aglietta, A Theory of Capitalist Regulation (London: New Left Books 1979), 118.

50. M. Piore and C. Sabel, The Second Industrial Divide (New York: Basic Books 1984), 78.

51. D. Aldcroft, The European Economy, 1914-1980 (London: Croom-Helm 1978), 81; and A. Gamble and P. Walton, Capitalism in Crisis (London: Macmillan 1976), 147.

52. R. Boyer, 'Technical Change and the Theory of Regulation,' in G. Dosi, et al., eds., Technical Change and Economic Theory (New York: Pinter 1988), 82.
53. Harvey, Condition of Postmodernity, 128; and A. Glyn, et al., 'The Rise and Fall of the Golden Age,' in S. Marglin and J. Schor, eds., The Golden Age of Capitalism (Oxford: Clarendon Press 1990), 56.
54. Lipietz, Mirages, 71.
55. E. Altvater, 'Fordist and Postfordist International Division of Labour and Monetary Regimes,' in M. Storper and A. Scott, eds., Pathways to Industrialization and Regional Development (London: Routledge 1992), 23.
56. Glyn, et al., 'Golden Age,' 56-8; and Lipietz, Mirages, 36-7.
57. Lipietz, Mirages, 38.
58. Harvey, Condition of Postmodernity, 134.
59. Aglietta, Capitalist Regulation, 197.
60. Glyn, et al., 'Golden Age,' 58.
61. Glyn, et al., 'Golden Age,' 63.
62. Aglietta, Capitalist Regulation, 117.
63. Glyn, et al., 'Golden Age,' 51; and Lipietz, Mirages, 39.
64. R. Kuttner, The End of Laissez-Faire (Philadelphia: University of Pennsylvania Press 1991), Ch. 1.
65. Lipietz, Mirages, 40.
66. Jessop, 'Regulation Theory in Retrospect,' 189.
67. In other words, many studies continually shift analytical focus between modes of regulation and regimes of accumulation as a posteriori generalizations across space of the general reproductive--or macroeconomic--conditions of a historical period, and an institutionally-specific level of analysis of a social formation in historical time.
68. Jenson, 'Canada's Permeable Fordism.' This section draws on Jenson and other previous interpretations of Canada's postwar settlement, but pays more particular attention to the nature and structure of Canada's labour market and unemployment structure, employment policy regime and the relative economic decline that characterized Canada's national growth model. Also see: D. Wolfe, 'The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930-1982,' in M. Cross and G. Kealey, eds., Modern Canada, 1930-1980s (Toronto: McClelland and Stewart 1984); R.

Campbell, Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975 (Peterborough: Broadview Press 1987); and C. Gonick, The Great Economic Debate (Toronto: Lorimer 1987).

69. D. Drache and H. Glasbeek The Changing Workplace (Toronto: James Lorimer & Company 1992), pp. 11-12.

70. Wolfe, 'Rise and Demise,' Table 1.

71. See: J. Struthers, No Fault of Their Own: Unemployment and the Canadian Welfare State, 1914-1941 (Toronto: University of Toronto Press 1983).

72. Wolfe, 'Rise and Demise,' 52.

73. This is discussed in G. Albo, 'The New Realism and Canadian Workers,' in A. Gagnon and J. Bickerton, eds. Canadian Politics (Peterborough: Broadview Press 1990).

74. W. Roberts and J. Bullen, 'A Heritage of Hope and Struggle: Workers, Unions, and Politics in Canada, 1930-1982,' in Cross and Kealey, eds., Modern Canada, 112-9; and S. Jamieson, Industrial Relations in Canada (Toronto: Gage 1973), 120-5.

75. See: J. Brodie and J. Jenson, Crisis, Challenge and Change (Toronto: Methuen 1980), Ch.7.

76. Cited in Campbell. Full Employment Objective, 1.

77. Comparison of the different political forms of these settlements is found in: N. Apple, 'The Rise and Fall of Full Employment Capitalism,' Studies in Political Economy, N.4 (1980); Therborn, Some Peoples; and D. Merry and G. Bruns, 'Full Employment: The British, Canadian and Australian White Papers,' The Economic Record, 21 (1945).

78. L. Marsh, Report on Social Security for Canada (Toronto: University of Toronto Press 1975).

79. Department of Reconstruction, Employment and Income with Special Reference to the Initial Period of Reconstruction (Ottawa: King's Printer 1945); and Government of Canada, Proposals of the Government of Canada (Ottawa: King's Printer 1945). The White Paper was authored by W.A. Mackintosh, a senior advisor from Queen's University, working for the Department of Reconstruction and released by the Minister, C.D. Howe, in April of 1945.

80. Employment and Income, 1 and 3.

81. Employment and Income, 4.

82. D. Wolfe, 'The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930-1982,' in M. Cross and G. Kealey, eds., Modern Canada (Toronto: McClelland and Stewart 1984).
83. Employment and Income, 9.
84. Campbell, Grand Illusions, 47.
85. Employment and Income, 7. Canadian multilateralism stemmed from the imbalances of its trade between Britain and the U.S., and as British trade fell off it would soon be matched by bilateralism with the U.S. although still premised on a liberal trade regime.
86. Employment and Income, 1.
87. Employment and Income, 15.
88. Campbell, Grand Illusions, 51.
89. Employment and Income, 19.
90. W.A. Mackintosh, 'Canadian Economic Policy from 1945 to 1957: Origins and Influences,' in H. Aitken, et al., The American Economic Impact on Canada (Westport: Duke University Press 1959), 68.
91. The figures here and below are from: Phillips and Watson, 'Mobilization to Continentalism,' 22; R. Bothwell, I. Drummond and J. English, Canada Since 1945 (Toronto: University of Toronto Press 1981), 14; and I. Drummond, 'Economic History,' 17, 21-2.
92. Phillips and Watson, 'Mobilization to Continentalism,' 22; and Bothwell, et al., Canada Since 1945, 16-8.
93. W. Easterbrook and H. Aitken, Canadian Economic History (Toronto: Macmillan 1958), 523.
94. I. Drummond, 'Economic History and Canadian Economic Performance since the Second World War,' in J. Sargent, ed., Postwar Macroeconomic Developments (Toronto: University of Toronto Press 1986), 8 and 10. The figures below are from: Ibid., 29-30; and C. Riddell, 'Work and Pay: The Canadian Labour Market,' in C. Riddell, ed., Work and Pay: The Canadian Labour Market (Toronto: University of Toronto Press 1985), 5.
95. Phillips and Watson, 'Mobilization to Continentalism,' 42; and Drummond, 'Economic History,' 21.
96. Wolfe, 'Rise and Demise,' 60; and Wolfe, 'Economic Growth and Foreign Investment'.
97. Bothwell, et al., Canada Since 1945, 185; Phillips and Watson, 'Mobilization to Continentalism,' 34; and W. Clement, 'Canada's Social Structure: Capital, Labour, and the State, 1930-1980,' in Cross and

Kealey, eds., Modern Canada, 88-9.

98. M. Watkins, 'The Political Economy of Growth,' in W. Clement and G. Williams, eds., The New Canadian Political Economy (Montreal: McGill-Queen's University Press 1989), 30.

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100. J. O'Conner, 'Welfare Expenditure and Policy Orientation in Canada in Comparative Perspective,' Canadian Review of Sociology and Anthropology, 26:1 (1989), 143.

101. The data here is drawn from: S. Ostry and M. Zaidi, Labour Economics in Canada, Third Edition (Toronto: Macmillan 1979), 17, 109-10; Riddell, 'Work and Pay,' 5; Phillips and Watson, 'Mobilization to Continentalism,' 31; and Historical Statistics of Canada.

102. M. Watkins, 'A Staple Theory of Economic Growth,' Canadian Journal of Economics and Political Science, 29:2 (1963), 157.

103. Wolfe, 'Economic Growth,' 5. Also see: L. Pal, Keynesian Commitment, Keynesian Illusion: The Politics of Canadian Fiscal Policy, 1943-63 (Queen's University: Ph.D. Thesis 1981), Ch. 3.

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105. R. Campbell, The Full Employment Objective in Canada, 1945-85 (Ottawa: Economic Council of Canada 1991), 7.

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108. A. Plumptre, Three Decades of Decision (Toronto: McClelland and Stewart 1977), 95.

109. Wolfe, 'Economic Growth,' 6-7; and L. Officer and L. Smith, 'Stabilization Policy in the Postwar Period,' in L. Officer and L. Smith, eds., Canadian Economic Problems and Policies (Toronto: McGraw-Hill 1970), 26-30.

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111. L. Muszynski, 'The Politics of Labour Market Policy,' in B. Doern, ed., The Politics of Economic Policy (Toronto: University of Toronto Press 1985), 259.
112. Employment and Income, 18.
113. J. Montague, Labour Markets in Canada (Toronto: Prentice-Hall 1970), 190; and International Labour Office, National Employment Services: Canada (Geneva: ILO 1950). The NES adopted an important 'Statement of Employment Policy' in 1940 which stressed placement activity.
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115. J. Dupre, et al., Federalism and Policy Development (Toronto: University of Toronto Press 1973), 15.
116. Economic Council of Canada, Fourth Annual Review (Ottawa: Queen's Printer 1967), 166. Also see: D. Corbett, 'Immigration and Canadian Economic Expansion,' International Labour Review, 77:1 (1958), 23-6.
117. Economic Philosophy (London: Penguin 1962), 127.

Part 2 Toward Keynesian Employment Policy, 1956-1966

Chapter 3

Consolidation: The Maturing of the 'Golden Age' of Fordism

Capitalism has been reformed almost out of all recognition. Despite occasional minor recessions and balance of payments crises, full employment and at least a tolerable degree of stability are likely to be maintained. Automation can be expected to solve all remaining problems of underproduction.

C.A.R. Crosland¹

The fragility of the economic and political conditions necessary for rapid accumulation and high employment within capitalism make it seem remarkable that such an event actually occurs in history. Indeed, many economic histories seem to characterize the entire epoch of capitalism as one of turmoil and crisis. Yet capitalism does seem reasonably stable over long periods--such as during the nineteenth century spread of industrial capitalism--with growth successfully adding to the aggregate levels of productivity and output. The consolidation of a period of stability depends upon a set of institutional arrangements which 'regulate' the conditions for reproduction. The institutionalization of economic rules and political compromises "provide the foundation for rapid capital accumulation and high rates of profit... Although workers respond to and resist capitalists' explorations, the most promising forays, shaped by the impact of workers' struggles, are gradually consolidated."

The postwar period assumed the characteristics of just such a 'golden age' in the 1950s. Per capita incomes grew rapidly and all the major capitalist economies seemed to be moving along, quite miraculously after depression and war, a full employment growth path. Even recessions, such as occurred after the Korean War, had the effect of restoring the conditions for high employment, often with the aid of only the mildest Keynesian stimulus. The sentiments of Crosland that 'capitalism had been

reformed out of recognition' were hardly uncommon. The only task was to solve the production and distribution problems for good. The further automation of Fordism appeared to be the handmaiden for just such a process as the 1960s began.

There were reasons to doubt these sentiments. The very success of the reconstruction period had presented no severe economic challenge to the 'employment stability' conditions that seemed to be prevailing, or a test of the political commitments to full employment made by governments in the 1940s. It was not so certain, therefore, that either the technical capacity of employment policies or an actual political consensus existed to support full employment. The sharp recession that encompassed North America at the close of the 1950s unexpectedly recalled the theoretical and political questions of 'full employment capitalism'. If growth abruptly stalled would a recession soon stretch into stagnation as many Keynesians had feared? If high unemployment returned to the labour market would aggregate Keynesian policies be sufficient to maintain employment? Would a political consensus decisively support measures to lower unemployment? The virtuous circle of Fordist growth had left these questions unanswered. Even Canada, which had the worst of the depression and a notoriously weak industrial capacity, had not faced these issues. With world accumulation proceeding rapidly, high levels of employment growth were maintained with relative ease. Neither the weak postwar political commitment to full employment in Canada, nor the underdeveloped institutional structures of employment policy, proved major obstacles to sustaining low, albeit growing, unemployment. This would no longer be the case.

In this chapter, the consolidation of the postwar boom in the

advanced capitalist countries, and its North American particularities, will be presented. It will be argued that by the 1950s a unique North American experience of central Fordism could be discerned as a continental bloc began to form and relative economic decline began to take hold. The market-led growth process in the two countries--with growth coming from both advancing productivity and expansion of the size of the market--provided little in the way of industrial policies to maintain relative competitiveness, relying instead on high unemployment and low inflation relative to the rest of the world. The 'limping golden age' conditions of North America provided significant constraints on employment policies.

The unique features of Canada's boom also raised specific labour market pressures. As we shall see these pressures took the form of a shift in the occupational and industrial composition of employment that raised the issue of national skills development to fill the technical jobs generated by automation. The initial signs of a 'polarizing crisis of unemployment' could also be perceived: some regions and age groups were suffering from rising unemployment, while others had 'full employment'. Already by the 1950s, then, a short period upturn in unemployment in Canada was being converted into a secular problem of unemployment--a consistent failure of employment growth to match that of the labour force over the course of the economic cycle.

Finally, the political conjuncture of the 1950s can also be seen to symbolize the consolidation, as well as the weaknesses, of the boom in Canada. Despite changes in the governing party (from the Liberals to the Tories and back again) the structure of Canada's export market-led growth strategy remained virtually untouched. Political uncertainty and domestic

reaction to international developments in this period if anything strengthened the orientation to 'external regulation' of domestic growth and employment conditions. The labour movement gained organizational strength in this period, but suffered from the political weakness caused by high unemployment. The newly formed Canadian Labour Congress (CLC) continued to be, however, the primary voice for more active Keynesian employment policies. The consolidation of Fordism in Canada, therefore, would present few political resources, given the weakness of the labour movement and many economic obstacles to containing the capitalist unemployment problem and to forging an employment policy regime capable of reversing Canada's relative economic decline or controlling the market.

3.1 The Maturing of the Golden Age of Fordism

The capitalist world had reached a major turning point by the end of the 1950s. Postwar reconstruction had been successfully completed with economic growth being sustained at unprecedented levels. An optimistic air prevailed that the economic problems which had beset the interwar period were now gone. The maturing of the boom appeared to promise the withering away of class conflict, as levels of income and employment continued to advance. Yet, even as these views gained currency, stresses within this 'mature' phase of postwar growth began to appear in Canada.

The exceptional postwar economic dynamism of the advanced capitalist countries was interrupted briefly by the slowdown of 1957-61 before setting a rapid pace again in the 1960s. The weight of the U.S. economy in the world economy meant that it was the determining case- its average growth fell in 1956-61 to only 2.4 percent and then climbed to 5.4 per

cent from 1962-66. Two features of accumulation in the 'golden age' were notable.

A relative desynchronization of the industrial cycles of the advanced capitalist countries could be observed. All the major countries registered a recession in rates of expansion in the late 1950s, many due to demand restraint imposed in 1957, but the slowdowns tended to occur at different points in time. North America had reductions in output growth in 1957-58 and 1960-61, for example, while Germany and Japan underwent declines in 1958 and 1962-63 respectively. The temporal differentiation of business fluctuations maintained a stable external demand which, in turn, mitigated national industrial cycles.³ This tendency, however, held to a lesser extent in North America where cyclical movements in production were more pronounced and frequent. The articulation of the Canadian economy to the U.S. economy had, moreover, evidence of a contrary tendency of increasing convergence of economic cycles. This was significant for the Canadian economy as the tendency toward 'external regulation' would evolve to expose many of the contradictions of employment policy.

Second, among the largest capitalist countries, two groups could be observed: a slow growth group composed of the Anglo democracies and a high growth group made up of the larger West European states and Japan. This process--what Alain Lipietz has called 'differentiation and catching-up'--was important. Except in the initial recovery phase from the 1960-61 recession, the second group of countries substantially outperformed the Anglo group, altering the relative weights of the various states in the world economy. In the nascent continental blocs, the dynamic growth poles were beginning a shift to new centres in Europe and Asia away from North

America. Even as growth again surged in the 1960s, American (and Canadian) productivity growth rates remained low relative to Europe, where the expansion continued to be dramatic even as the average number of hours worked declined.⁴ These trends would begin to form important competitive constraints on production and employment in North America in the 1960s.

Within the two long term movements, specific trends also marked the mature phase of Fordism. First, while the investment share in total output fluctuated, particularly in the late 1950s, it continued to move upward till the mid-60s. West Germany, for example, had a rising share of investment in GDP over the entire period, while Britain had a low overall rate, but a rising share over the period.⁵ The trend rates of growth of fixed capital formation, however, had already begun to slow during this period.

Fixed capital formation means investment in actual plant and technology and, consequently, changes to the labour process. Maurice Dobb pointed out at the time that the investment surge had its source in "a movement towards automatic control of work processes which has constituted something of a technical epoch."⁶ The new capital-intensive processes, although varying in each national case, resulted in an increase in output of production goods and a capital deepening of consumer goods sectors. The rising capital intensity was offset by rapidly increasing productivity which managed to keep capital-output ratios low, and thus contributed to the stable profit rates across the core countries of central Fordism.⁷

Second, the rapid accumulation of means of production contributed to the general tightening of labour markets. This entailed quite divergent experiences. Tight labour markets prevailed in most of Western Europe and

Japan as the surpluses of labour-power available at the end of the war dried up. Rates of unemployment even dropped below one per cent in Japan and West Germany during the 1960s. Favourable demographic conditions, however, prevented a shortage of labour-power from developing. The sources of workers varied: agricultural labour was released to the urban labour market (a process slower in Europe and Japan than in North America); both population and participation rates increased; and large numbers of immigrant workers from the southern cone of Europe flowed north.⁶ The North American experience already featured notable divergences that appeared to be systemic. Unemployment persisted at virtually double European rates. Given the dominance of the capitalist sector in the overall economy, North American unemployment was also more frequent, cyclically-variable, and severe for workers. The rates of unemployment reached postwar highs during 1957-58, and receded only with the expansion of the mid-60s.

Finally, in an isolated experience of the entire postwar period, the recovery of growth levels was coupled with remarkable price stability. Prices decelerated from the Korean war boom to about 1959, and even as prices moved ahead in the 1960s expansion, inflation remained at postwar lows. Inflation generally stayed below three per cent in the OECD area, with North America experiencing even greater price stability. Remarkably, concern about inflation was still widespread, and governments committed themselves to fighting the inflation bugbear.⁷ With the slowdown in investment and slack labour markets, particularly in North America, it could only be weakly argued that expansionary policies would be inflationary. Behind the anti-inflation stance lay the failure of Keynesian

prescriptions fully to permeate economic policy thinking during the reconstruction period.

Trade Within the Capitalist Zone

In comparative terms, accumulation of the 'golden age' remained 'internally-driven' by the growth of the domestic market for consumption, and, particularly, by the increasing investment share transforming production processes.¹⁹ Yet this dynamic internal process of growth contained within it an evolving external trade challenge (and ultimately a contradiction for national economic stability). It was principally the extension of mechanisation that substantially increased productivity and potential capacity output which was the cause of this development. Larger production runs, therefore, sought out markets. Even if domestic consumption absorbed the greatest portion of annual output, the relative specialization of production enabled substantial export positions to develop. In a sense, the growth of trade became an outward sign of the internal dynamism of Fordism. The increased export shares in production began the process of linking trade and employment - becoming the focal issue for adjustment policies - as uncompetitive sectors faced stiffened import competition.

The structure of postwar trade had by now crystallized into several important tendencies, all of which would come to play a constraining role on national employment policies. The growth of world trade logged exceptional rates of growth of over eight per cent per annum.²⁰ The growth was dominated by trade amongst the core capitalist countries, standing at 33 per cent of world trade in 1953 and rising to 52 per cent by 1970. In contrast, exports to the South and to the centrally planned

economies grew moderately, remaining at about 2.5 per cent of OECD GDP over a similar period.¹² Indeed, the only markets with adequate levels of income to absorb the output were the other advanced capitalist countries (reversing the tendency to market penetration of the South of the classical age of imperialism). Export growth was intertwined with the dynamism of Fordism: trade in manufactures consistently grew at rates more rapid than total trade and the rate of growth in manufacturing production. Within the advanced capitalist bloc, exports of manufactures stood at \$16.0 billion in 1955 and doubled to \$34.3 billion by 1963 (in 1955 \$). The low price of energy and favourable terms of trade sustained the growth of the leading Fordist sectors: mass consumer markets spread more deeply and evenly over the upswing from the late 1950s recession. In other words, the expansion of the domestic production base had its complement in the ability of export markets to absorb a proportion of output beyond internal demand without falling into competitive deflation.¹³

Underlying the expansive trend in trade, the differentiation of national growth rates found a parallel in the shifts of export market positions. By the early 1960s it was already clear that Japan and West Germany had turned into dynamic export-oriented industrial economies. Both states, and Italy to a degree, had become chronic surplus countries. While the German share of world trade stabilised in the 1956-66 period, the Japanese and European shares continued to gain. The Japanese case was notable. In the late 1950s Japan accelerated its strategic adaptation of 'best method' foreign technology. By 1961 40 per cent of its capital stock was less than five years old. Additionally, the rapid accumulation of means of production was coupled with an anti-union offensive which

broke the back of the last of the militant unions left from the war. The ground was prepared for the Japanese export drive of the 1960s.¹⁴

The strength of Germany and Japan implied a declining relative position for the other capitalist countries, particularly the slow growth Anglo group. This was indeed full of irony: Britain, the U.S., and Canada had fought for a multilateral trading system, but were benefiting least as trade expanded. The British decline was by now chronic and its sliding share of world trade could be predicted even by the most inattentive commentators. The erosion of the U.S. economy from the preeminent trade position it had obtained during the war was, however, unexpected. As import penetration of the U.S. remained slight in the early 1960s, its weaknesses lay in the structure of manufactured exports. Two contradictory features stood out. On the one hand, a long term deterioration in the trade balance of consumer goods was evident; on the other hand, the overall U.S. trade surplus was dependent upon capital goods exports which contained best production norms. These norms became systematically integrated in Europe and Japan, preparing the production base for U.S. competitors.¹⁵ The Canadian weakness was linked to the U.S. position but had its own distinctive features. Canada's relative share of manufactured exports declined over the entire conjuncture, before reversing itself. In the mid-60s Canada had a secure export position in the U.S. market and this help to consolidate a key component of Canada's trajectory of dependent development.

The Dollar and International Liquidity

Alongside the growth of intra-capitalist trade of the core countries, the direct penetration of national markets by productive investment

signalled an accelerating internationalization of capitalism. This was, of course, the re-emergence of the tendency for capital to extend beyond single states. Despite torpid levels of domestic investment, U.S. capital led the wave of foreign direct investment more than doubling from \$19.5 billion in 1955 to \$49.5 billion by 1965. This represented a shift, moreover, in the distribution of U.S. investment from Canada, and particularly Latin America, to Europe. The number of U.S. multinational affiliates in Europe stood at 2236 in 1950, 2654 in 1957, and had reached nearly 9000 by 1966.¹⁶ The outflow of long term capital was a key factor, besides U.S. military expenditures, in providing both dollar liquidity and pressure on the U.S. payments position. The spatial extension of U.S. capital served as the stimulus to the so-called 'American Challenge' which riveted Europe during the mid-60s.

The spread of U.S. hegemony tells only one side of the story, however. While preserving markets for U.S. capital, the investment dispersed the most advanced techniques of Taylorism and Fordism. This had a dual, and somewhat contradictory, effect. First, to the extent the investment drove up productivity levels, it strengthened the position of these capitals relative to capital in the U.S. Second, it made it imperative that these states either increase exports or establish overseas production to maintain markets and offset American gains. As an export strategy alone would require Europe to run massive and unsustainable current surpluses, an offensive European strategy meant a parallel expansion of direct investment overseas.¹⁷ This strategy had, in fact, already started. European direct investment in the U.S. climbed from only \$0.7 billion in 1955 to \$1.5 billion by 1965.¹⁸ In contrast, Canada continued

to occupy a place as a leading capital exporter (of funds back to U.S. investors), but Canadian direct investment abroad only grew moderately in this period. Together these diverse movements increased the vulnerability of the U.S. in the long run, preparing the base for intensified international competition between strong national capitals in the 1970s.

Major developments in trade and payments policies gave a significant impetus to the internationalization of capital. The 1958 formation of the European Economic Community (EEC) is estimated to have increased intra-European trade by 25-35 per cent. Whilst the EEC had U.S. support, the weak U.S. trade balance also led to efforts to reduce restrictions on U.S. exports to Europe. The Dillon GATT round of 1958-61 attempted to reduce the Common Market's external tariff. This failed to occur and the U.S. passed the 1962 Trade Expansion Act broadening its authority to negotiate tariff reductions, which eventually provided the impetus to the multilateral approach of the Kennedy GATT round launched in 1963.¹⁹

The pressures favouring trade expansion and capital mobility would have come to nought if international means of payment was lacking. Favourable developments within the confines of Bretton Woods bolstered international liquidity. The European move to full currency convertibility in late 1958 substantially eased restrictions on the flows of commodities and capital between non-dollar countries. Furthermore, a new unity of the Atlantic bloc was now provided by a single market in foreign exchange with locations in the City of London and New York.²⁰ The massive outflow of U.S. funds replaced the dollar gap which had plagued the reconstruction phase with a dollar glut. By the early 1960s, U.S. dollar liabilities exceeded U.S. holdings of gold and currency. As a result the

international monetary constraint was lifted thereby assisting an increase of trade flows. Between 1956 and 1962 Europe removed import quotas on dollar goods. Further 'catching-up' of the European countries was bolstered as they were no longer so dependent on the U.S. running a trade surplus to supply the international currency. Indeed, already by 1963 Europe was assisting the U.S. in its payments problems.²¹ The multilateral world of capitalist competition and co-operation had arrived.

It needs to be emphasized that the new fluidity in international money markets exacted a heavy toll on its participants from the outset. Convertibility increased the monetary instability of the fixed exchange rate regime. Central banks were mandated a key mediating role between international monetary restrictions and domestic economic conditions. In the case of Britain, sterling faced devaluation as its decaying competitive position produced chronic and volatile trade problems. Through the 1960s speculation against the pound was rampant even as the Bank of England attempted to preserve the value of the currency. In contrast, the strength of the German recovery led to pressure for revaluation, and as early as March 1961 a series of appreciations began.²²

At the same time the contradictory role played by the U.S. dollar was becoming more acute. With the chronic payments deficits necessary for international liquidity leading to a dollar glut, the exchange rate of the dollar in terms of gold became more difficult to defend. By 1960 a large reduction in U.S. gold reserves was occurring as Europe adjusted the composition of its holdings. Yet the ability of the U.S. to devalue to correct the payments position was cut off for this would abrogate the exchange rate system built around the dollar.²³ As for further increasing

the U.S. trade surplus, this would destroy the competitive position of other countries and spark retaliation. Thus a series of remedial measures to stabilize international reserve holdings--the Roosa bond swap, a gold pool, the General Agreement to Borrow--by soaking up excess dollars or stopping gold convertibility became favoured options. By 1963 these efforts had failed, and more direct measures to control capital movements, which were at the hub of the U.S. deficit problem and had significant implications for Canada, became the least-favoured yet only option. In July 1963 the Interest Equalization Tax was imposed to limit the sale of foreign bonds in the U.S. By 1965 further steps were taken to restrict the flow of U.S. foreign direct investment by voluntary restrictions on banking and corporate transfer of funds abroad." These steps did little, however, to remedy the U.S. external position, nor could they without reversal of the U.S. political position on open capital markets and its foreign military role. These pressures would persist and eventually explode the payments system based on the hegemony of the dollar in the 1970s.

The American decision to maintain the value of the dollar compounded the lack of resolution in terms of domestic policy. Even as unemployment rates soared, the U.S. continued the tight macroeconomic policy of the early 1950s through to the mid-60s, only easing with the Kennedy tax act and the bulging expenditures for the Vietnam War. Over the entire Eisenhower administration price stability was the paramount objective. Even as unemployment climbed above five per cent in the 1957-58 recession, government purchasing was only stepped up during 1958, and just as quickly curtailed in 1959 at the first hint of recovery. With sluggish private

investment, and monetary policy held tight to fight inflation, demand conditions worked against the lowering of unemployment or pushing accumulation above the 2.5 per cent average of 1957-62.²⁵

The lethargy of the Eisenhower regime contrasted with the 'activism' of the Kennedy administration. In domestic policy, the effort to finally launch a vigorous Keynesiansism was the touted goal. The Keynesiansism was still narrowly defined, however, as aggregate monetary and fiscal policy adjustments for capitalist sector led growth. Walter Heller, chief economic advisor to the Administration, summarized the thinking behind the Keynesian reflation:

The term 'full employment' stands as a proxy, as it were, for the fulfilment of the individual as a productive member of society for the greater equality that grows out of giving every able-bodied worker access to a job, and for national determination to demonstrate that a market economy, based on freedom of choice, can make full and productive use of its great potential.²⁶

The Kennedy economic policy set out to accomplish a great deal: driving up the rate of economic growth was meant to add to the economic and military strength of the U.S. as well as eliminate slack in the labour market. The timing of the U.S. policy shift was propitious given the unutilized capacity and favourable international conditions. Although economic conditions remained weak in 1960-61, private sector investment recovered from 1961-66 and pushed average growth in real GNP to over 4 per cent per year.²⁷

If it is unclear the extent to which the American recovery was demand-led, there can be little doubt that a Keynesian style reflation gave the recovery its broad and lasting dynamism.²⁸ It should be noted, however, that the reflation had two special traits. Stimulus was

initially focused on bolstering business investment by accelerated depreciation and the Kennedy general tax cut of 1963. This market-led approach had the favour of U.S. capital and conservative Democrats. In the mid-60s, government expenditures were expanded in a 'war on poverty' pushed by the Great Society coalition backing President Johnson adding a redistributive dimension to the stimulus. Yet even as these fiscal measures converged with the escalation of the Vietnam War--the issue which would eventually fracture the coalition--unemployment dropped below 5 per cent only in 1965. An economic boom, in favourable external conditions, was still leaving a significant unemployment problem--a key feature of the 'North American model' during the postwar period.

The 'Limping Golden Age' of Fordism in Canada

The international developments of central Fordism placed Canada in a precarious position. The formation of the EEC threatened the loss of Canada's European and British markets. The effort to bolster the U.S. dollar jeopardised Canada's privileged access to the U.S. market. Even with the international monetary constraint lifted, Canada's industrial weaknesses made it ill-placed to take advantage of the expansion in trade outside of resource exports to the U.S. Further economic integration with the U.S. to preserve market access would, however, have contradictory impacts. The U.S. market was massive and lush, but the American economy was accumulating comparatively slowly. Canada's narrow room for national regulation of employment conditions, moreover, would suffer further loss as its economic structure became more extroverted and dependent on a single external market.

These international constraints helped consolidate the postwar

trajectory of the Canadian economy as part of a relatively slow growth North American bloc. In historical terms, accumulation continued to be dynamic, averaging about five per cent per year from 1956-66, allowing Canada to 'catch-up' with the U.S. Yet Canada began to slide further behind the rates of growth and productivity of the other countries of central Fordism (except for Britain). One reason was that Canada's accumulation tended to be relatively extensive--built on resource rents, capital inflows and rapid labour supply growth (as we show below). Growth came almost as much from the extension of the market as productivity, so that output in per capita terms over the entire boom actually lagged behind even the weakest advanced capitalist countries.²⁹ The advance of productivity securely placed Canada's 'limping Fordism' in the bottom rung of the core countries, leaving it particularly vulnerable to any slowdown in capitalist sector growth and competitive trade pressures.

Although Fordist regulation tended to stabilize yearly production volumes, serious slowdowns still occurred (apart from extensive growth). Indeed, as the dominant capitalist sectors remained dependent on resource exports, Canadian recessions still tended to be quite pitched. Between 1956 and 1958 industrial production virtually stagnated, for example, before growing by almost half in the boom of the mid-60s. Two factors were crucial to the cycle--domestic investment and external markets. By 1956-57, the initial reconstruction boom, after being sustained by the Korean War, was spent. With the U.S. going into recession Canada followed. Real fixed investment fell from about 22 per cent of GNP in 1957 to 17 per cent in 1961.³⁰ In contrast, several influences converged to provide an unprecedented recovery: the dramatic 1962 devaluation of the

Canadian dollar; massive grain sales to the Soviet Union and China; and the U.S. swing to an expansionary stance. These factors provided an export base which allowed Canadian total and manufactured exports to grow faster than world levels between 1962-65. With profits growing by 12 per cent in 1963 and 21 per cent in 1964, gross capital formation grew at 10.1 per cent per year over the expansion to 1966.³¹ The production cycle provided the underpinning to the ebb and flow of employment levels.

The boom in trade reflected the solidification of a sectoral and spatial concentration of trade flows with the U.S. This trade dependence defined, by and large, Canada's current account troubles. The management of Canada's external relations would come to plague the Canadian economy and constrain the manoeuvrability of employment policy through the 1960s.

The unevenness of Canada's trade was reflected in the shifting composition of trade patterns. As a share of world exports, Canada's trade position deteriorated slightly from 4.7 per cent in 1955-59 to 4.3 in 1960-65 as accumulation proceeded more rapidly in markets in which Canada was shutout.³² Canadian exports remained composed of basic material and processed commodities, but there was now the first signs of a component of 'highly manufactured goods' in exports. These manufactures depended especially upon military and automotive trade, and leapt from about 6-11 per cent of exports in the mid-50s to 17 per cent by the mid-60s. Indeed, these two sectors were central to the pattern of increased Canadian exports to the U.S. and the decline of Atlantic trade flows (though the EEC now exported more to Canada). A notable trend also had its origins here: Japan appeared as an emerging trading partner in the Pacific.

The trade shifts did little, however, just as they would not in the future, to settle Canada's current account deficit, which averaged 3.7 per cent from 1956-61. With commodity prices falling, the terms of trade turned against Canada, the trade index falling from 100 in 1953 to 92 in 1963. The reliance on capital goods imports from the U.S. meant that the deficit primarily existed in trade with the U.S.³³ This inevitably forced harsh choices on foreign economic policy. During the reconstruction phase, the Canadian state pursued a strategy of 'selective liberalization': reduction of tariff barriers in industrial materials and foodstuffs where Canadian exports were strong, and selective reduction for protected manufacturing industries.³⁴ This strategy formed the basis for Canadian multilateralism; in practice, however, it had evolved into a 'selective bilateralism' with the U.S.

The dynamic of Canada's trade relations were made clear in two critical areas. Even though the 'dangers' of trade dependence were often noted, neither the Tory nor Liberal regimes had a strategy to diversify the Canadian export base and expand trade with the FEC or Japan. The lack of a trade strategy meant that by default individual Canadian companies and industries sought accommodation with the U.S. This point needs to be stressed for it installed an important dimension, which would grow stronger with time, to the articulation of the two economies. In a few areas, Canadian manufactured goods were securing an export position in the U.S. Although not exclusively, sectoral agreements rationalizing production on a 'bloc basis' were the key. In 1958 the Defence Production Sharing Agreements were signed with the U.S. This permitted Canadian capital producing arms to share in orders from American military con-

tracts. The Auto Pact signed in 1965 was even more significant. Although it provided for specific national production guarantees, the Pact created a single market in auto trade by eliminating duties on vehicles and parts.³⁵

Since the 1950s the capital inflows to offset the current account deficit had come from the U.S.--in effect the U.S. covered its own trade surplus. It was these capital inflows that made Canada the case par excellence of capital penetration. If solving one problem in the short run, it created two others: Canada was left vulnerable to changes in U.S. policy on capital exports, and capital inflows, in turn, generated larger outflows of interest and dividend payments. Yet the longer the current account deficits mounted, the denser the financial ties became, and the more difficult it became for Canada to extricate itself from dependence on the U.S. Whenever the U.S. took action to remedy its decaying payments position, the restrictions on capital outflows or trade sent the Canadian state scurrying for a special exemption, which further consolidated dependence. In the early 1960s, exemption was sought from the U.S. Interest Equalization Tax to allow capital inflows into Canada to continue by tying the inflows to coverage of the U.S. trade surplus with Canada. The exemption came--as they always do--with a significant condition. A ceiling was to be kept on Canadian reserves above \$2.7 billion. In effect the trade surpluses that Canada ran with third countries, which would increase reserves, had to be used to cover the U.S. balance. The consequence was that Canadian monetary policy and interest rates were tied more exclusively to the U.S. domestic situation.³⁶

In the short run, dependent accumulation did not severely constrain

employment policy in Canada. Indeed, the ties to the U.S. provided a ready market for certain goods and, when the U.S. economy began expanding, allowed the Canadian economy to hitch on to the boom. The consequences in the longer term were neither as clear nor as favourable. Particular capitalists could benefit a great deal to the extent they could penetrate the U.S. market but Canada as a whole would lose policy manoeuvrability to the evolving trade bloc." The structure and level of unemployment in Canada would consequently become increasingly defined by the economic policies and market forces operating in the U.S. As long as Canada's competitive position kept skidding, it would be more difficult to contain unemployment the more markets became internationalized. At the least, the Canadian external position and the liberal foreign economic policy would more frequently be in conflict with the needs of the domestic economy, particularly support for employment. Yet this was for the future. For the present period the important obstacles to defining a national employment policy were to be located primarily in the domestic sphere.

3.2 Unemployment and Skills in the Labour Market

The Canadian labour market profile vividly depicted the composition and cyclical movement of accumulation over the 1956-66 conjuncture. Several features stood out. The intensification of mass production and technological change dramatically altered the composition of employment between industries and occupations. This had the effect of differentiating the processes of skilling for different sections of workers. As well, unemployment moved in a strongly pro-cyclical direction, although it remained stuck at high levels even during the upswing of the early 1960s.

Finally, during the second phase of 1962-66, the tightening of the labour market became coupled with militant collective bargaining by workers. These pressures served as the catalyst sparking the Canadian state to adopt a more active labour market policy.

Labour Supply Growth and Employment Pressures

By the late 1950s it could hardly be a discovery to observe that the pace of growth of the Canadian labour force was placing an arduous burden on employment growth. The modest average annual growth rate in the labour force of 1.6 per cent from 1946-56 was easily eclipsed by the 2.6 per cent rate for 1956-66. The pace of growth, moreover, while moderately procyclical, accelerated through the mid-60s.³⁸ The sources of growth were significant. The initial postwar period had relied on net immigration as the principal component of labour force growth.³⁹ In contrast, aside from the large influx of refugees from Hungary in 1956-57, restrictions of immigration levels led to a dramatic curtailment in the numbers of immigrant workers entering the labour market.

The increase in labour force growth from domestic sources had two aspects. The number of new entrants into the labour market expanded rapidly as the initial cohort of the baby boom became of labour force age. The average annual increase of youth in labour force trebled from 1.0 per cent for 1951-56 to 3.1 per cent for 1956-66.⁴⁰ Second, the total participation rate edged upwards steadily over the period, locking in a series of trends which would receive a great deal of attention through the 1970s.⁴¹ The gender composition of participation trends was significant. Male participation rates continued to slide, falling by about 4.5 per cent; at the same time, the female rate had increased by almost 8.0 per

cent by 1966."² The change in activity rates was composed of declines in older male workers as an age 65 retirement norm spread, younger workers staying in school, and increases in the number of married women active in the labour market."³ These movements reflected long term structural changes in the labour market. They also had important interpretive implications for stabilisation policy. The pro-cyclical movement of participation rates suggested a discouraged worker effect; on the other hand, the increase in female participation rates indicated an additional worker effect."

The acceleration of the pace of labour force growth from 1956-66 put severe pressure to maintain the level of employment growth in Canada. This should be assessed cautiously, however, and not taken as an immediate explanation for the deterioration in unemployment. Other countries, particularly Japan, also had rapidly increasing labour supplies into the 1960s, as well as higher participation rates for women and youth, yet they managed to maintain substantially lower rates of unemployment."⁴ Labour force growth fell off as employment contracted in the recession years of 1957-61. Furthermore, the magnitudes of growth reflected particularities of the Canadian labour market. The overall participation rates still lagged behind the levels of the 1930s and during the war, and female activity rates in Canada remained well below other capitalist countries including the U.S."⁵ A significant portion of the rapid growth, therefore, had much to do with easing historical constraints on the labour supply. In this sense, the increasing activity rates and the shift to domestic sources of labour-power were bringing Canada in line with norms across the capitalist bloc."⁶ A rapidly growing labour supply, moreover,

had also long been part of the Canadian model of extensive accumulation by building up the size of the domestic market. The crucial question was whether Canadian employment policy could accommodate these processes or, alternatively, contribute to the transition to a more intensive form of accumulation.

Despite the supply side pressures, the pace of accumulation maintained employment growth close to labour force growth preventing mass unemployment from erupting.⁴⁸ Yet--and this qualifies what has often been interpreted as a general condition of the golden age of Fordism--Canadian employment growth consistently fell short of the growth of the numbers of workers actively seeking work. Thus the unemployment rate in Canada had a secular tendency to increase over the entire period of Fordism.⁴⁹ And even as total employment expanded, part-time employment began to increase its share.⁵⁰ The secular growth of labour reserves meant that labour markets were not 'clearing' in the neoclassical sense well before the 1970s in Canada.

A widely commented upon tendency was the shift in the sectoral distribution of employment as postwar accumulation advanced.⁵¹ The salient transformation was not, as yet, the decline of manufacturing employment: its share fell only slightly to about 40 per cent of total employment over the conjuncture (although markedly declining in the recession of 1957-61). Rather, the unremitting decline in the primary industry share, particularly agriculture, was coupled with an expansion of the service sector, which was now the largest share of total employment. Indeed, by the 1960s Canada had transformed itself into one of the most urban and proletarianized social formations, with the labour force remaining in

agriculture lower only in the outstanding cases of Britain and the U.S. In the Canadian case, however, the latent reserve in rural areas fuelled less the spread of industrial employment than the expansion of circulation and distribution based activities.⁵² The so-called goods to services shift in Canada was thus composed almost entirely of the decline in agriculture and the spread of public and private services.

The specific industry shifts mirrored these general trends. Agricultural employment declined virtually unheeded over the period. The mining industries as a whole fluctuated widely, but with a slight downward employment trend indicative of the declining importance of the staples industries for employment (if not for exports). The downward trend was consistent for fishing, trapping and forestry, and sharply cyclical for mining of minerals, which saw rapid growth in employment with the 1960s upswing of secondary industries. In contrast, the average share of manufacturing employment declined by about 1.0 per cent over the period. Yet manufacturing as a whole remained the single most important industrial sector for employment.

The industry trends suggested an important conclusion. The continuous application of automated technologies eroded the labour absorption capacity of manufacturing as output expanded.⁵³ The extension of tertiary industries had become critical, therefore, to the level of total employment: indeed, services supplied a remarkable 84 per cent of employment growth from 1956-66. While the rate of expansion of service industries moved cyclically, growth in government employment, and financial and commercial services, was considerably above the overall rate of employment growth.⁵⁴ The industrial composition of the demand for labour clearly

indicated that the employment dynamic depended upon the balance between production jobs concentrated in mass production industries, and the growth of service sector jobs concentrated in the spheres of circulation and the state.

The impact of the changing occupational composition of capitalist industry, as Fordist production techniques deepened, became the centre of heated debate through the 1950s. At the core of the dispute lay apparent contrary tendencies. The proportion of the labour force dependent upon waged labour was increasing, and thus becoming susceptible to unemployment; yet there also appeared to be new technical skills developing and consequently a differentiation of occupational structures.⁴ The dispute over the growth of technical skills had two aspects. The expansion of the spheres of circulation and distribution increased the occupational employment of these sectors. In the grossest sense, the ratio of non-goods producing workers to goods-producing workers increased as the share of resources expended in planning, supervision, finance, and services grew. This employment increase contrasted with the contraction of occupations in agriculture, mining, and transportation.⁵

Additionally, the extension of Taylorism through automation within the core Fordist industries further rationalised production knowledge directly into machines. The differentiation of skills within individual branches of industry which resulted from this process had three characteristics: the separation of conception from execution led to the swelling of engineering and organizational occupations; technical and skilled workers with specialized knowledge of automated production expanded; and, although much ignored, the relatively unskilled jobs of execution, assembly, and

materials handling proliferated."

This shift can be broadly seen in occupational growth trends. Non-goods producing occupations contributed almost 87 per cent of overall employment growth. Particularly rapid growth occurred in the highly qualified professional and technical group (the so-called 'good jobs' which characterized one aspect of Fordist labour processes). The rapid increases in services, clerical, and sales drew heavily on female workers for relatively unskilled tasks.⁵⁶ The contribution of goods-producing occupation to overall employment growth was positive, although only a modest 13.3 per cent for the period. This included, however, quite divergent trends. While occupations in primary sectors were declining, craftsmen and production process occupations--still the largest contributor to overall employment--had a trend growth rate of only 3.9 per cent per annum. The growth in manual workers, and that of the unskilled labour group, was contrary to the common notion that automation was abolishing the working class. Rather, the capital-deepening of the Fordist technological paradigm was causing an occupational differentiation of the labour market."

Creeping Unemployment in Recession and Boom

By all accounts employment growth in Canada was impressive even with the slowdown. Yet substantial slack in the labour market remained, indeed, unemployment became more acute as Canada's 'limping golden age' matured. The secular trend highlighted that even in a period of stability and buoyant growth, Canada's accumulation process and institutional structures of employment policy could not contain the unemployment pressures generated by the capitalist market. The expansion of employment was

persistently lagging behind available supplies of workers. The average rate of unemployment over 1956-66 was 5.3 per cent, substantially above the 3.2 per cent of the prior period.⁶⁰ The duration of unemployment and the average vacancy ratio deteriorated considerably over the cycle, again indicative of the general problem. The rise in unemployment was critical in two respects: the recurrence of large numbers of unemployed sustained pressure for measures to support employment; and, second, a disconcerting upward drift in unemployment could be discerned. This tendency to "creeping unemployment" in Canada was pointed out by the Special Committee of the Senate on Manpower and Employment: "In each successive recession the percentage of people out of work has been higher than in the preceding recession, and in each period of recovery the minimum level has been higher than the preceding minimum."⁶¹ It was these secular trends that gave the debates about the 'unemployment problem' a prominent place in the political landscape of the early 1960s in Canada.

Although the secular trends indicated the long period unemployment problem beginning to develop in Canada, the trends were also linked to specific developments in each conjuncture. Notably, the cyclical economic swings tended to add permanently to the unemployed numbers and to the polarising features of Canadian unemployment. As levels of output fell during 1957, unemployment began to rise, attaining an average rate of 7.0 per cent in 1958 before dropping slightly. With the recession of 1960, unemployment reached a high of 7.1 per cent in 1961 before falling through to 1966 as economic growth again surged forward.⁶² The incidence of unemployment among workers also revealed important qualities of polarisation. The rate of unemployment among youth shot up during the

1957-58 recession and remained high; at the other end, unemployment also fell heavily on older workers. The rate of unemployment for males was conspicuously higher than the rate for females over the entire conjuncture, the low rate for women reflecting their segregation into service occupations and the home.⁶³ The unevenness of capitalist development meant that unemployment rates tended to be greatest where the development of industry was weakest. Except for resource-dependant British Columbia, which experienced wild swings in unemployment, the rates of unemployment remained consistently high for the Atlantic region and Quebec even as they varied over the cycle.⁶⁴

The structure of unemployment had two additional features which were important to the period. Canadian industry at the time, particularly construction and resources, remained susceptible to weather conditions which made for large seasonal swings in the ranks of the unemployed. As well, workers with lower levels of education and in technologically backward industries and occupations experienced disproportionate levels of unemployment.⁶⁵ These distinct problems figured prominently in the labour market policies of the late 1950s in response to the unemployment crisis.

From Defensive Consolidation to Wage Militancy

The cyclical movement of unemployment left its mark on the aggregate processes of wages formation. As the reserve army replenished itself in the recession of 1957-58, real wages fell below trend, revived briefly, then dropped again in the heels of the 1960-61 recession, before following the boom upwards. Yet even as the growth rate of real wages moved procyclically, wages preserved a notable stability and narrow dispersion across the cycle, contributing to the 'Fordist regulation' compressing the

amplitude of movements of output. Although money wage gains moderated from 1956-61, they accelerated after that as the labour market tightened. The aggregate wage trends in this period appeared to clarify an important relationship between the tightness of the labour market and the rate of change in money wages. This alleged empirical tradeoff between unemployment and inflation became renowned as the Phillips curve, and seemed to capture the dilemma that faced Keynesian employment policy.⁶⁶

The trend of collective bargaining outcomes maintained a relative ratcheting of real wages in line with productivity trends.⁶⁷ Productivity growth, however, continued to move slightly ahead of real wages over the cycle. Two periods were notable exceptions. At the outset of the 1957-58 recession, real wage gains substantially outstripped the productivity advance due to the decline in output levels. In contrast, by 1965 money wage gains were moving ahead rapidly, at a time of moderate inflation and slowing of productivity growth as high capacity levels were being reached, temporarily shifting the distribution of output in favour of workers. These exceptions did not, however, undermine the pace of accumulation in this period. The trend rate of productivity remained strong and when combined with falling real unit labour costs, the material conditions for the 1960s investment explosion were in place.

Two specific features of the wage structure also proved critical to the developments of the 1960s, as they contributed to destabilising the wage norms underpinning Fordism. As unemployment levels increased after 1956, the marginal narrowing of wage differentials over the prior period was reversed. This occurred on two levels (and paralleled the fragmentation of the Fordist labour process). The differential between skilled and

unskilled workers increased, as did the earnings differential between office and supervisory labour and production workers. This gap provoked shopfloor workers to push hard for wage gains when unemployment eased in the 1960s.⁶⁸ Second, while the labour share of national income in general moved counter-cyclically, it was also quite clear that by the mid-60s an increased share was being claimed by wages and salaries even as output expanded.⁶⁹ In other words, as Fordism matured the distributional struggle between the social classes became a point of concentration of its internal contradictions. For this reason, the changes in the mass organizations of workers took on special importance.

In the period from 1956-60, the Canadian trade union movement went through a period of defensive consolidation. Organizationally this had several elements: the old TLC-CCL union centrals were unified to form the Canadian Labour Congress (CLC); several institutional and affiliation problems were resolved; attempts were made to ease divisions with Quebec workers; and the moribund CCF was relaunched as the more labour-centred New Democratic Party in 1961. The consolidation of the organizational base of the unions had its parallel in a conservatism in the economic sphere which focused primarily on protecting the jobs of existing employees. This was behind the widely publicised experiments with profit-sharing adopted in the U.S. at American Motors, Kaiser Steel and long-shoring work, which spilled over into Canada. It was also the basis for the concerted efforts to attain union security and technological change clauses in collective agreements, spurred on both by the recession and the concerns over automation.

The union movement seemed, however, strategically ill-prepared for

the shifting economic terrain having become "a persona of its previously acquired organizational structure, ideology and policies, and incapable of adjusting effectively to the new technology and trends in occupational structures."⁹ As unemployment climbed, therefore, the position of organized workers seemed fragile. Union density ratios began to slide as membership levels hovered around 1.5 million members even as the labour force expanded. The levels of strike activity dropped considerably beginning in 1956 and remained low until 1964, indeed, strike activity in 1960 sank to the lowest point since the war.

The years 1958-59 were important exceptions that need to be stressed as a series of important defensive strikes were bitterly fought. This was the height of the management offensive which lasted the duration of high unemployment, and arrived in the classic tactic of 'satin glove' and 'iron fist'.¹⁰ The satin glove presented the 1950s 'human relations approach' to labour problems and attempted to improve workplace relations through labour-management committees. This approach was meant to obtain worker co-operation for the introduction of automation and job rationalisation. With the high unemployment of the 1950s, it was the iron fist of 'Boulwarism', named after the General Electric manager who devised it, that prevailed. Boulwarism spread across North America in an attempt to rollback union security and challenge Fordist wage norms as no longer possible given the changing shopfloor technology and high unemployment. Notably, the electrical industry giants of General Electric and Westinghouse took the lead in 'take-it or leave-it' bargaining and shifting investment to the non-union sunbelt states. In essence, the strategy represented the classic capitalist response to adjustment: allow greater

production flexibility to management through automated production and an erosion of shopfloor power, and increase downward wage flexibility by holding wage increases in line with the cost-of-living and productivity gains as an absolute maximum to keep a larger share of productivity gains for capital.

In Canada, Boulwarism at the workplace was coupled with restrictive labour legislation at the provincial state level, mainly to narrow the use of the strike through prohibitions on secondary boycotts and sympathy strikes. The most visible signs of the 'Boulwarism offensive' were the violent strikes for first contracts of copper miners in Murdochville in 1957 and loggers in Newfoundland in 1959. In more established union industries, weak contracts were often signed after trying strikes. This was the case in the divisive struggle between unions for miners in Sudbury and steelworkers in Hamilton in 1958, that attempted to secure wage increases in line with inflation.⁷² The management offensive was revealing: not because unions were in retreat, but because it underlined the dynamic contradiction over the distribution of output at the core of Fordism, advanced whenever full employment approached or unemployment climbed. Stable capital accumulation depended upon improved wages to provide effective internal demand to sustain a high growth path; but workers could claim a portion of the increased output--which no logic of Fordist production could simply bequeath--only insofar as they were able to back collective bargaining demands by strike action.

The trade unions learned the lesson of 1958-59 well. The rolling back of the management offensive, and the origin of the 1960s strike wave, began almost as soon as unemployment receded. Immediately after 1962

strike action began to pick up. The largest of these strikes tended to be concentrated in industries which were some of the most technologically advanced sections of capital--the automotive sector, iron and steel, non-ferrous mining and smelting, chemicals--and where 'Fordist bargaining norms' predominated. If wage demands were once again central, a wider agenda of extending job controls was also apparent in issues of automation, job security, and working conditions."

The strike activity proceeded from an independent momentum as unemployment fell, but the organizational resurgence of trade unions also had a material impact. In Quebec, the CICC transformed itself into the CNTU in 1960, dropped its Catholic affiliation, and quickly grew in size and influence with the Quiet Revolution. The formation of the Canadian Union of Public Employees in 1963 signalled the development of public sector unionism. This was soon followed by the mass walkouts of postal workers in 1965 over wages, conditions, and technological change." Finally, by the mid-60s, the CLC was also on firmer organizational grounds and with union density beginning to climb. These various factors played their part in driving up the levels of strike activity, but the key factor undoubtedly was rank and file pressure leading to record numbers of wildcat strikes and outright rejection of negotiated settlements. These pressures were coming to the fore by the end of the 1956-66 conjuncture, unsettling the complacency which dominated the 1950s in Canada. The full impact of working class militancy in altering the politics of employment policy would be felt in the subsequent period."

3.3 Tories and Liberals: Consolidating Continentalism

The consolidation of an economic boom often raises the political strains caused by a lack of integration into the growth model. Marginalized groups and regions seek inclusion to partake some of the rewards being gained at the centre. New initiatives and projects are proposed to incorporate the excluded, but without breaking with the 'mode of regulation' of the accumulation regime that has taken hold. It was the fortune of John Diefenbaker's Tories to mobilize these sentiments in Canada in the 1950s, but it was the Tories misfortune to displace the longstanding Liberal government from power in 1957, as the first major postwar slowdown of economic growth set in. The sudden emergence of a sharp economic contraction begins to explain a great deal of the hesitancy which plagued economic policy during the brief life of the Tory regime. The slowdown fuelled the political uncertainty already generated by the astonishing electoral sweep of the Tories in the 1958 general election. As much as anything else, the Diefenbaker governments acted as a catalyst for discontent with the 'inequalities' of postwar growth: Western farmers wanting secure grain markets and higher prices; regional blocks of capital seeking development funds to 'catch-up' to the boom in Central Canada; pensioners desiring increased income; and workers worried about job prospects and pay levels.⁶ Diefenbaker mobilized these disparate interests within a 'national-populist' vision of increased, and shared, national wealth. As his electoral speeches repeated: "One Canada, where Canadians will have preserved to them the control of their own economic and political destiny.... A Canada of the North.... This is the vision."

Yet, as political scientists are quick to warn, switching the

governing party does not necessarily entail a break with the ruling social bloc. The political pressures for change in Canada from the peripheral sectors in Canada mobilized by the Tories sought accommodations within the existing political compromise and growth model. The alternative Tory 'accumulation strategy'--to the extent it is even proper to suggest that they had one--equally depended upon exports of basic materials and commodities. Indeed, Diefenbaker's central initiative--the northern resource strategy--would in fact expand the production sectors and markets reliant on resource rents and American export markets already focal to Canada's 'limping Fordism'. The measures extended to smaller capitals--tariff adjustments, business loans, rural development--were important concessions, but they did not attempt to alter fundamentally the position of national industrial capitals vis-a-vis financial and resource capitals.⁶ That would have entailed a break with the existing policy of market-led growth and the forging of an industrial policy. The failure to detail a strategic direction for industry meant, moreover, that the tentative Tory efforts at diversification of export markets could be expected to produce, at best, marginal results.

The Liberals quickly capitalized on the strategic instability and dashed hopes generated by the Tories, returning to power in 1963 under the uninspired leadership of Lester Pearson. The populist message of resolving inequalities, which had breathed life into the Tory sweep, made way for the revitalized Liberal arguments for technocratic management. In effect, the Liberal victory returned the main social forces of the postwar boom--the alliance of the dominant sections of national and foreign capitals, the professional stratum of managers and lawyers, and Central

Canada--to political power. The Liberal strategy of technical competence, drawn from the 'best and the brightest' aura of the Kennedy regime, was crystallized in the Pearson election pledge of 'sixty days of decision.' The decisiveness, however, largely meant resolving issues left hanging by the Tories with respect to trade and defence relations with Britain and the U.S., and welfare state provisions for health care and pensions. The principle departure of the Liberals had nationalist tones and came in the doomed initial budget of Walter Gordon, which attempted to tilt the ownership of business assets in favour of Canadian capitalists. The failure of this isolated effort returned the accumulation strategy to its core principles of continental integration of North American markets and fortifying existing export sectors. Though the Liberal regime had fewer ties to smaller capitals, the bolstering of specific regional and industrial sectors through tax incentives and subsidies was by now a growing component of state expenditures.⁷⁹

In contrast, the political fortunes of the trade union movement were ambiguous. On the one hand, the 1956 consolidation of the two largest trade union centrals to form the CLC united the representative voice of labour on political issues. On the other, the CLC merger still had major shortcomings: jurisdictional and constitutional wrangling dominated; the CLC's decentralised structure left it an impotent organization for mobilization of members; the failure to strike a deal with the CNTU left Quebec under-represented; and a strategy for organising the growing service sector workers remained absent.⁸⁰

The two events which dominated trade union politics illustrated the standstill. The evolution of the CCF into the NDP in 1961 meant a

stronger political voice for the labour movement, providing for direct organizational ties lacking in the CCF (though these were still weaker than in most social democratic parties). At the same time the 'new party' was at pains programmatically to soften its 'socialism' yet still to distinguish itself from the 'planned capitalism' captivating the other parties. It did not lead to the hoped for electoral breakthrough for the NDP. The impasse was equally told by the inability of the trade unions to escape a narrow economism. In the initial phase of 1956-60 dominated by the slack labour market, economic gains were muted. But as conditions improved and workers began to press the wages struggle, they were incapable of translating these actions into a broader organised political force. The period of defensiveness, followed by a move to wage militancy, failed to be accompanied by a strategic rethinking of economic policy. The trade unions remained the major social force committed to an active Keynesiansism, but politically unable to broaden the policy terrain to support high employment.

3.4 Conclusion: High Unemployment and Competitive Constraints

The consolidation of the postwar golden age of capitalism from 1956 to 1966 successfully put the fear of mass unemployment behind the advanced industrial countries for a period. By the mid 60s rapid growth seemed to portend the need to devise employment policies to make the most efficient use of 'scarce' labour resources. The growing internationalization of trade and finance, moreover, seemed to be supporting, rather than upsetting, economic growth and national employment policies.

In comparative terms, economic circumstances were more difficult in

Canada. The economic contraction from 1957-61 again raised the spectre of high unemployment. These fears were compounded by the observation of 'creeping unemployment' that seemed to be pushing the numbers of jobless steadily upward. The new automated technologies raised further anxieties of unemployment from labour displacement; so too did the demographic pressures from the baby boom beginning to enter the labour force. Long run pressures of employment stability, internal to the national mode of regulation, were arising.

The internationalization of capital and trade also made for severe economic constraints on Canada. The weak domestic industrial capacity was further squeezed by the growth of trade. Without a concerted strategy to raise productive capacity, Canada faced closer integration with the U.S. economy primarily through a comparative advantage in resources and industrial sectors where production guarantees could be obtained. Trade dependence came, however, with increased vulnerability to U.S. efforts to remedy its own faltering competitive fortunes. This directly placed limits on Canadian employment policies and, indirectly, on employment levels in Canada. Canada's national mode of regulation, in other words, countenanced a growing external contradiction that would eventually either have to be accommodated or overcome to preserve national employment policy capacities.

The combination of employment pressures and international constraints posed serious obstacles to maintaining high employment in Canada in the early 1960s. It was already possible to suggest that only a substantial break with the Canadian growth model, by putting the domestic market and redistribution at the centre of economic policy, could provide

a durable basis to sustain high employment. With the labour movement in the process of reorganizing and still saddled by high unemployment, however, this was not on the political agenda. Indeed, as we shall see in the chapters to follow, the CLC's employment policy strategy did not encompass these objectives.

Still the 1957-61 unemployment crisis, and the deepening of Fordist automation, submitted several troublesome choices for national economic policy. Canadian employment policy could continue a pattern of oscillating between mildly restrictive and expansionary policies, allowing the conditions for realisation to be established by the rate of accumulation in the U.S. Alternatively, reflationary policies could be swiftly implemented to stabilize production and, at least in Keynesian terms, attempt to lower unemployment. A third option was to rethink the nature and causes of unemployment and the labour market policies necessary to stabilize employment. None of these options were entirely exclusive and the politics of employment policy in Canada from 1956-66 would be absorbed by the processes of modernization and co-ordination. Political compromises over the direction of development always allow, as Jenson argues, "the option of taking what exists and reassembling it to create something new."⁸¹ The consolidation of Canada's limping Fordism would make, however, the tasks of reversing Canada's dependent accumulation and passive employment policies a most fraught undertaking.

Endnotes

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15. Armstrong, et al., Capitalism Since World War II, 214-5; and Glyn, et al., Rise and Fall of the Golden Age, 99.
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50. It should be noted, however, that this was a period where the 40-hour week was becoming normed. See: W. Dymond and C. Saunders, 'Hours of Work in Canada,' in C. Dankert, F. Mann, and H. Northrup, eds., Hours of Work (N.Y.: Hamstead 1965).

51. See: Peitchinis, Economics of Labour, 100-114; Special Committee of the Senate, Proceedings, N.1, 16-9; M. McInnis, 'Long-Run Changes in the Industrial Structure of the Canadian Work-Force,' Canadian Journal of Economics, 4:3 (1971); and United Electrical Workers, 'Prospects of Automation,' The Marxist Quarterly, N.11 (1964). In his study covering 1911-1961, McInnis argues that the largest share of net gains in redistributing the work force can be accounted for by the automobile. The classic treatment of the shift of labour demand in terms of goods to services is: C. Clark, The Conditions of Economic Progress (London: MacMillan 1957).

52. Some of the comparative differences can be found in: R. Myers and J. Chandler, 'International Comparisons of Unemployment,' Monthly Labour Review, 85:8 (1962); and ILO, Employment and Economic Growth (Geneva: ILO 1964). Marx's view on the latent surplus population is the locus classicus: "As soon as capitalist production takes possession of agriculture, and in proportion to the extent which it does so, the demand for an agricultural labouring population falls absolutely, while the accumulation of the capital employed in agriculture advances.... Part of the agricultural population is therefore constantly on the point of passing over into an urban or manufacturing proletariat.... This source of relative surplus-population is thus constantly flowing. But the constant flow towards the towns presupposes, in the country itself, a constant latent surplus population." Capital, Vol. 1 (Moscow: Progress 1954), 601-2.

53. On the various facets of growth in manufacturing see: Peitchinis, Economics of Labour, 108; G. Schonning, 'Economic and Technological Change in the Sixties--Implication for Manpower Adjustment,' in N. Hall, ed., Labour-Management Conference on Economic and Technological Change in the Sixties (Vancouver: University of British Columbia 1965), 27; G. Picott, Canada's Industries: Growth in Jobs Over Three Decades (Ottawa: Supply and Services 1986); and Special Committee of the Senate, Proceedings: Final Report, N.25, 53-5.

54. Picott, Canada's Industries, 13-4; and F. Denton, 'Testimony,' 19-23.

55. This point has been made from two different perspectives: D. Gordon, R. Edwards, and M. Reich, Segmented Work, Divided Workers: The Historical Transformation of Labour in the United States (Cambridge: Cambridge University Press 1982), 166; and M. Aglietta, A Theory of Capitalist Regulation (London: New Left Books 1979), 170. For Canada see: N. Meltz, Changes in the Occupational Composition of the Canadian Labour Force, 1931-1961, Occasional Paper N.2 (Ottawa: Queen's Printer 1965); and S. Ostry, Occupational Composition.

56. Gordon, et al., Segmented Work, 193; and Peitchinis, Economics of Labour, 116-7. The impact of automation on the restructuring of work was given emphasis by the Special Senate Committee, Final Report, 46-51.

57. See: Lipietz, Mirages and Miracles, 35 and 71-3. This separation of tasks into demarcated occupations, and even into separate production units, was not confined to mass production industries; it also extended into resource industries. In their own way, this point is made by Ostry and Zaidi, Labour Economics, 121-2.

58. See: P. Armstrong and H. Armstrong, The Double Ghetto: Canadian Women and Their Segregated Work (Toronto: McClelland and Stewart 1978), Ch. 2; Ostry and Zaidi, Labour Economics, 120.

59. The erroneous view that technological change was abolishing unskilled labour, based on a serious misreading of occupational trends, was Ostry's. A different, and more sober, assessment is Peitchinis. See: S. Ostry, The Occupational Composition of the Canadian Labour Force (Ottawa: Queen's Printer 1967), 13; and Peitchinis, Economics of Labour, 122. Shonfield, in contrast, looking in particular at the European experience suggested that the efficient use of resources under full employment required the systematic deskilling of workers. See: Modern Capitalism, 117.

60. This was often pointed out: CLC, Labour Research, 6:2-6 (Feb.-June 1961), 6-7; and Special Committee of the Senate, Proceedings, N.1, 16-27.

61. Special Committee of the Senate, Final Report, 11. Cf. Peitchinis, Economics of Labour, 189-190.

62. See: S. Ostry, Unemployment in Canada, (Ottawa: Supply and Services 1968) and Dominion Bureau of Statistics, Unemployment in Canada (Ottawa: Queen's Printer 1962).

63. Ostry, Unemployment, 5-6; and Peitchinis, Economics of Labour, 218.

64. Peitchinis, Economics of Labour, 213; and Special Committee of the Senate, Final Report, 66-9.

65. Department of Labour, Seasonal Unemployment in Canada (Ottawa: Queen's Printer 1960).

66. On the Phillips Curve see: S. Kaliski, 'The Relation between Unemployment and the Rate of Change in Money Wages in Canada,' International Economic Review (January 1964); and Ostry and Zaidi, Labour Economics, Ch. 9.

67. See: Department of Labour, The Behaviour of Canadian Wages and Salaries in the Postwar Period (Ottawa: Queen's Printer 1967), 10-11. This relationship does not hold for all branches of industry at all times. The point is that there is an aggregate which prevents collapses in the structure of aggregate demand as capital accumulation proceeds. All industry does not operate under the same technical coefficients.

68. Ostry and Zaidi, Labour Economics, 321-2 and 336; Montague, Labour Markets, 101; G. Saunders, Wage Determination in Canada, Dept. of Labour Occasional Paper N. 2 (Ottawa: Queen's Printer 1965), 23-7; and Pentland, Changing Background, 229-30.

69. See: Peitchinis, Economics of Labour, 308 and 370; Department of Labour, Behaviour of Wages, 8-9; and Dept. of Labour, Wages in Canada and the United States (Ottawa: Queen's Printer 1969), 14-7.

70. S. Jamieson, Times of Trouble: Labour Unrest and Industrial Conflict in Canada, 1900-66, Task Force on Labour Relations, Study N. 22, (Ottawa: Information Canada 1968), 348-9, 353-4.

71. S. Jamieson, Industrial Relations in Canada, 2nd ed., (Toronto: MacMillan 1973), 92-4; Idem, Times of Trouble, 357-8; M. Davis, Prisoners of the American Dream (London: Verso 1986), 117-24; and C. Lipton, The Trade Union Movement of Canada, 1827-1959 (Toronto: NC Press 1967), 310-7 and 329-332.

72. W. Roberts and J. Bullen, 'A Heritage of Hope and Struggle: Workers, Unions and Politics in Canada, 1930-1982,' in M. Cross and G. Kealey, eds., Modern Canada, 1930-1980s (Toronto: McClelland and Stewart 1984), 126-7; Jamieson, Times of Trouble, 360-8; E. Forsey, 'Newfoundland Labour Legislation,' Canadian Forum (May 1959), 35-7; and Pentland, Changing Background, 340-2. On the attitudes of management see: 'Do Unions Ignore the Portents,' Canadian Business (June 1959); and 'There is a Solution for Inflation,' Canadian Business (November 1957).

73. Jamieson, Times of Trouble, 399 and 418. The rate of increase in negotiated major settlements climbed from below 4 per cent in 1957-63 to over 8 per cent in 1966. See: Department of Labour, Behaviour of Wages, 68.

74. W. Clement, 'Canada's Social Structure: Capital, Labour and the State, 1930-1980,' in Cross and Kealey, eds., Modern Canada, 93; and E. Finn, 'The New Militancy of Canadian Labour,' Canadian Dimension, 3:1 (1965), 16-7.

75. In studying the U.S., a similar point was made by Aglietta: "...the crisis of work organization actually threatens collective bargaining and promotes further state intervention in the fixing of wages." See: Capitalist Regulation, 198.

76. J. Brodie and J. Jenson, Crisis, Challenge and Change: Party and Class in Canada (Toronto: Metheun 1980), 216; and R. Mahon, The Politics of Industrial Restructuring (Toronto: University of Toronto 1984), 58-9 and 66.

77. Quoted in P. Newman, Renegade in Power: The Diefenbaker Years (Toronto: McClelland and Stewart 1973), 69.

78. Mahon, Industrial Restructuring, 66-9; R. Campbell, Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-75 (Peterborough: Broadview 1987), 118-9; and R. Bothwell, I. Drummond, and J. English, Canada Since 1945: Power, Politics and Provincialism (Toronto: University of Toronto 1981), 200.

79. Mahon, Industrial Restructuring, 68-9; P. Newman, The Distemper of Our Times (Toronto: McClelland and Stewart 1978), Chs. 1 and 2; and Bothwell, et al., Canada Since 1945, 311-3.

80. See: G. Horowitz, Canadian Labour in Politics (Toronto: University of Toronto 1968); and Brodie and Jenson, Challenge and Change, 239-42.

81. J. Jenson, '"Different" but not "Exceptional": Canada's Permeable Fordism,' Canadian Review of Sociology and Anthropology, 26:1 (1989), 75.

Chapter 4

The 'Great Automation Scare' and Structural Unemployment, 1956-1960

Since, with the development of technology and the application to it of the fundamental sciences, the labour processes of society have come to embody a greater amount of scientific knowledge, clearly the 'average' scientific, technical, and in that sense 'skill' content of these labour processes is much greater now than in the past. But this is nothing but a tautology. The question is precisely whether the scientific and 'educated' content of labor tends toward averaging, or, on the contrary, toward polarization.

H. Braverman¹

The consolidation of postwar Fordism was not without its crises, problems of adjustment and delusions. There is no guarantee in market economies that the conditions for high employment will be maintained even during a boom. No assurances exist that the old capital stock and skills can 'instantaneously' be replaced by new capital stock and skills. Nor can it be claimed that the market will equitably distribute, or have available, the skills for new production processes. Unemployment, structural blockages, and skill polarization are just as possible.

The cyclical unemployment crisis afflicting the Canadian economy from 1957-61 raised these issues. This chapter will examine the difficulty Canadian employment policies had in forming new rules of co-ordination in this period. These difficulties appeared in two seemingly disparate issues--the co-ordination of stabilisation policies and the formation of training and adjustment policies. The extension of Fordist automation meant a transition to a more intensive form of accumulation. Canada's stabilisation policies were primarily 'passive' in the sense that deficits were allowed to run up in recessions, but more aggressive Keynesian reflation was avoided and the market was left to control and direct investment and production. The recession and automation posed the possi-

bility of a more active role for stabilisation policies in setting demand and controlling investment flows. The changes to the technical structure of production from automation more directly affected labour market policies. New skills would be required to aid the transition to more intensive accumulation. Canada's reliance on a rapidly growing labour supply and 'poaching' immigrant skills meant, however, that it had managed to avoid establishing the kind of labour market institutions needed to aid such a transition. The unemployment fears raised by automation suggested the need to modernise labour market policies in Canada.

The debate over structural unemployment was where these views converged. The first section will detail the discussion about unemployment in the advanced capitalist countries in the late 1950s. It will be argued that the interpretation of structural unemployment that formed in Canada accepted the view that the primary issue of automation was 'upward skilling'. The only significant dissent arose from an isolated labour movement. The CLC was the major social force supporting full employment policies, and they argued strenuously for a Keynesian reflation. Yet, as indicated in the previous chapter, their organizational capacity was limited in this period by high unemployment and the process of consolidating their own institutional base. The CLC's views on unemployment, moreover, affirmed the position that automation was principally a problem of adding skills and raising economic growth. The second section examines the strife over stabilisation policies and the priority given to restraint for external stability over unemployment. The third section discusses labour market policies and shows a similar hesitancy to respond to the unemployment and training issues raised by recession and automation. The

unemployment pressures posed by Canada's growth model as soon as external demand conditions slipped were met, it will be argued, by the strategic instability and institutional weaknesses of the employment policy regime.

4.1 Skills Mismatch or Deficient Demand?

The changes occurring in the labour market--expanding service sector, rapid labour force growth, rising unemployment--all seemed to find their place in the debate about structural unemployment which dominated the 1956-60 period. The debate had an importance beyond just the rise in unemployment: it was the first indication that the maintenance of the high employment might require direct intervention in the labour market alongside Keynesian macroeconomic policies. The debate itself centred around the increased unemployment levels from the recession of 1957-61. Should the unemployment be attributed to deficient demand and thus be considered cyclical? Or were changes in technology leading to a new skills structure with the workers without the new skills suffering structural unemployment?

The Keynesian position contended that stabilisation policy could raise the effective demand necessary to soak up the unskilled workers. The structuralist position held, in contrast, that technological changes had shifted employment demand, which now required upgraded skills to fit the new jobs. The workers who lacked appropriate training, education or location, had increased levels of unemployment. Keynesian stimulus, in this view, would be inflationary as the absence of skills prevented the expansion in output. Selective labour market measures, targeted at the unemployed and new entrants to relieve the skill shortages, were necessary to allow an expansion of output and hence employment.⁷ Although the two

views were opposed, in fact, they also had much in common: neither position denied the utility of both demand and selective measures. They did, however, diverge sharply on the source of the current unemployment crisis.

With widespread fears about the impact of automation on employment also developing--the first major postwar intensification of Fordist labour processes--it was the structuralist arguments that had the widest currency in the late 1950s. The structuralists pointed to inefficiencies in the labour market and the need for specific labour market policies. First, they argued that the characteristics of particular groups hindered their employment. Occupational growth tended to be in non-manual jobs requiring professional and technical skills. The unemployed, however, tended to be uneducated youth and older workers needing retraining. Increasing aggregate demand would not alleviate this form of unemployment. Indeed, the lack of labour market flexibility was likely to produce skill bottlenecks and wage pressures which would cut the expansion short.⁷ Second, as the demand for labour was permanently changing, the skill composition of the labour supply had to be reformed. There was a general trend to increased employment in services as incomes increased, the structuralist view argued, and services required higher levels of education. The introduction of automated processes in manufacturing also substantially lowered the demand for semi-skilled workers, and raised the demand for highly skilled technical and maintenance workers. Unless skills and jobs were realigned, structural unemployment would secularly increase.⁸ Finally, the skills shortage was compounded by specific national pressures in Canada: skilled labour immigrants were expected to decline as Europe absorbed these workers, while the 'baby boom' entering the labour force in

Canada would require training.⁵ The 1950s upturn in unemployment was linked, therefore, to long term changes in the labour market profile that were beginning to intensify.

European Boom, North American Gloom

The structural unemployment thesis was, to a great extent, specific to North America. The strength of the European economic boom, and its relative competitive gains in the world market, meant that by the late 1950s Western Europe was characterized by a relative labour shortage. The demand for labour in the leading countries of Europe tended to exceed the national supply, resulting in a massive turn to migrant workers. Structural labour market issues remained, however. It commonly was argued across the capitalist countries that technological change upgraded the level of skills, but skilled labour was in short supply under conditions of full employment. The scarcity of labour suggested several strategies: the need to cap wage pressures, extend utilization of marginal groups of workers (notably women and rural workers), and improve labour mobility from declining to leading sectors.⁶

The potential blockage of economic growth by tight labour markets in Europe particularly worried the Organization for European Economic Cooperation (OEEC) (and its successor the OECD). It was necessary, in the OEEC's view, to increase the amount of highly qualified manpower, especially engineers and scientists, as a consequence of the process of automation "levelling upwards" the composition of skills.⁷ As well, the acceptance of job displacement by manual workers depended upon "the role of full employment in cushioning the impact of technological unemployment on the redundant worker."⁸ As part of an overall growth strategy, then, selec-

tive labour market policies, especially training and mobility, were urged as a means to speed industrial adjustment.

The studies of the International Labour Organization (ILO) were especially influential, given the central role the ILO was still playing in forming a tripartite 'international consensus' for full employment policies. In contrast to the OEEC, the ILO (at least in the 1950s) reacted cautiously to the view that economic growth alone could serve as a palliative for employment problems. In their view, the problem went beyond structural unemployment and skill shortages to the general social and labour issues raised by 'industrialism'. As yet, they argued, automation displayed no tendency to mass displacement of workers, and, moreover, appeared to be raising the "average level of skill in the labour force."⁹ The ILO's widely circulated study, Report on Automation, delivered to the 1957 International Labour Conference, stressed the need for joint consultations between workers and management in implementing technological change and adjustment policies for dismissals, re-employment, training and mobility.

The ILO gave greater emphasis to the growth-oriented view of the neutral effects of technological change on employment in its important report on Employment Problems and Policies, that served as the prelude to the controversial 1960s statement and convention on employment policy. Stabilisation policies to smooth trade and production levels were central to avoid "general unemployment". Specific structural unemployment problems required regional and sectoral policies directly to aid industrial adjustment. Worker adjustment depended upon improving the organization of the labour market, especially mobility, information, and labour force

participation.¹⁰ Drawing upon the experience of the tight conditions of the European labour market and the stronger political commitments to full employment, the ILO position in the late 1950s helped consolidate, then, the classic Keynesian employment policies of the boom: buoyant effective demand for high growth, consensus institutions for wage-setting, and support for technological change through worker adjustment policies.

In North America, the gloom over slower economic growth, and relative competitive decline spilled over into gloom that the technological changes from the deepening of the automated processes of Fordism would be associated with unemployment. As the U.S. suffered high levels of unemployment in the late 1950s, it served as the chief battleground between structuralist and deficient demand interpretations of unemployment. During the late 1950s, however, it was the 'Great Automation Scare' that held centre stage. The U.S. Department of Labour, in particular, was contending that rapid technological change caused substantial labour displacement. At least in the short run, the tendency to higher productivity through labour displacement was not being offset by employment growth.¹¹ The displaced labour, they argued, lacked the skills suitable for the occupational mix resulting from automation. It was necessary, therefore, to upgrade the skills of the workforce. (This position gained additional moral force as it converged with Cold War fears of lagging scientific and technical manpower after the Soviet launch of Sputnik.)¹²

Although the structuralist position gained prominence, it ran against the fiscal orthodoxy of the Eisenhower administration, which vigorously opposed any new spending on programs for unemployment. Nevertheless pressure from the Democratic-led Congress for new approaches

mounted in two directions, led by Illinois Senator Paul Douglas. As unemployment climbed during the 1957-58 recession, Northern Democrats pressed for Keynesian counter-cyclical measures, especially tax cuts also favoured by leading business organizations. At the same time, Douglas led a campaign from 1956-60 to extend economic development measures to depressed areas. The campaign finally resulted in the Area Redevelopment Act of 1961, which paved the way for the various employment and training measures of the 1960s, but concerted action on unemployment in the U.S. waited upon a sharpening of the unemployment debate in the 1960s, a change in administration, and, more importantly, the mobilization of the civil rights movement.¹³ In any case, the Americans had few lessons to convey on operating an expansive employment policy, although they were again taking the lead for Canada.

Automation and Skilled Workers in Canada

In Canada, the 1950s debate about unemployment never formed even to the limited extent that it did in the U.S. remaining confined to the narrower question of skilling workers. The Canadian setting avoided, therefore, both the wider industrial adjustment focus of Western Europe, and the push for a more activist Keynesianism of the U.S., either of which might have helped strengthen the market control capacities of employment policy in Canada. The Canadian unemployment debate had narrower horizons chiefly for two reasons. First, it was argued that seasonal fluctuations in output continued to account for a great deal of the high annual rate of unemployment. Seasonal unemployment, therefore, had to remain a central concern of labour market policy as it had been since the early 1950s. Additionally, the 'automation scare' focus on 'upward skilling' melded

with the recurring problem of Canada's 'extensive' growth model--a lack of domestic skilled workers. Unemployment fears thus were readily linked to the apprehensions of labour market policies over the lack of national training structures to skill workers within Canada.

The Department of Labour, for example, had already formed the Interdepartmental Skilled Manpower Training Research Committee in 1956 to study and co-ordinate policy on technological change and training.¹⁴ Its first major results occupied a prominent place in the 1957 Report of the Royal Commission on Canada's Economic Prospects, chaired by Walter Gordon. The analysis of the Gordon Commission itself bristled with the confident projections of the 1950s of full employment and high growth as Canada's economic future. Gordon advocated only a modest shift in Canada's growth model to shore up specific sectors, notably, expanded regional development, production quotas in agriculture, and a national energy authority. The only contentious point raised by Gordon, and one that would become increasingly fractious in the 1960s, was the desire to increase national control of investment and management of foreign controlled production.¹⁵ Although these measures largely conformed to Canada's export growth strategy in resources, they were at odds with the 'laissez-faire' policies of the governing Liberals, dominated by Minister of Industry C.D. Howe, and met opposition.

The Gordon Commission's analysis of the future of the labour market was equally optimistic. The shift in composition of output between industries and into services required structural adjustment, but economic growth would smooth this process without any special labour market policies. Indeed, the desire and ability of the government to use 'cyclical

budgeting' would maintain full employment (targeted by the Commission at 3 per cent, the first state body in Canada to do so). Keynesian measures had technical and political difficulties, however, in adjusting taxes and increasing expenditures, and could not resolve all unemployment.⁶ Seasonal and regional unemployment, for instance, were endemic features of the Canadian economy. These problems required, Gordon suggested, only the continuance of the policies for offseason work and mobility grants already in place as geography and market forces posed limits to solving these kinds of unemployment.

The Report, moreover, warned that the impending arrival of automated technologies meant "a highly competitive world in which the pace of growth and development will be largely determined by the ability to use the fruits of scientific research and technological developments."⁷ This would become an often-heard prediction over the next decade, as would its analysis of the labour market; that is, in the new world of technological modernization, the demand for skilled workers would dramatically increase. If skill shortages existed--a traditional Canadian shortcoming--economic growth would be blocked. Gordon put forward several proposals that would have some importance in the 1960s. Although they likely would be more difficult to obtain than in the past, Canada should still seek out skilled immigrant workers. In-plant training also could contribute needed skills--although this was a persistent market failure in Canada. The need for formal skills for automated processes, however, required the expansion of apprenticeship programs, technical schools, and universities which were, Gordon observed, still quite undeveloped in Canada. At the firm level job displacement would occur, and management should work to develop retraining

programs targeted at individual workers, if possible with the aid of unions. The Commission asserted, however, that unemployment from technological change could best be aided by a growing economy.¹⁸ This strategy presaged--in both its minimal labour market policies and its growth emphasis--the employment policy agenda of the coming years.

The Gordon Commission conclusions on employment and technological change largely reflected the research being undertaken by the Department of Labour, which was virtually the only place of sustained research into labour market issues in Canada in the 1950s. With one of its primary roles being policy advice on immigrant skills and technical training in Canada, the Department was anxious about the impact of skill bottlenecks on output and employment as new technologies came on line (and less with the structural unemployment fears being voiced in the U.S.).

The Department of Labour made its case in a series of major empirical studies of the 'manpower' impact of technological change as part of its Research Program on Skilled Manpower launched in 1956. These studies encountered two sets of problems. First, it was virtually impossible to isolate a specific technological change from general changes in the scale of production, organization of work, capacity utilization, new materials, and product changes. Additionally, there was little specific data available on labour inputs and outputs to the production process. The studies tended, therefore, to define technology broadly as any alteration in the method of production, and relied upon case studies of skilled manpower in industry and aggregate analysis of employment and occupational changes by sector.¹⁹

The conclusions of these studies were presented before the influen-

tial Special Senate Committee on Manpower and Employment, sitting from 1960-61. Labour forwarded a theme that would become the repeated wisdom of the automation scare: economic growth accelerated automation which, in turn, altered the composition of labour demand in the direction of higher technical skills, but also slowed employment growth as capital intensity increased. A study of five Canadian industries between 1956 and 1960, for example, found that the forms of technological change varied widely, with the most prevalent being new products and operations, technical refinements to existing machines, and the introduction of automatic and semi-automatic machines.²⁶ These Fordist technological advances resulted in a large expansion in physical production volumes but only small gains in employment in these industries. In the most noted example, the automotive parts industry from 1949 to 1959 expanded output by 50 per cent but employment advanced by only 11 per cent. Automated technologies, it was concluded, meant "that any given expansion of production would induce a slower increase in total employment."²⁷

The Skilled Manpower studies observed that it was not only the volume of employment that altered. New technologies also entailed a relative decline in direct production workers and an increase in indirect labour, such as supervisory, technical and office workers, tending to "push the skill level of employment upwards." The technical differentiation of skills meant that,

...manpower requirements in the industry in question are frequently reduced, that output almost always increases either in quantity or quality or both, and that needs for semi-skilled workers tend to drop, while those for skilled maintenance workers, and some other highly technical groups frequently rise.²²

Nonetheless, with a rapid economic expansion, the growing knowledge

occupations, and the expanding service sector (also identified one of high skilled occupations) could be expected to absorb the displaced labour. Economic growth, therefore, would have to be a central concern to maintain high employment.

The Department of Labour's analysis of technological change had been formulated as early as the mid-1950s. The policy conclusions drawn, however, altered as the decade progressed. As automation increased the demand for technical and skilled workers, the adequacy of education and training structures in Canada became a pivotal issue. The Gordon Commission's views on this point had been influenced by the Department of Labour's 1957 background study. The study observed that "the fundamental inadequacy of industrial training resources in Canada, in relation to the high requirements of the economy for new skilled tradesman during periods of rapid expansion."²³ This shortcoming was most serious for professional and technical labour, and was obscured only by immigration flows which prevented acute shortages from developing. It was noted, for instance, that from 1946-1956 the number of skilled workers increased by 280,000 of which net immigration contributed 110,000; professional labour expanded by about 94,000 with 16,000 coming from net immigration. In terms of the acquisition of skills in Canada, it was found that the more formal the needed training, the more likely the use of immigrant labour. Yet even substantial 'poaching' of skilled immigrants failed to meet all national skill needs and to offset emigration of Canadian skill south.²⁴ The skills shortfall could prove a substantial barrier to accumulation for projections of employment growth expected growth of technical and skilled occupations to exceed the rate of labour force growth through 1965.

The traditional Canadian sources for skilled and highly qualified labour--immigration and existing minimal, market-centred training and education programs--could no longer do the job. While capital was expanding in-house training, they were reliant on the extension of institutional training facilities.²⁵ Informal on-the-job training, apprenticeships, and technical programs would have to give way, the Department of Labour contended, to more formal training institutions. Indeed, the pressure for new national training structures could be expected to grow as the number of youths from the baby boom entered the labour market.²⁶ In the Department of Labour, the skilling of workers became decisive to economic viability:

The competition in world markets for many Canadian products and considerations of national defence demand that Canada keep abreast of the latest advances in science and in the application of new technology to production methods. To meet such challenges, expanded and improved facilities are required for the basic education of youth and for the training of engineers, scientists and other professionals, as well as tradesmen and technicians.²⁷

By 1960 unemployment stood at a postwar high and the establishment of new training institutions remained stalled. In this context, the Department of Labour's position began to shift in emphasis from the lack of skills to the problem of industrial workers 'adjustment' causing unemployment. Technological change transformed the structure of job opportunities facing the individual worker, depending upon such factors as technology within the firm, present occupation, retraining options, mobility, and union seniority provisions. In all cases adjustment required higher levels of education and training. The unskilled and less educated, who tended to be either youth or older workers, consequently bore the onus of adjustment and higher unemployment.²⁸

It was found that older workers often were employed in unskilled and semi-skilled jobs in declining industries. They had difficulty adjusting when displaced by technological change as they were less flexible and mobile. Retraining and steady employment at comparable wages for older workers was difficult to find causing longer periods of unemployment. Young workers, on the other hand, presented a quite different problem: they were more mobile, yet lacked the skills for the new knowledge-based occupations.²⁹ Labour adjustment was, therefore, not a general problem of a capitalist labour market, but a specific problem for particular groups of workers. This was the case the Department of Labour laid out before the Special Senate Committee on Employment:

...technological change is creating much higher skill requirements in our labour force, requiring much higher levels of basic education to meet the kinds of jobs that technological change is creating. Now, if you look at the kind of unemployment we have today you find a very substantial proportion for it is among people who have relatively low levels of education and relatively few suitable skills for today's labour market, so that technological change is creating the kind of growth in employment that people who are presently unemployed cannot take advantage of. In other words, we have a lack of correspondence between our requirements for jobs and the kind of people that are looking for work.³⁰

Training and mobility policies targeted at individuals, or specific plant sites undergoing large scale adjustment, would therefore be the appropriate response. The rise in Canadian unemployment was seen to require only limited employment policies of market control.

The Department of Labour's assessment of technical change and employment, reflected in the Senate's Report on Employment, was the most important analysis of unemployment in the 1950s. Yet there were other structuralist accounts of the problems of the Canadian economy as well. The market-led employment policies of the 1950s made both the Bank of

Canada and the Department of Finance, as we shall see below, reluctant to argue that the surge in unemployment was Keynesian in character. Their structural view differed from the Department of Labour's, giving greater emphasise to sectoral and trade weaknesses of the Canadian economy and to a too rapid growth in the labour force. These problems also became linked to the need for expanding training and education for competitiveness and to absorb the baby boom. Yet such a consensus awaited the 1960s when it was conceded that more active labour market measures were necessary for policies for rapid growth; in the 1950s, the structural view blocked a Keynesian reflation.

A narrow interpretation of structural unemployment also found some sympathy from the main organizations of capital who had never widely accepted Keynesian theories of unemployment who were suffering from traditional shortfalls of skills in Canada, and who were reluctant to foot the bill for training. The recovery of employment foremost depended upon, in this view, increasing growth especially export trade. Labour market measures to support directly employment were opposed, except for minor seasonal programs.

The Canadian Manufacturers' Association (CMA), for example, consistently contended that Canadian production had to be expanded as part of their strategy to protect the home market. The reasoning was simple. The trend in employment had been to increased services, but the best opportunities for employment and future productivity growth lay in manufacturing. In addition, the weakness of Canadian manufactured goods caused a trade deficit such that "the present serious unemployment problem was caused by excessive imports into Canada."¹ The CMA's solution included diverse

measures to bolster the relative productivity of Canadian industry: 'Buy Canada', research funds, capital cost allowances, a devalued currency, and lower wage costs. There was also a second dimension to the CMA position. Although automation increased labour displacement, technological change in fact expanded job choices, and economic growth determined the net employment effect. Automation, however, brought "an increasing demand for new skills" requiring expanded training and technical facilities. The Chamber of Commerce's standard argument--irrespective of economic conditions--was for tax cuts and government restraint to stimulate growth, but by 1960 they also were contending that in "an urban and highly industrialized economy increasing emphasis must be placed on education and training in special skills.... by far the largest number of unemployed [are] unskilled and untrained workers."³²

Is All Unemployment a Result of Skills Mismatches?

Two lines of critical dissent to the structuralist consensus in Canada could be discerned. First, it was by no means clear that the automated processes of Fordism and the growth of services were producing a uniform upgrading of skills. Second, the labour movement, in particular, held to the view that the source of unemployment was a cyclical economic swing that could be countered only by boosting effective demand.

That technological change altered skills was not in doubt, but there were many objections to the proposition that automation simply levelled skills upwards and that all new occupations embodied higher skill requirements. Indeed, several studies suggested a more subtle process of skill differentiation was occurring, including the expansion of unskilled labour. The Department of Labour's own studies required more careful

conclusions. In studying technological change in the auto and parts industries, for instance, they had concluded that the general skill level in the auto industry "seems to have increased slightly", but in specific operations "no change occurred in the skill level of manpower." In the parts industry, there were often decreases in the level of skill and no "specific change resulted in increased skill levels." Similarly, the electrical industry found non-production workers increasing in the labour force, and the demand for unskilled and semi-skilled workers, moreover, was unlikely to "decline absolutely."

The most careful study of the impact of automation was that of American management expert James Bright (whose studies Harry Braverman would draw upon). Bright had reached quite opposite conclusions to the 'skilling upward' position. After defining a mechanization profile of the operating characteristics of machines, Bright applied the scheme to a number of production processes from the simplest hand tool to the most automated systems. Not only did Bright find that an upgrading effect had not occurred, but "automation often tends to reduce the skill and training required of the workforce."⁴ From this perspective, the structuralist position could be seen as simply capturing the skill dimension of the Fordist splintering of the labour process - a traditional result of Taylorism and Fordism - and a skewed interpretation of unemployment as a skills mismatch.

This more complex view of technological change as skill differentiation offered the potential for an employment policy oriented beyond limited forms of market control. Yet it remained quite apart from the Keynesian view that also dissented from the structuralist view. In Canada

in the late 1950s, it was the labour movement, who had most thoroughly embraced Keynesianism, that argued most forcefully that the rise in unemployment was cyclical in character. The rise in unemployment raised tensions for a strictly deficient demand view of unemployment. It was workers, particularly in mass production industries, who were affected most directly by displacement of labour and changes in skills from automation.

The CLC's position on automation was formed for their inaugural convention in 1956. Remarkably, the CLC also held the interpretation that automation produced an upgrading of skills. In their study for the Gordon Commission, the CLC contended that "automated industries will need a smaller and smaller proportion of unskilled and semi-skilled workers and a larger and larger proportion of professional and skilled workers."³⁵ Even as unemployment climbed through the 1950s, the CLC did not retreat from this position. Structural unemployment arose from "industries which are sick or dying."³⁶ A series of specific policies to aid adjustment were also appropriate such as a shorter work week, retraining of workers, severance pay for older workers, and labour mobility grants. Yet the solution for this form of unemployment was similar to cyclical unemployment: "The first thing we have to do if we are to cope with automation is to establish and maintain general full employment."³⁷

In the CLC's view, unemployment was always essentially Keynesian. In their first economic policy statement in 1956, on the eve of the recession, the CLC argued:

If public investment is pushed hard enough and fast enough, some other measures, such as the improvements in unemployment insurance, extended benefits and the national public assistance plan, will cost much less. The slower and more half-

hearted our governments are about creating jobs, the more they will have to spend on direct relief payments to the unemployed.²⁸

As the recession unfolded the CLC was more careful to identify unemployment as a "bundle of problems"--seasonal, structural, cyclical, frictional--requiring specific policies. Yet their strong Keynesian views did not waver. Economic growth lagged due to insufficient demand; expansionary measures, particularly easing monetary policy and public investment, should be used to boost the growth rate. "The unemployment problem we face now is not simply one of fitting available workers to available jobs.... Not all the education, training and retraining in the world will turn the unemployed into employed unless there are jobs for them to go to."²⁹ This was certainly not an inaccurate rebuttal to the view that training could solve the capitalist employment problem. Yet the trade union embrace of Keynes left the opening for a strategy for technological change and new labour market policies that pursued an employment policy of market disengagement unfilled.

The Report of the Special Committee of the Senate on Manpower and Employment, submitted in 1961, represented the consensus that had developed that structural unemployment arose from a skills mismatch from the introduction of automation. The Senate Committee's final report noted that,

...changes in technology have altered substantially the character of job opportunities...the gap between the training and experience of workers and the skills required by the new technology, the problems of shifting the labour force from industries which are declining to industries which are growing.... The recent unemployment situation must be attributed to in considerable measure both to the declining rate of economic expansion and to changes in the basic structure of our economy, including the consequences of technological changes.³⁰

There was little dissent from the position that automated technologies led to 'upward skilling'. The structural unemployment debate raised the possibility of addressing Canada's low productivity 'extensive' growth trap but everything pointed in the direction of further policy drift, external instability and a polarization of unemployment and skills in the labour market.

4.2 Unemployment and Discord in Employment Policy

Although the economic issues confronting Canadian capitalism in the 1950s, were clarified by the Gordon Commission, the Diefenbaker administration lacked a strategic direction for economic policy. Diefenbaker's populism, and the regional and small business support of the Tories, could not be easily squared with the fiscal conservatism emanating from the large financial and industrial capitalists of central Canada, represented in Cabinet by Finance Minister Donald Fleming.⁴ The Tories advanced, however, several initiatives to alter the regional composition of growth, and they were less enamoured with continentalism than the prior Liberal regime. A series of minor development measures, varying widely in strategy, were implemented: an Atlantic power policy, the Roads to Resources program, the establishment of the National Energy Board, the Columbia River Treaty, and the Agricultural Rehabilitation and Development Act. As well, the Tories made gestures toward trade diversification, with Britain and Europe, but these efforts amounted to even less."

Yet too much should not be made of the Tories 'nationalist' policies either. Overdevelopment of resource sectors was hardly original in Canada; trade flows with the U.S. continued to expand indeed, the Tories

signed both NORAD and Defence Production Sharing Agreements which further integrated the military and weapons markets; and the supply side subsidies to strengthen weak industrial sectors has been Canada's main form of demand stimulus. Rather the Tories followed the historical path of accumulation which had formed Canada's limping Fordism of 'extensive growth'.

The policy tensions which marked the 1956-60 phase, and that would eventually destabilize the Diefenbaker government, did not stem from an attempted break with the accumulation strategy. The conflict developed around the role of stabilisation policies, and the extent to which the Canadian state was committed to Keynesian employment policies. The structural unemployment debate initially was not central to the dispute, although concern about the impact of technological change contributed to the indecisiveness of the economic authorities in taking expansionary measures as the recession wore on. The decline in domestic investment and soft export markets suggested, instead, a conjunctural crisis. Yet expansionary measures which might have reestablished a domestic growth and high employment were not forthcoming. It is often suggested that the problems of this period illustrate the limits of Keynesian reflation in a 'staples-based economy'--the lack of manufacturing exports causing a structural current account deficit which, in turn, undermined the capacity to stimulate demand.⁶¹ The staples thesis explains, in part, the limits of national regulation of employment in an export-dependant accumulation strategy. The institutional configuration of employment policy was also, however, an important element in the failure of the Diefenbaker government to define a strategy to control unemployment.

3

PM-1 3½"x4" PHOTOGRAPHIC MICROCOPY TARGET
NBS 1010a ANSI/ISO #2 EQUIVALENT

PRECISIONSM RESOLUTION TARGETS

The Bank of Canada, for instance, was institutionally separated from the fiscal authorities and jealously guarded its autonomy. Although the Bank's constitution mandated a concern for employment, the Bank's central preoccupation was fighting inflation in all circumstances, and maintaining cost competitiveness in foreign markets (without resorting to a competitive devaluation). Indeed, the Bank's technical position did not see trade and payments policies as distinct from employment policies as Keynes did. High employment, in the Bank's view, threatened wage inflation and hence might cost Canadian exports out of markets.⁴ The Bank's 'hard currency' policy--freezing domestic price levels and preserving the external value of the currency to avoid capital outflows--could not be expected, therefore, to respond quickly to any crisis of unemployment no matter how severe.

Similarly, the Department of Finance's fiscal policy had been consistently tentative and often destabilising throughout the reconstruction period.⁴ The fiscal authorities were also unlikely to mount a campaign against unemployment beyond its passive Keynesian policy. The conjunctural crisis of unemployment of the late 1950s exposed the limits of market control of Canada's postwar employment policy. As Bill Warren would later point out, it was one thing for capitalist societies to achieve full employment, it was quite another for them to maintain it.⁴ And Canada's postwar employment trajectory had severe difficulty doing either.

Industrial Slowdown and the Keynesian Impasse

The investment boom that had followed the end of the reconstruction period of the Korean War had peaked by early 1957 slowing the pace of

annual real economic growth to 2.3 per cent. The causes were readily apparent: exports had declined by about 1 per cent in real terms, and capital spending had increased by only 5 per cent, sustained mainly by construction of the St. Lawrence Seaway and the Trans-Canada pipeline. During the first quarter of 1957, seasonal unemployment rose to a high of 6.5 per cent, well above the previous winter.⁴⁷ Despite the labour market slack and the coming election, the Liberals moved cautiously in their final Budget in March of 1957.⁴⁸ Indeed, Finance Minister Harris called for a 'united economic front' for restraint:

...the monetary policy of the Bank of Canada has been one of restraint, and the fiscal policy of the government has worked in the same direction. This is as it should be whenever the volume of spending in the country exceeds the capacity of the economy to produce the goods and services demanded.... The severe inflationary pressures, which we have resisted so far with a high degree of success, are still with us to a considerable extent. There are signs that these pressures are beginning to moderate, but it would not be wise to let down our guards of fiscal and monetary policy at this juncture.⁴⁹

In a striking example of error in economic prediction, unemployment was dismissed as a concern: conditions in the labour market were expected to remain tight as growth in the labour supply.⁵⁰ The Budget itself consisted of minor increases in social security, primarily an old age pension increase of six dollars, and small tax changes, leaving an expected budget surplus of \$152 million. The final Harris Budget continued the policy drift to wholly market-set employment levels that had marked the St. Laurent government and made it difficult to argue that the Liberals would have shifted to an expansionary strategy during the recession. Indeed, the aloofness of the policies from the unequal distribution of the rewards of economic growth--the meagreness of the pensions increase and the lack of a regional policy being particularly

attacked--seemed to characterize the entire Liberal regime.

The Budget played no small part in electing the Tories to a minority government in 1957. They immediately faced a more trying economic situation. By mid-1957 economic conditions had visibly begun to sour. After several years of price stability prices increased even as production slowed in the second and third quarters, averaging 3.2 per cent for the year. The unemployment rate increased from 2.9 per cent to an unsettling 7 per cent by December. Yet, in the Financial Statement of 6 December 1957 of the new Tory Finance Minister Donald Fleming, the depressed conditions registered no particular concern. Fleming responded with the traditional plan to "create more incentives" for business, cutting various taxes by 3.4 per cent of total tax revenues.⁵ The minor tax cut was coupled with a small increase in social security to meet electoral promises, leaving an estimated budget surplus of \$80 million.

The cautious fiscal policy accorded, at least for now, with the tight monetary policy of the Bank of Canada. Since the Korean War boom conditions of 1954 the Bank had attempted to squeeze credit to reduce inflationary pressures. Even with the soft economic conditions of 1957, Governor James Coyne warned of the dangers of inflation from monetary expansion:

...a greater degree of monetary expansion than that which occurred, would have made the boom worse and would have brought on a more serious recession, with a greater degree of unemployment.... The recession we are now experiencing has not been brought about by monetary policy but, so far as domestic factors are concerned, by the degree of inflation and excessive expansion in certain directions which occurred despite a sound money policy.⁵²

Against widespread criticism of its restrictive position, the Bank argued that it had loosened monetary policy in the second half of 1957.

The evidence was at variance: the total money supply grew only marginally and as proportion of GNP actually declined; interest rates moved slightly higher, with interest rate differentials with the U.S. widening for both Treasury Bills and long term government securities; and the inflows of capital from high interest rates kept the exchange rate trading at a historically high premium of about 6 per cent in the fall of 1957.³ The Bank, in fact, continued to push its hard currency policy to restrain inflation, and attributed unemployment to a labour force growing too rapidly.

By the time it came to deliver a full Budget in June 1958, it was impossible for the now majority Diefenbaker government to ignore the cyclical crisis. At mid-year, business capital spending was expected to be down by 10 per cent; real GNP was growing by less than one per cent annually (a per capita output decline); the balance of trade had only slightly improved; and consumer prices were heading below 3 per cent. Yet even more stunning was unemployment shooting up to over 10 per cent in the first quarter. The failure to move quickly against the slowdown was now apparent. Fleming's Budget conceded that falling demand due to declining investment over the last eighteen months had allowed unemployment to emerge as a "serious problem". Under such conditions, he suggested, it was appropriate to take steps to "alleviate current unemployment."⁴ Yet even with the extraordinary levels of unemployment Fleming favoured caution. Proposed tax cuts amounted to only \$20 million; total expenditures were to increase by about 4 per cent from 1957-58, primarily in public works and new housing construction. The major response to the unemployment spiral, like previous Budgets, was passive: the deficit would

be allowed to run up to \$640 million, about 2 per cent of GNP, as revenues fell from the recession.⁵⁹

The decision of Finance to take at least some measures to ease unemployment forced an unsettling choice upon the Bank of Canada. It could either persist in the inflation fight or, taking account of Canada's deficit in trade as well, it could loosen monetary policy to bolster effective demand, lower the exchange rate, and monetize the fiscal deficit. The Bank, however, decided to persist with monetary restraint, the first sign of a conflict over stabilisation policy. The Bank saw its objective as holding "to a minimum the degree of monetary expansion to be added to that which had already occurred in the latter part of 1957."⁶⁰ The restraint strategy was to be quite complicated, however. In addition to a government cash requirement of \$1 billion for fiscal 1958-59, the central bank decided to convert the massive \$6.4 billion in Victory Bonds maturing between 1958 and 1966 into long term securities. The effect of lengthening the maturity of securities is normally to take liquidity out of the system, raise long term interest rates, and thereby squeeze the level of demand. The Bank's debt operation did not go smoothly. With the weakness of the U.S. bond market raising yields, the new paper was dumped, forcing the Bank of Canada to buy back the bonds to support the market, and cause the money supply to erratically expand. By fall the market settled. Having weathered the conversion storm, in November the Bank abruptly returned to the inflation fight, keeping money tight into the 1960s, at odds with the mounting unemployment. Whatever the technical errors of debt management, or the contradictory support for the conversion measures from Finance who had just moved the budget in the opposite

direction, the narrow concerns of debt scheduling had prevailed over stabilisation of employment levels. Indeed, in justifying the inflation fear, the Bank asserted--in a phrase that would become the commonplace of the 1980s--that "inflation creates more unemployment than it temporarily cures."⁵⁷

A Return to Economic Restraint

The discord between the mildly expansionary fiscal measures and tight monetary policy was shortlived. Rather than attempt to continue to support employment, in April 1959 fiscal policy moved prematurely to restraint. The reasoning was a classic example of postwar Canadian employment policy. First, the authorities in Finance evaluated a market-led recovery to be underway: economic activity had recovered in the fourth quarter of 1958, with the index of industrial production finally surpassing the peak of 1957 by February 1959; the exchange value of the dollar had eased slightly, and unemployment levels, while still at postwar highs, were lower than the previous year. Second, after the debacle of the conversion loan, the government resolved to reassure financial capitalists in the bond market that fiscal policy was "sound."⁵⁸ Higher unemployment was accepted--as it often was in Canada--to guard against future inflation in a recovery and to demonstrate fiscal responsibility to foreign money markets.⁵⁹ Taxes of all kinds were increased substantially and, when combined with an increase in Old Age Security Fund contributions, amounted to about a 7 per cent tax hike.⁶⁰

With the Bank and Finance now converged in favour of restrictive policies, while the labour market remained weak and after only two quarters of recovery, it is difficult to sustain the proposition that a full

employment policy existed. Indeed, an 'inflation scare' now dominated stabilisation policy. During July of 1959 the 'threat of inflation' was attentively debated before the Senate Finance Committee, and it was generally agreed that "inflation has replaced recession as the major topic of business concern on this continent."¹ The policy consensus not just in the Senate but more broadly was unequivocal in supporting the "required restraint in monetary and credit policies...and the avoidance of deficits, especially when they are inflationary in their effects."² This could hardly be termed a steadfast Keynesian employment policy.

The sentiments were in line, however, with the hardening of the position of the central bank even though the 1959 recovery was still extremely fragile. The Governor now appeared determined to assert the institutional autonomy of the Bank over monetary policies to enforce price stability. From November 1958 to August 1960, the money supply increased by only 0.3 per cent per annum, and between July and December 1959 actually declined by some \$200 million. The impact of the squeeze on credit was immediate: the yield on Treasury Bills climbed from 1.5 per cent in August 1958 to over 6 per cent by August 1959; the interest differential with the U.S. increased; the currency appreciated even as the current account deficit edged up; and, notably, consumer prices remained flat rising at only 1.1 per cent per annum.³

The Governor set out to explain the Bank's controversial economic policy course, noting in his 1959 Report that,

the Canadian economy has been under the influence of excessive overall spending, which even in periods of relatively high unemployment resulted in a net inflow of imports from other countries. Attempts to induce growth for a short time at rates which in the aggregate cannot be expected to continue, bring set-backs and unemployment in their train. Such conditions of excessive demand

create inflationary pressures."

The excess demand problem, indicated by a structural current account deficit in the Bank's eyes, necessitated domestic restraint--"living within our means"--and the need to neutralize foreign inflation by the hard currency policy. The Governor, however, was now going quite a bit further in his inflation fight beyond the traditional concern with external stability. Canada was becoming overly dependent upon foreign capital and should increase national diversification of production by mobilising domestic savings. With respect to the weakness of the labour market, the Bank was also setting a harder line; indeed, the Bank was adopting elements of the structural explanation of unemployment, although not the views about automation, in support of restraint. General economic measures such as monetary or fiscal policy could not alter the unemployment difficulties of particular industries and regions; nor could macro-regulation directly foster structural changes in the Canadian economy to advance domestic production.⁶⁵ These views were significant. Not only was the Governor asserting an openly independent course for monetary policy, apart from the fiscal authorities, he was also openly criticizing the postwar accumulation strategy that constituted Canada's limping Fordism.

During 1959 and into 1960 tensions were building over the direction of economic policy and, in particular, over 'tight money' policies and the lack of a strategy to deal with unemployment. In August 1959, the Department of Finance astonishingly rejected the Treasury Bill auction, a key sign of a discordant stabilisation policy, if not yet an open break with the Bank on interest rates.⁶⁶ In defence of their position through the

fall, Diefenbaker and Fleming stood with the Harris doctrine, which they had attacked horrifically in opposition: the government itself had no tight money policy as it was the Bank of Canada, and not the government, which controlled the money supply. Dissent, however, was becoming more difficult to control. Influential members of Cabinet called for expansionary policies, leading to the creation of a special Cabinet committee, without the Finance Minister, to review economic policy. These frictions were being glumly noted by a growing circle of critics:

Since there is no inflation and since the Canadian dollar is at a premium of more than 5 per cent over the U.S. dollar it is difficult to see the logic of dear money at present. Canadian officials disagree. They point out that the current balance of payments is still running at a deficit, that the premium on the Canadian dollar is due wholly to an inflow of capital from the United States and that inflation, although held back, is potentially 'just around the corner.' This answer does not strike home with complete conviction. The high level of interest rates may not have checked Canadian recovery but it has certainly encouraged the inflow of capital and borrowing in the New York market.... The main need is for monetary and economic policy to be co-ordinated.⁶⁷

Such clarity in policy co-ordination was not forthcoming although the united front for restraint still gripped the fiscal authorities. Even as economic conditions remained soft into 1960--industrial production moved only slightly ahead in the first quarter of 1960 and the level of unemployment was surpassing the previous winter--the Minister of Finance tailed the strict monetary policy in the fight against inflation. Fleming's March 1960 Budget optimistically proposed a small surplus in the government accounts for the coming year. As taxes were little changed, and the rate of increase in government expenditures held in check, the surplus was premised on a rapid increase in the rate of growth. It followed from this scenario that conditions in the labour market would parallel the recovery. As for the criticisms emanating from the Governor

of the Bank, the Budget Speech served to further confuse the overall economic policy strategy. A lower exchange value was favoured (which the Bank opposed), but the Government would not devalue. Foreign capital was welcomed (which the Governor had spoken against), but the Government thought increased savings and use of Canadian resources was desirable.⁶⁸ This was a strategic balance that could not but explode in the near future.

The fragility of the strategy which underpinned the 1960 Budget became quickly apparent: within a month the economy again began to slide, the industrial production index falling from the first quarter of 1960 to the first quarter of 1961. This further setback seriously damaged the already weak position of the labour market: the level of employment remained flat for 1960, while unemployment began again to hit double digits in the early months of 1961. The discord at the heart of economic policy, and the lack of a response to the unemployment crisis, continued to fester.

Discord in Stabilisation Policy

Despite mounting criticism, the Bank of Canada became even more determined to press on with its twin fight against inflation (now just at over 1 per cent) and the level of foreign capital inflows. Although conditions in the money market eased slightly in 1960 with the slowdown, monetary policy remained tight. The money supply as a proportion of GNP was essentially flat; interest rate differentials moved erratically but failed to narrow; the Canadian dollar still was trading at a substantial premium. The tight monetary policy alone would have been enough to keep the Bank at the centre of political controversy. In a series of unprece-

dented speeches across the country, however, Governor Coyne further expounded the views of his infamous 1959 Report. Coyne's undistilled mixture of economic nationalism and fiscal conservatism, which was at odds with the government's general economic policies, included: increased taxes; direct measures to restrict imports; decreased dependence on foreign capital; expenditure restraint; and the pegging of the Canadian dollar at par.⁶ In a startling departure from central bank conventions in Canada, the Governor was openly attacking the government's economic policy.

The Bank was now pressing the case, moreover, that there was little that any Canadian government could do for unemployment. Monetary policy was a general policy instrument, but Canadian unemployment, the Bank asserted, was essentially structural. Employment growth had failed to keep pace with the increase in the labour force. In particular, the stagnation of employment in goods producing industries was due to "the great input of capital in the form of machinery and equipment--mechanization and automation."⁷ As well, automated technological processes did not utilize domestic inputs because of the weakness of the Canadian capital goods sector. As a result a structural imbalance in Canadian trade had developed, and little domestic production and employment resulted from technological advance. In other words, unemployment in Canada was emphatically not due to a "deficiency of total spending...or of spending for capital purposes." Canadian unemployment, in the Bank's view, was due to national industrial structures.⁸

In the Bank's view, monetary policy had the paramount objective of stabilizing the price level. It could do little to alter industrial

weakness, given that competitive devaluation threatened inflation, and therefore unemployment. The conservative 'economic nationalism' of Coyne rubbed against Canada's postwar accumulation strategy. The fiscal and monetary conservatism was not entirely inconsistent with Canada's passive Keynesianism, but it seemed altogether out-of-touch with the unemployment crisis and denied even an accommodating role for monetary policy. The Canadian central bank already had significant autonomy from the Department of Finance and elected officials; Coyne was claiming even more. The Bank's independence was not threatened: the real question was weighing the costs of economic policy inconsistency.

The 'Baby Budget' introduced by the Tories on 20 December 1960 in response to the complete failure of the March effort, did little to resolve the strategic impasse. Indeed, the Budget confusedly attempted to deflect the criticisms of the Bank and to address the unemployment crisis. It was now conceded, for example, that the economic problems facing Canada were indeed structural. The terms of trade in basic materials had deteriorated and could be expected to continue to decline as production shifted toward services. As well, Fleming suggested that unemployment had a structural component: the unemployed tended to be young and unskilled, and were a growing component of the labour force. The core of the Budget's analysis, however, was conventional and quite in step with prior Tory budgets that as "world markets are becoming increasingly competitive" Canada would have to continue to constrain costs and strengthen certain sectors of the economy."

The Budget's proposals reflected the lack of direction between the old strategy and a new departure. Domestic investment was again to be

stimulated through business incentives: higher corporate tax brackets; reduced taxes on investment earnings in Canada; double depreciation allowances for investment in capital equipment for new products and for investment in labour surplus areas; a 15 per cent withholding tax on profits and interests leaving the country; and increased requirements for Canadian investment for pension plans. Non-budgetary measures were targeted at employment and tended to follow the structural view of unemployment. These measures were, nonetheless, still limited in scope and uncertain in execution: selective tightening of tariffs, especially in machinery and equipment to increase Canadian production; an expanded winter works employment program; and a new, still to be defined, training program. The sum of these measures seemed in effect to support the 'nationalist' position, being espoused by the Governor of the Bank of Canada, that structural weaknesses in domestic production and trade existed.

Yet, if the fiscal authorities now seemed willing to recognize at least some of the sectoral industrial weaknesses in Canada, the Budget was equally a measured rebuttal of Coyne's indictment of Canada's postwar accumulation strategy (a strategy that the Tories had come into power opposing). The sweeping censure of foreign capital was rejected only proposing minor alterations in the composition of future investment. The withholding tax was as much a step, within the purview of Finance, to reduce borrowing in the U.S. without a major devaluation of the dollar.' A deficit of \$280 million was forecast, largely caused by the endurance of the recession, but restraint in government spending was still the order of the day. In sum, the budgetary measures still ran a consistent thread to

previous fiscal policy during the reconstruction phase: strengthen the market by selective tax changes for business investment, and lower the Canadian cost structure to aid Canada's export position.

By 1961 the failures of Canadian employment policy during the recession illustrated well the lack of political commitment or institutional capacity to address unemployment. The 1957-59 budgetary failure to move strongly counter-cyclical as unused capacity increased demonstrated the embedded passiveness of Keynesian employment policies in Canada. A co-ordinated economic strategy between monetary and fiscal policy to support employment was an even more fragmented tentative affair. The modest fiscal measures adopted--tax cuts and increased transfer payments--attempted to spur an investment-led recovery, but failed to either stabilize investment or support employment. Monetary policy, moreover, kept a tight course against inflation despite a chronic current account deficit, an overvalued dollar, and a soft labour market.

With stabilisation policy doing little to contain unemployment, it fell on the archaic institutions of labour market policy--which had virtually been untouched since the war--to provide a response to unemployment. This followed from the focus of the unemployment debate around structural unemployment and fears of automation. But the lack of either an institutional capacity or a concerted commitment to act against cyclical unemployment could equally be discerned here. The paradox of the stabilisation policy impasse of the 1950s would soon be apparent: the passive, and at times perverse, Keynesian macroregulation of this phase helped prepare the way for a broader pattern of state intervention even as growth returned and unemployment temporarily receded in the early 1960s.

4.3 A Modernization of Labour Market Policy?

The internal contradictions confounding employment policy from 1956-60 provided an unstable foundation to launch fresh labour market initiatives even with the presence of automation fears and high unemployment. The failure to institutionalize full employment policies at the end of the war meant, moreover, that the structures of labour market policy had simply ceased to develop after demobilization. The labour movement had been the most committed social force to full employment, but even its economic strategy was focused on aggregate Keynesian policies. The central economic agencies were inclined only to narrow policies of market control.

The Department of Labour in the 1950s, headed by the new Tory Minister Michael Starr, also initially premised its employment policies on a market-led recovery. As Starr reiterated throughout the late 1950s, unemployment was outside the control of government, and in Canada had to be traced to labour supply growth "beyond the capacity of our economy to absorb it rather than to a drop in employment."⁴

At the outset of the 1957-58 recession, even if Labour had the disposition to implement policies to expand employment, the capacity to defend existing employment in the labour market was non-existent.⁵ Even for training policies--the largest area of labour market expenditures apart from unemployment insurance (UI)--the policy structures were prewar fossils. Training in Canada still largely occurred through vocational high schools or skilled immigrant flows to meet labour market needs. These organizational constraints--the absence of skilling structures and a programmatic strategy to support employment--blocked any significant

labour market response to unemployment as high unemployment returned in 1957.

The most forceful labour market initiative--and the easiest to undertake--was the reflex response to turn the immigration tap off as unemployment climbed, the counter-cyclical policy favoured by all sectors of economic policy making. Within the first month of office in 1957, the Tories undertook a series of restrictive measures which extended over the length of the recession. Levels of immigration were pushed down from 282,200 in 1957 to a only 71,700 in 1961. Greater selectivity in recruitment towards the highly skilled and professional workers was also applied.⁷⁶ The selectivity concurred with the structural unemployment position in arguing that skilled immigrant labour did not compete with the unskilled unemployed already in the labour market (given that there was few ways to train them in Canada). In this respect, Canada was unique as compared to Europe. With domestic skilling structures barely developed, immigrant labour was an integral part of 'extensive accumulation' in Canada even in soft labour markets."

The Labour Exchange and Administrative Constraints

The reliance on skilled immigrant flows in a period of high unemployment illustrated one dimension of Canada's underdeveloped national market institutions. The lack of labour market policy capacity was even more strikingly illustrated by the feeble attempts to directly support employment or to aid workers in job search. Organizational structures were quite simply absent and hence policy depended upon 'moral sanctions' aimed at business to hire 'disadvantaged' workers or to altering the labour market choices of workers. Youth were one group identified as the

'problem' unemployed. The Department of Labour maintained a 'stay-in-school' campaign from 1957-63, with the dual purpose of decreasing the labour supply and increasing the supply of skills necessary for automated processes.⁷⁸ A parallel campaign was undertaken to discourage discrimination against the hiring of older workers, and to demonstrate that retraining was an option. The fate of unemployed older workers epitomised the backwardness of Canadian labour market policies. Older workers most directly confronted technological displacement, yet other than limited National Employment Service (NES) counselling, there was no policy to provide retraining, adjustment assistance, or adequate income support.⁷⁹

The NES, then run as a separate institution from the Department of Labour, served as the main point of contact between the state and the unemployed. As a labour exchange it had a key role in disseminating labour market information. As early as 1957, Labour was pressuring the NES to take a larger part "in finding people jobs,"⁸⁰ but like the Department of Labour itself the NES had been allowed to run down during the reconstruction phase. The NES had neither the strategy or organizational capacity to assume a manpower policy to aid the jobless beyond the administration of UI and special placement services. The NES's dependence on employer's voluntarily using the service, moreover, prevented it from becoming an active employment agency. Indeed, the NES's 'job-finding' was limited to a few hopelessly erratic policies for improving the matching of existing stocks of jobs and workers: a scattering of job postings, a small mobility program to transfer workers out of labour surplus areas, and counselling suitable unemployed workers into basic literacy training programs. The labour exchange operated, therefore, primarily as an

adjunct to UI system, and, in operational terms if not in theory, even failing to satisfy the information role of its limited labour market mandate.⁸¹

The lack of any employment policy toward 'creeping unemployment' meant that the NES largely supervised the 'passive' expansion of UI entitlements--the corresponding labour market policy to the passive stabilisation policy--as unemployment climbed. Benefits paid out ballooned from \$231 million in 1957 to over \$513 million by 1961, seriously depleting the reserves of the fund. The major factor causing a 'crisis' in the fund was the numbers of jobless, but the extension of UI coverage to fishers in 1956 and seasonal benefits to aid unemployed workers in 1957 and 1958 also contributed. The expanded UI coverage was part of a general trend over the postwar period in Canada, and elsewhere, to expanded labour market coverage for UI (from 50.2 per cent of the labour force in 1950 to 63.6 per cent in 1962).⁸² The significant trend in Canada, underlined by the recession and the lack of a regional development policy, was the reliance on compensation in the policy mix. The ratio of UI to labour market program expenditures climbed to over 10 to 1 in 1958-59. The crisis of the UI fund sparked political controversy, of course, and drew spurious calls for stricter insurance principles and a tightening of coverage. In contrast, the trade unions wanted both expansion of coverage and fund shortfalls to be met out of general revenues but only as part of a broader employment package.⁸³

Direct Job Creation and Winter Works

The new element of employment policy, paradoxically, had little to do with either the cyclical or structural interpretations of unemployment.

Seasonal unemployment was not a new problem to Canada and developed even during years of rapid accumulation. It became especially acute in periods of high unemployment as seasonal amplitudes tended to increase with even fewer offseason jobs available. In the 1950s, income support programs remained incomplete providing little or no bridging income for seasonal workers, an acute problem in several regions.⁹⁴

The recession intensified concerns about seasonal unemployment. Indeed, these policies became the centrepiece labour market response to the unemployment crisis. General economic policy was restrictive, and other programs were simply not in place. The political pressure to take action on unemployment, which the Tories had campaigned on in 1957 converged, therefore, with the severe problem of seasonal unemployment and where the Department of labour already had policy capacity.⁹⁵ But how to counter seasonal fluctuations and create winter employment? Efforts to avert seasonal unemployment had relied, as with other policies, on 'behavioural sanctions'. This was the case, for example, of the 'Do-It-Now' campaign launched each winter by labour and the NES to alter existing 'customs of production' to provide year round employment, particularly in the construction industry, which accounted for the largest proportion of the seasonal unemployment. The federal government also attempted to shift public works to winter and expand research into all-season production technology. The initial year of the recession saw these campaigns expanded, and new funds also allocated for the building of forest-access roads and cheap housing loans.⁹⁶ This was inadequate to meet the demand for funds, to ease the seasonal employment problem, or to provide relief for growing welfare rolls.

As pressure to respond to unemployment mounted over their first winter in office, the Tories announced a conference to examine seasonal unemployment for July 1958, sparked by concerns from both the Department of Labour and the NES about the need to expand existing seasonal programs. The National Winter Employment Conference--the first major postwar conference on unemployment--was convened to obtain a 'consensus' for a new program of off-season employment with an emphasis on financial incentives.⁸ Little came out of the conference, although there was unanimity on the idea of incentive payments for winter work, particularly for a municipal infrastructure programs (which bore similarity to the Depression work relief schemes).

The government still had to determine the specific policy. As it was not considered feasible to provide grants directly to private capital for seasonal work, options were limited to the means of providing short term municipal aid. The options varied between grants for employment costs only, material costs as well, or loans for approved projects. The Department of Labour favoured an incentive system to be applied to the costs of hiring labour and for specific capital projects which contributed to public infrastructure. Additionally, in making its case, Labour argued that the program would provide a general demand stimulation in weak employment conditions, as well as being part of a seasonal smoothing of employment fluctuations. The Department of Finance opposed any new incursion into the market and argued that the program's objectives were "ill-focused". The economy, in their view, was recovering and inflation was now a danger. Over the opposition of Finance, in October 1958 the Tories announced a program to share costs for winter works effective

immediately.⁸⁸

At the centre of the Municipal Winter Works Incentive Program was a wage subsidy for specified municipal projects. The federal government offered to pay 50 per cent of direct payroll costs for municipal construction undertaken during winter months. The wage subsidy, it was hoped, would apply to unemployed workers hired through NES offices. Although preference was to be given to areas of high unemployment, there existed no mechanism to ensure that this was the case. Certain municipalities, often those with high unemployment rates, simply might not have the necessary fiscal resources to take up the program. While provincial administrative structures were to be used for the program--municipalities falling in their jurisdiction--the provinces had no obligation to provide funds. Additionally, the stability of the program was not assured, depending upon yearly appropriations. Indeed, the hurried decision left many of the specific program details to be worked out.⁸⁹ In any respect, the program could only have a marginal impact, on even seasonal unemployment: expenditures were to be about \$6.5 million and \$8.4 million for 1958-59 and 1959-60 respectively, and employing some 40,000 workers per year for about 45 days of work.

Although small in relation to the problems of unemployment, the Winter Works program moved employment policy in Canada, for the first time since the 1930s, beyond merely passive measures and the assumption that employment should only be provided in the capitalist sector or by incentives to accumulation. In a sense, the Winter Works initiative provided the case for the view, as the Department of Labour concluded, "that employment could be increased directly and indirectly by means of winter

works: that manpower could be supplied without undue influence or pressure on the labour market."⁹⁰ But this should not be overstated either since commitment to an employment policy of even market control remained slight. Winter employment programs did not, and could not, increase the aggregate number of jobs except in the very short run. Their place in stabilization policy--the extent they were contra-seasonal or counter-cyclical--remained unclear at best. In the words of a senior Department of Labour official, the government's "role should not be a permanent one but simply one of getting the private sector to act."⁹¹ Yet, even as the recession lingered into 1961, the Tories had to claim Winter Works as their major response to unemployment."⁹² By the winter of 1960-61 expenditures approached \$23 million, and almost 2 per cent of the labour force was spending some time on winter works.

The Search for a Training Policy

Training policy was the largest component of the Department of Labour's expenditures. Training was central to any substantive employment policy response to unemployment and a transition to more intensive accumulation. Despite the growing automation fears and the acknowledged shortfall of Canadian training institutions, there was little policy innovation in the late 1950s. An Advisory Committee on Technological Change was established in 1957, composed of various industry, labour, and government groups. While primarily advising the research program of the Department, the Committee also had the view that skill shortages were a problem that would continue to face Canada, and added to the calls for the expansion of apprenticeship training and technical schools."⁹³ The provinces had already begun to expand provincial training programs and technical schools

from the sheer weight of economic and demographic pressures. British Columbia, for example, had just added five thousand spaces for apprentices in the construction industry and new training facilities, while Ontario announced the opening of three new technical institutes to go alongside Ryerson Polytechnical. Industry also was being forced to extend formal on-the-job training programs to meet immediate needs; for example, the Ford plants in Windsor began their first extensive training programs in September 1957.

The problem of national skill shortages was hardly new, however. Canadian capitalists had always been reluctant to bear the costs of training, preferring to rely on skilled immigrant labour. Businesses that provided apprenticeship and in-house training programs suffered from turnover as companies without programs engaged extensively in poaching trained workers. Smaller manufacturing businesses also simply had difficulty in establishing and sustaining programs.⁹⁴ It was estimated that one-half of businesses had shortages of professional and technical manpower, causing cuts in production and expansion plans.⁹⁵

Federal training policy, however, stagnated during the recession. The Vocational Training and Co-ordination Act (VTCA), put in place to meet the emergency needs of the war, remained the basic policy structure and the main revenue source for provincial training programs. The VTCA allowed the Department of Labour to negotiate individually with the provinces, but left control of programs in the hands of the provinces in terms of standards, levels of funding, numbers of trainees, and occupations trained. In addition, because of the reliance on informal on-the-job training and immigration, the formal training programs of the VTCA had

tended to focus on marginal groups of workers such as the chronically unemployed, veterans, and the disabled. Even technical and apprenticeship training provided, for the most part, only basic trades skills, with no particular attempt to link training intakes with an assessment of labour market needs. The conclusion drawn by virtually all observers, besides Labour's own studies, was that existing training structures in Canada clearly were unsuitable for the way automation was leading to an upgrading of skills toward conceptual activities from automation. They also could simply not cope with the numbers of youth expected to be hitting the labour market.⁹⁶

An attempt was made to salvage the VTCA just prior to the 1957 election, with the signing of the Vocational and Technical Training Agreement No. 2 for five years. The new agreement contained few differences from the VTCA, but encompassed an effort to establish training expenditures in line with Labour's analysis of labour market trends of a 'levelling upward' of skills. The Agreement established a few specific goals: preference was to be given to the training of technicians at the postsecondary level; trades training in provincial institutions would also receive additional support; and, finally, a larger allotment would be granted for capital expenditures to expand technical and trade institutes.⁹⁷

The new Agreement, however, ignored the difficulties that had traditionally plagued the VTCA, and did not fully address the lack of training structures for adults or in industry. After the initial jump in enrolments, the number of workers in federal labour market training programs stayed at under 1 per cent of the labour force from 1957 to 1960.

For the unskilled unemployed utilizing the general upgrading of Schedule M of the VTCA, the numbers doubled to about 4,600 in 1960 but this represented only a minuscule number of the unemployed, and, in any respect, expansion of the program was limited by lack of facilities.⁹⁰ The failure of the provinces to take up the matching grants for capital spending blocked any efforts to increase training loads. Less than half of the \$40 million allocation was claimed by the provinces, with a disproportionate share going to Ontario. Quebec refused to sign either the Training Agreement or the 1959 extension of the special training programs. These shortcomings severely strained claims, which the government and the Department of Labour suggested, that the agreement had launched a national labour market program. Indeed, with the lack of Quebec participation and the poorer provinces less able to utilize the capital funds, the new training policy quickly became politically untenable, especially as federal spending increased to meet the labour market strategy of improving skills.⁹¹ The VTCA was buckling under the strain of its anachronistic structure.

With unemployment again climbing in 1960 and political pressure mounting, the Tories convened a national conference on unemployment in October inviting an array of national economic associations. The conference prepared the ground for the announcement of two new labour market measures to be put forward later in the November Speech from the Throne. A national productivity council, designed after the 1952 British model, was to be formed to study ways to improve the productivity of Canadian industry. Notably, the council aimed to encourage industrial research, develop workplace worker-management committees, and promote on-the-job

training. More importantly, a new training policy was announced to modernize and expand training facilities. With remarkable speed, on 12 December 1960 the Technical and Vocational Training Act (TVTA) passed the House unanimously, replacing the VTCA relic.¹⁰⁰

The TVTA reflected the structuralist view that employment growth would predominantly be in skilled and technical jobs.¹⁰¹ Its intent was to substantially expand training of all workers but particularly for the large numbers of new entrants. Funding was similar in pattern to what had existed, combining federal grants for the various institutional programs with assistance for trainee costs. With Duplessis gone, Quebec was now willing to participate in shared-cost programs. The key new element of the TVTA, and the only component of the policy which warranted a new training act, was the 75 per cent open-ended capital grant for all facilities built within two years. A 50 per cent contribution to operating costs and expanding the supply of technical teachers was added. Three trainee categories were emphasized: youth entering the labour force via vocational high schools, new labour-force entrants receiving postsecondary technical training in specific occupations; and workers already in the labour force requiring retraining (with no real restrictions on the occupation or form of training). The program was comprehensive in terms of labour market coverage, if unfocused in its training objectives other than a general desire to increase all forms of training. The new measures changed the least, however, for the unemployed. The expanded facilities and funds would undoubtedly expand the number of new and existing workers on training programs; the increased coverage of training costs to 75 per cent for the unemployed would expand the size of short term basic skills

training programs. But there was no clear counter-cyclical training component which could serve to offset the effects of a recession and build a base from nationally developed skills for the economic recovery. The lack of a national skills strategy paralleled the failure to form an industrial strategy to strengthen Canada's competitive position.

4.4 Conclusion: Keynesian Employment Policies Stalled

The final rush to pass the IVIA bill illustrated the general failure of the Canadian state to define an employment strategy for the automation scare. The IVIA established a renewed mandate for training policy, but without a clear direction or national strategy. Alongside the expanded winter works, the scope of labour market policy was broader than when the recession began but both had a clearly delimited role for market control. The IVIA proceeded under the assumption that technological change was a problem of skilling for individual workers, and not a general issue of adjustment policy to support employment. Seasonal employment support did not provide a counter-cyclical employment capacity. The new programs, therefore, hardly dented unemployment. By the end of the 'Great Automation Scare' the wedge to establish a more active labour market policy was in place, but that strategy remained to be determined. This was less true for stabilisation policy.

The recession only seemed to compound the discord between external stability and the national regulation of growth and employment. Some of the differences were papered over by Finance Minister Fleming's parallel passion to Governor Coyne's for 'sound money' and antithesis toward Keynesian policies. Even still the restrictive monetary policy sat

uneasily with much of the fiscal policy of the period. Coyne's comments on economic policy, moreover, heightened tensions with an already uncertain government. The 'united front' for restraint in 1959-60 stalled Keynesian policies and an open split between the Bank and Finance. But the persistence of high unemployment and Governor Coyne's renegade stance on Canada's external dependence on the U.S. meant that a rupture was only a matter of time.

The recession of 1957-61 already illustrated the internal limits of Canada's limping Fordist growth model: any slowdown in world accumulation promoted enormous pressures on the national economy from a declining competitive position in the international hierarchy of production and a growing labour force. The employment policy regime consolidating in postwar Canada had little capacity to contain these unemployment pressures. The economic authorities were committed to external stability as the foundation for high employment. The full employment policies that existed were left to labour market policies, yet the Department of Labour barely had the capacity to supply these and modernisation awaited the 1960s. Harry Johnson, the leading Canadian economist at the time, observed of the period:

The legacy which I find rather disturbing is the ad hoc approach to labour market problems of employment and manpower which constitutes the essence, the residual essence I might say, of Canadian employment policy at the present time.¹⁹²

This would be an enduring legacy of Canadian employment policy on the postwar road to mass unemployment.

Endnotes

1. H. Braverman, Labor and Monopoly Capital (New York: Monthly Review 1974), 425.
2. See: Ostry and Zaidi, Labour Economics; D. Smith, 'The Controversy over Structural Unemployment,' The Canadian Banker, 72:2 (1965); E. Gilpatrick, 'On the Classification of Unemployment,' Industrial and Labour Relations Review, 19:2 (1966); and J. Winder, 'Structural Unemployment,' in A. Kruger and N. Meltz, eds., The Canadian Labour Market (Toronto: University of Toronto 1968).
3. This definition of structural unemployment was widespread. See: Special Committee of the Senate, Final Report, N. 25, 10-11; R. James, 'Testimony,' Special Committee of the Senate, Proceedings, N. 4; and W.D. Wood, 'Testimony,' Special Committee of the Senate, Proceedings, N. 12.
4. Department of Labour, 'Testimony,' Special Committee of the Senate, Proceedings, N.6; and Special Committee, Final Report, N.25, 49-51, 58, and 63. The most forceful presentations of the argument were by Charles Killingsworth. See his, 'Automation, Jobs and Manpower,' in W. Bowen, ed., Labour and the National Economy (New York: Norton 1965).
5. The OEEC argued this point, and it was widely commented on during the late 1950s. See: OEEC, The Problem of Scientific and Technical Manpower in Western Europe, Canada and the United States (Paris: OEEC 1957), 23-4 and 47-64; Forecasting Manpower Needs for the Age of Science (Paris: OEEC 1960); and P. Axelrod, Scholars and Dollars: Politics, Economics and the Universities of Ontario, 1945-1980 (Toronto: University of Toronto 1982).
6. Shonfield, Modern Capitalism, 5; B. Olson, 'Policy Implications of Technological Change in Western Europe,' in G. Somers, E. Cushman, and N. Weinberg, eds., Adjusting to Technological Change (New York: Harper and Row 1963), 192; and P. Holmberg, 'The Relationship Between Full Employment and Technological Change in Western Europe,' in J. Stieber, ed., Employment Problems of Automation and Advanced Technology (New York: St. Martin's 1966).
7. OEEC, Accelerated Vocational Training for Unskilled and Semi-Skilled Manpower (Paris: OEEC 1960), 31. One of the components of the OEEC at this time was the European Productivity Agency which was concerned with automation and training.
8. OEEC, Steelworkers and Technical Progress (Paris: OEEC 1959), 56.
9. ILO, Automation and Other Technological Developments, Report of the Director-General, International Labour Conference, 40th Session (Geneva: ILO 1957), 30 and 40. As the Director David Morse put it: 'we need a positive approach to employment problems ...directed towards bringing about the changes in employment policies and institutions which will make

them effective agencies for muting the impact of the new technologies.' (69)

10. ILO, Employment Problems and Policies, Report N. 6, International Labour Conference, 45th Session (Geneva: ILO 1960), Chs. 3 and 5.

11. E. Clague and L. Greenberg, 'Technological Change and Employment', Monthly Labour Review, 85:7 (1962). For examples of the very large automation literature see: J.T. Dunlop, ed., Automation and Technological Change (Englewood: Prentice-Hall 1962); and W. Glazier, 'Automation and Labour,' Monthly Review, 10:3 and 4 (1958).

12. A. Jaffe and J. Froomkin, Technology and Jobs: Automation in Perspective (New York: Praeger 1968), 42-3; and E. Clague and L. Greenberg, 'Employment,' in Dunlop, ed., Automation, 128-131.

13. J. Sundquist, Politics and Policy: The Eisenhower, Kennedy, and Johnson Years (Washington: Brookings 1968), 21-34 and 57-85.

14. ILO, Manpower Adjustment Programmes: Canada, Italy, Japan, Labour and Automation Bulletin N.7 (Geneva: ILO 1968), 13-4.

15. See: D. Smith, Gentle Patriot (Edmonton: Hurtig 1973), 39-40; S. Kuznets, 'Canada's Economic Prospects,' American Economic Review, (1959); and H. Johnson, The Canadian Quandary (Toronto: McClelland and Stewart 1977), 3-10.

16. Royal Commission on Canada's Economic Prospects, Final Report (Ottawa: Queen's Printer 1957), 13-14 and 420-7.

17. Ibid., 445.

18. Ibid., 115, 248, 254, 321-2, and 447-9. For commentary on these proposals: L. Nicol, 'The Gordon Report,' Canadian Business (March 1957); and J. Mills, 'The Gordon Commission Report,' The Business Quarterly, 22:2 (1957).

19. J.P. Francis, 'Manpower Implications of Technological Change in Canada,' Labour Law Journal, 14:8 (1963), 662-3. The varied Studies are published under the general title Technological Changes and Skilled Manpower (Ottawa: Department of Labour 1957-60) and include studies of electrical household appliances, data processing, and automated industries.

20. Department of Labour, 'Testimony,' Special Committee of the Senate, Proceedings, N. 6, 332-5.

21. Ibid., 337. As one text, based on these studies, put it: "Whether the technological change causes the quantity of labour employed by the firm to rise, to fall, or to remain unchanged, the quality of labour will increase." See: Peitchinis, Economics of Labour, 170.

22. Department of Labour, 'Testimony,' Special Committee of the Senate, Proceedings, N.6, 334; and W. Dymond, 'The Impact of Automation on Manpower and Labour-Management Relations.' (Ottawa: Department of Labour, mimeo 1962), 4.
23. Department of Labour, Skilled and Professional Manpower in Canada, 1945-1965 (Ottawa: Queen's Printer 1957), 20.
24. Ibid., viii-ix.
25. Department of Labour, Acquisition of Skills, Research Program in the Training of Skilled Manpower, N.4 (Ottawa: Queen's Printer 1960), 8-10; Progress Report, Research Program on the Training of Skilled Manpower, N. 1 (Ottawa: Department of Labour 1957), 9-10; and Training and Recruitment of Skilled Tradesman in Selected Industries in Canada, 1951-1956 (Ottawa: Queen's Printer 1957).
26. Ibid., xiii-xiv and 71.
27. Department of Labour, Skilled and Professional Manpower, 102-3.
28. Department of Labour, 'Testimony,' Special Committee of the Senate, Proceedings, N.6, 348-50. On the need for training facilities, see: C.R. Ford of the Training Branch of the Department of Labour, 'Testimony,' Special Committee of the Senate, Proceedings, N.20.
29. Ibid., 349; Department of Labour, The Aging Worker in the Canadian Economy (Ottawa: Queen's Printer 1959), 51-2; idem, Submission to the Senate Special Committee on Aging (Ottawa: Department of Labour 1964), 11-3; and idem, Implications of the Traditional Divisions Between Men's Work and Women's Work in Our Society (Ottawa: Department of Labour 1964), 13.
30. Department of labour, 'Testimony,' Special Committee of the Senate, Proceedings, N. 6, 353. As Peitchinis notes, education was held out to be the basis for employment security. See: Peitchinis, Economics of Labour, 169. This remains, of course, a liberal cliché of a mismatch between old skills and new jobs causing unemployment. See: S. Williams, A Job to Live: The Impact of Tomorrow's Technology on Work and Society (London: Penguin 1985), 12-3.
31. Canadian Manufacturers' Association, 'Testimony,' Special Committee of the Senate, Proceedings, N.11, 802. Also see: 'Employment in Canada,' Industrial Canada (Nov. 1960), 49-60; 'Manufacturing Expansion- the Road to Full Employment,' Industrial Canada (Dec. 1960), 54-8; 'Pattern for Progress,' Industrial Canada (Nov. 1958), 50-51; and 'Ten Points for More Jobs,' Industrial Canada (Nov. 1960), 27-8.
32. Canadian Chamber of Commerce, 'Testimony,' Special Committee of the Senate, Proceedings, N.3, 181.

33. Department of Labour, Technological Changes and Skilled Manpower: The Automobile and Parts Manufacturing Industries (Ottawa: Department of Labour 1960); Idem, 'Impact of Technological Change on Canada's Automobile Industry,' Monthly Labor Review, 84:4 (1961), 388-90; Department of Labour, Technological Change and Skilled Manpower: The Electrical and Electronics Industry (Ottawa: Department of Labour 1957), 6.
34. J. Bright, 'Does Automation Raise Skill Requirements?,' Harvard Business Review, 36:4 (1958), 97; and Braverman, Labor and Monopoly Capital, Ch. 9. In studying postwar foresting in Canada, Radforth also points that the process of skilling was more complex than simple deskilling or upgrading. But, if anything, he reproduces some of the flaws of the upgrading thesis as Braverman has shown. See: I. Radforth, 'Woodworkers and the Mechanization of the Pulpwood Logging Industry of Northern Ontario, 1950-1970,' Historical Papers (1982); and Bushworkers and Bosses (Toronto: University of Toronto 1988).
35. CLC, Probable Effects of Increasing Mechanization in Industry (Ottawa: Queen's Printer 1956), 51; E. Forsey, 'Technological Change: A Problem for Labour,' Industrial Relations and Technological Change, McGill University Industrial Relations Centre, 9th Annual Conference, 1957; CLC, First Convention: Report of Proceedings (April 1956), 84. Noble has pointed out this wide acceptance in the US as well, while Speirs and others have noted things were often quite different on the shopfloor: D. Noble, Forces of Production (New York: Knopf 1984), 248ff; R. Speirs, Technological Change and the Railway Unions, 1945-1972 (University of Toronto Ph.D. Thesis 1973), 15-6; and T. Buck, 'Automation and the Leadership of the Nation,' The Marxist Quarterly, N.11 (1964).
36. 'Unemployment Part 1,' Labour Research, 6:2-6 (1961); and CLC, 'Testimony,' Special Committee of the Senate on Employment, Proceedings, N. 5, 28. This view was widespread: A. Braumthal, 'The Trade Union Movement Faces Automation,' International Labour Review, 76:6 (1957).
37. 'TLC-CCL Brief to Gordon Commission,' Canadian Labour (April 1956), 33; Labour Gazette (LG) (June 1957), 681; and LG (March 1957), 270.
38. CLC, First Convention, 87. The first CLC Platform of Principles had as its first objective: "Full employment at the highest possible standard of living." See: 'Platform of Principles,' Canadian Labour (May 1956), 30.
39. CLC, 'Testimony,' Special Committee of the Senate, Proceedings, N.5, 272; CLC, A Policy for Full Employment (Ottawa: CLC 1960), 4-8 and 34-7; and idem, Memorandum to the Government, 21 October 1957 (Ottawa: CLC 1957), 6-8.
40. Special Committee of the Senate, Final Report, N.25, 52 and 58; S. Ostry, 'The Senate and Unemployment,' The Canadian Banker, 68:3 (1961-62), 39-47.

41. This tension made for George Grant's lament. See: Lament for a Nation (Toronto: McClelland and Stewart 1965), 13.
42. J. Granatstein, Canada 1957-1967: Years of Uncertainty and Innovations (Toronto: McClelland and Stewart 1986), 445; and Campbell, Grand Illusions, 119 and 124.
43. See in particular: Wolfe, 'Rise and Demise,' 61.
44. The left, of course, quite rightly argued that trade and payments policies, via planned trade and exchange controls, should be subordinate to employment policy. For a discussion of the classic case of this issue see: J. Tomlinson, British Macroeconomic Policy Since 1940 (London: Croom Helm 1985), 46-9.
45. Shonfield noted that a key difference between North America and Europe was the slight reliance of the former on discretionary changes in macro policy. See: Modern Capitalism, 56-8.
46. B. Warren, 'Capitalist Planning and the State,' New Left Review, N.72 (1972), 16-9.
47. The economic trends are culled here, and below, from: Bank of Canada, Statistical Summary (Ottawa: Bank of Canada, various years); Minister of Finance, Budget Speech and Papers (Ottawa: Queen's Printer, various years); Statistics Canada, National Income and Expenditure Accounts, Quarterly Estimates, 1947-1974 (Ottawa: Information Canada 1976); and Canada Year Book (Ottawa: Queen's Printer, various years).
48. Trade and Commerce, and some advisors in the Privy Council Office, suggested that the signs of a turning point were apparent and stimulus was required. Finance and the Bank of Canada dissented. The subsequent release of the 'hidden report' of Trade and Commerce was used by the Tories in the 1957 election. See: Campbell, Grand Illusions, 122; and M. Lamontagne, Business Cycles in Canada (Toronto: Lorimer 1984), 187.
49. Budget Speech, 14 March 1957, 5 and 11.
50. Ibid., 4 and 6.
51. House of Commons, Debates, 1957-58, 2009. Granatstein has pointed out that there existed strong advice, however isolated, that unemployment would be at a postwar high in early 1958 and employment might be stimulated. See: Canada 1957-1967, 66.
52. Bank of Canada, Annual Report, 1957, 17-8. As central bankers comment, ad nauseam, "In retrospect it is clear that throughout the western world since the second world war the dangers of inflation have been under-estimated. Partly as a legacy of the deepest and longest depression on record and partly because the full rigours of the cold war were not foreseen or quickly realized, it was too easily accepted that the economic system had a natural tendency towards deflation and that the

threat of inflation would at most be sporadic and mild."

53. C. Barber, 'The Canadian Economy in Trouble,' Brief to the Royal Commission on Banking and Finance (Winnipeg: mimeo April 1962), 5 and 22-3; R. Artus, 'Canada Pegs its Dollar,' The Banker (June 1962); and H. Gordon and L. Read, 'The Political Economics of the Bank of Canada,' Canadian Journal of Economics and Political Science, 24:4 (1958).

54. Budget Speech, 17 June 1958, 4 and 7.

55. The deficit was to be the principle means of supporting employment. But as Will has pointed out, many of the planned expenditures failed to materialize as the famed keynesian 'public works shelf' did not exist. See: R. Will, Canadian Fiscal Policy, 1945-1963, Studies of the Royal Commission of Taxation, N.17 (Ottawa: Queen's Printer 1967), 71; and A. Eaton, 'Frustrations in Fiscal Policy,' Canadian Tax Journal, 6:6 (1958).

56. Bank of Canada, Annual Report 1958, 5-6.

57. Ibid., 10. This episode is examined in detail in: P. Wonnacott, The Canadian Dollar, 1948-1962 (Toronto: University of Toronto 1965), 219-28. In Coyne's presentation, unemployment was not discussed as a tradeoff with inflation: the two were seen in conflict in a 'pre-keynesian' sense.

58. Will, Canadian Fiscal Policy, 74-5.

59. Budget Speech, 9 April 1959, 7-8 and 13-4. Bryce advised the government "to accept some cost in terms of unemployment in order to check inflation." Cited in Granatstein, Canada 1957-1967, 68.

60. Gordon, 'Twenty Year Perspective,' 40. Alvin Hamilton recalls Finance Assistant Deputy Minister Simon Reisman saying at the time: "If only we had a government that had enough guts to make a half million unemployed, then labour would be humble and wouldn't ask for so much money and the economy would grow." Cited in P. Stursberg, Diefenbaker: Leadership Gained, 1956-62 (Toronto: University of Toronto 1975), 214.

61. Senate of Canada, Standing Committee on Finance, 'Report of the Committee,' Proceedings on the Threat of Inflation in Canada, N.11, 14 July 1959, 469. The memoirs of Donald Fleming concur that the Department of Finance was also much more concerned with inflation than unemployment. See: D. Fleming, So Very Near, Vol. 2 (Toronto: McClelland and Stewart 1985), Ch. 52 and 73-4.

62. Senate of Canada, Threat of Inflation, 480 and 484. In a key submission, Frank Knox denied a trade-off notion: "...very few economists will be found, however, to argue that our policy choices lie between full employment plus sizeable price increases, on the one hand, and price stability plus stagnation in the national output on the other." F. Knox, 'Testimony,' Senate of Canada, Standing Committee on Finance, Proceedings, N.1, 26 May 1959, 16.

63. Bank of Canada, Statistical Summary, 1960, 42-4 and 150-1; Wonnacott, Canadian Dollar, 228-9; and Budget Speech, 31 March 1960, 70.
64. Bank of Canada, Annual Report 1959, 7.
65. Ibid., 6-7. "With Mr. Coyne it appeared to be an article of faith that Canada's employment problem was not amenable to correction through the expansion of the money supply." Artus, 'Canada Pegs,' 366.
66. Royal Commission on Banking and Finance, Report (Ottawa: Queen's Printer 1964), 412-3. This had the effect, of course, of easing conditions in the money market.
67. 'Defending Dear Money,' The Economist (26 September 1959), 1051. For commentary on the tensions in Cabinet see: W. Gordon, Troubled Canada (Toronto: McClelland and Stewart 1961), 68-79; and Canadian Annual Review For 1960 (Toronto: University of Toronto 1961), 5 and 9-10. Coming from Finance Minister Fleming, this proclamation of no government responsibility for monetary policy was an enormous act of hypocrisy as he led the attacks on Walter Harris in 1956.
68. Budget Speech, 31 March 1960, 5-8. In discussing the 1959 and 1960 budgets, the Carter Commission noted that they were 'completely inappropriate' and emphasised price stability at the expense of full employment. See: Royal Commission on Taxation, Report, Vol. 2 (Ottawa: Queen's Printer 1966), 76-7.
69. Bank of Canada, Annual Report 1960; Bothwell, et al., Canada Since 1945, 223; and Canadian Annual Review, 1960, 173-8.
70. Annual Report 1960, 9.
71. Ibid., 14-6.
72. House of Commons, Debates, 20 December 1960, 1001.
73. Artus, 'Canada Pegs,' 366; and A. Plumptre, Three Decades of Decision: Canada and the World Monetary System, 1945-75 (Toronto: McClelland and Stewart 1977), 162.
74. LG (Jan. 1958), 18; and LG (Sept. 1958), 961.
75. B. Doern and R. Phidd, Canadian Public Policy (Toronto: Methuen 1983), 504-6. In contrast, Andrew Martin points out that Sweden acted quickly during the 1957-58 recession with a series of labour market measures. Canada not only failed in terms of timing but also lacked the capacity to act. See: 'Trade Unions in Sweden,' in P. Gourevitch, et al., Unions and Economic Crisis (London: Allen and Unwin 1984), 217-8.
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Chapter 5

The Origins of Active Labour Market Policies, 1961-1966

Our economic problems can be summed up briefly: total demand for goods and services is not sufficient to create jobs to meet the needs of an expanding labour force and to accommodate those who are being displaced by technology.... We must get our growth rate up, get it up far enough to restore full employment, and keep it there.

Canadian Labour Congress¹

Several factors shifted the terms of the unemployment debate in the early 1960s. Notably, in the cyclical upswing of 1961-66, unemployment receded slowly, while inflation seemed to pick up momentum as labour markets tightened. The apparent paradox of price instability and simultaneous unemployment was a latent employment policy dilemma of the postwar period. If economic growth was spurred, increasing industry's demand for labour, wages rose and the rate of price inflation threatened to accelerate but slowing the rate of growth to stabilize prices caused unemployment to shoot up. High employment and the inflation-unemployment tradeoff could also be upset from a quite different direction. The 'automation scare' had underlined the importance of labour skills for long run growth. The 'human capital' school argued that labour quality was a key input into production: investment in education and training promoted growth and, through individual skill improvement, reduced poverty. The new automated techniques also required flexible adjustment of the supply of labour as old jobs declined and new skills were required. Would displaced workers be mobile or add to labour market rigidities? Could economic growth be rapid enough to provide jobs for displaced workers without sparking an inflationary spell?

These two problems--macroeconomic stabilization and labour adjustment for increased growth--were central to the origins of 'active labour

market policies' in the early 1960s. Indeed, active labour policies posed as a solution to both problems: speeding the adjustment of workers to job changes that came with high growth and new techniques, and improving the inflation-unemployment tradeoff at any level of output capacity. The precise employment policy structures, however, varied considerably according to national context. The postwar trajectory of Canadian employment policy meant that labour market policies, while being the main response to unemployment, would be used primarily to strengthen economic growth.'

This chapter will discuss the initial consolidation of Canada's active employment policy regime. The first section suggests that the development of active labour market policies in the early 1960s represented an important extension of the postwar full employment commitments, and their implementation further defined national employment policy regimes. The active labour policy concept was connected to the 1960s 'growth push' as a solution to the capitalist unemployment problem. Canada, in particular, embraced active policies as aiding the market led-growth objective already central to its employment policy. The major dissension came from the CLC who favoured the expansion of 'social capital' as part of a growth package. The renewed economic strength of the unions from economic recovery also backed the impetus toward active labour market policies (which the CLC had had as part of its economic platform since the 1950s, but had never canvassed vigorously for, preferring to argue for Keynesian reflation). Stabilisation policies in the early 1960s, however, continued to be cursed by the turmoil between the Bank of Canada and the Department of Finance, and between hard currency policy or Keynesian stimulation. The confusion only evaporated, it will be

explained in the second section, with high economic growth and common cause in restraint. The third section shows the slow process of developing active labour market policies in Canada, and the continuance of strategic and institutional instability even up to the creation of a new 'manpower' department.

5.1 Structuralists, Keynesians and the Growth Consensus

With employment recovering, criticism of the structuralist interpretation of unemployment gained momentum in the early 1960s within the OECD bloc. Three lines of argument, all Keynesian in origin, could be discerned. First, the fears of technological change and unemployment raised by the 'automation scare' were reduced to a simple issue of growth:

[Unemployment] cannot be found in the particular industry where changes have been introduced and workers have been displaced. On the contrary, it must be sought in the general process of economic growth out of which new opportunities are precipitated.'

Growth would resolve the distributional contradictions of capitalism, including the distribution of work, by providing more for everybody. Additionally, it was argued by Keynesians that the source of unemployment should not be confused with its incidence: cyclical unemployment would equally tend to concentrate in certain groups.⁴ Finally, it was noted that long term unemployment had been drifting upward, at least in North America, prior to the recession, so the sharp increase in unemployment after 1957 was unlikely to have structural causes. The relative composition of unemployment between occupations, regions and skills showed, moreover, no significant break in trend. As the economy recovered under its own steam or from fiscal stimulus, "hard-core unemployment seemed to

melt."⁵

In response to these criticisms, the structuralist position became less sweeping in its indictment of technological change for unemployment. The dislocations produced by automation depended upon the relative pace of adjustment. Indeed, the form of unemployment was a matter of degree and not of kind--"the basic issue is how much of each."⁶ If structural change was 'twisting' labour demand in favour of the highly skilled, then it was necessary to ensure adequate skilling and mobility of workers alongside the stimulation of aggregate demand. There was good reason, therefore, to suggest that 'structural' and 'deficient demand' unemployment interacted. Inadequate demand contributed to long term unemployment, a deterioration of skills, and, hence, an inability to adjust to new employment. If unemployment was disaggregated, then a mix of fiscal and selective labour market policies could be applied to lower the rate of unemployment.'

Within this 'consensus' the simple tradeoff between unemployment and inflation depicted by the Phillips curve became widely accepted. The tradeoff curve was, in a sense, the ideal compromise between supply and demand side explanations of unemployment. On the one hand, the curve seemed to clarify the apparent conflict between the objectives of price stability and full employment. Moving along the curve to lower unemployment spurred inflation, unless a means existed to cap cost-push pressures such as an incomes policy. On the other hand, by improving the flexibility of the labour supply and wages, the curve might be shifted, improving the entire tradeoff between inflation and unemployment. This was the role of selective labour market policies of continually adjusting workers to new job opportunities. The Phillips curve theoretically represented a

subtle but important political shift in emphasis. Full employment now was not defined only by conditions in the labour market--the initial Beveridge formulation of unemployed to vacancies--but in relation to the price level. The disarmingly simple formula of Samuelson and Solow conveyed the new wisdom: the curve offered a "policy menu of choices between different degrees of unemployment and inflation."⁸

The division between aggregate and selective policies depended upon the relative weight given to deficient demand and structuralist views of unemployment, which pivoted around an assessment of the efficiency of labour markets. In the neoclassical synthesis, labour was an homogeneous input, substitutable between industries and occupations: it was 'sticky' wages that prevented aggregate demand and market reallocation from 'clearing the market'. The goal of employment policy was simply to close the demand gap. The structuralist view, in contrast, argued that labour rigidities were caused by the processes of skills formation, and shortages were likely to develop before full employment could be reached. Adjustment measures, particularly re-training, were necessary to relieve skill bottlenecks.⁹ Lipsey's reformulation of the Phillips curve, with its policy definition of unemployment, captured the policy consensus:

...in a perfect world, in which policy makers acted rationally, we would behave as if we were deficient demand theorists and increase aggregate demand until the limit set by acceptable price rises was reached, we would then behave as structuralists and consider how the remaining unemployment could be removed.¹⁰

In the 1960s 'push for growth', therefore, employment policy should consist of a mix, depending upon national circumstances, of stabilization and active labour market policies to move the economy along a stable growth path.

Active Labour Market Policies in the OECD

In Europe, the balancing act of employment policy had to contend with stabilizing prices under 'full employment' conditions without resorting to demand restraint to produce deflationary shocks--the notorious 'stop-go' of Britain. This often meant attempting to develop an incomes policy to control collective bargaining processes. As well, labour market 'compression' from high employment compelled measures to improve the utilization of labour. The prominent 1961 OEEC report, The Problem of Rising Prices, for example, had already strongly endorsed incomes and labour market policies. Similarly, high employment Sweden, where the active labour market policy concept originated, had become highly scrutinised. (Gosta Rehn, one of the trade union founders of the Swedish model, spent the 1960s at the OECD as head of their labour market policy group.) The success of the Swedish model, it was generally concluded, lay in the 'private incomes policy of the social partners' aided by a "continuous striving to eliminate unemployment and satisfy the demand for labour by promoting adjustment between sectors of over-supply and sectors of over-demand."¹

After many years of discussion by governments and producer organizations, the OECD and the ILO advocated labour market policies for both high and low unemployment countries. The OECD, for instance, sought social and manpower programs that would reinforce its ambitious growth objectives for the 1960s, which were seen as central to easing the class tensions produced by labour displacement. Their longer term strategy provided two of the key themes of active manpower policies. Education was the foundation for intensive growth so "investment in human resources must

precede or at least be made concurrently with capital improvements."¹² As well, growth depended upon the transfer of workers from declining to expanding sectors, and from low to high productivity occupations. In countries of full employment, speeding labour adjustment could prevent wage pressures from building and obviate recourse to deflationary policies. In countries of high unemployment, improving labour adjustment would enhance the efficacy of aggregate demand policies and prevent the boom from breaking due to inflationary skill shortages.¹³

The prominent role envisioned for active labour policies was reflected in the much-quoted passage of the 1964 OECD Manpower Policy Recommendation:

By promoting the mutual adjustment of manpower needs and resources, an active manpower policy has the special advantage of being expansionist with regard to employment and production but anti-inflationary with regard to costs and prices."

The OECD campaign for active labour market policies stressed the need for an administrative body to co-ordinate labour market policies (which were often spread over several ministries), expanded labour exchanges to facilitate information flows, adult retraining programs, and financial provisions for labour mobility and adjustment.¹⁵ This strategy, the OECD argued, could ease the conflicting goals of economic policy, 'cheat the Phillips curve', and provide the foundation for rapid growth.

The policy consensus forming around new labour market measures extended to the long awaited international convention on employment policy coming forward from the ILO, and rivalling in importance the 1920s labour exchange and 1940s full employment commitments. The ILO was also swept up in the 'growth push' and suggested that, even with rapid structural change, there appeared no reason why a "prosperous country should not be

able to keep itself as fully employed as it wants to." In line with its 1950s studies of automation, the ILO contended that the chief impact of technological change was on the distribution of employment among industries as real incomes secularly increase. The effect on unemployment levels depended upon accumulation.

As with the OECD, the ILO concluded that "employment policies must form part of policies to promote economic growth."¹⁶ Already the 1961 Conference had passed a resolution calling upon governments, in a phrase as widely-cited over the 1960s as the OECD's active policy declaration, "to adopt, as a major goal of social and economic policy, the objective of full, productive and freely chosen employment." The subsequent 1964 Employment Policy Convention stated that "active policies" should be implemented "with a view to stimulating economic growth and development, raising levels of living, meeting manpower requirements and overcoming unemployment and underemployment."¹⁷ The policies advocated were sweeping in scope, and represented the high point of postwar optimism in Keynesian technocratic management. General economic policies were "to promote a continuously expanding economy possessing a reasonable degree of stability" and "to prevent the general emergence of unemployment and underemployment, as well as to counterbalance inflationary pressure." Selective policies, should encourage "adaptation of production and employment to structural changes." The report filed to support the Employment Policy Convention summarized the boundless promise of growth and high employment from 'active policies':

There is a growing appreciation that the proper task of an active employment market policy is a broad one aimed at the most effective deployment of the whole labour force with a view not only to providing better employment opportunities for

those who seek them but also to raising the productivity of the economy. This presupposes the existence of a dynamic branch of the administration so well informed that it can take a comprehensive and far-sighted view of the whole manpower situation and can intervene in a wide variety of ways to facilitate the many adjustments necessary to bring manpower supply and demand into closer balance.¹⁸

Even high unemployment North America hoped to find relief in active labour market policies in the early 1960s. Indeed, interventionist labour market policies and Keynesian policies finally appeared ready to have their day in North America. The employment policies of both Canada and the U.S. were, however, already locked into support of capitalist sector led growth to ease high unemployment. The question was whether they could now develop new employment policy capacities. The Kennedy administration in the U.S., for instance, had recast the unemployment debate, after the technological scare of the 1950s, in terms of the composition of fiscal stimulus. The predominant view, backed by the Keynesian 'new economics' in the Council of Economic Advisors (CEA), argued for tax cuts to reach an initial 4 per cent unemployment target. The tax cuts continued the American postwar policy of supporting private consumption and investment led growth, and thus were simpler to pass into law and implement. The CEA buttressed its position by arguing that the present tax structure was acting as a 'fiscal drag' on economic growth--the tax revenues collected at full employment would yield a government surplus and hence slow growth. The political limits on raising taxes meant, however, a supposedly cyclical tax cut often became permanent. Those Keynesians who argued for public expenditures in order to increase the supply of public goods were effectively squeezed out by this 'conservative-Keynesian' coalition. Similarly, the structuralists in the U.S. Department of Labour, which

continued to favour policies for adjustment to technological change, found limited support for expanding training and labour market programs.¹⁹

A two-track employment strategy emerged in the U.S. by the mid-60s. First, after initial hesitancy and attempts at voluntary wage and price guideposts, the 'Kennedy crash' of 1962, produced by budgetary restraint, built momentum for a tax cut to get growth going again. In 1963 taxes were slashed by some \$11 billion through personal and corporate tax reductions. Notably, the top tax brackets were cut from a marginal rate of 91 to 71 per cent and special depreciation allowances installed--a 'double-barrelled' policy of stimulating consumption and investment. Additionally, new labour market policies began to develop in response to a growing Civil Rights movement, and targeted at 'disadvantaged' workers the tax cut missed. The Manpower Development and Training Act of 1962 (MDTA) launched a national training program partly focused on the retraining of skilled workers displaced by automation. Basic skills training for the unemployed preoccupied the MDTA from the outset, and the linkage of training policies with poverty programs became a distinguishing feature of U.S. 'active labour' programs.

By 1964 high unemployment among minorities and the turmoil of the Civil Rights struggle further linked labour market programs with the 'disadvantaged' on 'equity' grounds explicitly with President Johnson's launching of the War on Poverty. The MDTA's first revisions had already targeted 'disadvantaged adults' for on-the-job training for skilled jobs. The Economic Opportunities Act of 1964 attempted, following the precepts of the human capital school, to improve the individual earning power of workers in poor communities through an array of remedial education,

training and work experience programs. Yet, labour market programs still played only a subsidiary ad hoc role as the overall U.S. employment policy strategy saw unemployment as predominantly cyclical. And a sustained period of market-led economic growth would soon incorporate even marginal workers. American active labour market programs, therefore, lacked institutional stability and a sustained strategy for market control to contain unemployment. Active policies rapidly degenerated into a bewildering array of fragmented, community-based supplementary income programs linked to local patronage networks. The sharp drop in unemployment after the tax cut and high growth added further to the optimism that, with economic Keynesian finetuning, "recessions can increasingly be avoided and ultimately wiped out."²⁰ American workers would soon have a quite different experience of unemployment.

The 'Growth Push' and High Employment in Canada

In Canada, neither a strong labour movement of the European kind nor a developing civil rights campaign existed to sustain political pressure for a full employment policy. In consequence, Canada could embrace wholly the growth objective as the path to lowering unemployment, a position already close to the existing employment policy and largely accepted by the labour movement, without consideration of the distributional context of employment. In contrast to the U.S., the policy conflict over the form of fiscal stimulus between tax cuts and government spending did not develop in Canada. The employment policy debate largely revolved around, therefore, as it had over the entire boom, the balance between supply side fiscal measures to encourage the competitiveness of Canadian industry in the long term and specific labour market policies to improve the adjust-

ment of the labour supply in the medium term. The importance of active labour market policies was that they contributed to both these objectives at the same time.

In arguing for the high growth strategy, Keynesians in Canada followed American studies in assailing structuralist interpretations of unemployment. Pierre Proulx, a university economist, for example, suggested that the high incidence of unemployment among particular groups could largely be explained by the general rise in cyclical unemployment in Canada. The influential study of Frank Denton and Sylvia Ostry, senior economic advisors to the Government, achieved similar results, concluding that "the structuralist argument has received no strong positive support."²¹ Remarkably, these two slight studies constituted the principal refutations of the structuralist arguments that Canada should develop a sustained strategy to deal with technological change and a secular rise in unemployment caused by automation.

Other Keynesian critiques shifted the unemployment debate to the management of the tradeoff between price stability and unemployment in Canada. The impact of the Bank of Canada's tight money policy on unemployment in particular came in for stinging rebukes. In 1962, both Clarence Barber and Harry Johnson, the two most notable academic Keynesians in Canada at the time, argued that in Coyne's zealous fight against inflation, monetary policy had been too restrictive, keeping Canada's flexible exchange rate overvalued and, thereby, lowering exports and employment. In their assessment, stabilisation policies had to be better co-ordinated before selective policies were warranted.²² A series of other studies followed the Phillips curve analysis in defining unemploy-

ment in relation to 'wage inflation'. These studies also shifted the focus of stabilization policy away from technological change, but contributed little to employment policy, except adding to the warning that unemployment could be eased only by raising inflation. They did confirm, however, as David Smith noted, that "unemployment may have been rather undervalued as an economic goal in Canada."²³

Expansionary measures to counter unemployment even briefly received the support of Canadian capitalists. Many export based industries had often favoured devaluation and a easier monetary policy. The CMA, for example, allowed that a budgetary deficit might be necessary in the short term. The Chamber of Commerce also accepted this view, although cautioning that "government deficits must not be accepted as a permanent way of life."²⁴ Deficits, however, should be based only on fiscal measures that supported economic growth. Targeted tax cuts to aid Canadian industry, as opposed to general tax cuts or government expenditures to bolster consumer demand, would stimulate production, substitute for imports in the home market and aid exports.²⁵

The emphasis on economic growth also carried over into support by Canadian capital for selective labour market policies. These policies had appeal for Canadian industry as training policies would provide a flow of skills to meet "serious shortages of highly skilled and professional manpower." Training and adjustment policies, moreover, would contribute to growth by improving the utilization of human resources, and overcome workers' fears of automated technologies. Selective labour market policies, in the Conference Board's opinion, were "necessary to bring about a more rapid and less painful (and economically wasteful) absorption of

investment. Canadian controlled capital meant less dependence on the U.S., more diversified markets, and an integrated national economy.

The compromise between these two positions, which had been implicit in what Glen Williams has called Canada's import-substitution industrializations strategy till then, obtained more explicit shape." The 'selective sector' strategy, which in traded goods was essentially bilateral with the U.S., had two aspects. First, secondary industry in Canada was to be strengthened. The new Department of Industry intended to aid selected industries to compete in global markets. The Area Development Agency had the parallel objective of strengthening industry in less developed regions of Canada through locational and investment incentives. Second, a few industries would be pressured to rationalize continentally. Indeed, the major economic innovation of the period, the Auto Pact signed with the U.S. in 1965, was the example par excellence of the 'selective sector' strategy. Faced with a structural trade deficit in autos and parts, the Pearson government opted for rationalizing auto production on a continental basis. Canada was guaranteed a specific share of the market and investment, according to national consumption, while sectoral tariffs were abolished and the American ownership structure left intact.⁴⁹ The political controversies generated by this debate over the composition that economic growth should take between foreign and national capitals marginalized the issue of unemployment in macroeconomic policy.

The Coyne Crisis. Monetary Restraint and National Policy

As the 1961-66 phase began, the uncertainties of employment policy that had surfaced during the recession lingered. Governor Coyne continued to claim an increasingly independent status for the Bank. The tight

others, in 1965-66 over technological job displacement--forced the CLC to treat unemployment policies more broadly. Since 1956 it had been the CLC's position that effective labour market policies required grouping the employment service and immigration under the Department of Labour. This position was, in effect, continued as part of the CLC demand for "an integrated and active, national labour market policy." Technological change should be subject to collective bargaining; but expanded training, placement, and adjustment policies also were necessary to meet the needs of individual workers displaced by automation and trade policies. At the 1966 Convention, the CLC position paper declared: "The government must pursue an active labour market policy so that workers who are displaced may be given both the skills, with which to secure new employment, as well as meaningful assistance in helping them move...to make use of the newly acquired skills."²⁹ By the mid-60s the CLC also had the two-track employment policy for high growth: demand management would take care of the level of unemployment and growth, while active manpower policies would manage adjustment and the tradeoff. The Keynesian strategy of market control, and its corollary that unions bargained for wages while capital controlled production, still held sway over the Canadian labour movement.

The shift in employment policy strategy could be seen most clearly, perhaps, in the assessment of technological change by the Department of Labour, the 'structuralist' protagonist during the 1950s. Job and skill structures were still being 'twisted', they argued, but the key now was the contribution to economic growth from speeding the adjustment and retraining of individual workers. The unemployment problem, however, was

...due primarily to the level of overall demand, but the nature of our unemployment and the ability of our economy to

move towards rates of unemployment which are socially acceptable have also been determined by imbalances in labour supplies and imperfections in the operation of the labour market."

The consequence of slow growth and labour market imbalances was to push "higher the rate of economic growth [needed] in Canada in order to keep unemployment at current or lower levels." Growth intensified manpower adjustments so labour market policies had to play a larger role in improving the allocative efficiency of the market. Following its historical position, the Department of Labour still argued that "adjustment problems are essentially individual."²¹ Active labour policies, therefore, should be targeted at the choices of individual workers: improved information flows; training policies to increase human capital and individual adaptability to technological change; and improved labour mobility between regions and industries. Unemployment, then, was simply "one of the symptoms of economic adjustment....[and] active manpower policies part of a program to facilitate the adjustment of workers."²²

Reforming Keynesian Employment Policies

The reconceptualization of unemployment as a problem of adjustment within a high growth strategy received its most coherent statement in the two major studies that sought to clarify the objectives of Canadian economic policy for the 1960s. The 1964 Royal Commission on Banking and Finance, chaired by Ontario Chief Justice Dana Porter, and the 1964 First Annual Review of the Economic Council of Canada, chaired by John Deutsch, who also directed much of the research for the Gordon Commission and the Senate Committee on Employment, helped construct the 'growth push' consensus after the policy drift of the recession of 1957-61.

The Porter Commission arose out of the need to clarify the regula-

tion of financial markets as a result of their enormous growth over the boom and the specific problem of monetary policy during the 1957-61 slowdown. The Report accepted the primary objectives of economic policy, popularized in the 1960s, as rising productivity, stable prices, a sound external position, and a high and stable level of employment. Potential conflicts between these objectives, a point not conceded in the initial neoclassical synthesis, were duly underlined by the Porter Commission: notably, the goal of low inflation appeared to suffer whenever unemployment dropped below the 4-5 per cent range in Canada. The Commission's intervention on unemployment emphasized deficient demand unemployment and growth solutions:

...our unemployment rates were above the American rates partly because our higher rate of increase in the labour force had not been matched by a correspondingly higher rate of economic growth. While some of this unemployment is structural in the sense there are job openings for which the available unemployed lack skills or training, it is worth noting that by far the largest part of the jobless total stems from generalized weakness of demand."

The cyclical downturn of 1957-61 in Canada was compounded by a lack of policy co-ordination, Porter argued, causing an overvalued exchange rate, effectively rebuking the Bank of Canada's stress on inflation and external stability at the expense of growth in the late 1950s. But a major shift in policy, or in the institutional relationship between the Bank and the government of the day, was unnecessary. The thing was, simply, "to get the broad set and timing of policies right...to influence aggregate demand in the right direction."³ Sounding reminiscent of the 1945 White Paper, the Porter Commission concluded that national regulation in Canada depended foremost upon stable external regulation:

Canada has always been an open economy and our progress and

prosperity are still inseparably linked to international economic developments, particularly in the United States.... Paradoxical as it may seem, the more successful we are in achieving strong and balanced external finances, the more independence we have to pursue domestic goals: full employment gets no priority in an exchange crisis, and prices cannot remain stable if the foreign exchange value of the Canadian dollar undergoes continuous deterioration."

The 1964 specification of 'Economic Goals for Canada' by the newly formed Economic Council paralleled the Porter Commission's analysis. Yet if Porter voiced a 'banker's caution' on managing the market, the Council expressed the overflowing technocratic Keynesian optimism of the Fordist boom. The Council, too, observed that the 1960s upturn in unemployment was cyclical and compounded by the lack of policy co-ordination. Mild Keynesian stimulation from an easier monetary policy would have resolved the stabilisation dilemma. As many noted, the Council's views did not go beyond the passive stabilisation policies already practiced, if not always successfully, in Canada.

The importance of the Council's intervention was found, therefore, in its vigorous endorsement of an export market-led 'growth push' following the views of the OECD. Growth would reduce unemployment, and the Council even, quite unexpectedly, endorsed the 3 per cent target rate of full employment initially mooted by the Gordon Committee. In the political context of the 1960s, the target became widely commented upon as a bold stroke (although never endorsed by the government, it was the closest Canada ever came to a concrete full employment commitment). Upon closer inspection the target itself was in fact quite modest, and hinged upon what must be regarded as quite unrealistic assumptions of long term growth. The 3 per cent goal might be attainable, the Council contested, only by 1970 after a sustained period of growth. The 3 per cent target,

moreover, was only a feasible minimum at the peak of the business cycle of the annual national average unemployment rate. In other words, over the majority of the business cycle, for most regions and age groups, the rate would be much higher. Yet, even to attain this modest objective, the Council assumed an astonishing 5.5 per cent annual growth rate of output to 1970. This was a rate higher than any sustained period over the boom, and premised upon a massive capital deepening of Fordism (extending the principles of mass production in the new automated techniques) that could be financed with existing capital resources. Such a pace was necessary to absorb the projected rapid growth of the labour supply and to maintain Canada's relative competitive position. Thus, in contrast to the consumption-led growth path of the U.S., high employment in Canada would depend upon investment in capital stock and strong external demand.³⁶

Although the path toward full employment was to be 'market-led', the Council noted that Keynesian stabilisation policies would have to be more consistently synchronized and counter-cyclical than had been the case.

Active labour market policies also were a key to the growth objectives:

The removal of obstacles to desirable labour mobility is a chief function of labour market policy. For example, effective labour mobility is indispensable to minimizing the duration of unemployment when workers are displaced from their jobs. Shortening the duration period of unemployment can contribute significantly to economic growth and stability.... Inadequate labour mobility, by impeding the flow of labour at a time of high demand, results in shortages and bottlenecks which produce upward pressures on production costs.³⁷

This 'high-growth, high-mobility, high-productivity' vision presented by the Economic Council captivated Canadian employment policies in the 1960s. Economic growth would be the solution to the capitalist employment problem that had plagued Canada since the late 1950s and the motivation behind

active labour policies promoting individual worker adjustment.

The two positions on Keynesian employment policies--the targeted supply side tax measures favoured by the Council and the increased spending on social capital pushed by the CLC--formed the limited poles of debate in Canada. The consensus, however, expressed by both the organisations of labour and capital, was that rapid market-led economic growth would restore high employment to Canada. The 'structural block-ages' that were pointed to in the recession--uncompetitive industry, excess labour supply growth, and the mismatching of skills--were simply symptoms of the growth slowdown brought on by poor demand conditions. The Senate Committee on Employment, which had put forward some of the structuralist claims at the peak of the automation scare, had already set rapid growth as the agenda for employment policy in the 1960s:

The recent unemployment situation must then be attributed in considerable measure both to the declining rate of economic expansion and to changes in the basic structure of our economy, including the consequences of technological changes. Indeed, it is hard to draw a line of demarcation between the effects of slower growth and the effects of structural change, for slower growth means a lessened ability to make the adjustments required.³⁸

The ambitious task of Keynesian employment policies was, therefore, to provide stabilisation policies and adjustment measures so that market-led growth would restore 'high and stable levels of employment' without inflation.

5.2 The New Growth and the Old Stabilisation Policies

The political turmoil generated by the 1957-61 recession contributed to the formation of a series of minority governments between 1962 and 1966, first of the Tories and then twice of the Liberals. The political

instability, however, did not disturb the postwar accumulation strategy. Indeed, the return of the Liberal 'government party' to power, aligned with the dominant sections of the power bloc of central Canadian manufacturing and resource capitals, renewed the strategy of 'extensive' growth that had by now come to characterize Canada's 'limping golden age'. The Liberals pledged to return stability to economic policy and to advance social welfare in Canada, particularly health care and pensions, but they were inclined to move slowly, as they had in previous decades, to expand the Canadian welfare state.

The return of a Liberal regime, however, reignited the tensions over 'continentalist' and 'nationalist' growth strategies that had kindled controversy with the Gordon Commission and Governor Coyne. In key sectors, Canadian industry was under the formal ownership of American capital. The emerging nationalist movement argued that these branch-plants had skewed Canadian production towards resources, 'blocked' manufacturing exports and would soon upset growth and employment. Yet Canada's postwar boom, as seemed evident to almost everyone, was based upon commodities exports to the U.S. and foreign capital inflows into Canada. The Liberal party was where this debate was centred and it split into two wings on the issue. The continentalist camp, led by Trade (and later Finance) Minister Mitchell Sharp, favoured the postwar strategy of closer ties with the U.S. and freer flow of capital and goods with the U.S. Foreign capital inflows and export trade meant investment and, hence, increased wealth and jobs. The nationalist tendency, under the often clumsy leadership of Finance Minister (and later cabinet-exile) Walter Gordon, argued for a greater degree of Canadian ownership of capital and limits on foreign direct

investment. Canadian controlled capital meant less dependence on the U.S., more diversified markets, and an integrated national economy.

The compromise between these two positions, which had been implicit in what Glen Williams has called Canada's import-substitution industrializations strategy till then, obtained more explicit shape." The 'selective sector' strategy, which in traded goods was essentially bilateral with the U.S., had two aspects. First, secondary industry in Canada was to be strengthened. The new Department of Industry intended to aid selected industries to compete in global markets. The Area Development Agency had the parallel objective of strengthening industry in less developed regions of Canada through locational and investment incentives. Second, a few industries would be pressured to rationalize continentally. Indeed, the major economic innovation of the period, the Auto Pact signed with the U.S. in 1965, was the example par excellence of the 'selective sector' strategy. Faced with a structural trade deficit in autos and parts, the Pearson government opted for rationalizing auto production on a continental basis. Canada was guaranteed a specific share of the market and investment, according to national consumption, while sectoral tariffs were abolished and the American ownership structure left intact.⁴⁰ The political controversies generated by this debate over the composition that economic growth should take between foreign and national capitals marginalized the issue of unemployment in macroeconomic policy.

The Coyne Crisis, Monetary Restraint and National Policy

As the 1961-66 phase began, the uncertainties of employment policy that had surfaced during the recession lingered. Governor Coyne continued to claim an increasingly independent status for the Bank. The tight

monetary policy persisted, despite increased public disapproval as did the Bank's contention that the slowdown resulted from structural problems of Canadian production. Fiscal policy, in turn, remained indecisive between mildly restrictive and expansionary policies, although unemployment remained extraordinarily high for the boom at over seven per cent. The Department of Finance now appeared ready, however, to support the measures that had long been advocated by the Department of Labour to deal with structural unemployment. The resignation of the Governor of the Bank might resolve the immediate clash over which of the two main economic policy institutions 'spoke' for the government; but it would still leave, however, the impasse of employment policy over strategic direction--passive Keynesianism or balanced budgeting, hard currency policy or competitive devaluation, general or selective employment measures nationalist or continentalist capital markets--at the centre of the controversy.

The economic recovery to 1966 smoothed over some of these differences, and eventually even the political crisis over monetary policy, but a consensus on stabilisation objectives remained to be worked out. The Phillips curve seemed to confirm theoretically the fears that had dominated Canadian macroeconomic policy that lowering unemployment led to inflation. Yet it left unclear how much of each was tolerable. The 'policy' tradeoff, moreover, could be asymmetrical: the existing balance of political forces in Canada, indeed the very interest of non-speculative holders of property, favoured price stability over full employment. The Phillips curve also suggested a new role for labour market policies targeted at specific forms of unemployment to improve the tradeoff. What this expanded Keynesian employment policy would mean in practice in

Canada, in terms of the effort to fight unemployment and institutional capacities, dominated the years 1961-66.

The economic recovery that seemed promised in 1960 had turned into a contraction by the fall, prompting the emergency Budget of December 1960. The soft demand conditions persisted into the new year. Consumer expenditures barely moved from 1960 levels, while neither trade or domestic investment, which actually fell in the first half of 1961, showed signs of improvement. Industrial production consequently remained below 1960 levels to mid-year, allowing unemployment to reach an astonishing monthly high of 11.3 per cent in February. Despite the weak market, the policy of the Bank of Canada persevered with the tight money course it had adhered to over the recession. The virtual lack of growth in the money supply from 1959-60 continued until 1961. The December budgetary measures had temporarily eased the premium on the dollar, which was almost trading at par, but the pre-budget premium soon returned and interest rates barely eased until mid-year.

The utter failure of the Bank's policy was all-too evident against Coyne's stated objectives: high interest rates attracted large capital inflows and the premium on the currency further squeezed demand for national output. In response to a growing legion of critics, including the labour movement and industrial sections of capital, Governor Coyne asserted that Canada had to move to domestic sources of capital and production. The Bank, Coyne defiantly responded, could not be held responsible for lost production or unemployment:

A central bank must be opposed to inflationary methods which involve excessive monetary expansion. But the adoption of any policy or any combination of policies directed towards establishing and maintaining full employment, and maintaining a

high rate of steadily continuing economic growth without inflation, is not in any way prevented or limited by the central bank or by a sound money policy."

The contradiction between the Bank's brashly restrictive monetary policy and the mildly expansionary fiscal policy erupted with the Fleming Budget of June 1961. Indeed, the Budget was a direct reprimand to the Governor's views on economic policy. The structuralist themes of December were, however, still present:

We should strive to attain a more rapid rate of stable and balanced growth for all sectors of our economy and all regions of our country. We shall seek to improve the technical efficiency of our industry, to heighten skills and capacities of our workers, and to stimulate the talents and initiative of our entrepreneurs."

Besides allowing the budgetary deficit to increase to \$700 million for the year, the Budget had two other positive dimensions, focused on improving the competitive position of industry in world markets. Selective tax measures were introduced to promote capital spending using Canadian goods. These included: tax writeoffs for scientific research; expanded capital cost allowances for new equipment; elimination of the sales tax on construction materials; and increased funds for the Industrial Development Bank.

The fiscal measures proposed to continue the expansion. More critical was the alternate direction for monetary policy and an open rejection of Coyne's absurdly dogmatic pursuit of 'social money'. Seizing the leverage the Department of Finance exercised over the Bank, Fleming declared his intention to depreciate the dollar to "a level in keeping with our economic circumstances." This was to be accomplished by changes in reserve holdings and debt management strategy to increase the use of Canadian funds, and lowering the interest rate differential with the U.S.

Although a striking reversal of policy, these measures were modest in light of existing economic slack. In July Canada reassured the IMF--who were seeking a return of Canada to a fixed rate--that the measures were to remedy the current account deficit and not "to cause a competitive depreciation."⁴³ This was, indeed, the intention but the depreciation remarkably altered Canada's competitive position preparing the basis for the 1960s boom.

The Budget seemed to portend a readiness on the part of the government to move against Coyne. The funding of the deficit domestically while still lowering the interest and exchange rates would require co-ordination with the Bank of Canada. The Bank under Coyne favoured the structuralist measures to increase domestic production, but it opposed any departure from 'sound money'. The institutional independence of the Bank of Canada assured that the dismissal of Coyne before his term was over would be controversial. Not surprisingly, the dispute quickly turned into a messy battle between the Government and the Governor over control of monetary policy.

Appearing before the Senate Banking Committee in July, just before tendering his resignation, Coyne made a final defence of his stridency in fighting inflation arguing "that unemployment in general, and particularly the kind of unemployment that had been trending upward in Canada, notwithstanding variations in the business cycle, was not likely to be overcome merely by the use of monetary policy."⁴⁴ The Bank under Coyne had refused to support even modest expansionary measures, and even a confused and economically conservative Tory Party could no longer tolerate this, or Coyne's adventurism in speaking critically against the general economic

policy he was charged to be implementing. The new Governor, Louis Rasminsky, a long-time member of the bureaucratic cadre at the Bank, and the conservative group of 'Keynesian' economists at the centre of Canadian economic policy since the war, moved immediately to announce the Bank's ultimate responsibility to the Government. Rasminsky, moreover, affirmed the need to co-ordinate Keynesian stabilisation policies:

...the broad aim of the community is to attain to the maximum extent possible, certain generally accepted objectives--high level employment, price stability and sustained economic growth. A flexible monetary policy is an essential element in the total blend of policies directed to these ends. In a situation characterized by large unemployment and unused capacity, monetary policy should be directed to encouraging the use of credit."

Any adverse economic impact of the final confrontation over the direction of economic policy was eased considerably, by signs of economic recovery. Industrial production climbed by 9 per cent in the last three quarters of 1961, while GNP grew at a pace of 7.4 per cent on an annual basis in the first quarter of 1962. The strengthening of demand conditions was critical: consumer spending picked up solidly; gross fixed capital formation quickened; and, over 1961, the dollar volume of Canadian exports increased by 9 per cent, registering the first surplus on commodity trade since 1954. The Canadian recovery was fragile, however, with the current account deficit actually rising in the first quarter of 1962 and monthly unemployment still at 9.1 per cent in February 1962."

The easier monetary conditions prevailing in the second half of 1961 aided the mild recovery. The Bank was now cautiously expansionary contending that,

there was a great deal of unemployment and unusual plant capacity and room for a large increase in employment and output before there would be any prospect of the economy pressing on its physical limits

in an inflationary way. In these circumstances it was appropriate that monetary policy should be directed towards promoting conditions favourable to the use of credit as one method of stimulating the growth of spending."

Up to the spring of 1962, the narrow money supply increased at a pace of about 7 per cent per year in line with the growth in real GNP. This contributed to the narrowing of the interest rate differential with the U.S. and the slowing of short term capital inflows. Furthermore, the exchange rate moved from trading above par to 97.5 cents U.S. in June 1961, and fell again in November under speculative pressures to about 95 cents, where an informal fixed rate prevailed. A more flexible monetary policy was now on side with a mildly expansionary fiscal policy. The exchange depreciation, after providing an opportunity for adjustment to international competition and helping lower unused capacity, could return to the old virtues of the hard currency policy.

The Dollar Crisis and the Export Boom

With the storm over economic policy hopefully behind them, Finance Minister Fleming kept to the cautious path laid out the previous year for the 1962 Budget, despite persistent unemployment and the coming election. Indeed, behind the caution lay the optimism that "the Canadian economy is experiencing healthy expansion" at a more rapid pace than prior recoveries. The existing economic policy, with the new monetary policy and the exchange rate down, was "contributing constructively and decisively to these developments." The budgetary deficit, as a result of the recession, was forecast to crawl up to \$745 million, continuing the mild stimulus. The tax burden was also slightly shifted in order to stimulate export sectors as "in the long run more is required than the expansion of demand."⁶⁶ Fleming's proposals targeted production incentives for manu-

facturing and processing by reducing the tax burden for increased sales, additional logging grants and new petroleum incentives, and finally, a double depreciation plan and write-offs for scientific research.

This passive budgetary deficit and the supply side tinkering was the extent of Fleming's final budget. The measures, by themselves, were only of minor interest. The labour movement argued they did too little for unemployment; business commentary was generally favourable, if concerned about the deficit. It was clear, however, that the kind of general tax cuts to stimulate investment and consumer demand being pursued in the U.S. had been firmly rejected. Instead, Canadian stimulus would continue to favour selective tax cuts to industry, instead of developing an explicit industrial policy to integrate the national economy or improve Canada's relative productivity decline. The 'supply side strategy' for fiscal stimulus was the principal legacy of the Tories, enduring through the incoming Liberal regime."

The long period of economic uncertainty, however, dealt one more blow to the Tories. Despite the budding recovery, the exchange rate of the Canadian dollar remained unsettled. The premium from Coyne's 'sound money' policy existed alongside high unemployment and a structural current account deficit. This was plainly unsustainable. Once the restrictive monetary policy was lifted, and given the instability generated by the incoherence of economic policy, the stage was set for a speculator's market to settle the ultimate value for a depreciating currency. This is exactly what occurred. The dollar fell smoothly from June 1961 to the new year holding at 95 cents U.S. but into the new year Canadian exchange reserves began to decline as the Bank attempted to hold the rate in the

face of much 'sabre-rattling' by financial capitalists, particularly in New York and London, about the deficit and further depreciation. The April Budget had maintained that the dollar would continue to float, but this had done nothing to halt the reserve depletion. Indeed, with the announcement of a coming election currency instability heightened. Almost one-quarter of Canadian reserves had been lost between January and May of 1962. Worried about a further run in the midst of the election, on 2 May 1962, the Tory Government backtracked: the exchange rate would be pegged at 92.5 cents U.S. The return of Canada to the par value system provided temporary stability, but the 'Diefendollar' contributed to a Tory minority government, dependent upon Social Credit to hold power, giving a further push to the "market's almost pathological loss of confidence in the ability of the authorities to maintain the exchange rate."⁴⁰

On June 24, with senior officials at the Bank and Finance demanding strong action to avoid "a major financial crisis", the government moved aggressively to defend the new par value and cut the run. Having decided that stability in the external value of the currency must be had at all costs, the gears of stabilisation policy were quickly, and decisively, thrown in reverse. A programme to sting the speculators and keep the 'expansionary' policies in place was, it seems, decisively rejected. Instead, the traditional Bank of Canada position of keeping the confidence of foreign markets at all costs held the day. Government actions to reassure foreign and Canadian capitalists that the rate would be fully backed were announced with special urgency. Canada would return to a programme of large scale capital inflows, including foreign investment, and an "austerity programme" to secure dollar stability.⁴¹ It was as if

'the worst of both worlds' that had been at the centre of the Coyne controversy only a year earlier had suddenly become Canadian economic policy.

The emergency measures had four components. First, \$1.05 billion was added to Canadian reserves by a series of loans and standby credits from foreign governments and the IMF. Additionally, to reestablish capital inflows, credit was restricted in Canada and the bank rate bumped up to 6 per cent. Tariff surcharges of 5 to 15 per cent covering 50 per cent of Canadian imports, and reductions on the duty-free exemption were also imposed. Finally, government expenditures during the fiscal year were to be slashed by \$250 million. The measures proved effective so that by July the speculative pressures had passed, allowing the emergency loans and tariffs to be shelved a few months later. The minority Tory government reintroduced the Budget in October, shifting the fiscal policy stance to austerity, and promised to balance the books. The long battle to bring a co-ordinated Keynesian employment policy to bear on unemployment had effectively been reversed after a brief eighteen month flirtation."

The decline in the external value of the dollar became the Canadian parallel to the Kennedy tax cut symbolically and in its material impact, dramatically stimulating national production." The fall in the dollar accomplished by accident--at least with respect to unemployment--what could not be forged by design. The cheap dollar made Canadian goods competitive domestically and in world markets. When coupled with strong external demand conditions led by the U.S. recovery, the conditions for a boom were set. The annual rates of growth of exports and fixed capital investment approached the levels of the early 1950s. Canadian exports

almost doubled between 1962-66, with the trade balance showing even more dramatic improvement. The pace of exports was aided, in large part, by enormous wheat sales to the socialist bloc, but non-food exports, especially autos and defence industries, grew rapidly as well, reflecting the broadly improved position of Canadian industry. These factors enabled the current account deficit to fall through to the 1970s.

National demand conditions, despite tighter government budgets, also strengthened. With unused capacity rapidly dropping, business investment surged to a high point in 1966, with total investment claiming almost a quarter of national output. As a result of the coincidence of a cheap dollar and exceptional external demand conditions, unemployment dropped dramatically, falling from an annual rate of over 7 per cent in 1961 to 3.4 per cent at the 1966 peak. Prices, moreover, remained stable, at least until 1966 when inflation edged above 3 per cent--the first signal of the 'troubles' to dominate the subsequent period.

The boom was the fortune of the new Liberal government to claim as their doing, although, if anything, there was an underlying continuity with the Tories in stabilisation policy. Indeed, the tightening labour market reinforced the return of the limited, passive Keynesianism that had long informed Canadian employment policy (if not always successfully applied). Rapid economic growth led by exports, would establish the general unemployment level, and stabilisation policy would attempt to provide supply side stimulus to aid the competitive position of Canadian industry. Labour market policies would attempt to cope directly with the unemployed through either income support or adjustment measures, but not to an extent that would raise cost pressures.

The lower exchange rate and recovery relieved the pressure on monetary policy to favour domestic economic expansion. 'Competitive devaluation' remained, therefore, a strategy quite out of favour except by force of circumstances. The Bank of Canada's hard currency policy of ensuring capital inflows and a competitive cost structure fell comfortably back into place. The Bank cleverly restated its traditional position in light of the lesson of the dollar crisis:

...the lower exchange value of the Canadian dollar, taken in conjunction with the degree of price stability we have been able to maintain, has played a helpful role in the improvement which has occurred... [in] our balance of payments. At the same time, sustained and vigorous efforts on the part of government, industry and labour to increase the efficiency, flexibility and skills of the Canadian economy will be needed if the momentum of improvement in our international accounts is to be maintained. The efforts will be doubly rewarding, for the economic attributes that are necessary to allow Canada to make its way in an increasingly competitive and freely-trading international community are essentially the same as those required to achieve satisfactory internal prosperity and growth.⁵⁴

Over the 1962-66 upswing the Bank held to the course of external stability presented here. Monetary policy remained neutral from 1962-66, moving in line with the increase in GNP. In addition, after the emergency measures of 1962, the Bank rate quickly fell below 4 per cent, before picking up again in the tight market conditions of 1965-66. Unemployment and unused capacity remained substantial, so the credit situation could be eased "without exposing the economy to the risk of further foreign exchange difficulties."⁵⁵ The emphasis of monetary policy slowly shifted as the fight against inflation reemerged as the central policy concern by the mid-60s.

The Bank's 'inflation fight', which was opposed by the Economic Council and the CLC on the grounds that employment commitments had not yet

been met, had two facets. In late 1965 with unemployment approaching 3 per cent, the Bank began to tighten credit. A position of overfull employment was being reached: "The aggregate of all demands on the Canadian economy may outrun the effective capacity of the economy to increase its output of goods and services. In short, we now run the risk of overloading the economy."⁵⁶ Ironically, the limits imposed on monetary policy to ensure dollar stability were now working, in reverse, to offset a tighter monetary policy in Canada. The fixing of the exchange rate and the restrictions on foreign reserves, as a result of Canadian exemptions from U.S. efforts to reduce capital outflows in 1963 and 1965, constrained the manoeuvrability of monetary policy. Hence short run interest rates in Canada had to be kept lower in Canada than the Bank desired, although they matched the U.S. Federal Reserve increases, to avoid building up reserves. This upward limit to the 'hard currency' policy meant fiscal policy had to play an even larger role in any co-ordinated move to restraint by Canadian stabilisation policies.

In addition, the Bank began to voice its disagreement with the Phillips curve analysis that lower unemployment could be purchased with a bit of inflation (anticipating the monetarist doctrines that would come to dominate the 1970s). The Governor's pivotal statement before the Royal Commission on Banking in January 1963, for example, rejected the view of a conflict between economic goals. There was little reason to believe,

...that policies involving a persistent rise in prices at an appreciable rate would make it any easier to achieve high employment and sustained growth over the longer run.... In fact, the contrary is more likely to be true. The more the community anticipated and took steps to protect itself against the persistent inflation generated by such policies, the less reason there would be to expect even short-run stimulus from it, and if the outcome was a persistent inflation of our cost-

price structure in relation to that of our important trading partners, I do not see how the economy could continue on this course without chronic resort to exchange rate depreciation which would be in my view quite unacceptable both domestically and to other countries.⁵⁷

This view, of course, closely resembled earlier Bank statements under Coyne and defended the Bank's traditional hard currency policies of keeping Canadian inflation below, and unemployment rates above, U.S. levels. The key difference was that Coyne's structuralist view of unemployment and nationalist policies were decisively rejected in favour of liberal markets. At the same time the Bank argued that active labour market policies "bearing on the supply side" could contribute to the inflation fight:

...output would be greater if the remaining pockets of unused resources were drawn into employment.... This is a task for those policies which are aimed directly at areas where unused resources exist; it is not one that can be handled satisfactorily by increasing the general pressures of demand in the economy.⁵⁸

Canada's monetary policy was securely back defending the stability of the open sector and battling cost inflation.

The Gordon Crisis and International Financial Discipline

The depreciated dollar, along with the change in political regime, provided the policy room for fiscal policy to return to the passive Keynesian regulation held since 1961. This was not, however, to be the case. Instead, under Liberal Finance Minister Walter Gordon the contradictions of economic policy seemed to compound and take on a new life. Gordon was the leading advocate of liberal nationalism, and argued that the composition of economic growth between foreign and national capitals was decisive to the long term viability of the Canadian economy. But the attempt to shift the postwar accumulation strategy to a nationalist pole

in terms of ownership of industry, had serious obstacles (dividing nationalists and trade unionists over the employment impact of these measures). It meant general acceptance of the proposition that managing the external deficit would have to be an overriding objective of stabilization policy, so as to simultaneously handle a negative shift on the capital account as less capital came in and more capital flowed out, and to take measures to bolster Canadian-owned capital and turn the current account deficit into a surplus. Such a discriminatory policy vis-a-vis foreign capital was at odds, in virtually its entire thrust, with the entire trajectory of postwar macroeconomic policy and the continental integration of postwar Fordism, which had favoured a liberal trading environment and reliance upon foreign capital inflows to cover the external deficit and to supply investment capital. As a result, to make room for nationalist measures after the 1962 exchange crisis, Gordon made the assessment that business confidence had to be 'assured' by bringing in a balanced budget, and ignoring the still high levels of unemployment.

Gordon's controversial June 1963 Budget dramatically illustrated the dominance of the 'nationalist' growth strategy over short period employment policy, and, through the business reaction, the immense political obstacles to shifting the accumulation strategy toward favouring national capitals. Although the Budget conceded that "unemployment is the most serious domestic problem facing Canada today", fiscal policy turned decisively restrictive, raising a number of taxes to bring the budget closer in balance. This incongruity--a peculiar retreat to 'Gladstonian' finance for Gordon--resulted from the view that external stability and "the long-term solution of our national economic problems" could only be

achieved "by actively promoting more employment opportunities in our manufacturing industries."⁵⁹ Hence Gordon's "face the facts" Budget, on the one hand, moved to lower the deficit by increasing taxes, and, on the other, expanded the use of tax measures to aid Canadian-owned industries. The use of the budget as an industrial policy, as we have seen, was not original to Gordon, but Gordon made paramount the issue of national control of capital, and this generated an astonishingly shrill reaction in financial markets at home and abroad.

In reducing the deficit, the Budget rejected the prevailing Keynesian views of unemployment. The deficits of the preceding years, Gordon argued, were not planned and resulted in a loss of confidence in the Canadian economy. Instead, Gordon planned tax increases of \$455 million "to move towards balancing our budget under conditions of high employment." Besides minor tax changes, revenues were to be raised by eliminating the excise tax exemptions on building materials and producer's capital goods, stimulating two cyclically sensitive sectors. These contradictory policies were offset, to a degree, by specific labour market measures: increased funding for winter works and training, and, for "hard-core unemployment", a wage subsidy scheme for older workers.

The essential proposals of the Budget, as they had been under the Tories, lay in the tacit industrial policy. The principal departure of the Liberals was to target market incentives more precisely: a three year tax exemption for capital expenditures of secondary industry in slow growth areas; an accelerated depreciation scheme for new manufacturing and processing and investment by Canadian firms; and, finally, a 30 per cent takeover tax on purchases of Canadian controlled capital by non-residents,

combined with alterations in the withholding tax. The Budget concluded that "the most effective long term method of dealing with unemployment is to expand industry and industrial production in Canada."⁶⁰

It was not, however, the contradictory employment policies that were at the centre of the storm which broke out over the Budget. Indeed, much of the reaction was predictable: capitalist groups, by and large, approved the deficit reduction, while the labour movement wanted fiscal expansion. There was also general support for strengthening Canadian capital, but business opposition to discrimination against foreign takeovers and in favour of share placements in Canada rapidly built. Indeed, few capitalist groups, at home or abroad, supported the shift in capital sourcing. Foreign capital flows had been a key component of the postwar regime, and in the eyes of the economic authorities and Canadian capitalists, was both an explanation of the boom and a commitment to liberal markets. Canadian capital had built a dependence on U.S. capital markets that was now difficult to remove. Eric Kierans, then head of the Montreal Stock Exchange, crystallized the currents of reaction to the takeover tax blustering that "the financial capitals of the world have just about had enough from Canada."⁶¹

The nascent capital strike left its mark. By July 8 a humiliated Gordon was forced to retrench. The takeover tax was cancelled; the withholding tax for foreign capital was eased; and the sales tax exemption was, in part, reinstated. The swift withdrawal of the Budget's major proposals was impressive: it ensured that the postwar accumulation strategy would be undisturbed until the boom broke. Employment policy, moreover, was now even further marginalised. The traumatic events of the

1960s seemed to underscore that stabilisation policy in Canada, in the first instance, always had to preserve external stability.

To quiet financial markets after the instability of 1962-63, fiscal policy entered a period of paralysis. The Liberal government ventured little in its March 1964 Budget, preferring to balance the books, and make minor tax changes to improve manufacturing. Gordon argued that having "broken through the 5 per cent unemployment barrier", the nature of unemployment had changed:

...broad, general attacks on unemployment will be less useful now than they have been in the past. Accordingly our plans and policies are increasingly designed to meet the special needs of areas of the country or groups of the population with special difficulties and problems.

Gordon went on to reject the reflation strategy of the U.S.:

Our present economic problems...are not such as can effectively be met by a general tax cut. More selective and long term measures are needed, such as the better education and technical training of our young people and the promotion of industrial development."

In other words, policies to lower unemployment were to be shelved, and the structuralist view of unemployment embedded in a new strategy of 'active labour policies'. The Budget itself contained little else: the rate of growth of government expenditures would be kept down to lower the deficit; investment incentives for high unemployment areas would be extended; research expenses would gain additional tax deductibility; and family allowance coverage, justified as a contribution to training, would also be augmented. As for foreign ownership, Gordon's nationalist views were restated, but the need for external stability prevailed.

As the recovery began to peak in 1965, with unemployment again dropping below 4 per cent, the fiscal caution of 1964 was suddenly cast

aside. Gordon's 1965 Budget reflected the optimism of the 'growth push' then spreading across the capitalist bloc:

This robust expansion must be continued. With the budget under control, we must use our fiscal policies to achieve the nation's goals. The primary objective now is a healthy rate of sustained economic growth.⁶³

Gordon's 'growth budget' had two dimensions. First, the tinkering with tax measures to improve the competitiveness of Canadian manufacturing and processing continued, with additional research grants and extension of accelerated depreciation to renew the capital stock. As well, Gordon proposed the Canadian Development Corporation (CDC) "to encourage the development of industrial opportunities in Canada by Canadians." Even the CDC's position to foreign ownership developed opposition, revealing the depth of dependence on foreign capital and pervasive antagonism to industrial intervention in Canada, and remained blocked till 1971. A pro-cyclical tax cut of 10 per cent on personal income taxes, to a maximum of \$600, was also adopted. With government revenues turning into a surplus, and an election imminent, the tax cut had wide popularity, amongst both business and labour, to keep the expansion surging. Economic growth was necessary "to accommodate a rapid increase in our labour force.... We need to assure the market demand to put it to work productively."⁶⁴ The return of another minority Liberal government in 1965 served, however, to push Gordon out of the Finance Ministry, making his final budget as dull as his first budget was bold.

By the first quarter of 1966, the effort to raise growth rates had begun to ease under worries of building inflationary pressures, although unemployment remained above the 3 per cent target of the Economic Council. Presenting his first Budget in April, the new Liberal Finance Minister

Mitchell Sharp observed that "action should be taken promptly to moderate the present boom and to maintain a steady and sustainable rate of growth in our economy."⁶ The Budget proposed to slow down the rate investment to ease "market tightness" caused by the loss of "unemployed resources" (a concession that Finance's 'full employment target' was above 3 per cent). Government expenditures on construction projects were cut by 10 per cent; except for a small amount for low income households, the previous year's tax cut was rescinded; capital cost allowances were reduced; and, finally, a 5 per cent refundable tax on corporate profits was imposed.

The Budget heralded the new policy climate of fighting inflation that would dominate the rest of the decade, and serve as a prelude to the stagflation of the 1970s. But, as yet, an air of optimism prevailed. The boom was confidently forecast to keep extending endlessly forward: "Our problems are no longer the problems of overcoming slackness or stagnation but those of managing growth and prosperity. Our task is to sustain the longest expansion in Canadian history."⁷

The 'consensus' for the Keynesian interpretation of unemployment that formed in the early 1960s did not necessarily translate into a concerted Keynesian stabilisation policy. The hesitancy, and at times perversity, of postwar employment policies persisted even through the cyclical conditions they were 'technically' designed to prevent. The consensus held only over the need to drive up growth rates, keeping Canada 'internationally competitive', and relieving unemployment through export growth. The strife over monetary policy reinforced the place of external stability in postwar stabilisation policies. Only a concerted political effort could break Canada out of its passive employment policy and limping

Fordist development trajectory. There was no such political force on the horizon, with even the labour movement largely satisfied with the export led growth push. The remaining effort to contain unemployment became linked, therefore, to policies for labour market adjustment. It is here the battle with unemployment was most directly engaged.

5.3 Active Labour Market Policies for Economic Growth

Just because stabilization policies were turned to restraint it did not mean, any more than it had during the automation scare, that a labour market policy capacity and strategy could be relied upon to contain unemployment. The industrial strategy of market-led growth, and ad hoc industrial subsidies to selected sectors, also meant that labour market policies had no particular role to play. Labour market policies largely facilitated a rapidly growing labour supply as part of the 'extensive' growth process.

The high growth objective did raise a new role for labour market policies to facilitate adjustment to liberalized trade and to upgrade the 'human capital stock'. But the question of skilling the national labour force raised by the 'automation scare' remained unresolved even with the new TVTA. Better utilization of labour was also, as the unemployment debate of the period suggested, a costless way of shifting the Phillips curve tradeoff. It is here that the origins of Canada's active labour market policies need to be situated. Speaking in Montreal in June 1964 on the 'new active policies', Liberal Labour Minister Alan MacEachen raised these themes:

The goals of employment policy can be expressed in terms of the achievement of high level, productive and freely chosen employment.... These goals of employment policy must be achieved within the context of a viable and competitive economy which must operate in the kind of international markets which are characteristic of the Canadian economy. The goals of manpower policy can be expressed in terms of ensuring that the nation's manpower resources are developed effectively so that they will meet the dynamic requirements of growth."

The difficulty was translating the idea of active labour market policies into actual institutional structures. Support for extending labour market policies existed amongst both business and labour, although these were never central strategies and the CLC by far favoured expansionary demand policies. Yet the obstacles posed by limited institutional capacity or programmatic strategy to co-ordinate labour market policies, within the federal government itself or with the provinces, remained. Policy development was concentrated, therefore, upon implementing the new training scheme, and then fitting the various pieces of an active policy together administratively, before attention could be paid to unemployment directly.

Skills for High Growth

Despite the broad commitment to active manpower policies from 1961 on, the centrepiece policy for the early 1960s was the hastily enacted Technical and Vocational Training Act (TVTA) of December 1960, introduced to address the unemployment crisis and the lack of training capacity in Canada pointed out by the automation scare. The TVTA was part of a package of supply side measures--the Productivity Council, accelerated depreciation allowances, research and development subsidies--to raise industrial productivity. If Canada was to rely less on extensive growth from resources and an expanding labour force, and more on intensive

accumulation from advancing productivity, then it was necessary to upgrade and expand the existing stock of skilled labour.

Initially established to upgrade skills to combat structural unemployment, the TVTA quickly took on a broader conception, causing a rapid expansion in its size and objectives through the 1960s.²² Several factors added to the pressure to improve training--the explosion in numbers of youth entering the labour force, fears of lower skilled immigration flows, the automation scare, constraints on stabilisation policies, and the growth of long term unemployment. The TVTA had a critical role to play, therefore, in "bringing the Canadian education and training system into a better balance with the needs being generated by economic growth."²³ The long period objective of the TVTA was to improve the stock of 'human capital' in Canada, and even its short period component, the program for the unemployed, had a similar mandate. Training was conceived as a general improvement of skills for new labour force entrants without being linked, to specific job openings or to the adjustment of laidoff workers. Training for the unemployed was the main adult retraining program, and it was designed for basic skills such as literacy and numeracy. The Canadian training policy contrasted, therefore, with the U.S. active labour program where training became tied to the War on Poverty. The conception running through the Canadian program was the need to raise productivity and growth through new skills; there was little in the way of 'equity' and thus of programs for the unemployed.

In practical terms the TVTA's overriding concern was simply to establish the institutional capacities to skill workers in Canada, given the historical absence of substantial training programs (except during war

mobilization). The two main program objectives of the TVTA--development of training infrastructure and increasing the number of trainees receiving technical skills--reflected this. Capital expenditures were targeted at the building of vocational high schools, postsecondary technical schools, and trade schools. The emphasis on formal institutional training resulted from the traditional failure of Canadian and foreign controlled companies to train, but also from the view that the transition from school-to-work was critical to skills formation and Canadian employment problems because of the demographic bulge of youth entering the labour market." As well, formal training, it was argued, rather than training of specific skills for a single process or company, allowed formation of the general skills to be acquired. This eased the transition between jobs as technology changed and skills needed further upgrading.

The TVTA maintained the postwar federal funding pattern for institutional training of capital grants and yearly block allotments, and of financial assistance for training the unemployed, with program delivery under provincial control. The TVTA added a third component for retraining of laidoff workers or employed workers facing technological changes. The latter component was a result of the automation debate, but would soon also be one of the bases for expanding active labour policies since high growth implied continual technological displacement. The magnitude of the national 'training gap' caused TVTA expenditures to explode. Initial program estimates were quickly overshoot as the provinces, although with widely differing takeup rates, grabbed the cost-shared funding. From the initial federal training effort in 1913 for agricultural training through to the end of the VTCA in 1960, federal training expenditures had totalled

about \$110 million. During the six years of the TVTA federal spending on training bolted to over \$900 million."¹

Training facilities were seriously lacking in Canada, and the bulk of the expenditures were simply directed at laying a basic infrastructure. Canadian capitalists undertook little on-the-job training or retraining, and about one-third of skilled workers came from immigration. Vocational high schools and the tiny apprenticeship program constituted the major domestic sources of skilled workers; major technical centres were limited to Ryerson Polytechnical and the Southern Alberta Institute of Technology. Before the technical capacities of Canadian workers could be increased, therefore, a major expansion of institutional training facilities was necessary. Indeed, the major component of the TVTA was the increase of costsharing to 75 per cent of capital expenditures on building and equipment approved by March 1963. The 1963 deadline also served the purpose of fiscal stimulus "to undergird the government's program to increase employment and foster national development."²

The TVTA's initial objective was a simple doubling of training facilities over 10 years at a cost of \$190 million, a modest target yet still a significant break from past policies. The actual amounts were staggering: about \$600 million of expenditures for 900 new or improved schools in the space of only five years, and an increase in student places by almost 400,000. The composition of capital expenditures depended upon provincial decisions, and they adhered to their historical policy of building training facilities at the vocational and technical level for new labour force entrants. But in the absence of a national training strategy provincial strategies diverged widely. All the provinces expanded voca-

tional high schools and developed new institutes of technology for youth, but some, notably Quebec, emphasized adult training centres." The deferral to provincial control of training programs, moreover, left the federal government playing only an advisory role in the determination of who got trained and what skills were formed. This lack of planning soon developed serious contradictions.

The operational training programs were targeted, at least initially, at youth with greater abilities. The new programs for training-in-industry and older workers--which had been raised in the structural unemployment debate--were expanded yet remained a marginal component of training policy. The TVTA more than anything extended the 'stay-in-school' campaign to lower youth unemployment during the recession. The campaign's new message was stay in school for training because earnings could be greater and unemployment avoided because skills allowed easier labour market adjustment. These programs were, indeed, slight responses to Canada's unemployment problem.

The same logic of adjustment to continual economic change placed emphasis on general training. The Ontario Select Committee on Training noted that "in order to prepare workers for the periodic retraining they may have to go in the future, more emphasis will have to be placed on our ability to learn and ability to adapt, as opposed to simply to the acquisition of a limited range of manipulative skills." In 1959, 14 per cent of students in secondary schools were in vocational and technical programs; by 1963 the number was 22 per cent and projected to rise to 32 per cent. Training under Programs 1 and 2 for Vocational High School and Technical colleges grew enormously, both more than doubling during the

life of the TVTA. The lack of targeted training for specific occupations was, however, still a problem: by far the largest expansion was youth streamed into vocational high schools, and, specifically, general vocational or commercial courses (splitting also according to gender).⁷⁵ These enrolments appeared to bear little relation to the technical skills which had initially prompted the TVTA training overhaul, or to the skills that were to underpin growth and active labour policies.

In expanding the gross number of trainees and training facilities in Canada, the TVTA was undoubtedly a success, but in meeting broader goals of building a comprehensive training infrastructure, several difficulties were readily apparent. In the fall of 1963 several crucial financial amendments were made. First, cost-sharing of capital expenditures at 75 per cent was extended, and capped at \$480 per capita based on the provincial population in the 15-19 year old group. The amendment emerged from the disparate provincial ability to access funds. Ontario had moved quickly and further expanded what was already the most developed provincial training system; Newfoundland also used the funding effectively, but just to begin laying a training system. In contrast, Quebec had to wait for the Parent Royal Commission on Education to report before expanding training institutions. By March 1963 Ontario had claimed \$200 million in capital funds, while Quebec had used only \$28 million. As well, amendments were made to federal contributions to TVTA programs to increase the amount of adult training: funding for training-in-industry and of the unemployed, increased from 50 to 75 per cent, and 75 to 90 per cent, respectively. Finally, a further inducement to increase training of the unemployed was made in May 1966. Federal training allowance contributions

increased to 100 percent of the basic allowance, and the monetary allowance level raised significantly (though it remained very modest in terms of the average wage).⁷⁶

A series of other active labour market measures, some acting on the demand for labour and others on the supply, also originated in the 1961-66 period. These policies also attempted to reinforce market-led growth. Labour mobility in response to economic growth, for example, became a central concern of the active labour market policy concept, especially as the growth push in Canada initially had little concern for regional or community development. But the administrative co-ordination of the programs was still uncertain and problematic: the federal government would initiate the programs, but the delivery system would be decentralized through provincial program control, with no centralized planning capacity to adequately monitor the labour market and match expenditures with labour market needs and program outputs.

Labour Mobility for High Growth

As a result of the shift of stabilisation policies to restraint in 1962, the stimulation of labour demand directly continued to play only a minor part in employment policy, mainly occurring through the indirect use of selective tax cuts to stimulate specific capitalist sectors. The Winter Works program remained the only policy until 1964 in spite of high unemployment and the few retraining options for adults. The grant component of Winter Works and the annual funding decisions meant, however, that the program did have a cyclical impact. The federal contribution had already tripled by 1960-61 at the bottom of the recession; it continued to increase reaching \$41 million by 1965-66. Minor modifications in 1963-64

increased the size of the capital projects allowed for subsidy, and raised the portion of direct labour costs covered to 60 per cent in slow growth areas.⁷⁷

The lack of a national labour market policy strategy also meant that design problems plagued the Winter Works program as well. Municipalities tended to employ welfare recipients to reduce the rolls rather than to employ the seasonally unemployed; regional disbursement of funds did not necessarily correspond to unemployment levels; the relationship to the NES's responsibilities for matching the unemployed with jobs was tenuous at best; financial controls were non-existent and the funding of larger capital projects meant the use of skilled workers who were less likely to be seasonally unemployed. The lack of a clear strategic objective behind the Winter Works--moving from seasonal to cyclical to anti-inflationary justifications--kept the program ill-focused.⁷⁸ The lack of a clear strategic aim by the mid-60s led to the elimination of Winter Works in the 1968 restraint package (although technological factors, such as improvements in the construction industry for work in harsh conditions, also played a role, although not enough to eliminate the problem of work seasonality that still affects Canadian workers).

Two programs introduced in 1964 designed to stimulate labour demand had an even shorter life than the Winter Works. An incentive program for house building (which paid home owners \$500 for building in winter months) lasted for 3 years. The Older Worker Employment and Training Incentive Program lasted only a single year, and provided a wage subsidy to individual capitalists who hired an older worker over 45 suffering from long term unemployment. The wage subsidy consisted of 50 per cent of monthly wages

to a maximum of \$75 for 12 months. The program, however, had a catch: employers had to provide approved on-the-job training. Few employers took the offer and only about 2000 workers were hired.⁷⁹

Much more attention was paid to supply side measures designed to improve labour mobility as part of the active labour market agenda of the mid-60s. By far the most publicity was reserved for the miniature replica of the War on Poverty--dubbed in Canada the Work and Opportunity Program, and announced in April 1965. Unlike the American program which had great liberal ambitions, huge expenditures and a political coalition forcing the issue, the Canadian version was ill-focused, ill-funded and delivered from the top-down. Indeed, like the TVTA the main components of the new program were simply repackaging of old policies: the Area Development Act, the Manpower Mobility Program, Agricultural Rehabilitation, the Canada Assistance Plan, and the Company of Young Canadians (the main new initiative). The 1965 upgrading of minimum labour standards, particularly the minimum wage, in the new Canada Labour Code was also sold as part of the Canadian poverty war. The reshuffling of existing programs were linked, if somewhat loosely, by the fashionable concern for 'human resource development' for economic growth.⁸⁰

Only the mobility program could be said to relate directly to employment policy and the relief of unemployment. The Manpower Mobility Program (MMP) came into effect in December 1965 with the aim of moving unemployed workers to jobs in different regions. By decreasing the cost of moving for individual workers, it was argued, labour markets could be made more efficient. The means provided, like the preceding NES mobility program, were extremely modest and entirely 'hit-and-miss' in their impact

on problem areas for unemployment: loans were made available to cover the costs of moving, including dependents, to approved employment; grants were restricted to the long term unemployed or those just having completed a training program. By applying to unemployed skilled workers and trainees as well as those already with work lined up, the eligibility was slightly more liberal. The principal 'movers', however, were young unskilled male workers, often with families, and a history of unemployment. Because of the limited appeal of loan assistance to workers with uncertain job prospects, the program had few takers.⁸¹ The individual worker focus of the MMP made it quite hopeless as an active measure for labour adjustment.

The Area Development Program, controlled by the Department of Industry, worked in reverse to mobility by attempting to bring jobs to unemployed workers. For many workers, especially older workers, it was suggested that labour mobility was not an option. Jobs must be created in local areas where high unemployment is a problem. Instead of simply more income tax incentives for firms locating in 'depressed areas' that had been the previous principal policy, capital grants were to be provided for eligible capital projects until 1971. As part of the scheme, employers were encouraged to use the NES for hiring local workers. Skilled workers from other regions would be eligible for mobility grants to move to jobs in the depressed area, partly defeating the employment impact of additional investment.⁸² The use of market incentives for both labour and capital to deal with pockets of unemployment fit comfortably into the growth strategy; but the lack of commitment to the 'poverty war' meant it faded from the scene shortly after being announced, before returning in the 1970s.

Labour Adjustment for Economic Growth

Both the new training and mobility policies attempted to increase the flexibility and quality of the labour supply. Neither addressed directly the issues of labour adjustment to liberalized trade or technological change, but speeding the rate of adjustment of workers was at the centre of the very concept of active labour market policy. Here, too, the origins of Canada's active policies can be seen and the concept of individual worker adjustment by plant site that would dominate policy. It had long been the practice in Canada, and the explicit policy of the Department of Labour, to limit issues of technological change to the private negotiations of collective bargaining. As William Dymond, a senior official at Labour, suggested, the idea was one of 'shared responsibility' for technological displacement:

Collective bargaining, if it is to perform an effective role in meeting the human consequences of technological change, must be based on some foresight with respect to the future impact of planned technological changes.... [This] implies that management is willing to share their knowledge of planned changes with unions, so that union demands can take account of developments which affect the disposition of a firm's labour force.⁶³

Shared responsibility meant little in practice, however, since management rights clauses excluded production decisions from bargaining. Even in cases where unions in core industries--often only after strike action--had gained contract provisions for technological change they were minimal. A 1962 survey of collective agreements covering larger worksites indicated that only 50 per cent had advance notice of dismissal clauses, and these were only for 7 to 14 days. Even in the most celebrated agreements resulting from the automation scare--the Industrial Conversion Fund, the Railway Job Security Plan, and the Longshoreman's Automation Protec-

tion Plan--existing job rights were waived and management rights over technological change preserved. These specific provisions, moreover, did not provide for situations of large layoffs, which often turned permanent, due to recession.⁶⁴ Even in the best contracts redeployment and retraining guarantees were weak and most often absent; any positive adjustment measures were at the discretion of management.

The initial breach with the collective bargaining approach to adjustment came with the Auto Pact, which made a link between trade and adjustment policy which would form a constant feature of Canadian policies. The U.S. Trade Expansion Act enacted in the early 1960s provided relief for firms and workers adjusting to import competition. The Auto Pact raised the issue of a parallel system for Canada. Although the Bladen Report on the Automotive Industry was silent on assistance of workers, briefs by the UAW argued that the dislocation costs during the transition period should not be borne by specific plants and workers.⁶⁵ The Transitional Assistance Benefits Programme (TAB) was introduced in June 1965 to provide supplementary income benefits to auto workers laidoff because of the Auto Pact. Applications were made to an Adjustment Assistance Board, and eligible workers could receive up to 75 per cent of straight time pay for up to a year, depending upon the number of dependents, paid for by UI benefits, supplementary unemployment benefits, and the TAB.⁶⁶ Despite the modest proportions, the TAB established the principle that adjustment measures would be tied to specific industries and individual workers suffering from competitive rationalization.

The introduction of the Manpower Consultative Service (MCS) by the Liberals in 1963, in the midst of the shopfloor turmoil over the introduc-

tion of automation, was a further transgression of a strictly collective bargaining approach. The Department of Labour had run a Labour-Management Co-operation Service since 1947, which had built upon plant committees formed during the war, in an effort to incorporate worker participation in productivity improvements without recourse to job actions. The formation of the National Productivity Council in 1961 led to further efforts at developing labour-management committees to aid the introduction of technological change.⁸⁷ The committees had largely fallen into disuse by the mid-60s. The process of the committees had been strictly voluntary negotiations, and the role of the state strictly consultative. The MCS continued the notion of 'shared voluntary responsibility' by plant site, rather than develop a compulsory adjustment program expressing the collective rights of workers to assistance as a matter of course when faced with layoffs or technological change.

Indeed, the MCS only provided voluntary consultations to assist ongoing negotiations between management and workers over technological change (away from the heat of collective bargaining). The MCS had two additional plans for co-operation: advance planning of adjustment was most useful and should emphasize internal redeployment of workers; and, when labour displacement would be extensive, a strategy for co-ordination of state assistance was advisable. Yet as "adjustment problems are essentially individual" the MCS focused exclusively at the plant level studiously maintaining the pro-market principle that no general rights of workers should be established for retraining or adjustment assistance.⁸⁸ The MCS program emphasized, therefore, improvement of manpower planning by plant site by joint union-management research into impending technological

change with the government picking up half the costs. The MCS would also assist individual workers facing layoff in applying for training and mobility programs. A MCS agreement between the Manitoba Rolling Mills and the Steel Workers, for example, studied the retraining and displacement resulting from new melting and casting equipment, with subsequent negotiation of specific worker adjustments. By the fall of 1966 some 17 study agreements had been signed across many industries."

Adjustment policy was another new component of active labour policies to emerge with economic recovery. These policies emerged across the OECD zone as a program to support economic growth and liberalized trade. In general they avoided strong employment commitments. The adjustment policy introduced in Canada in 1965 was an extreme version of the market model, emphasizing individual adjustment and containing no institutional rights for workers to employment security. Indeed, before and after the adjustment policy 'breakthrough' workers had no remedy for loss of employment except income compensation. In only a few provinces did compulsory advance notice of dismissals exist, (usually only of a few days) with no compulsory requirement to notify or discuss technological displacement." The CLC, not surprisingly, pointed out that the lack of a comprehensive policy did little to cope with the shop floor pressures building toward strikes from the introduction of automation.

The active labour policies that took form in Canada in the early 1960s, had evolved in ad hoc fashion tied to the growth push, but they contained no clear strategy, co-ordinated policy or common delivery system (even ignoring the separation of stabilization and labour market policies). The Department of Labour had policy responsibility for industrial

relations and most, but not all, labour market policies. The federal operational arm for employment policy, however, was located in the NES, which itself functioned as a branch of the UIC, which also had operational autonomy. The NES had long tended to operate as an office for UI claims and rather less as a placement agency. Unemployed applicants for training were processed by the NES, for example, but counselling and placement was in the hands of the provinces and local school boards.¹¹ Immigration policy was housed in yet another ministry with a separate operational aim.

The need to remedy operational divisions subverting a co-ordinated policy inevitably received wide attention in the early 1960s with the prominence of the active labour policy. In 1961, the Senate Committee on Employment had argued that economic growth required a stronger NES to facilitate labour mobility, but there was a "lack of integration between the operations of the Employment Services and the research and policy-making of other government agencies."¹² Investigating problems of UI, the Gill Committee made a similar critique, arguing that the NES must be part of a "forward looking manpower policy". Gill recommended that the NES should be transferred to the Department of Labour:

The problem that Canada is now facing as respects unemployment, and the problem it is likely to face in the future by reason of extensive technological change, must surely have made it clear to everyone concerned that a broad and comprehensive employment and manpower program supported by an active and vigorous national employment service is absolutely essential to the national well-being.¹³

The Economic Council gave a further push to the upgrading of the employment service for Canada's more active labour market policies. Like the OECD the Council's advocacy of active policies included making the employment service, as part of the Department of Labour, "the key oper-

ational agency for implementing manpower policy. It must also become the sole co-ordinating agency of all policies and programmes related to the labour market."⁴ The Second Annual Review observed that "nothing is more crucial to the development of an effective employment service and to the improvement of the functioning of the labour market than job vacancy data" involving continuous observations of labour and skill demand conditions." The Second Review took the additional step, after the Council had become frustrated with organizational delays at the Department of Labour, of arguing that a separate department might be created to integrate labour market and immigration policies.

The actual reorganization of the employment service indicated the lack of a clear strategic conception behind Canada's active labour market programs and the marginal place that unemployment concerns occupied. In 1964 the organizational ties between the NES and UIC were severed, with the NES intended to become the operational branch of the Department of Labour, but before this process could be completed another organizational shuffle occurred. In December 1965 it was announced that the labour market programs would be combined with immigration to form the Department of Manpower and Immigration, with industrial relations policy left at Labour. This institutional separation underscored the link between the active labour market policies and economic growth. Immigration volumes also would follow cyclical movements, yet more strongly oriented to ensuring an inflow of the highly skilled for high growth."

The initial phase of building a strong institutional capacity for labour market policies was finally underway, with the NES offices (soon to become Canada Manpower Centres) the focal point for intervention in local

labour markets. The creation of this new 'institutional capacity' was ultimately the final achievement of the recession and the automation scare. The marginalization of the Department of Labour, where the CLC had a 'voice', indicated the precedence given to economic growth over high employment commitments in Canada's active labour market policies.

The new training scheme introduced at the bottom of the recession dominated labour market policies through the recovery. This was essentially an effort to improve the quality of the labour supply, with the assessment that technological change kept pushing the level of skills up. The other elements of active labour market policies also attempted to improve the flexibility of the labour supply for high growth. High unemployment initially served as a spur for expanding training and labour market policies on the basis of the structuralist view of unemployment but in fact policies for the unemployed - either training or adjustment - were hardly developed. The conception behind Canada's active labour market policies assumed high growth would simply eliminate the capitalist employment problem. With Fordism fully consolidated and at its peak this seemed possible, but its institutional legacy would soon prove costly.

5.4 Conclusion: Employment Policy and High Growth

The recession of 1957-61 left a paradoxical legacy in the making of Canadian employment policies. Although the fear of general unemployment provided the initial impulse to rethinking economic strategies, it was the politics of economic growth which came to dominate the period and Canada's employment policies. The ILO and OECD played a significant role in strengthening employment policy commitments, although they depended on

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national labour movements to enforce them and give them a precise character. The parameters of employment policy were reshaped in the process. The most notable feature was the initial framing of the active labour market policies that were the corollary of the capital deepening of Fordism, and part of the OECD co-ordinated effort to raise growth rates for full employment. In most countries active labour policies incorporated an 'equity' component such as the comprehensive Swedish policies or the explicit targeting of the disadvantaged as evolved in the U.S.

Canadian employment policies had their own peculiarities. Active labour market policies in Canada tended to be isolated from macroeconomic regulation and only peripherally concerned with lowering the unemployment rate. The shock of the dollar crisis of 1962 tended to make already conservative stabilization policies even more so. External stability and bolstering industrial competitiveness of specific sectors of capital, through tax incentives and subsidies, became the main anchors of stabilisation policy. The cheap dollar and strong external demand conditions prepared the base for an export boom. Labour market policies were left, more or less, to take care of the remaining unemployment. Yet active labour market policies also were tied to supporting export market-led growth. The new labour policies tended to be training and adjustment measures for individual workers with skills or who could be skilled, and failed to incorporate the unemployed (as both the Swedes and Americans had). As Ostry and Zaidi observed: "One might fairly conclude, at least on the basis of stated intentions, that the Canadian government's strategy in the field of manpower policy is primarily a growth strategy."⁹

The return of high economic growth, however, had already begun to

raise a new set of concerns. The advancing of Fordist production techniques on the shopfloor had ignited several wildcat strikes over the introduction of technological change. Rapid accumulation and lower unemployment were also preparing the ground for a wage militancy to shift the distribution of income. Could the postwar order deliver all that the workers wanted in terms of work control and job security at high employment? How would continued relative economic decline register in unemployment if internationalization proceeded apace and erupted in instability? These were questions that the period of consolidation had aroused, and whose answers left nagging doubts that the Canadian growth model and employment policies could sustain high employment.

Endnotes

1. Convention Proceedings 1962 (Ottawa: ILO 1962), 41.
2. See: N. Meltz, 'Manpower Policy: Nature, Objectives, Perspectives,' Relations Industrielles, 24:1 (1969), 40-3; and I. Muszynski, 'The Politics of Labour Market Policy,' in R. Doern, ed., The Politics of Economic Policy (Toronto: University of Toronto 1985), 260-2.
3. A. Ross, 'The Problem of Unemployment,' in A. Ross, ed., Unemployment in the American Economy (New York: Wiley 1964), 14; and O. Eckstein, 'Perspectives on Employment under Technical Change,' in J. Stiebert, ed., Employment Problems of Automation and Advanced Technology (London: Macmillan 1966), 90. R. Solow argued: "The total volume of unemployment today is simply not determined by the rate of technological progress." See: 'Technological Unemployment,' The Public Interest, No. 1 (1965), 19.
4. Ostry, 'Canadian Labour Market,' 48.
5. R. Solow, 'What Happened to Full Employment,' Quarterly Review of Economics and Business, 13:2 (1973), 10-1; N. Simler, 'Long-term Unemployment, the Structural Hypothesis, and Public Policies,' American Economic Review, 54:6 (1964), 986-7; and R. Solow, The Nature and Causes of Unemployment in the United States (Stockholm: Wickseff Lectures 1964), 22-30.
6. C. Killingsworth, 'Structural Unemployment in the United States,' in Stiebert, ed., Employment Problems, 152; and idem, 'The Fall and Rise of Structural Unemployment,' IRRA Proceedings (Winter 1978), 3-6.
7. On the policy centred approach to unemployment see: E. Gilpatrick, 'On the Classification of Unemployment,' Industrial and Labour Relations Review, 19:2 (1966), 211-2; Simler, 'Long-term Unemployment,' 987-8 and 999-1000; and P. Penz, Structural Unemployment: Theory and Measurement (Ottawa: Manpower and Immigration 1969), 10-2.
8. P. Samuelson and R. Solow, 'Analytical Aspects of Anti-Inflation Policy,' American Economic Review, 50:2 (1960), 192-4; and R. Lipsey, 'Structural and Deficient Demand Unemployment Reconsidered,' in Ross, ed., Employment Policy, 214. Samuelson and Solow noted that "considerably before full employment of labour and plants has been reached, modern prices and wages seem to show a tendency to drift upward irreversibly, we see that a simple keynesian system must be modified" (180-1).
9. Killingsworth, 'Fall and Rise,' 4-5; and Solow, Nature and Causes, 17-8.
10. Lipsey, 'Unemployment Reconsidered,' 216-7; J. Winder, 'Structural Unemployment,' in Kruger and Meltz, eds., Canadian Labour Market, 144-55. Berman also noted: "...the structural unemployment controversy is (or should be) basically a policy controversy.... structural unemployment is that part of unemployment which should be eliminated through labour market

policies, except for that amount which could be eliminated by demand stimulation measures." See: B. Berman, 'Alternative Measures of Structural Unemployment,' in Ross, ed., Employment Policy, 256-7.

11. OECD, Labour Market Policy In Sweden (Paris: OECD 1963), 20; OECD, The Problem of Rising Prices (Paris: OECD 1961), 43-4; C. Kindleberger, Europe's Postwar Growth (Cambridge: Harvard University 1967), (ch. 11; and G. Rehn, 'Trends and Prospects in Manpower Policy,' in M. Gordon, ed., Poverty in America (San Francisco: Chandler Publishing), 208-14.

12. S. Barkin, 'The Manpower Policies of the OECD,' Business Topics, 11:4 (1963), 8; and E. Bakke, 'An Active and Positive Manpower Policy,' in International Trade Union Seminar on Active Manpower Policy (Paris: OECD 1964). R. Solow, in examining the sources of growth, surprised the academic community in finding that improvements in the quality of labour and capitals were so important (the residuals produced in estimates of growth equations). See 'A Contribution to the Theory of Economic Growth,' Quarterly Journal of Economics, 70:1 (1956).

13. G. Rehn, 'An Account of Progress in Manpower Policies,' OECD Observer, N. 21 (1966), 4. Alain Tourraine, and others, made the case for these measures against more radical interpretations of unemployment. See: Worker's Attitudes to Technical Change (Paris: OECD 1965), 106.

14. OECD, Recommendation of the Council on Manpower Policy as a Means for the Promotion of Economic Growth (Paris: OECD 1964). Or again: "Manpower policy should be one of the main elements of economic policy in the pursuit of the OECD growth target." This followed the 1962 OECD 'Statement on the Need for an Active Manpower Policy'. It should be recalled, however, that the OECD Convention, like the EEC Treaty, avoided making full employment one of their aims. See: I. Lenert, 'Comparison of National Manpower Policies,' in Seminar on Active Manpower, 65.

15. 'An Active Manpower Policy in Boom and Recession,' OECD Observer, N.11 (1964); 'Public Employment Service: Cornerstone of an Active Manpower Policy,' OECD Observer, N.17 (1965); and OECD, Geographical and Occupational Mobility of Manpower (Paris: OECD 1964).

16. N. Franklin, 'Employment and Unemployment: Views and Policies, 1919-1969,' International Labour Review, 99:3 (1969), 305; and ILO, Employment and Growth, Studies and Reports, New Series, N.67 (Geneva: ILO 1964), 1. On technical change, see: R. Raimon, 'Changes in Productivity and the Skill-mix,' International Labour Review, 92:4 (1965); and ILO, Automation: A Discussion of Research Methods, Labour and Automation Bulletin N.1 (Geneva: ILO 1964).

17. The 1961 resolution is excerpted in: Employment and Economic Growth, 44. The 1964 Convention N. 122, which Canada ratified on 16 September 1966, is found in: ILO, Conventions and Recommendations, 1919-1966 (Geneva: ILO 1966).

18. Employment and Economic Growth, 73-4. Also see: ILO, Unemployment and Structural Change (Geneva: ILO 1962), Chs. 9-13.

19. The discussion of the U.S. debate is massive, but see: H. Stein, The Fiscal Revolution in America (Chicago: University of Chicago 1969), Chs. 15-17; Sundquist, Politics and Policy, 34-56 and 83ff; A. Ross, ed., Unemployment and the American Economy (New York: John Wiley 1964); R. Gordon and M. Gordon, eds., Prosperity and Unemployment (New York: John Wiley 1966); and R. Gordon, 'Full Employment as a Policy Goal,' in Ross, ed., Employment Policy, 28-9 and 41-4.

20. Council of Economic Advisors cited in A. Wolfe, America's Impasse (New York: Pantheon Books 1981); M. Weir, 'The Federal Government and Unemployment,' in M. Weir, et al., eds., The Politics of Social Policy in the United States (Princeton: Princeton University 1988), 170-8; M. Gordon, ed., Poverty in America (San Francisco: Chandler Publishing 1965); and A. Okun, ed., The Battle Against Unemployment (New York: W.W. Norton 1965).

21. P. Proulx, 'The Composition of Unemployment in Canada,' in Employment, Unemployment and Manpower (McGill University Industrial Relations Centre, 15th Annual Conference 1964), 51-4 and 73; F. Denton and S. Ostry, An Analysis of Post-War Unemployment (Ottawa: Queen's Printer 1965), 16; D. Smith, 'The Controversy over the Causes of Unemployment,' The Canadian Banker, 72:2 (1965); D. Hartle, 'The Characteristics of the Unemployed,' Canadian Journal of Economics and Political Science, 28:2 (1962), 260-1; D. Hartle, Unemployment (Toronto: Woodsworth Memorial Foundation 1960).

22. H. Johnson, Canada in a Changing World Economy (Toronto: University of Toronto 1962), 35-8; idem, 'Employment Theory and Public Policy in the North American Context,' in Employment, Unemployment and Manpower; Barber 'Canada's Unemployment Problem,' 101-2; and W. Gordon, Troubled Canada, Ch.4.

23. D. Smith, 'The Canadian Full Employment Goal,' The Canadian Banker, 71:4 (1964), 62. The curve was soon translated into the even looser notion of a 'tradeoff zone'. The Canadian studies of the Phillips curve are surveyed in R. Bodkin, et al., Price Stability and High Employment (Ottawa: Queen's Printer 1966).

24. 'Annual General Meeting,' Industrial Canada (July 1961), 37-8; 'Annual General Meeting,' Industrial Canada (July 1962), 32; and LG, (March 1962), 28.

25. See, in particular, the CMA submission to the Porter Commission where the case for competitive tax cuts was made to meet Canadian economic goals, including, the minimization of unemployment. See: CMA, Submission to the Royal Commission on Banking and Finance (Mimeo 1962), 7-15.

26. Conference Board of Canada, 'The Employment Challenge of the 1960s,' Business Management Record (Sept. 1963), 37; 'Unemployment and the Job-Seeker,' Canadian Business (Dec. 1963), 29; and J. Crispo, 'Management of

Technological Change,' The Business Quarterly, 27:3 (1962), 28-9.

27. 'Unemployment,' CL (July-Aug. 1961), 10; 'Methods to Increase Jobs,' CL (July-Aug. 1961), 35; and CLC, Submission to the Royal Commission on Banking and Finance (Ottawa: 1962), 1-6.

28. CLC, Fifth Constitutional Convention (April 1966), 102. Also see: 'Proposals for Cooperation,' CL (March 1963); and the essays by J. Weldon and S. Jamieson in M. Oliver, ed., A Social Purpose for Canada (Toronto: University of Toronto Press 1961).

29. 'Automation - A National Program,' CL (May 1966), 32. Also see: 'An International Economic Policy for Canada,' CL (Dec. 1965), 23; 'Economic Policy,' CL (May 1964), 91-2; 'Gaps in Manpower Policy,' CL (Jan. 1966).

30. J. Francis, 'The Unemployment Problem,' in Employment, Unemployment and Manpower, 14. Also see: Dept. of Labour, 'Technological Change, Productivity and Employment in Canada,' in OECD, The Requirements of Automated Jobs (Paris: OECD 1965); J. Francis, 'Manpower Implications of Technological Change in Canada,' Labor Law Journal, 14:8 (1963); and 'Automation, Economic Growth and Unemployment in Canada,' in Government of Ontario, Automation and Social Change (Toronto: Queen's Printer 1963).

31. Department of Labour, 'Technological Change,' in Automated Jobs, 46; idem, 'Advance Planning for Manpower Adjustment at the Plant Level,' Methods of Adjustment of Workers to Technological Change at the Plant Level (Paris: OECD 1967); and N. Hall, ed., Labour Management Conference on Economic and Technological Change in the Sixties (Vancouver: UBC 1965).

32. W. Dymond, 'Our Changing Labour Force,' in Dalhousie Labour Institute Conference (Halifax: Dalhousie 1963), 9-10; and J. Francis, 'The Challenge of Job Creation,' Industrial Canada (July 1964), 211. Francis noted: "Job creation... is a challenge of our ability to stimulate economic growth and our capacity for making the economic and social adjustments."

33. Royal Commission on Banking and Finance, Report (Ottawa: Queen's Printer 1964), 403.

34. Ibid., 565.

35. Ibid., 400; and D. Slater, 'General Economic Policy in the Report of the Royal Commission on Banking and Finance,' The Canadian Banker, 71:2 (1964), 34-5. W.A. Mackintosh, of course, had a major hand in writing both documents.

36. ECC, Economic Goals for Canada to 1970 (Ottawa: Queen's Printer 1964), 39-40. The OECD had set a 4 per cent annual target rate of growth as part of the '2-2-4' goals of active labour market policies. Canada's target rate was higher, yet Canada had been growing at a slower clip than other countries over the postwar period. See: D. Smith, 'The Economic Council and Its Economic Plan,' The Canadian Banker, 72:1 (1965); idem, 'Full Employment Policy: A New Force or a Hollow Slogan?,' The Canadian

Banker, 72:3 (1965); and T. Rymer, 'The Economic Council: Capital, Employment and Growth,' The Business Quarterly, 30:4 (1965).

37. ECC, Economic Goals, 171.

38. Special Committee of the Senate, Final Report, N. 25, 58.

39. G. Williams, Not for Export (Toronto: McClelland and Stewart 1983).

40. This discussion follows Mahon, Industrial Restructuring, 69; Williams, Not for Export, 123; and Campbell, Grand Illusions, 145-7. Pearson recalled: "I was anxious...that no economic action should create controversy in our relations with the United States which could lead to mutual economic retaliation. Such retaliation could only sting the United States but could be disastrous for Canada. Similarly, in completing our social security programme, I was only anxious not to move beyond the limits of our economic resources." See: L. Pearson, Memoirs, Vol. 3 (Toronto: University of Toronto Press 1975), 90.

41. Bank of Canada, Annual Report 1961, 17; and Canadian Annual Review 1961, 197-8. D. Smith and D. Slater noted, "Mr. Coyne errs in overemphasizing inflation as cause of contemporary Canadian economic problems and the he underemphasizes both the serious structural problems arising from non-inflationary causes and the effects of a substantial business cycle recession." See: 'The Economic Policy Proposals of the Governor of the Bank of Canada,' Queen's Quarterly, 68:1 (1961), 107.

42. Budget Speech, 20 June 1961, 6. After noting the rapid labour supply growth, the Budget White Paper endorsed, in part, the structuralist view: "It is apparent that the lack of education or training among the unemployed in this lower age group provides an explanation of their difficulty in obtaining employment." (78)

43. Quoted in Plumptre, Three Decades, 164.

44. J. Coyne, 'Testimony,' Senate of Canada, Standing Committee on Banking and Commerce, Proceedings, N.1, 10 July 1961, 66. See: Granatstein, Canada, 74-84; Bothwell, et al., Canada Since 1945, 220-4. Coyne opposed devaluation as being inflationary in April 1961 before the Senate Committee.

45. Bank of Canada, Annual Report 1961, 4. This position was subsequently supported by the Royal Commission on Banking and Finance. See: Final Report, 539.

46. Bank of Canada, Annual Report 1961, 19; and CAR 1962, 156.

47. Bank of Canada, Annual Report 1961, 6. Also see: CAR 1961, 211-4; OECD, Economic Surveys: Canada 1962, 17 and 21; and Plumptre, Three Decades, 166-9.

48. Budget Speech, 10 April 1962, 4 and 6; Campbell, Grand Illusions, 134; Will, Canadian Fiscal Policy, 80-1; and D. Fleming, 'The Contribution of Fiscal Policy to Economic Expansion and Growth,' Industrial Canada (July 1962). The government rejected CLC calls for a full employment act, then being passed by other states, as leading to "full regimentation of the economy." LG (April 1962), 406.

49. Scott Gordon, and others, have argued that the Fleming period, reflecting Canadian policy as whole, allowed only "passive deficits" with no "decision on the part of the government to combat unemployment by keynesian policies applied on the expenditure side of the budget." This is, no doubt, accurate, but it leaves unanswered the particular strategy adopted which, while modest, still fell within the confines of, and was legitimised by, keynesian views of the economy. See: Gordon, 'Reflections on the Keynesian Revolution,' 40-1.

50. CAR 1962, 183. For a discussion of the events: Plumptre, Three Decades, 170-3; Granatstein, Canada: 1957-1967, 87-8 and 98-100; and OECD, Economic Surveys: Canada 1962, 22-5.

51. The measures favoured Canadian prudence in matters of money, allowing the expansionary program to be tossed aside, and can be seen in the now commonplace observation that the new rate may have undervalued the Canadian dollar. See: G. Sparks, 'The Theory and Practice of Monetary Policy in Canada: 1945-83,' in J. Sargent, ed., Fiscal and Monetary Policy (Toronto: University of Toronto 1986), 133.

52. The OECD, for one, noted that "at a time when there is a considerable margin of unused resources in the economy, the authorities have felt obliged to take monetary and budgetary measures which are almost bound to have an unfavourable effect on the course of domestic activity." See: Economic Surveys: Canada 1962, 25 and 29. The September 1962 Speech from the Throne did accept, however, the employment goal set by the Senate of creating one million new jobs over the next few years (although this was not considered very serious).

53. See: D. Slater, 'Canadian Economic Policy in the 1960s,' in Economic Policy Since the War, 105 and 108; and C. Gonick, Inflation or Depression (Toronto: Lorimer 1975), 115-7.

54. Bank of Canada, Annual Report 1962, 7. Cf. Royal Commission on Banking, Final Report, 492.

55. Bank of Canada, Annual Report 1962, 5.

56. Bank of Canada, Annual Report 1965, 4; and CAR 1960, 278-81. On the limits of monetary policy restraint: CAR 1965, 245-50; Plumptre, Three Decades, 212-3 and 229-30; and J. Pesando and L. Smith, 'Monetary Policy in Canada,' in K. Holbik, ed., Monetary Policy in Twelve Industrial Countries (Boston: Federal Reserve Bank of Boston 1973), 90-2.

57. L. Rasminsky, 'Testimony Before the Royal Commission on Banking, 9 January 1963,' in Bank of Canada, Annual Report 1962, 62-3; and J. Chant and K. Acheson, 'Mythology and Central Banking,' Kyklos, 26:2 (1973), 366-70.
58. Bank of Canada, Annual Report 1965, 3; and Annual Report 1964, 5-6.
59. Budget Speech, 13 June 1963, 4; CAR 1963, 196-200; and D. Smith, Gentle Patriot (Edmonton: Hurtig 1973), 109-10 and 144-8.
60. Budget Speech, 13 June 1963, 6 and 16; and D. Purvis and C. Smith, 'Fiscal Policy in Canada: 1963-1984,' in J. Sargent, ed., Fiscal and Monetary Policy (Toronto: University of Toronto Press 1986), 14.
61. CAR 1963, 201; Plumptre, Three Decades, 203-4; and Pearson, Memoirs, Vol. 3, 102-9. For a critique of the nationalist policies, appropriately published in a foreign financial journal, see: H. Johnson, 'Economic Nationalism in Canadian Policy,' Lloyd's Bank Review, N. 74 (1964).
62. Budget Speech, 16 March 1964, 5-6 and 10; Campbell, Grand Illusions, 151-2; and CAR 1964, 270-4. It was feared that a general tax cut would increase imports and hurt the external deficit. See: OECD, Economic Surveys: Canada, 1964, 22.
63. Budget Speech, 26 April 1965, 1. Without specifying a full employment goal, the Budget endorsed the objectives of the Economic Council's First Annual Review--the closest the Canadian state actually ever came to a full employment target commitment.
64. Budget Speech, 26 April 1965, 10 and 116. The Budget White Paper noted: "The economy must continue to expand rapidly if all those who wish to obtain employment are to find jobs." (47) Tax cuts were favoured by the CMA, CLC, the Economic Council and the Chamber of Commerce. See: CAR 1965, 337.
65. Budget Speech, 29 March 1966, 8 and 17. Capital projects had already been delayed in August 1965 for fear of sparking inflationary pressures, all well before the full employment targets being discussed.
66. Budget Speech, 29 March 1966, 17.
67. A. MacEachen, 'Government Manpower and Employment Policy in Canada,' in Employment, Unemployment and Manpower, 80. Compare one of the last comments by Tory Labour Minister Starr, also speaking to a Montreal audience on unemployment. "The... [labour market] measures are designed to reinvigorate the economy and to make it possible for Canadian industry to compete on equal terms for markets at home and abroad." See: M. Starr, Public Address, 22 February 1961, 1; and LG, August 1961, 756.
68. W. Dymond, 'Implications of Automation for Government-Sponsored Training Programmes in Canada,' in OECD, The Requirements of Automated Jobs (Paris: OECD 1965), 357-8.

69. J. Francis, 'Technological Change, Productivity and Employment in Canada,' in OECD, Automated Jobs, 37. See also: LG (Feb. 1961), 137; and Government of Ontario, Select Committee on Manpower Training (Toronto: Queen's Printer 1963), 13-5.
70. LG (Dec. 1962), 1344; Dupre, et al., Federalism, 37-8; and O. Hall and B. McFarlane, Transition from School to Work (Ottawa: Queen's Printer 1963).
71. ECC, Eighth Annual Review (Ottawa: Queen's Printer 1971), 100-1. On the 'training gap' see: Dupre, et al., Federalism, 15-8; Department of Labour, Annual Report 1961, 76-8; and Canada Year Book 1963-64, 73/43.
72. House of Commons, Debates, 25 November 1960, 231-33. Also see: Weiermair, Apprenticeship Training, 16-22; and S. Sinclair, 'Technical and Vocational Training: Are We on the Right Road?,' Canadian Business (April 1962).
73. Dupre, et al., Federalism, 17-8; Dept. of Labour Annual Report 1976, 52; and Glendenning, Federal Legislation, 61-3.
74. Government of Ontario, Select Committee on Manpower Training (Toronto: Queen's Printer 1963), 18; LG (Jan. 1966), 16-7; and Dymond, 'Implications of Automation,' 366.
75. Francis, 'Technological change,' 41; and Review of Manpower Training Research, 'Technical and Vocational Education in Canada, 2:3 (1964), 19-25. Research data were derived from surveys by Statistics Canada and the Department of Labour.
76. Dupre, et al., Federalism 19 and 41-2; and L. Orlikow, Provincial Partnership in Education with Special Emphasis Upon the IVIA, 1960-67 (University of Chicago: Ph.D. Thesis 1969), 100-2.
77. Close and Burns, Winter Works, 50-5 and 94-5.
78. "...over full employment in the summer and under-used resources in the winter can have serious consequences in terms of costs and hence upon the competitive position of the Canadian economy." Department of Labour, The Impact of Winter on the Canadian Worker (Ottawa: Queen's Printer 1966), 3.
79. Department of Labour, Annual Report 1964; LG (Sept. 1963), 1102; and 'New Hope for the Older Unemployed,' Industrial Canada (Jan. 1964), 39-40.
80. LG (Sept. 1965), 794-5; LG (Oct. 1965), 897-9; A. MacLachan, 'Address,' Technical and Vocational Education in Canada, N.7 (1965-66), 18-21; and I. Kent, Social Policy for Canada (Ottawa: Policy Press 1962). Too much has been made of Kent's trivial little book: as should be clear by now, nothing in it was new.

81. CAR 1965, 323-4; OECD, Manpower Policy in Canada, 70-1; Department of Manpower and Immigration, Manpower Mobility Program (Ottawa: Manpower and Immigration 1966), i-v.

82. CAR 1965, 323-4; OECD, Manpower Policy in Canada, 49-51; and W. Wood and R. Thomas, eds., Areas of Economic Stress in Canada (Kingston: Queen's University Industrial Relations Centre 1965), 118-21. The Area Development Program also contained a number of Pilot Projects, conducted by Labour, to extend adult training to the long-term unemployed by increasing training allowances. These became a pilot for the successor program to the TVTA. See: LG (March 1966), 78.

83. W. Dymond, The Impact of Automation on Manpower and Labour-Management Relations (Department of Labour: Mimeo 1962), 19-20; LG (Nov. 1964), 19-20.

84. ILO, Manpower Adjustment, 21-31 and 65-6; and LG (Oct. 1964), 851-2. The limits of bargaining strategy were noted by the CLC: J. Morris, 'Comments,' in Hall, ed., Technological Change in the Sixties, 99-100.

85. S. Kaliski, Adjustment Assistance under the U.S. IEA (Montreal: Canadian Trade Committee 1963); Royal Commission on the Automotive Industry, Report (Ottawa: Queen's Printer 1965), 43-4; and ECC, Towards Sustained and Balanced Economic Growth (Ottawa: Queen's Printer 1965), 172-3.

86. CAR 1965, 360-1; LG (July 1965), 596; and LG (March 1966), 83.

87. ILO, Manpower Adjustment, 60-2; NPC, Report of the Labour-Management-Government Mission to Europe (Ottawa: NPC 1962); and LG (June 1962), 595. One of the main objectives of the NPC was to triple the number of joint plant committees to 6000. The initial MCS bill was introduced by the Tories in 1962.

88. Department of Labour, 'Advance Planning,' 6; The Manpower Consultative Service (Ottawa: Queen's Printer 1965); LG (Nov. 1964), 949; and 'What do we do about Jobs, Skills, Manpower in an Era of Technological Change,' Canadian Business (April 1963), 88-93.

89. ILO, Manpower Adjustment, 62-3; and OECD, 'Progress of the MCS Programme,' Adjustment of Workers to Technological Change at the Plant Level, Supplement (Paris: OECD 1967), 555.

90. ILO, Manpower Adjustment Programmes: Canada, Italy, Japan, Labour and Automation Bulletin N.7 (Geneva: ILO 1968), 33-4; and 'Management Rights in an Era of Technological Change,' Canadian Labour (April 1966), 19-21.

91. Dupre, et al., Federalism, 46-7 and 86-9. "A period of rapid growth and technological change is also one in which the roles of employment services take on added significance." See: Francis, 'Technological Change,' 47.

92. Special Committee of the Senate, Final Report, N.25, 9.

93. Committee of Inquiry into the Unemployment Insurance Act, Final Report (Ottawa: Queen's Printer 1962). 3 and 168. Gill cited the 1948 ILO Employment Services Convention N. 88, which Canada had ratified in 1950.

94. ECG, Economic Goals, 175. The ECG pointed back to the Purvis Commission and to the ILO. Two books, largely presenting the OECD view on employment exchanges, were quite popular: L. Bakke, A Positive Labor Market Policy (Columbus: Charles E. Merrill 1963); and R. Lester, Manpower Planning in a Free Society (Princeton: Princeton University Press 1966).

95. ECG, Towards Sustained Growth, 183. Information and markets was a theme of the 1960s. See: G. Stigler, 'The Economics of Information,' Journal of Political Economy, 69:3 (1961); and J. Montague and J. Vanderkamp, A Study in Labour Market Adjustment (Vancouver: UBC Press 1966), esp. 98 and 108-110.

96. L. Parai, 'Canada's Immigration Policies, 1962-74,' International Migration Review, 9:4 (1975), 464; J. Montague, 'Manpower as a Department,' Canadian Forum (Feb. 1966), 241-2; G. Macdonald, 'Labour, Manpower, and Government Reorganization,' Canadian Public Administration, 10:4 (1967); and UIC, The Vocational Challenge of Automation (Ottawa: UIC 1964). A sophisticated econometric model of interindustry skill demands would be developed to forecast skills to be trained and for immigration inflows.

97. Ostry and Zaidi, Labour Economics, Second Edition, 165.

Part 3 The End of Keynesian Employment Policy, 1966-1974

Chapter 6

Boom and Crisis: The Impasse of Fordism

I sometimes think of the [Phillips curve] debate as a conflict between two socio-economic classes, the classes who own labour and live by selling labour, and the classes who own money and live by selling the services of money.

Harry Johnson¹

Under a regime of permanent full employment, the 'sack' would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self-assurance and class consciousness of the working class would grow.... But 'discipline in the factories' and 'political stability' are more appreciated by the business leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the 'normal capitalist system'.

Michal Kalecki²

The simplest lesson to be learned from the study of economic history, perhaps, is that economic booms inevitably end in recession. Periods of rapid accumulation give way to phases of transition and instability. The production techniques and social structures which serve the period of boom become rigid obstacles to the next. This dynamic tension between growth and crisis is an enduring characteristic of capitalist accumulation. And it is a lesson about market adjustment that is often painfully relearned on the backs of the jobless.

Periods of stable economic growth tend to be anchored by a predominant labour process and pattern of labour deployment, or, more formally, the specific historical form surplus labour is extracted from waged workers. It is not surprising, then, that periods of transition are filled with enormous contradictions within the labour market. The peak of a boom tightens the labour market, intensifying the struggle between capital and labour over control of the labour process and the distribution of output. The passing of the boom, however, leads to pressures on

business to shed and redeploy labour. A transition occurs, often with startling speed, from high employment to mass unemployment.

The postwar golden age of capitalism entered such a period of transition in the years 1966 to 1974. Virtually all of the advanced capitalist countries rapidly moved from a phase of 'full employment' in the late 1960s to a period of rising unemployment and then open crisis during the 1970s. Canada was no exception. The structural features of Canada's limping Fordism, moreover, made for a sharp rise in 'new unemployment', the popular coinage used to describe the unemployment that failed to recede with the recovery after the 1969-71 recession and that was associated with more women and youth in the labour market.

This chapter will examine the surge and then slowdown in accumulation, the central labour market trends and the political regime of the period. The first section examines the boom and crisis that encompassed the OECD area from 1966 to 1974. An overaccumulation crisis resulting from declining productivity, labour market pressures and international instability led to the end of postwar Fordism. The dependence on resource exports allowed Canada to ride the commodities boom that was part of the long period of postwar expansion. It also meant a severe collapse when the boom broke, and Canada's declining competitive position became fully exposed to international pressures. The second section shows the impact of the disintegration of Canada's postwar growth model on the labour market. A rapidly growing labour supply sustained pressures to keep employment and growth as high as possible; when the conditions for employment stability faltered, however, the long period secular rise in unemployment erupted into a 'polarizing crisis of mass unemployment'. The

rise in unemployment would eventually smash the wage militancy that had developed with the peak of the boom and with it the Fordist productivity bargaining that was essential to stability of national demand. The third section discusses the politics of the period and particularly the failure to develop an economic strategy for the industrial sector to shift Canada to a more intensive accumulation model and halt the competitive decline. The politics of the period, however, as Pierre Trudeau ascended to the leadership of the governing Liberal party, preserved the Canadian policy legacy of political stability alongside strategic caution and programmatic instability. The labour movement's economic strength in the period was not paralleled by a political capacity to begin to push Canadian economic policy in a new direction. Without an industrial strategy, the international constraint would compel Canada into a spiral of currency depreciation and competitiveness based on high unemployment, low wages and further exploitation of Canada's natural environment--the logical extension of Canada's limping Fordist growth model. As the boom faltered and then collapsed after 1974 this appeared to be the historical path Canada would inevitably take.

6.1 The End of the Postwar Boom

The exceptionalism of the postwar boom in the history of capitalism has produced, in turn, an exceptional amount of debate about its rise and decay. The debate has pivoted around the identification of the key economic arrangements of the postwar order, their evolution and the limits they posed for further accumulation. Whatever the weight given to specific social structures in different explanations of the period, there is

wide agreement that productivity began to decline, and a process of overaccumulation set in by the early 1970s. Simply put overaccumulation means that the competitive pressures to continuous growth within capitalism eventually lead to a rate of accumulation which can not be sustained, thus causing profits and investment outlays to decline.³ In terms of productive capital, additions to plant and equipment no longer yield the same rate of increases of levels of output per unit of capital invested. In terms of social relations, the reserve army of labour is depleted, making it more difficult for capitalists to extract labour from labour-power. The 'cost of job-loss', the concept developed by American economists to describe the level of coercion in the labour market as unemployment varies, falls at the very moment capital can stand added job control and wage pressures the least. A classic capitalist crisis results: investment falls off, idle labour-power mounts beside idle capital and a restless search for new economic arrangements ensues.

The Transition in the Atlanticist Bloc

By the end of the 1966-74 economic conjuncture the Fordist regime had begun to show signs of internal fatigue. This was not, however, how things started. The years 1966-70 were of unprecedented boom, growth rates peaking at just over 5.5 per cent for the OECD area. The moment of 'full employment' had arrived. The rate of unemployment reached all-time lows, except for periods of war, while vacancy rates were at an all-time high.⁴ For the seven major countries average unemployment rates stayed below 3 per cent for the period. As the OECD McCracken Report commented: "It did indeed seem that the Keynesian 'New Economics' was making it possible to achieve sustained non-inflationary growth at a high level of

capacity utilisation throughout the Western world at least."⁵ This rate of accumulation could not be sustained, however, and from this peak began to stall.

Even with investment levels still high the rate of productivity growth declined from 1968 to 1974. Expansion of the capital stock was not yielding enough additional productivity growth to prevent the ratio of output produced to means of production in use from falling. As well, the long period of growth had depleted the reserve army, tightening the labour market, which enabled workers to shift the distribution of output in their favour. In both Europe and North America the profit share declined significantly from the mid-60s causing a 'full-employment profit squeeze'. In other words, the rate of scrapping, the replacement of old technologies and plants with new, was not rapid enough to free up additional labour supplies to keep real wage gains in line with productivity increases. The profit rate, which ultimately determines the demand for labour in the capitalist sector, fell by about one-fifth between 1968 and 1973 in the advanced capitalist bloc, and continued to slide into the 1980s. The industrial sector was hit even harder: from the 1960s peak year, the manufacturing net profit rate fell in the U.S. from 34.9 to 22.5 per cent in 1973, and in Europe from 19.9 to 12.1 per cent.⁶

The exhaustion of the productivity gains had social as well as technical origins. The extension of the Taylorist form of work organization through automation marginalized worker involvement in production. Productivity gains came, in a real sense, from design engineers in offices while deskilled shopfloor workers were over-supervised by unproductive labour. The lack of control over the work process met with increased

worker resistance. In record numbers, in virtually all countries, rank and file workers walked off the job in a strike wave extending from the dramatic events of May 1968 to the mid-70s. Militant wage bargaining pushed real wages up about 4.5 per cent a year between 1968 and 1973.' These historical achievements of workers, as Marglin has noted, also came with a cost:

...by the end of the 1960s, the cost of job-loss, and more important the perception of that cost, had fallen... The existing rules of co-ordination, operating in a system of production in which the interest of labour and capital were fundamentally at odds, lost their effectiveness in extracting labour from labour-power.⁶

An old pre-boom opinion began to re-circulate across the capitalist zone: an unemployment shock might be necessary to 'discipline' the labour market, or as the OECD would later put it, to break the "high employment expectations based on presumed government 'full employment' guarantees."

The 1969-71 clampdown, through a co-ordinated effort at restraint by the major capitalist powers, attempted to do just that: unemployment rose in the U.S. from 3.5 to 5.9 per cent and in Europe from 1.8 to 3.0 per cent. But this was a brief effort. The synchronized swing to expansionary policies, due to slow labour market adjustment, a series of major elections and the slack monetary conditions created by the end of the gold exchange standard, cut the recession short and created a mini-boom from 1972-73, and partly lasting into 1974. The upswing pushed world capitalist real output up by 7 per cent between 1972 and 1973. Yet the mini-boom also saw price inflation accelerate. The decision by oil exporting countries to quadruple oil prices in October 1973 added to general price tensions in raw materials markets, and helped trigger a further price spiral. These economic instabilities, along with the

underlying decline in profits, led to a collapse of investment. By the summer of 1974 a major crash had begun: industrial production fell by 10 per cent by April 1975, and international trade by 13 per cent.¹⁰ The massive restructuring of economic arrangements--new technologies, demands for labour flexibility, global shifting of production sites--began in earnest. The closing of many factories of mass production and lengthening dole queues becoming the foremost symbols of the economic malaise and the drawing to a close of the postwar era.

The Persistent Boom in Canada

Canada too moved from economic boom to malaise, although with particularities of its own. With the exception of the 1970-71 pause, Canada experienced impressive growth rates across the entire conjuncture, performing second only to Japan (although Canada's growth was split between labour supply and productivity growth). GNP growth for 1966-70 was a rapid 4.8 per cent, and accelerated further to average almost 7 per cent for 1971-73. By the early 1970s, for a period, Canada's per capita domestic product even surpassed U.S. levels.¹¹ Three features of the growth, all of major consequence, were unique. Canada's experience of 'full employment' was brief: unemployment crept upwards from 1966 on. Additionally, Canadian growth was fuelled in large measure by trade in resources and autos. Canada's surplus on merchandise trade massively increased from \$224 million in 1966 to \$2735 million in 1973.¹² Finally, the commodity shocks 'triggering' the economic crisis of 1974 initially aided Canada's terms of trade, causing the national breakup of the 'golden age' to be slightly delayed. These same features, however, made stagflation and economic adjustment particularly difficult when the crash finally

arrived.

The economic recovery of Canada in the first half of the 1970s roughly paralleled the rest of the capitalist bloc: a brief period of slow growth in 1970-71 was followed by a feverish expansion from 1972-73. The boom in commodity prices, especially in the energy and grains sectors, strongly favoured Canadian terms of trade till about 1975. Primary products were 45 per cent higher in price in 1974 than a year earlier. Moreover, Canada, as a producer of oil, experienced the 1973 oil shock less severely than elsewhere, allowing sustained accumulation through 1974, before abruptly dropping to only 1.2 per cent growth in GNP in 1975.¹⁵

The resource boom rents shielded for a period weak underlying trends by bolstering short-term profit levels. Even with the aid of strong exports, labour productivity essentially stayed flat, averaging only 2.4 per cent for 1968-73, and then declined sharply to only 0.4 per cent from 1974-79. The long term profit trend showed similar weakness. In the all-important manufacturing sector, profits fell from an average level of 19.0 per cent in 1956-66 to 15.9 for 1966-74, and slid further to 13.4 for 1975-79.¹⁶ The declining trend of profits occurred despite strong investment spending and increased capital intensity.¹⁷ In contrast, the profit share in Canada did not exhibit the same degree of 'squeeze' as other countries either. While the tight labour markets of 1966-70 pushed labour income up and the profit share down, softer labour markets and the trade surplus did the reverse for 1971-74.¹⁸

Canada, however, could not isolate itself from the economic crash enveloping the rest of the capitalist bloc. The size of the open sector

in the economy, and the growth of trade dependence on the U.S., which was going through a severe recession, ensured that. The commodities boom and the decision of the government not to deflate in response to inflationary price shocks simply delayed the recession into 1975. By then the indications that something had gone seriously wrong with the economy could not be missed: unemployment was at a postwar high and inflation was hitting double digits.

The economic carnage at the end of the golden age was immense: low growth and spiralling inflation; the collapse of the fixed exchange rate system; structural government deficits; and intensified bitter struggles between capital and labour over control of the workplace. These trends were, historically speaking, a significant turn, and they highlighted the harsh road ahead for jobs and employment policy even in the countries at the centre of the world economy.

6.2 Transitional Signals in the Labour Market

The initial disintegration of an old production regime does not produce clear quantitative breaks. Indeed, periods of transition are notable for producing mixed signals: one set of indicators hints at one line of development, while a second set suggests another possible departure. Interpretation of these signals is rife with controversy. The transitional period at the end of Fordism, as we shall see in the chapters to follow, was no exception.

In retrospect, however, it is possible to discern a breakdown in the postwar labour regime. Several trends suggest this development: a general rise in unemployment across the capitalist bloc in the second phase of the

conjuncture; a loosening of the 'Fordist match' between the rates of growth of employment and the labour force; stagnation of the level of industrial employment; and, finally, the collapse of productivity bargaining. In Canada, which was already suffering from a secular trend upward of unemployment over the entire boom, the breakdown meant the long decline was now becoming a mass unemployment disaster.

The Beginning and End of Full Employment

At least in much of Europe and Japan, the rapid accumulation of the late 1960s accomplished a momentous feat: a state of 'full employment' was reached. The measured rate of unemployment fell below 3 per cent across the ACC bloc, and only began to move ahead slightly in the early 1970s. In many countries, the numbers of unemployed were often surpassed by job vacancies (the ideal employment criterion set by Beveridge in the 1930s). West German and Japanese labour markets were the tightest, unemployment falling below two and one per cent respectively. Even Italy, which traditionally had rates closer to high unemployment North America and remained a key source of labour reserves in the Mezzogiorno, suffered labour market tightness.'

By the early 1970s, however, there was considerable pessimism that full employment could not be sustained. The 1969-71 clampdown, for example, deliberately pushed unemployment levels up, but the new unemployment became 'sticky', refusing to fall to prior levels during the recovery phase. This was one signal of new conditions beginning to prevail in the labour market. The lack of growth in total employment was another, and, perhaps, a more fundamental sign of a mounting structural crisis. Total employment in Europe essentially stagnated (as did labour force growth).

Two of the success stories of the boom were noteworthy: in both Germany and Italy employment actually declined over the period." The scenario was even more dramatic for the stunted Fordism of Britain: unemployment rates doubled as de industrialization began to take hold. In general the increases in unemployment paralleled the stagnation of industrial employment. Industrial jobs grew rapidly only in countries with manufacturing productivity improving relative to their major trading partners."

In North America, the two economic phases of 1966-74 were synchronized with Europe and Japan, although the employment trajectory, to use Therborn's term, already was quite distinct. The long run trend over the boom vividly portrayed the difference: North America started out with tight labour markets and relative labour shortages but ended with secularly increasing, and widely fluctuating, labour surpluses. A second distinguishing feature also was significant: high unemployment, especially in manufacturing sectors, began to develop alongside rapid rates of growth of services employment fed by rapid labour force growth, which would come to be called (if misleadingly) the 'great North American jobs machine'. These differences drew sharper as the cracks in Fordism developed into gaping holes after the 1974 crash.

The U.S. employment scene, while plagued with severe problems of labour market segmentation, depicted well these trends. Against the backdrop of fear raised by the 'automation scare', the 'new economics' of the late 1960s appeared triumphant over unemployment. Investment and growth surged through the 1960s aided by war and welfare expenditures. The rate of unemployment in the U.S. dropped from the 1961 high of 6.7 per cent to a low of 3.5 per cent in 1969 (below their full employment target

of 4 per cent).²⁰ Additionally, the average rate of unemployment stayed below the levels of the 1950s, with the duration of unemployment reaching historical lows in 1969. That employment policy could do away with the unemployment problem for good was the strong brew many were imbibing.

The new era of 'continuous full employment' could hardly have been more shortlived. The 1970-71 recession forced U.S. unemployment levels up to 5.9 per cent in 1971. Even with President Nixon stoking government spending for the 1972 election, unemployment stayed in the 5-6 per cent range, well above pre-recession levels. The oil shock and the 1974 turning point sent the jobless totals even higher reaching a shocking 8.5 per cent in 1975. There were other distressing signs of employment weakness as well. The rate of growth of industrial employment fell by half between 1966 and 1973. The snapping of the link between the trend growth rates of the labour force and employment had an additional effect in the U.S.: it tended to increase the segmentation of the working class between those with jobs and those without, and those with high wages from the low-paid and part-timers. Rates of unemployment among non-whites, especially black youths, were double the average rate.²¹ The U.S. did not escape the rise of working class militancy either, though it was entangled with resistance to the Vietnam War. The numbers of workers quitting or striking for higher benefits reached levels last seen in the 1940s. The militancy came from the shopfloor as the number of wildcat strikes and contract rejections soared. Yet the period of militancy proved as fleeting as that of full employment. The 1970 recession began a management counter-offensive to restore 'discipline' in the labour market--a "whole-some recession" as one business executive put it.²² Speedups of the

assembly line also increased, provoking further reaction, notably the 1972 showdown at Lordstown between GM and the Auto Workers. The new GM plant vigorously extended Fordist principles, including speeding the line and detailed supervision of work-time; the workers successfully fought back. But Lordstown was an isolated victory, and U.S. management pushed ahead with an effort to rollback postwar collective bargaining reforms. This was the beginning of the new competitiveness that would come to dominate the North American labour market in the next decade.

The Canadian Road to Mass Unemployment

In many respects, Canada represented the extreme version of the high unemployment 'North American model'. The divergent tendencies of the North American labour market were accentuated: unemployment began to increase earlier and more quickly; service sector employment growth was faster; the labour supply and employment growth more rapid; and the union movement more volatile and militant in seeking wage gains. Canada's peripheral status within the North American trading bloc, which allowed it to ride the boom, was beginning to take its toll.

(i) Unemployment Mounts Although at substantially higher base rates, Canada followed the general pattern of the OECD area of tight labour conditions from 1966-70, a deterioration in unemployment to 1974, and finally the return of mass unemployment after 1974. The upturn in unemployment, moreover, clearly began in the late 1960s: from 1966-74, the rate of unemployment fell below 4 per cent only in 1966, and then stayed well above the Economic Council full employment target of 3 per cent. Unemployment averaged almost 6 per cent from 1970-74.²³ This meant that only during the reconstruction phase of 1947 to 1953 did Canada approach

anything like 'Keynesian full employment targets'; indeed, Canada had the infamy of the poorest unemployment record of the major capitalist countries for most of the boom.²⁴

Several disturbing trends could be discerned. Successive economic cycles averaged higher rates of unemployment, with each peak at a higher rate of unemployment. Canada's unemployment rate, moreover, tended to be one to two per cent above the U.S. rate with the differential beginning to widen.²⁵ In other words, a structural failure of the Canadian labour market existed: the labour market was consistently not clearing in the neoclassical sense of wages falling until unused resources were eliminated; and Canada was not achieving exports of industrial goods at volumes large enough to absorb the unemployed as international competition intensified.²⁶

The general increase in the number of jobless also raised specific problems, particularly of the incidence and spatial dimensions of unemployment. All age groups tended to have higher unemployment rates; youth unemployment, however, increased dramatically averaging over 10 per cent through the 1970s. The ratio of youth to adult unemployment went from 2.15 in 1966 to 2.38 in 1974, an indication of the continued difficulties of the young making the transition from school to work.²⁷ The gender composition of unemployment, in contrast, largely tracked the average rate: the male rate of unemployment remained slightly above the average, while the female rate was increasing as their participation rates increased.²⁸

The significant empirical story of this period, which the sweeping arguments blaming labour force pressures tended to ignore, was the sheer

good or ill, were central to the employment policy debate as unemployment receded and then soared at the end of the golden age from 1966-74.

6.3 The Trudeau Era: Political Stability, Strategic Uncertainty

After surveying the economic impasse and strains in the labour market toward the end of Fordism, it is reasonable to predict the development of political turmoil within the postwar political consensus. These economic tensions did indeed translate into political instability through much of the capitalist bloc: Germany, France, the U.S., Italy and Britain all went through a major shift in the ruling political regime. As Leo Panitch has observed with respect to Europe, the corporatist political structures which had underpinned the 'social democratic' postwar settlements became unstable in this period:

The question posed by high unemployment for corporatist structures in the 1970s was why they should, apart from inertia, continue to exist at all. Their development, after all, was predicated on the need to cope with wage pressure resulting from near-full employment. And the unemployment of the 1970s was both an economic reflection of, and a state response to, the earlier inability of the state to assimilate effectively even 'reformist' trade unions."

These distinct political winds were also visible in the U.S.: the Great Society coalition, which attempted to re spark the spirit of the New Deal, was breaking apart by the late 1960s, and was soon followed by the Watergate disgrace of the Right. These events, on both sides of the Atlantic still resonate as the formative political experiences associated with the ending of the postwar economic model.

Relative political stability, in contrast, continued to mark Canadian politics, even through the rise of Quebec nationalism and union wage militancy. The Liberal Party of Canada was destined, except for the

supply growth, that the de-linking of these two trend growth rates, which was quite evident in the 1980s, occurred in all regions of Canada even where the labour supply was stagnating.³²

One of the consistent features of the Canadian labour market has been strong employment growth, its historical basis being traced to the extensive economic growth model of the 19th century national policy. Over the Fordist period, one of the most striking divergences between Canada and the rest of the capitalist bloc, (along with secularly growing unemployment), lay in the sustained expansion of employment levels, which stumbled only slightly (in 1958), over the entire boom. Even during the 1969-70 slowdown, employment growth continued at a quite rapid pace. Nonetheless, the effects of rising capital intensity from technological change began to have an impact; the trend rate of growth of employment in secondary industry began to slide relative to total employment, falling to 2.7 per cent for 1966-74 and to only 1.5 for 1974-80. Employment during the recovery after 1971 conspicuously failed to grow enough to absorb the unemployed from the recession, marginalizing many young workers. The new jobs created, moreover, contained a higher concentration of part-time work.³³ Employment growth had also taken on a troubling spatial dimension: employment growth in British Columbia was about three times that of the Atlantic region, beginning the severe employment stagnation plaguing the latter region.³⁴

The sectoral composition of employment growth tells the same story from a different angle. In a historical sense, the completion of the urban proletarianization of agricultural labour in this period was important. Virtually the entire labour force now had to depend upon the sale of

wage-labour in either services or in industry. The service sector continued to be the primary source of employment growth contributing 75 per cent of new employment. In contrast, manufacturing employment contributed only 14 per cent of new jobs, causing a decline in its share of total employment. Consequently, employment growth for production and unskilled workers tailed off during and after the 1970-71 recession.* The Taylorist splitting of tasks continued to dominate occupational growth and put to rest the argument that automation leads to a uniform expansion of technical and professional labour.

The rate of growth of the labour supply showed a disconcerting tendency to pick up pace, growing at a postwar high of 3.1 per cent over the 1966-70 phase, and even accelerating in the second phase. Immigration flows continued to contribute about one-fourth of the growing labour supply despite unemployment increases. Two older trends remained important--the 'natural' increase from the 'baby boom' job seekers, and the increasing participation rates of women in all age groups. The demographic bulge of new labour force entrants peaked in this period, however, and began to decline after 1974.*

The movement of participation rates was more complicated. Activity rates had remained relatively constant for some time. In the 1960s they began to alter as the rates rose sharply with little sensitivity to cyclical movements, but aggregate participation rates hid very distinct changes within the workforce. Male participation rates actually fell, while youth and female rates increased. In particular, the participation rates of married women increased at about twice the rate of women in general. By the end of this period about half of the labour force con-

sisted of women and youth."

As a large portion of the labour supply pressures came from women and youth, it was often argued that the higher overall rate of unemployment was less serious. Women and youth were secondary workers and not part of the core workforce.²⁸ The consequent rise in youth and female rates of unemployment, the so-called 'new unemployment', did not measure hardship. The empirical foundation for this view was feeble. It ignored other countries like Sweden with higher participation rates yet also lower unemployment. There was also other evidence, although much of it was ignored, countering this facile position: the labour supply was not strictly an exogenous variable; other countries did much better in meeting high labour force growth; and the initial strains on working class incomes were drawing additional workers into the labour market.²⁹ Moreover, unemployment rates for prime-age males, the most stable component of the labour force, tracked a rising overall rate. The real point, which the 'blame the victim' argument chose to ignore, was the general drift to high unemployment across the different components of the labour force.

(iii) Wage Pressures The lack of labour market balance registered in rising unemployment was one side of the impasse in the labour market. The other side was the cracks in the wage formation process linking productivity gains and real wage increases. The 'automation scare' had given management the occasion for the 'Boulewarism offensive' of the late 1950s, which had demonstrated how easily industrial conflict could upset the class compromise centred on productivity bargaining. It could also be turned upside down by the workers. Indeed, the material basis for the wage militancy of 1966-74 was laid, in large measure, by the shopfloor

speedup resulting from the full introduction of automated processes and the need to recoup enormous capital outlays, and the lack of adequate real wage gains from 1956-66. It was the workers' turn to go on a wage offensive.

The spark which ignited a bout of industrial militancy was soon struck. On the one hand, productivity gains from further Taylorism were slowing, partly due to the exclusion of worker involvement (which workers were beginning to contest). The relatively tight labour markets of 1966-70, on the other hand, added to the strength of the workers in wage negotiations. Industrial conflict could no longer be confined to productivity sharing and within strict legal parameters, and from 1966 on the postwar collective bargaining system began to unravel.

As soon as unemployment dropped in 1966, an unprecedented labour insurgency unfolded. From 1966 to 1970 strike levels were at historical highs (except for the exceptional year of 1946). About 25 per cent of strikes were illegal wildcats. A pattern of major strikes recurred in 1965-66 and 1968-69, and involved walkouts in major industries--auto, steel and smelting, nickel mining and the post office. Many of these strikes were marked by illegality and violence, notably the seizing of two Domtar paper plants by armed strikers in 1969.⁴⁰

The strike wave let up only slightly between 1971 and 1974, although strike volumes fell in 1971 during the clampdown, before climbing again. With economic recovery and advancing inflation, however, collective bargaining issues had a different inflection. Wage issues still remained central, but the offensive began to turn to 'real wage protection'. By the end of 1974 virtually every major union had dealt with internal unrest, from wildcat strikes and contract rejections, as workers struggled

to preserve the 'annual wage improvement factor', the sine qua non of the 1940s settlement, in the face of inflation.⁴

The counterpoint to the strike wave was, therefore, the acceleration of money wage increases, led by workers in the capitalist sector. From 1966-70 money wages grew at a pace of 6.8 per cent, and at 8.9 from 1971-74. The movement of real wages was quite different. In the first phase of 1966-70 wage rates and unit labour costs rose quickly (especially compared to previous booms), real weekly wages growing at an average rate of 2.4 per cent. But after 1970 real earnings, however measured, flattened out as inflation eroded wage gains: real weekly wages grew at less than 1 per cent per year for 1971-74, and real wage losses occurred in both 1973 and 1974 (the first sustained fall since 1945-46). The organized sector did not escape the blow to earnings: workers suffering real wage losses in major collective agreements increased from 18.6 per cent in 1973 to 30.9 in 1974.⁵ Fordist productivity bargaining, one of the key structures providing employment stability, had ended.

The unsettling of wage formation could also be seen in the battle to maintain relative wage differentials. Strong groups of organized workers were more capable of preserving real wage earnings than the unorganized. Inflationary expectations began to be incorporated into collective agreements through a demand for shorter contracts and cost-of-living agreement clauses (COLAs). Nonetheless, by 1973 only 10 per cent of contracts had COLAs (with the escalator only kicking in after a certain base rate of inflation obtained), and most of these contracts were found at large manufacturing sites, leaving smaller unions and unorganized workers unprotected. Some widening of wage differentials consequently occurred at

the extremes of the occupational structure. The gains made by the unskilled and the unorganized in the tight labour markets of the first phase quickly reversed as inflation and unemployment moved upwards in the second phase.⁴³

The economic processes behind these wage struggles can be put more formally.⁴⁴ The collective bargaining system of Fordism depended upon the synchronization of movements of real wages and productivity. Workers, however, bargain over money wages attempting to incorporate a wage improvement factor and an inflation expectation: they seek Marxian real wage gains rather than just Keynesian nominal wage gains. To maintain a constant income distribution between workers and capitalists, the implicit parameter of the postwar settlement, money wage gains above productivity have to be 'sterilized' by inflation. As labour market conditions tighten and workers push money wages up, capitalists have to either accept a distributional shift of income, an acceleration of inflationary conditions or an unemployment shock to roll-back wage demands (which, in course, hurt profits). If redistribution of income and deflation are ruled out, money wages soon chase prices as workers struggle to improve or preserve living standards.

This distributional struggle lay at the core of Fordism, and, as writers as diverse as Harry Johnson and Michal Kalecki noted, provided the unstable empirical basis for the Phillips curve tradeoff between so-called wage inflation and unemployment. The curve's instability as wage struggles intensified, and inflationary expectations are incorporated in bargaining demands, became the most visible sign that the postwar economic order was no longer working in quite the same way. Wages and unions, for

good or ill, were central to the employment policy debate as unemployment receded and then soared at the end of the golden age from 1966-74.

6.3 The Trudeau Era: Political Stability, Strategic Uncertainty

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The question posed by high unemployment for corporatist structures in the 1970s was why they should, apart from inertia, continue to exist at all. Their development, after all, was predicated on the need to cope with wage pressure resulting from near-full employment. And the unemployment of the 1970s was both an economic reflection of, and a state response to, the earlier inability of the state to assimilate effectively even 'reformist' trade unions."

These distinct political winds were also visible in the U.S.: the Great Society coalition, which attempted to re spark the spirit of the New Deal, was breaking apart by the late 1960s, and was soon followed by the Watergate disgrace of the Right. These events, on both sides of the Atlantic still resonate as the formative political experiences associated with the ending of the postwar economic model.

Relative political stability, in contrast, continued to mark Canadian politics, even through the rise of Quebec nationalism and union wage militancy. The Liberal Party of Canada was destined, except for the

interruption of the Diefenbaker years, to govern over the golden age. The Pearson minority governments of 1963-68 were replaced by the Trudeau regimes which lasted into the 1980s. Trudeau was initially elected Prime Minister, in a smashing victory in June 1968, on the slogan of a 'just society'. Yet as Brodie and Jenson argue, the election pivoted around Trudeau's "leadership and his ability to defend federalism in the face of growing demands for greater autonomy in Quebec."⁴⁶ The vagueness of the just society slogan came to symbolise the government's opaque policy. While the new rationalist public management techniques became the standard discourse, the policy pre-occupation was finding programs to aid national unity, whatever their economic efficacy."

Given all the rhetoric of rationalism and goal-setting, the surprising drift and uncertainty of Trudeau's first term led to the disastrous Liberal showing in the 1972 election. The Liberals were reduced again to a minority after losing virtually all of their seats in the West and the reform initiative to the NDP's vigorous campaign against the inequities of the tax system. Opposition at the provincial level also formed. The new NDP governments elected in Manitoba, Saskatchewan and B.C. from 1969-72, as well as the new Conservative government in Alberta in 1971, all promised more aggressive development strategies. In part, their new provincialist discourse rejected the market-driven industrial policies of the federal government so as to strengthen economic sectors beginning to face stiffer international competition."

The Liberals, now dependent upon the NDP for power, adopted a slightly more nationalist and interventionist platform. The growth of the nationalist movement pushed the government to develop an agency to review

foreign investment in Canada and to create a national oil company, Petro-Canada. Social policy also received higher priority: income security, health care, education and employment all received increased budgets.⁴⁰ If at any time over the postwar period it can be said that Canada embraced the social democracy most common to Fordism, it was, paradoxically, the brief moment between 1971 and 1974 when Fordism itself was coming to an end. Never before--and certainly not since--had such a progressive turn in state policy been evident in Canada.

The Liberals returned to a majority government in 1974. Although living standards had already begun to decline under their rule, the Liberals successfully campaigned as defenders of postwar prosperity against Tory proposals to implement wage and price controls to dampen inflation.⁴¹ The oppositional political identities forming at the provincial level, notably in NDP governments in the western provinces, and through union struggles to preserve real wages, were unable to penetrate national politics. Yet this was still to be the last federal election where all the contestants claimed to be the salvagers of Fordism as well, of course, as defenders of national unity. In the fall of 1975 Trudeau cynically repudiated the pivotal issue in the election, and unilaterally imposed wage and price controls. The economic times had changed, and the ruling political bloc and the Right, at least, recognized it was time to move.

Continentalism or Industrial Policy?

The political stability provided by the Liberal Party's hold on power could not shelter Canada from the international economic ferment, however. Political debate over the direction of economic development in

Canada markedly increased and, at times, became bitter between the contesting poles of economic integration with the U.S. or strengthened national independence. The singular point of agreement seemed to be that non-resource goods were meeting tougher competition in domestic and export markets, especially after the 1966 GATT tariff reductions; but what to do about it raised sharp divisions.

Both the nationalist and continentalist positions had been forming since the 1957 Gordon Commission and now crystallized into distinct economic strategies that would last through the 1980s. The employment stagnation and weak export capacity of Canadian manufacturing led the burgeoning nationalist movement to contend that the lack of national economic control had severely stunted technological development.⁹¹ Canada remained 'trapped' as an exploiter of natural resources; the quality and number of new jobs in this sector was limited. A trade surplus in manufactured goods was central to maintaining high employment levels, and more regionally balanced job growth. But this was blocked by the American-dominated, branch-plant industrial structure. The pre-condition for improving trade in finished goods, therefore, was altering industry ownership patterns.

The manufacturing problems were structural, nationalists asserted, and a national industrial strategy was required to target Canadian industry and diversify trade. An industrial strategy, backed by the powers of the state, could ensure that advantages in resources would be translated into secondary industry. As well, selected high technology sectors should be targeted to develop strong research and development capacities and world trading enterprises. Technological sovereignty was necessary to

overcome the truncated industrial structure. In the plain spoken warning of the Gray Report: "If Canada does not develop greater distinctive capacities or succeed in reducing costs as a basis for greater exports of manufactures, it may not maximize its potential for high living standards...It could also lead to an economy more subject to cyclical fluctuations."⁵²

The majority of commentators, however, argued that continued rapid growth demonstrated Canada's success in exploiting its comparative advantage and the 'special trading relationship' secured with the U.S." Financial and resource capitals were reaping enormous profits from the commodities boom, and there was little incentive for branch plant manufacturing companies to seek a strategy beyond existing industrial subsidies. There was some cause for concern, however, within the continentalist camp. The relative weakness of Canadian manufacturing was highlighted by the arrival of the new automated technologies which required larger, often export, markets to recoup capital costs. Additionally, the August 1971 measures of the Nixon Administration to remedy U.S. payments problems, by imposing countervailing duties and developing its own subsidy program, raised worries about Canada's trade vulnerability.

The continentalists, notably the advice coming from the Economic Council of Canada and the C.D. Howe Research Institute, argued that formalized trade ties within North America were necessary. Free trade would secure Canadian access to a large market; the resulting economies of scale for manufacturing would allow specialization of production for exports, a line of reasoning to be repeated verbatim in the late 1980s. Foreign ownership, to the extent it was a problem at all, would decline

once companies could export freely. As the Council's major statement on trade policy concluded:

A move toward free trade entails a transformation of the existing pattern of production to one with greater competitive viability. There is no reason to suppose that a viable economy is not available to Canada, which has immense resources of all kinds--raw materials, capital, labour--and a sophisticated and advanced social system well-equipped to cope with change. Thus we have suggested that a free trade policy is not only feasible for Canada but is the best guarantee of its national objectives."

Thus the issues of national economic control raised in the Gordon budgets of 1963-65, and then stifled by the shift of Mitchell Sharp to the Finance Ministry, assumed an even more central role in political debate. The governing Liberal Party continued to be split between continentalists on the right of the party, and nationalists, who tended to be on the left. Trudeau himself never firmly sided with either camp, and even added to the confusion, being in favour of rational planning but firmly anti-nationalist in conviction.

Industrial policy, then, did not deviate in dramatic new directions under Trudeau (as many revisionist histories of the period have charged). Yet some accommodation to strengthen national industrial capital, especially in central Canada, had to be made. As Mahon noted, "by the late 1960s the federal government had begun to recognize the necessity of developing the administrative capacity to design policies and programs that would help import-substituting capital become internationally competitive."³ The new emphasis on manufacturing exports led to the merging of trade and industry into a new department in 1969, and also to the formation of the Department of Regional Economic Expansion (DREE) in the same year. Foreign investment also received attention in the Watkins,

Wahn and Gray reports of 1968 to 1972. In 1971 the government established a joint holding company, the Canada Development Corporation, to invest in Canadian industry. It was followed in 1973 by a foreign investment screening agency. But the major 1971-72 Cabinet initiative to establish a consensus on an industrial strategy did not move beyond preliminary discussions. The anti-interventionist views of the Department of Finance vigorously contested establishing an industrial strategy. Simon Reisman, Deputy Minister of Finance, in a briefing to Cabinet, forcefully argued the continentalist case: "Canada already had an industrial strategy. It was unarticulated, and it was the only one really open to a nation in Canada's circumstances. Because of the location of primary markets, the strategy was centrist in emphasis and focused almost completely on the United States."⁴⁶ These sentiments conveyed the thinking of the central economic policy branches of the state, and articulated the interests of financial and resource capitals. The postwar accumulation strategy--integration into a North American economic bloc as a supplier of resource-based commodities and selected sector industrial policies to protect and strengthen individual industries--remained intact. This ad hoc, market-led economic strategy meant that, as Richard French concluded, "the major share of attention and resources went to a more or less uncoordinated series of policies affecting industry."⁴⁷ The industrial policy debate in Canada shadowed the efforts to contain the developing crisis of Fordism through the 1970s. Canada's faltering competitive position, particularly in the manufacturing sector, meant that employment pressures would grow more severe as the international constraint intensified in the 1970s. And the lack of an industrial policy meant nothing was going to

relieve the pressure.

The Bitter Success of Wage Militancy

The 'economic strength' of the trade unions in this period underscored their 'political weakness'. The strong labour market position of workers allowed a new set of demands to emerge. Rank and file pressures extended to the organization of work. Both the post office and railways, for examples, continued to engage in difficult struggles over the introduction of automated technologies. The extension of 'ford time' from automation, according to Don Wells's study of auto plants, led to "the erosion of all the good jobs", and also met worker resistance.³⁰ Nonetheless, it was wage militancy which preoccupied union politics and thinking, and it was wage issues which received the concerted attention of the state.

Management could only do so much, given the scale of wage militancy and the prospects for increased profits from expanding markets, by taking a tougher stand in collective negotiations. The 'industrial relations crisis' was left to the state to resolve. Initially, a 'consensus' approach extending the legalism of the postwar system was attempted. In return for 'voluntary' restraint of union wage demands to national pay norms, unions would be consulted over economic policy. As well, the 'adversarial system' of dispute-settlement would be extended to technological change at plant sites and strikes in essential services. These were, for the most part, the important conclusions of the 1968 Woods Task Force on Industrial Relations and the Prices and Incomes Commission of 1969-70.³¹

The 1971 Canada Labour Code did extend the coverage of federal

labour legislation to professional employees, added minor clauses on consultations for technological change, and gave positive recognition to unions. But by 1971 the failure of 'voluntary pay restraint' was unmistakable and a more coercive side entered collective bargaining. Public sector workers, in particular, were forced to launch strike actions to preserve newly won gains from unionization. With only minor exceptions, the passage of progressive labour legislation ended. Instead, ad hoc back-to-work legislation was increasingly used to end disputes and impose settlements.⁶⁹ It quickly became conventional wisdom that a retrenchment of bargaining rights might be necessary. As the new leader of the NDP, former labour lawyer David Lewis, put it in 1972, as public sector strikes were heating up: "[unions must] find ways of persuading the members to limit themselves to demands that can be socially justified."⁷⁰ The stage was set for the permanent restrictions on workers' collective rights that would come after 1975.

Despite the concentrated focus on national wage guides, the CLC did not begin to overcome its historical fragmentation.⁷¹ Indeed, divisions between organized workers tended to increase. Quebec unions demanded more autonomy from the CLC, and the CNTU increased its ranks substantially. The organization of public sector workers swelled union ranks with unionization levels now covering almost a third of the workforce; it also intensified divisions as the rivalry between public and private sector unions extended into organizational control and union strategy.

Public sector unions contributed to the pressures on the international unions, which dominated the CLC, to increase their national autonomy. With nationalists also staking out a position against 'branch-plant

unionism'--the Council of Canadian Unions was formed in 1969--organizational issues preoccupied the leadership. The battles over control of the union central underscored the dissidence coming from the shopfloor over speedups and wages. Unlike the U.S. where demoralization set in, these struggles created a new layer of union militants--a layer which would be of immense importance in the crisis years after 1974.

The organizational disarray, however, made it impossible for the CLC to respond strategically to the immediate issues emerging within Fordism. The lack of strategic imagination on the part of the CLC became evident with the high employment levels of the 1960s. Rank and file wage militancy meshed with the CLC's postwar strategy of letting high wages to do the majority of work in keeping unemployment down. Yet this centrepiece to their economic strategy abruptly ran into the parallel support of the Congress for Keynesian policies, which now led to direct control of wages to control inflation. In the CLC's vision of the late 1960s, incomes policies were a component of the 'planning' of economic growth, and the extension of economic democracy (worker input into management without socialization of capital). But what was to be done when the old order was dissolving--unemployment rising, real wages stagnating, industrial jobs declining, inflation accelerating--and governments sought union co-operation on restraining wages? This contradiction plagued the CLC's interventions, and even more so for the NDP which split for and against incomes policies depending upon whether or not it was the government of the day, into the politics of unemployment. If economic wage gains no longer translated into lower unemployment or political gains, then the economic

and political strategies for transcending the market could not be avoided if unemployment was to be contained.

6.4 Conclusion: The Fordist Impasse and Capitalist Employment Policy

The combination of the decline in the productivity of Taylorism and the surge in wage militancy stretched and then broke the rules of co-ordination underpinning Fordism. The national conditions for accumulation (and high employment) deteriorated from the late 1960s on. The growing internationalization of capitalism intensified the national crises of Fordism as more countries were now attempting to dump surplus production in unstable export markets. Across the capitalist bloc the postwar commitment to maintain full employment became severely tested. In countries such as Canada, where the national mode of regulation was dominated by capitalist sector-led growth, and dependant upon buoyant export markets, the complete marginalization of the 'full employment' project of the 1940s appeared on the political agenda by the end of the period. The return of the severe flexible labour markets of the pre-war era, stocked by huge labour reserves, again became a distinct possibility as Canada's limping Fordist growth model fell into crisis. As Ian Adams and his colleagues commented at the time: "The present unemployment rate is creating an army of hard-core unemployed workers."⁶¹

The politics of unemployment from 1966-74 followed this transition as high levels of employment in the 1960s ceded to open unemployment in the 1970s. Employment policy became a pivotal concern: in the first instance, how to control wage pressures and restore discipline in tight labour markets; and, in the second, how to block the simultaneous drift

upwards of unemployment and inflation while maintaining capital accumulation. Labour market policies became more prominent as a solution to unemployment as Keynesian stabilisation policies gave way to increasingly distressed efforts to preserve external stability and domestic cost competitiveness. Initially, under the tight labour market conditions of the 1960s, active labour market policies attempted to maximize potential labour supplies and meet skills deficits; but as unemployment kept climbing through the 1970s, UI reforms and direct job creation measures emerged to check the rising unemployment levels. These policies, too, met an impasse by the mid-70s. Kalecki's warning gained a new prescience: without the institutions to disengage employment from the market, unemployment would again surface as 'an integral part of the normal capitalist system'. The 'golden age of capitalism' was lapsing into a transitional period fraught with uncertainty and opportunity.

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Chapter 7

High Employment and Incomes Policies, 1966-70

A further consequence of the new pattern of employment and unemployment is that full employment, though it remains an important test of successful performance of the economic system, can be approached only against increasing resistance. For, as noted, while the unemployed are reduced in number, they come to consist more and more of those, primarily the uneducated, who are unemployable in the industrial system. The counterpart of this resistant core is a growing number of vacancies for highly qualified workers and a strong bargaining position for those who are employed.... And since the system is unstable at full employment, there is no alternative to control.... The notion of maintaining full employment without interference in markets has to be put aside.

J.K. Galbraith¹

The success of the 1960s growth push in lowering unemployment led to a period of remarkable consensus on employment policy. The Keynesian economics of the neoclassical synthesis--what Joan Robinson termed 'bastard Keynesianism' for its gutting of the radical theoretical implications of The General Theory--was embraced by governments of the Left and the Right, academic commentators, and even the social classes. The technical 'tool-kit' of the new economics, the consensus held, had the ability to guide capitalist economies along a stable growth path. There were, however, unintended and politically destabilizing consequences from running the economy at full throttle.

One consequence was the resurfacing of Kalecki's old dilemma of full employment capitalism: as 'fear of the sack' receded workers were less willing to concede to the discipline of the market. As Keynes himself had warned in the 1930s, full employment would make it difficult to preserve stable money wages (without substantial amendment of capitalist institutions). A second consequence was that high employment called for more, rather than less, state intervention into the labour market. As labour became scarce skilled workers became even more so. Governments had to

intervene in the market to prevent firms from simply poaching skilled workers from each other and to train unskilled workers for occupational shortages. These two pressures dominated employment policy from 1966-70, reposing a theoretical question left hanging in the 1940s: what policy measures could balance inflationary pressures and a tight labour market? The response, put forth by virtually all governments, pivoted around forms of incomes policies (to control the process of wage determination) and active labour market policies (to increase the flexibility and mobility of workers). With the economic boom still strong, nobody yet was willing to sacrifice economic growth for a deflationary shock to raise unemployment and bring 'sanity' back to collective bargaining. That would be the course of events in the 1970s.

The market-driven economies of North America also had incomes and labour market policies on their agenda in the 1960s. The attempt to fine-tune the economy in Canada produced a spell of 'stop-go' economic policies from the alternating pressures of tight labour markets and the need for high growth to absorb a rapidly growing labour force. Stabilization policy was especially delicate in Canada as the payments constraint effecting Britain and the U.S., for examples, was reversed. With the U.S. pouring money into war spending Canada was easily running up payments surpluses. Yet monetary policy was limited in fighting inflation by the measures imposed during the dollar crisis of 1962-65 which prevented the exchange rate from appreciating.

Improving the 'policy menu' between inflation and unemployment thus imposed more difficult choices. In his first Budget, Finance Minister Mitchell Sharp had expressed confidence that additional economic planning

capacity was not needed in Canada. Discretionary tax and expenditure policies could adjust rapidly to changing economic circumstances such that it was "unduly pessimistic the opinion that fiscal measures should not be used to deal with... 'shorter term cyclical instability'." This sentiment would be a casualty of these years. There were two possible courses that could be taken. The more difficult route entailed developing a long term industrial strategy and stronger tools of economic intervention to meet national employment objectives. Alternatively, it could be hoped that a sharper economic stop, supplemented by a guidelines policy for incomes and labour market policies for adjustment, would break inflationary expectations entering into wage determination and restore a full-employment market-led growth path. It was the latter view, which retained "the almost magical role of the pressure of aggregate demand in regulating prices and costs," that would ensue.³

The unemployment debate of the late 1960s, examined in the first section, contends that incomes policies were conceived as part of the high growth strategy. In Canada, however, incomes policies were often seen-- and eventually implemented--as part of an economic stop to preserve external stability. The second section details the trajectory of stabilisation policies in the 1960s toward economic clampdown despite rising unemployment. The third section demonstrates that active labour market policies emphasized a 'market-led incentives' approach for high growth. The employment policy regime to defend high employment remained limited, if not entirely absent, in Canada by the end of the 1960s. As shown in the previous chapter, Canadian unions were in the midst of a massive strike and wage offensive in the 1960s. This pitted the CLC

against incomes policies, but allowed it to press for measures to deal with technological change, which had sparked many of the strikes. These two positions found common ground in the CLC's Keynesian fixation on high growth as a solution to unemployment. Such an employment policy strategy posed as an alternative to an economic stop; it was less tenable as a response to Canada's mounting long period unemployment problem.

7.1 Can Inflation and Unemployment Be Traded Off?

During the 1950s, Keynesians argued that a round of inflation would lower unemployment levels: workers suffered from 'money illusion' in setting their money wages allowing employers to hire additional labour at lower real wages as inflation eroded the bargained settlement. This process became identified with the 'creeping inflation' of the postwar period--a bit of inflation purchasing increased output. The Phillips curve's apparent ability to chart this occurrence became a pivotal reference point for debates about unemployment in the mid 60s.⁴

The Phillips curve posited that unemployment and inflation are inversely related and plotted the relation over a number of years. The shape of the curve was explained, in general, by labour market conditions: when labour is scarce employers competitively bid up wages, and when labour is in surplus workers are reluctant to take wages at less than the prevailing rate (depending upon labour market institutions). Despite the difficulty of fitting the curve to actual data, which led to a proliferation of estimates of national curves, the relationship must be true at the extremes.⁵ The curve, however, also captured a fatal flaw within the dominant economic thinking. The neoclassical synthesis, suggested that if

money wages are increasing, markets are in a state of excess demand. Yet the Phillips relation illustrated inflation occurring over a range of positive unemployment rates above full employment targets. As the noted Keynesian economist James Tobin commented: "The Phillips curve approach forces us to confront squarely the fact that our goals for prices and employment are not wholly reconcilable."

A striking contradiction existed, then, between the prevailing theoretical models and actual historical experiences. When viewed from the perspective of the political consensus of the late 1960s, several implications could be drawn from this apparent anomaly. Pure market processes of adjustment were blocked, perhaps permanently as Galbraith asserted, by the economic power of unions and firms in setting wages and prices. Economic intervention into wage determination appeared, therefore, to be necessary to regulate the tradeoff between inflation and unemployment (full employment no longer defined as an isolated variable to be targeted). As well, policies directed at the labour market might improve the tradeoff by easing inflationary pressures at all levels of unemployment. The unemployment policy discourse became intertwined, therefore, with the heated discussion of incomes policies and wage-setting.'

The Theoretical Quandary: Inflation and Tight Labour Markets

As workers bargain independently over relative money wages, the consensus view reasoned, there was no mechanism in market economies to adjust wage setting in light of aggregate demand conditions.⁴ As a consequence, 'wage inflation' tended to occur when aggregate demand was boosted to increase employment, with inflation in turn undermining

labour demand. Wage bargains had to be kept in line with trend growth in productivity so as to preserve employment levels and relative competitive position. Incomes policies controlling destabilising wage-price setting would allow, therefore, higher rates of growth and check the tendency of high employment countries to run payments deficits. By fighting the twin evils of inflation and unemployment, incomes policies also settled the division between the social classes over which economic objective should be paramount. Once the existing tradeoff was improved, labour market policies could shift the entire curve. There was an implicit political bargain to this strategy: the existing pattern of income distribution between capitalists and workers would be frozen and only the fruits of additional growth shared.⁹

Incomes policies, however, had many interpretations, dividing partly on the basis of 'demand-pull' or 'cost-push' views of inflation.¹⁰ The demand-pull view was espoused particularly by monetary Keynesians (and would later evolve into the monetarist natural rate of unemployment thesis). In essence they argued, that full employment targets were too high and expansionary efforts fuelled inflation. Softer labour markets would reduce inflation. Incomes policy, in this view, had a rather limited, if not entirely negative, role of temporarily breaking unwarranted wage demands. The Chicago economist Milton Friedman took a more extreme view: "The result of [incomes policies] has always been the same: complete failure. Inflation has been stopped when and only when the quantity of money has been kept from rising too fast."¹¹

The more common Keynesian view argued that the inflation of the 1960s was cost-push. As a result of market imperfections, highly organ-

ized sections of the economy--trade unions and large firms--could bid up money wages and then pass-through the costs by price increases. At low levels of unused capacity the wage-price chase accelerated, and at high unemployment the market power of unions prevented money wages from falling. Wage norms or productivity guidelines should hence establish base rate increases for wages to stabilize unit labour costs.¹² Two objectives could be achieved by controlling money wages. Under a regime of fixed exchange rates, countries with large open sectors would avoid a loss of competitive position or overcome a payments constraint. Furthermore, slower inflationary wage increases would allow increased utilization of resources and thus higher domestic output.

The strongest proponents of incomes policies came, in fact, from left-Keynesians, who were often politically aligned with labour parties (particularly the Cambridge successors to Keynes such as Kaldor, Robinson, Kahn, Harrod, and the Americans Galbraith and Weintraub). The Cambridge position, paradoxically, dismissed the Phillips relation while insisting that inflation was cost-push driven and not a monetary phenomenon. They rejected the walrasian notion of a market-clearing, price-auction labour market which lay behind the Phillips curve. Labour markets, in the Cambridge view, do not clear on the basis of wage adjustments. Collective bargaining occurs directly over the level of money wages and indirectly over income shares--determined by the balance of power between the social classes. The level of unemployment, moreover, is set by production techniques and the level of output; prices are a mark-up over prime costs. The trade-off between unemployment and inflation, then, is an illusory empirical result. The organizational strength of workers is pivotal. The

monopolistic market position of firms allows costs to be passed on through mark-up pricing. The general price level tends to be established, therefore, in collective bargaining over money wages--a de facto labour standard. Income policies must be direct and permanent (although they may well be politically unstable).¹³ As Joan Robinson argued:

There is one school of thought which contends that, since the trouble arises from near-full employment, let us give it up. Supporters of this view maintain that a 'moderate' amount of unemployment...would be sufficient to keep wages in check and secure stable prices. The evidence for this view is very sketchy....Incomes policy is an expedient to cope with a very pressing situation....rough and unfair as it may be, it may succeed in slowing down the rate of rise in costs relative to those of other industrial nations, so to give this one a better chance in international trade. This, far more than any search for social justice, is its primary aim.¹⁴

The Cambridge position involved a perceptive critique of market institutions, and although it captured well the impact of trade union militancy, the critique had limited sympathy amongst governments struggling to preserve market-led growth.

The theoretical debate, then, invoked incomes policies to deal with a wide variety of stabilization problems by bringing wage formation under negotiated control. The permanency of incomes policy varied, conceptually and practically, according to the degree markets had been displaced by 'organized interests'. The developing monetarist position, for instance, argued that unions held a monopoly position and pushed wages up; so incomes policies could be at best a temporary response to a price spiral. In the 'bastard Keynesian' view, the prevailing opinion in ministries of finance, cost-push pressures were always a short-run 'overheating' of the economy: it simply was necessary, as Paul Samuelson once put it, 'to talk the Phillips curve down.' This could occur by non-binding wage norms or

by public exhortations at key wage decisions. Where collective bargaining was characterized by large centralized unions, the tendency was to attempt a formal, corporatist political structure to ensure the social partners conducted labour relations in light of the economic situation. The predominant objective of incomes policies in the late 1960s, whether guidelines or more permanent structures, was to restrain nominal wages, with the least interference in the market mechanism.¹⁵

The priority given to price stability did not entirely displace concern with the slow adjustment of the labour market. The general acceptance of the Phillips curve was also related to its ability to incorporate the efficiency problems caused by structural and frictional unemployment. The dispersion of unemployment, it was argued, affected the position of the curve (making it more proper to speak of a trade-off zone). The greater the segmentation of the labour market, the greater the variation in the vacancy to unemployment ratios for different occupations and groups of unemployed. Consequently, as Lloyd Ulman observed, "the inflationary potential of the economy is an increasing function of the dispersion of sectoral unemployment rates."¹⁶ The structural unemployment hypothesis, moreover, suggested that the economy had been more subject to wage inflation since the 1950s with shortages of skilled workers leading the wage push. It made sense, then, to contend that as unemployment fell labour market policies had an important stabilisation role.

If the composition of unemployment was a prominent factor underlying the aggregate tradeoff, it followed that the full employment goal should also be disaggregated. It was estimated, for example, that even with a 3.8 per cent rate of unemployment in the U.S. that rates for black youths

would still be 25.5 per cent. Killingsworth, the foremost structural protagonist, continued to observe a 'labour market twist': an increasing proportion of the unemployed tended to be less educated while job skills were increasing.¹⁷ Lowering the unemployment rate for any particular group would make any given level of unemployment more acceptable (and less inflationary). The Phillips curve would have shifted.¹⁸

The disaggregation of unemployment marked an advance in Keynesian thinking, requiring analysis of the "goal of full employment in structural as well as aggregative terms."¹⁹ The assumption of homogeneity of the labour market was discarded, thus providing theoretical support for the targeting of pockets of long term unemployment which the Keynesian views of unemployment of the early 1960s had rejected. Countries with a commitment to full employment had to develop labour market policies for cyclical upswings as well as recessions. As Robert Gordon stressed, "employment policy must be concerned with unemployment rates that are too low as well as too high."²⁰

Full Employment Fears Across the OECD Zone

Within the OECD area, the success of the 1960s 'growth push' led to a pervasive optimism of economic policy, especially with high unemployment virtually disappearing except for the southern cone of Europe. Even the stubborn persistence of an inflation and unemployment tradeoff, and the linkage between full employment and currency crises in several countries, led to few doubts. As the OECD confidently commented:

The prevailing attitudes and behaviour, which originated in a job scarce economy, are no longer appropriate. Moreover, when labour scarcities are combined with governmental programmes to promote continued economic growth, full employment, rising living standards, and price stability, which tend to underwrite the permanency of labour scarcity, the older approaches

are quite clearly obsolete."¹

The OECD, especially in terms of Europe, was preoccupied with managing a full employment economy: the mobilization of additional labour stocks and control of the wage-determination process. As a consequence of the failed anti-inflation monetarist policy of the 1950s, which the OEEC had supported, the OECD had early shifted to advocating the direct control of costs via a prices and incomes policy. The 1961 special experts report on rising prices, for instance, had concluded that wages policy had a role to play in balancing rapid growth and price stability over the long term: "Governments cannot allow the large and powerful force that comes from the present wage negotiation machinery to remain outside the arena of stabilization policy without serious risk of having its efforts to put a good performance inside the arena frustrated."²² This became a touchstone of OECD policy advice through the 1960s. Indeed, the controversial 1970 report, Inflation: The Current Problem, which reflected the OECD consensus on stabilization policy until the 1975 McCracken Report, concluded that "the record seems to show fairly clearly that prices-incomes policy of both the national bargain and guidelines variety has succeeded in restraining price rises for a period of up to one or two years."²³

The dilemmas of managing a full employment economy had a second focus, unique during the postwar era, of mobilizing additional labour stocks as part of active labour policies to improve the tradeoff. The major OECD initiative to get countries to expand the placement functions of the public employment service, for example, contended that efficient matching of job seekers with vacancies was one source of labour. A similar strategy was behind the effort to expand adult training programs

(in North America this meant targeting the hard-core unemployed). In Europe, employment planning and forecasting became an important part of economic plans, with 'passive' unemployment offices being converted into 'active manpower' centres."

The ILO's 1964 Employment Policy Convention had backed the 'growth push' effort to lower unemployment. With respect to Europe they noted that the "slow rate of increase of the labour force has acted as a brake on economic growth."²² The ILO emphasis, too, was on integrating manpower planning with industrial planning to mobilize labour reserves, with the Dutch, Swedish and German examples being cited. These policy contributions, for the most part, were the last of the ILO's postwar contributions to the politics of unemployment across the advanced capitalist bloc. The 1969 World Employment Programme seemed to suggest that, with unemployment 'solved' in the North, attention should shift to the labour surplus countries of the South. The employment problems of the North would not engage the ILO again until the jobless disasters of the 1980s."

The most developed employment policy in Europe was to be found, not surprisingly, in Sweden where the labour movement was most powerful. Economists associated with the Swedish labour movement observed that only a few means existed to limit the price instability created by full employment. Simply reducing demand was self-defeating as employment and output fell; incomes policies tended to favour profits and to defeat solidarity wage policy through wage drift. Selective labour market policies, they argued, avoided these difficulties. After identifying sectors of labour surplus and shortage, labour market policy could do two things: employment in weak sectors could be supported via public works, sheltered employment,

and subsidies; or workers could be encouraged to move into stronger sectors suffering shortages through mobility incentives and retraining. The benefit of the mobility option benefit was not just that it raised employment, mobility also eased price pressures:

A general instrument affects the level of employment proportionally in all sub-markets, independently of the extent to which the separate goals [of full employment and price stability] are attained. A selective instrument is used to influence the level of unemployment directly in the sub-markets where the full employment goal is not reached. It can either create employment within the sub-market or further mobility so that excess supply and demand even out among different sub-markets.²⁷

In a widely circulated paper, the trade union economist Rudolf Meidner extended the model, arguing that a range of measures--profit-sharing, alternate wage systems--to permanently alter the institutions of wage determination should be adopted to support solidarity wage bargaining. It was less these policies than the general lesson which became influential: "The task of economic policy, and particularly labour market policy, can be expressed as bringing a downward change of the Phillips curve, so that a given level of unemployment becomes compatible with a lower rate of price increase."²⁸

The Traumas of High Employment in North America

The unemployment debate in North America had parallels to the European due to the common problem of managing rapid growth. Yet the specific institutional structures of America, notably the weak public sectors, high unemployment, and decentralized wage determination processes, also meant that the debate took on a specific feature. As for most of the postwar period, the U.S. set the pace in first launching wage guidelines and active labour market policies. U.S. policy also had a special character: the stark polarisation of income and wealth gave the

full employment agenda the added burden of alleviating poverty, and, particularly, of improving the employment prospects for black workers.

American postwar employment policy had been preoccupied with stimulating demand via tax cuts. The limits of tax cuts as a way of sustaining high employment began to appear by the late 1960s. Inflation during the Johnson administration was mild, averaging only 3.3 per cent for 1965-68, but its acceleration raised doubts about the merits of keeping the unemployment rate below 4 per cent. Since 1962 the Council of Economic Advisors had established nominal wage guidelines to control inflation, using Presidential suasion to hold key settlements to the guide. The absence of any quasi-corporatist forum for bargaining between labour and industry meant, however, that the wage guides could not play a substantial stabilization role. Indeed, by 1966 the Council had conceded that non-binding wage guides could not be effective against tight labour markets.²⁹

The other facet of U.S. employment policy was the expansion of labour market programs. The 1964 War on Poverty had transformed the debate about structural unemployment: rather than resulting from technical change, structural unemployment became equated with individual worker behaviour.³⁰ If the unemployed were disaggregated into their component groups, the specific choices of these workers leading to unemployment could be identified, and policies designed to improve their individual market responses and human capital. Training programs would raise individual income levels and also shift the Phillips curve by reducing unemployment.³¹

Despite the analytical coherence, U.S. manpower training programs proliferated in a hopelessly confusing manner through the 1960s, spilling

across a dozen agencies. The 1968 attempt by the Department of Labour to consolidate labour market policy failed, being opposed by both the state-based employment service and the community-based Office for Economic Opportunity. The lack of a centralized labour market authority produced crushing inefficiencies: the vast array of community and firm-specific training initiatives often overlapped, gave workers few transferable skills and wasted scarce administrative and political resources.² The jurisdictional disputes of competing agencies, moreover, contributed to the shift of employment programs to private sector wage subsidies to get around bureaucratic obstacles, notably in the JOBS program, which would grow enormously in the 1970s. The Great Society reforms, therefore, left only the slightest state capacity to contain unemployment apart from the successes of stimulating capitalist sector growth.

The U.S. policy muddle prepared the ground for the retreat on full employment commitments which marked the end of the 1960s. As early as 1967, Paul Samuelson, a key economic advisor to Johnson, warned that stable prices "might well require that U.S. unemployment be, in the short-run, 5 per cent or more."³ The fiscal restraint imposed in 1968 to slow demand failed to curb inflation, partly due to a disastrous rise in war spending that cut the period of restraint short. The new Nixon regime, entering office in 1969, attempted a monetary and fiscal clampdown, deliberately driving up unemployment in the hope that economic stop would beat down inflation. Restraint did little for inflation, but it did cause the U.S. economy to move 'sideways' and then fall into recession by 1970 with unemployment pushing above 6 per cent. The Keynesian era was fading into the monetarist period of employment policy, with the American quan-

dary haunting the battles against unemployment in Canada.

Unemployment and Incomes Policies in Canada

The Canadian unemployment debate encompassed, more or less, these same issues. Employment policy, however, continued to be marginal to the upheavals resulting from trade and currency instabilities, but, in contrast to the late 1950s, there were fewer differences over economic policy. Indeed, except for dissent emerging from a 'left-nationalist' social movement, which took the view that high Canadian unemployment was a consequence of dependency on staples exports, the employment policy debate was confined to specifying the appropriate range of policies given Canadian institutions and openness of the economy.³⁴ In other words, whether Canada should simply 'stay-the-course' given the economic recovery since 1962, or also attempt to establish some form of incomes policy to improve the stabilisation tradeoff.

The stay-the-course position, adhered to by the Economic Council and the Department of Finance, centred around the qualities of the Phillips curve tradeoff in Canada and the obstacles to establishing an incomes policy. To the extent that generalizations could be made from the proliferating estimates of 'steady-state' Phillips curves, several factors regularly arose: Canadian wage and price movements were strongly influenced by U.S. developments; the Canadian tradeoff appeared to be substantially steeper and at a higher base rate of unemployment than Europe and the U.S.; and labour turnover, and thus necessary wage differentials, was more extreme than other countries.³⁵ The most cited estimate of the curve, prepared for the Economic Council in 1966, suggested that unemployment in the 3-4 per cent range would yield a low but positive rate of

inflation.³⁶ These constraints, it was argued, made it necessary to adopt a prudent stance for national employment policy in Canada, and appeared to confirm the wariness about lowering unemployment below, or allowing inflation to rise above, rates in the U.S.

The defence of this view was elaborated foremost by the Economic Council. The Council had moved, in the space of two years, from a critic to a defender of the government's management of the inflation-unemployment tradeoff. Its advocacy of a 'market-driven economic-go', particularly in its Third Review, Prices, Productivity and Employment (1966), influenced economic thinking throughout the late 1960s. In terms of unemployment, the Review contended that,

...the major countries have varied considerably, but almost without exception they have had difficulty in obtaining as much price stability as they would have liked at times when their general levels of unemployment were thought to be widely right....It is realized that severe inflation is fundamentally brought about by excessive pressure of total demand for goods and services on the available supply, while heavy unemployment is the result of a large relative deficiency of demand. It is known that the principal remedy for both extreme conditions is the operation of fiscal and monetary policy to restrain or stimulate the growth of total demand as the case may be, and to bring it back into a proper relationship with the growth of potential output.³⁷

The Review found favour with the supply side strategy put in place during the 1960s upswing of "reasonable price stability and strong international competitiveness."³⁸ In terms of incomes policy, the Council reacted sceptically: "Insofar as incomes policy have had a beneficial influence on the rate of trade-off between employment and price stability, this affect has tended to be largely temporary." Canada, moreover, provided a hostile environment for incomes policy due to vast differences between regions, a large open sector, decentralized collective bargaining,

and a split labour jurisdiction. There was little reason, the Council rendered, to interfere with the "market mechanism of Canada's mixed economy...[which] seems likely to be more compatible with good all-round performance by the Canadian economy than any visible alternative."

Other studies prepared for the Council rejected incomes policies on more cautious grounds. David Smith's well-known study of European incomes policies, for example, noted the sheer variety of national wage-price policies and their instability as a "period of restraint that has some effect in the short-run has frequently been followed by a wage and price explosion." Smith added that the "distinctive institutional features of the Canadian economy" would be an obstacle to anything more than a consultative body that studied employment, productivity and prices.⁴³ In its 1969 Review, the Economic Council also supported a pay research board "as a basis for improved decision-making," although the tradeoff would be aided best by supply side measures and free-trade to increase competition.⁴⁴

The Woods Task Force on Industrial Relations, formed in response to the wage militancy of the 1960s, also called for 'staying-the course' and noted the obstacles to incomes policies. While rejecting a universal link between collective bargaining and inflation, Woods noted the downward wage rigidity and market imperfections that were producing inflationary pressures. Notably, the 'Pearson formula', which settled the strike of seaway workers in 1966 with a two-year 30 per cent settlement, and the push for wage parity with U.S. workers in the auto industry, seemed to have produced a demonstration effect on other negotiations:

...even stagnant or declining sectors of the economy can be confronted with settlements that would not take place in a

competitive model. The result is a downward-rigid and upward-flexible wage structure that can adjust only to shifting labour force requirements by a ratcheting up of wages."

Despite its Gaibraithian overtones, the Task Force hesitated to recommend major departures in policy. The legal structure of collective bargaining should be amended so as to allow a greater range of negotiation of workplace issues, but there was little the government could do to improve the Phillips tradeoff except to mobilize workers to meet anticipated labour shortages. An incomes policy was also unlikely to be appropriate for Canada "because no guidepost approach is likely to work within the present collective bargaining framework...[which] is relatively fragmented and decentralized."³ An Incomes and Cost Research Board that would study the processes of wage formation might, however, play a positive role.

The case for an incomes policy to improve the tradeoff in Canada--with the exception of a few spirited Keynesians--was made on grounds equally cautious to those advocating 'staying-the-course'.⁴ Indeed, the advocates of incomes policies tended to be less aggressive in pursuit of full employment and more watchful of the loss of competitive position vis-a-vis the U.S. Similar to the British case, an incomes policy could play a role of maintaining external stability by holding back domestic cost pressures. This was the basis of Finance Minister Mitchell Sharp's 1966 warning, departing from the usual Finance position, that,

those engaged in economic activity should be prepared to be guided not only to the objectives that have been fixed to economic growth, but also to accept, to an increasing degree, the necessity of responding to guidelines as to the increases in costs and prices that are compatible with these economic objectives."

It was from this perspective--wage guidelines as a temporary measure to maintain international competitiveness--that the Bank of Canada became the most significant advocate for an incomes policy. Since the 1950s the Bank had consistently rejected--most lucidly in its submission to the Porter Commission on Banking--the notion of a tradeoff between unemployment and inflation. Inflationary expectations tended to develop from over-full employment in the Bank's view, so short term output gains from economic stimulus were quickly lost. Inflationary expectations, when coupled with market imperfections blocking adjustment, created the wage and cost pressures that fed inflation. The spiral had to be snapped:

The purpose of restraint is not, however, to slow down the economy for its own sake but as a means of slowing down the price and cost increases in order to provide a basis for sustainable economic expansion....And if we could make some gains in our competitive position by doing somewhat better than others in controlling inflation, the long-term rewards in the form of increased output and employment and an improved trade balance would be tangible."

To shorten the period of adjustment of wage expectations, the Bank concluded that "the overall policy of fiscal and monetary restraint...[should be] supplemented by voluntary [incomes] restraint."⁴⁷ As inflation was accelerating despite labour slack, Canada verged on an inflation crisis that could repeat the earlier dollar crises.

The other major intervention in favour of an incomes policy also sprang from concerns about Canadian competitiveness. In its economic surveys, the OECD had been encouraging Canada to adopt some form of wages policy. The OECD pointed to both Canada's cost and price performance relative to its competitive position, and, in contrast to the Bank, a slack labour market that indicated economic performance was below potential. Although Canada's supply policies were now about right, further

improvement on the wages side would allow demand policies to have greater impact. In its 1968 survey of Canada, the OECD created a considerable stir, asserting that,

Canada's price-wage performance in full employment conditions suggests that there is need for some sort of an incomes policy. A number of other OECD countries have been active in this field in the last few years. No country can point to a spectacular success in controlling the rise in incomes in this way...There are indications, however, that incomes policy in some countries is beginning to play a useful role.

An incomes policy in Canada, however, would confront obstacles:

The approach varies from country to country, depending upon a number of factors, notably institutional arrangements and the structure, comprehensiveness and attitudes of trade unions and employer's associations. The decentralized character of the Canadian economy may render the evolution of incomes policy more difficult than in many European countries but this may not be a reason for dispensing altogether with efforts in this direction.⁴⁶

The OECD's advocacy of incomes policy figured prominently in the employment policies of the late 1960s as the basis to sustain an 'economic go' without sacrificing competitive position. Labour market policies were also to have this role. In particular, the dislocations produced by economic growth raised problems of efficient adjustment of labour. Transitional programs for workers laid off because of technological change had made little progress beyond plant-site negotiation, and several studies pointed out that even after the automation scare provisions in collective agreements for negotiating technological change existed in less than a third of collective agreements often only covering severance pay. Statutory provisions were, by and large, non-existent.⁴⁹ The Economic Council's 1967 Declaration on Technological Change warned that "even under full employment conditions, the smooth flow of displaced workers to alternative job opportunities cannot be assured without adequate adjust-

ment measures."⁵⁰ Three responses to this adjustment gap in Canada could be discerned.⁵¹

It was often suggested that the principle of negotiated settlement of technological change at the plant site should be extended by legislative provision allowing 're-opening' of contracts as these issues arose. The Freedman Inquiry into technological change in the railways, reporting in late 1965 to wide public discussion, noted the lack of advance notice, retraining for workers and economic assistance for communities suddenly confronting plant shutdowns. To avoid the type of 'wildcat' industrial unrest that had plagued the railways, Freedman proposed a ban on major technology changes during the life of a collective agreement unless the employer gets union approval, in other words, a union veto.⁵² The Woods Report was, as in other areas, more cautious, not wanting to limit management rights clauses. Nevertheless, Woods also proposed for contract reopeners allowing strikes for "settlement of disputes resulting from the permanent displacement of personnel occasioned by industrial conversion during the period when an agreement is in force."⁵³ Such an adjustment policy, however, would not go beyond a political settlement by plant site, at best preserving obsolete jobs by restrictive practices in the short term and retraining of some, but not all, affected workers.

The second approach was broader. Notably, the Woods Task Force extended the principle of adjustment assistance to the non-unionized workforce through the establishment of minimum statutory provisions. The Task Force recommended a legislated six months "advance notice of all technological and related changes likely to lead to significant labour displacement."⁵⁴ Mandatory redundancy payments, as the British had

adopted, and company-specific adjustment packages also should be established. Workers could expect, in this case, some income assistance, but would be left to re-enter the labour market on their own.

The third approach identified the problem of adjustment as part of active labour policies. It suggested that neither negotiated technological change or legislated minimum standards would be sufficient to redeploy workers in a period of rapid economic growth. Governments would have to intervene directly to extend training and mobility grants and to supply information on new job openings. This was the 'public employment service' model advocated by the OECD and ILO, and supported in Canada by the 1962 Gill Committee and the Economic Council. It also reflected the thinking of the newly minted Manpower and Immigration Department that the public employment service "is a crucial element in minimizing the time that jobs go unfilled because of a lack of information, training or mobility."⁵⁵

The Labour Movement and Income Policies

The two principle facets of the unemployment debate in Canada--incomes and adjustment policies--raised issues that pre-occupied the labour movement. The CLC had been one of the foremost proponents of the growth push, and it was now confronted with its consequences for workers: the advantage of being able to press forcefully wage gains, but continual technical innovation and labour displacement. These effects of high growth, the CLC claimed, could be dealt with by a stronger state role in the planning of incomes and growth, alongside Keynesian demand management that kept employment levels up. This position could be sustained, however, only insofar as the CLC moved past the Keynesian policies it had embraced since the 1940s.

Incomes policies, for example, were the logical development of the postwar compromise of sharing out productivity gains to maintain demand and employment. The CLC thus had difficulty opposing incomes policies in principle without rejecting Keynesianism and the postwar compromise. The CLC contended, therefore, that incomes policy depended upon an adequate planning of all incomes including the profit levels of capital. Otherwise, incomes policies were simply a mechanism for wage restraint. The CLC stated this view as early as its 1966 publication Labour Costs in Canada (and it would be repeated through to the wage and price controls experience of the mid-70s):

Organized labour would resist any incomes policy which, either by design or interpretation, placed heavy responsibility on labour for exercising wage restraint while allowing other forms of income to find their own level. On the other hand, labour would certainly give consideration to, and be prepared to discuss with other groups, an incomes policy or set of guidelines which took the returns of all factors of production into consideration."

The CLC critique of the distributional biases of incomes policy was, of course, not an incorrect interpretation of either their theoretical core or postwar experience. But it raised serious ambiguities in their economic strategy. The CLC still contended that the unemployment problem was essentially a problem of effective demand and could "only be resolved by more expansionary policies. Our economic growth rate must be increased if the creation of jobs is to accommodate both increases in our labour force and job displacement."⁵ Even if the charge that demand restraint to squeeze inflation raised unemployment was valid, the CLC's Keynesianism served more adequately as a defence of militant wage bargaining than as an account of, or solution to, the developing employment problems. Indeed, the CLC also had adopted the 'bastard Keynesian' view that inflation could

only be the result of too much demand (even though their views on unemployment in the late 1960s had them arguing, contradictorily, that there was not enough demand to maintain employment).

The CLC's views on labour market policy reflected the Keynesian view of unemployment as well. Although critical of the failure to develop a tripartite administrative structure for Manpower and Immigration, the CLC was quite sympathetic to the employment services model. The CLC criticized aspects of the operational principles of specific labour market programs, such as the failure to improve the grants portion of the mobility program, but generally approved of the level of expenditures and the strategic conception of facilitating economic growth. Notably, there was no sustained critique of employment programs as unemployment was a failure of demand management. The exception was, of course, with respect to the issue of automation and adjustment policy which had prompted much of the strike militancy of the 1960s. But here, too, the CLC conception was limited, pushing the Freedman Report's collective bargaining solution making "technological change the subject matter for meaningful negotiation...[and] the right to strike."⁵²

At the peak of the postwar boom, the labour movement remained the social force in Canada most committed to Keynesianism and high growth policies as a solution to unemployment. On this they were in step with the majority of economic opinion, but the wage pressure of high employment soon found the CLC isolated in opposing the move to restraint. It also closely allied the CLC with the Economic Council's rejection of incomes policy in its Third Annual Review, and the Council's advocacy of an export-led economic go as the only feasible defence against unemployment.

This was not the ideal position to launch an alternate strategy to cope with the rising unemployment that would come to dominate the 1970s.

The late 1960s re-thinking of unemployment as a trade-off with inflation, then, set a narrow range of economic options for battling Canadian unemployment.¹⁹ A higher range of unemployment might allow a lower rate of inflation, but it would also cut growth levels. Conversely, the range of unemployment might be reduced by active labour policies and a more vigorous fiscal policy. While supply side measures to improve mobility had support, a vast extension of state intervention would compromise the postwar market-led growth model. The labour movement did not have the political capacity nor the strategic orientation to accomplish this. Finally, higher inflation might be tolerated to keep unemployment in a similar range, with the limit being established by external competitive pressures, with occasional economic stops to break inflationary wage pressures. This kind of 'stop-go' strategy did not entail a detour in Canada's demand management policy, although it was feasible only so long as bouts of inflation purchased higher output. The 'economic go' might be maintained, however, following the views of the OECD and others, by the addition of an incomes policy, and policies of worker adjustment, to more rapidly restrain inflation and unlock skill bottlenecks.

The balance of power between the social classes ruled out a sudden shift to the European preference for lower unemployment and higher prices. And there was certainly no desire on the part of government, business, or the labour movement to sacrifice rapid, market-driven growth by an extended slowdown and a runup in unemployment. As a consequence, the parameters of high employment policy in Canada, ranged narrowly between

'staying the course' or attempting to forge incomes and adjustment policies appropriate to Canadian institutions. These policies would be designed "to deal with the economic, as much as political, consequences of high employment."⁶

7.2 The 'Stop-Go' Period in Canada

The high unemployment of the 1957-61 downturn had challenged employment policy to develop beyond the passive measures characteristic of Keynesianism in Canada. The results were mixed: after a brief phase of forced expansion, economic policy veered sharply to restraint in 1962 to preserve external stability. In contrast, the macroeconomic setting of the late 1960s was dominated by the 'high pressure' economics resulting from unprecedented economic growth. As we showed in the previous chapter, however, the pace of economic growth contributed to emerging problems of overaccumulation. The initial symptom of the impasse was inflation, which gained momentum across the OECD area from 1966-70. Indeed, full employment conditions triggered a distributional struggle by workers to gain a larger portion of profits, eventually breaking into a 'wage-price spiral' as workers incorporated inflationary expectations into wage demands.

Canada did not avoid being swept up in these processes: the closer integration of national economies as the boom progressed ruled this out. Although Canadian labour markets did not tighten to the degree of Europe, the traditional reliance on a slack labour market to quell inflationary pressures was curtailed by the strength of the boom. The absorption of a large portion of the unemployed by the startling expansion, however, reposed the dilemmas that began the boom in the 1940s. Could the institu-

tions of postwar capitalism cope with high employment without eventually resorting to a deflationary shock?

Rapid economic growth brought one clear benefit, however, helping to smooth the economic policy tensions that had been the plague of the early 1960s. The pace of the recovery in Canada was led by the buoyant U.S. expansion, helping to entrench the control of the continentalist Liberals, notably Finance Minister Sharp, over economic policy. The great swell of nationalist controversy generated by the Watkins Report, a special study into foreign investment in Canada commissioned by the Privy Council Office and the Cabinet-exiled Walter Gordon, hardly dented economic policy at the time.⁶ Similarly, rapid growth dissolved the conflicts that had rocked macroeconomic policy from 1956 to 1966--between monetary policy and fiscal policy, active and passive Keynesianism, hard currency and devaluation. The Bank of Canada and the Department of Finance were united on the general direction and specific goals of stabilization policy. A policy consensus for restraint to stop inflation was easier to achieve. The challenge, however, was to impose restraint without causing economic growth to come grinding to a halt. This was not easily done. As the Woods Task Force and the Economic Council took great pains to point out, Canada had few of the institutions necessary to integrate an incomes policy into macroeconomic regulation. Yet the real difficulty of implementing incomes policies here, as their instability elsewhere testified, turned on a political observation: as long as the labour market was tight, there was every incentive for workers to reject the unequal income distribution required to make the incomes policy work. This was a point the economic authorities did not grasp until the 1970s with disastrous conse-

quences for the unemployed.

Keynesian Budgetary Policy in the Short Period

The stop-go rhythm of monetary policy would establish its course in the effort to fight inflation under foreign reserve constraints. The stop-go cycle of fiscal policy had a more conventional Keynesian route set by alternating reactions to growing inflation and slowing growth. The Canadian economic authorities, as they had throughout the postwar period, attempted to steer a path of fiscal conservatism. In practice this meant moving to contain inflation through budgetary restraint even when a significant margin of unemployment remained to be eliminated.

Macroeconomic balance now confronted an additional dilemma. On the one hand, higher average levels of unemployment through the late 1960s had not dampened inflation, and it was by no means clear how far an economic stop would have to be pushed before price increases slowed. The growth of dependence on the American economy, however, meant that relative cost performance and rising productivity of the capital stock were more important than ever. These pressures accentuated the deflationary bias of fiscal policy. Yet given Canada's 'extensive' model of growth and labour supply pressures, an economic stop of any length of time would quickly develop into an unemployment catastrophe. As John Deutsch, Chair of the Economic Council, warned before the Joint Committee examining credit:

The economy has to move on a potential growth path. This potential growth path means that you have to expand the economy to take care of almost three per cent increase in the labour force....If it flattens off, it will not take long, before you find yourself not absorbing your labour force."

This was the 'knife-edge' growth limit that macroeconomic policy had to balance in Canada in the late 1960s.

The economic difficulties of 1966, unlike the previous decade, could not be attributed to inadequate demand. Real GNP grew at a cyclical peak of just under 7 per cent, with gross fixed capital formation recovering completely from the low levels of the early 1960s. Government expenditures also were climbing by almost 15 per cent, largely due to 'catch-up' pay in the public sector. As the OECD would later comment, the real story was the "persistently high demand pressures in the U.S." pulling Canada along, and causing a strong showing in the current account.⁶⁴ Unemployment reached its lowest level in a decade, suggesting to Robert Bryce, then Deputy Minister of Finance, that Canada was in a "relatively favourable position in the tradeoff zone."⁶⁵

The concern of the fiscal authorities, therefore, focused on inflationary pressures building in labour markets, since for some time Canada had been used to a great deal more slack. Average annual increases in new wage settlements in commercial industries, for example, were running at over 8 per cent for 1966. As well, labour costs per unit of output had increased faster than in the U.S., reflecting both the greater increase in wages and weaker productivity performance.⁶⁶ These 'cost-push' pressures worried many observers. The Economist, for instance, warned that as a result of "a great many alternative job openings available, workers are less hesitant to react to situations in forthright terms than would be the case if jobs were scarce."⁶⁷

Although 'cost push pressures' were gaining acceptance as the cause of the inflationary spurt, the government was hesitant to commit itself to direct intervention into wage-price decisions. Senior officials in Finance, as well as the Liberal Party, had doubts about mandatory incomes

policies, and contended that 'demand-pull' was the problem. Inflation pressures could only be broken by economic slack. The first Budget of Mitchell Sharp, who together with Bryce comprised the most Keynesian team Finance had had till then, began to do just that by cutting spending, raising taxes, and attempting to increase capacity on the supply-side. Stabilisation policies in 1966 tended "toward a restriction of the growth of demand, with a tightening of both monetary and budgetary policies."⁶⁷

The persistence of inflationary pressures through the summer, however, prompted a further economic statement by Sharp in the House on 8 September 1966. Sharp contended that Canada confronted two main economic problems: the long-term adjustment of the capital stock and education of a growing labour force, and the short term need to prevent excessive increases in costs and prices. The policy of restraint had not achieved success yet because, in the Minister's assessment, "rapid growth of total expenditures and a very high level of demand, which make it possible for labour and business to demand more and get it." This situation was "unstable" and it was necessary to break the cycle. Wage and price controls were one method, but they were unworkable in Canada and abused a free market. Incomes policies, particularly in the form of voluntary guidelines, remained a possibility: "We do not want to be forced to aim at a lower level of employment in order to avoid inflation....An incomes policy [would]...focus public opinion on changes in particular prices and particular wage disputes....with voluntary and systematic adherence to certain policies and standards." Until a consensus emerged for such a "persuasive" type of incomes policy, Sharp recommended that expenditures be tempered to avoid "excessive reliance on monetary policy."⁶⁸ A number

of programs were, therefore, terminated or deferred including Medicare (delayed until July 1968), winter house building, research assistance, forestry programs, and a few others.

In the last quarter of 1966 economic conditions moderated, causing the pace of price increases to slow. The mini-budget introduced on 19 December 1966 was prompted by the decision of Cabinet to raise the old age Guaranteed Income Supplement (GIS), and to ensure that the overall impact on the economic position remained "neutral." To raise the needed \$280 million for the GIS, Sharp increased the sales tax by 1 per cent (exempting production machinery and building materials) and social security contributions. The forecasted budget deficit, however, would increase from \$150 million to \$340 million (with the actual deficit coming in at \$428 million). As Sharp reiterated: "Our current position is one of delicate balance and we want to ensure that our economic policies do not contribute either to a serious decline or to a re-emergence of strong inflationary pressures as we attempt to adjust to a sustained rate of economic growth."¹⁰

By early 1967 the problems which began to emerge a year earlier became clearer as the business cycle turned down. The most pronounced change came from business gross fixed capital formation, which advanced only fractionally after a 14.5 per cent increase in 1966 (and remained flat till 1971).¹¹ This cut the pace of real economic growth for 1967 by more than half. Inflation, however, barely let up despite the pause, raising concerns that a deterioration of relative cost performance would erode the advantage obtained by the 1962 devaluation. There was some basis to this assessment: the average annual increase in wage rates in new

settlements was running at just under 9 per cent, causing the trend in unit labour costs to overtake U.S. costs.⁷ The slowdown was registered in unemployment moving above 4 per cent, prompting warnings that "the latest employment trends show signs of a dangerous deterioration."⁸

In the mid-60s, demand management had been very active in responding to short-term movements. As growth slowed the typical response was mild stimulus, through marginal manipulation of the tax system to boost investment in plant and equipment in specific sectors. This was the circumstance in the spring of 1967. The earlier restraint on private fixed investment was lifted in March, followed in April by the restoration of the normal, higher capital cost allowance, and the end of the refundable 5 per cent tax on corporate cash flow. The central housing authority also was authorised to let out additional loans to boost starts.⁹

The economic situation at mid-year looked similar, and the Budget of 1 June 1967 proposed to continue the tepid economic go. As "business capital expenditures had slackened off," it received the majority of attention.¹⁰ New measures included: removal of the remaining 6 per cent sales tax on production machinery a year early; elimination of the federal sales tax on building materials for provincial crown corporations; and increased funds for research and development. These steps had the intent of lowering costs and raising the productivity of the capital stock, but they depended upon private capital expenditure plans and would only impact in the medium term. Supply side measures would be matched with "a major program of training and retraining adults in the labour force." Stimulus to counter the short cycle mainly derived from the move of the overall fiscal balance to deficit. But Sharp was still left to conclude that

"when the expected large growth in the labour force is taken into account we could see a modest temporary increase in unemployment."⁷⁵

As noteworthy as the specific proposals, Sharp also warned of the "many institutional and historical factors at work in addition to the economic forces revealed in the labour market statistics...[that had] overloaded the economy with excessive demands."⁷⁶ These factors, Sharp suggested, had built up inflationary expectations and caused higher prices to occur at lower levels of capacity utilization.

The trouble arises from the exercise of market power by business and collective bargaining power by unions...I would see great value in...a willingness in the business world as well as in unions and the ranks of labour to follow a central lead that commands a wide consensus of agreement and respect."

Such a consensus on wage guidelines, as the Liberals realized, was nowhere to be found. Stimulus to supply side productivity and higher unemployment would have to be the major anti-inflation fighters until then.

The indecisiveness of the 1967 Budget reflected the economic uncertainty in the U.S., and the difficulties of maintaining high employment with limited economic tools. In any case, the Budget met with disapproval on both sides of the class divide. The business sector favoured more fiscal restraint to slow inflation more quickly; most others pointed to the limited stimulative package even though unemployment was well above 'full-employment' targets. In budgetary terms the deficit was estimated to rise to \$740 million from \$428 million, a level surpassed only in 1962 in the postwar period (and on a national accounts basis the first deficit since 1963).⁷⁸ Government revenues, moreover, would have to increase to fund the proposed expansion of the education and health systems.

Yet, even with industrial production remaining sluggish in the

second half of 1967, fiscal policy remained preoccupied with inflation. This became clear in the fall: the mild go of March to June was reversed to an economic stop in a crusade to kill the "inflationary psychology." In an economic statement to the House on 4 October, Sharp noted that the economic problem for Canada was "managing prosperity," but he went on to warn that "we will find some way to bring this inflationary movement under control even, if necessary, by letting the economy develop a little more slack for a year or two while price and cost increases taper off."⁹

The mini-budget of 30 November 1967 raised further concerns that inflation would harm Canadian exports and destabilize capital markets:

Canada is now finding it harder to achieve price stability and full employment at the same time than earlier thinking had let us to suppose. Even with unemployment at levels we do not regard as satisfactory, prices and wages are rising too rapidly...No group in Canada can afford this erosion of our international competitive position.¹⁰

The government proposed to reduce federal borrowing requirements, largely because of concern that the size of the cash deficit would squeeze private investment, but also to moderate the growth of aggregate demand. The budgetary deficit was hacked down from \$800 million to a mere \$80 million for the coming fiscal year. Projected fiscal expenditures were cut by \$1.2 billion, with corresponding limits on public sector hiring. Additionally, taxes would increase: a 5 per cent surcharge in personal income taxes up to a maximum of \$600; increased excise taxes on alcohol and tobacco; and earlier receipt of corporate taxes. The fiscal restraint was largely limited to the growth of government activity, intended as much for its symbolic impact as to slow inflationary expectations, and "to give official recognition of the abandoning of the 3 per cent [full employment] target."¹¹

The mild economic stop, however, did little to reverse the signs of economic strain. In the first quarter of 1968, strikes kept productivity growth stagnant, and adjustment of prices and costs to excess capacity remained slow. The "achievement of better cost-price stability" became a matter of compelling concern.⁸² Two events precipitated a further tightening of restraint. Since January the dollar had been under speculative pressure that its value could not be maintained if inflation persisted. As well, the November tax measures, widely disliked because of the inequitable burden on wage earners, unexpectedly failed to pass Third Reading in the House on 19 February 1968. This triggered a special urgency on the part of Finance to develop a new tax package to provide the revenues for financing the introduction of Medicare, and to reassure financial markets that a strong anti-inflationary stance would not be abandoned.

On 6 March the Liberals introduced an 'austerity package' bearing a striking resemblance to the Tory measures introduced during the 1962 exchange crisis, designed "to buttress the Canadian economy."⁸³ Sharp proposed a two year surcharge of two per cent on personal and corporate income taxes; as well, spending would be cut by \$75 million and a further freeze on the hiring of civil servants imposed. These measures extended the economic stop of November. Equally important, perhaps, was Sharp's assessment that the seriousness of the inflation threat now required the special incomes measures warned of in 1966:

We have found that at a level of unemployment of 3.5 per cent in 1965 and 1966 our prices began to increase sharply. Our costs increased much more rapidly than did those of our competing economies....That is now the chief constraint upon our policy....We must use whatever powers of persuasion and influence we can muster in order to bring about pricing decisions and wage settlements that take into account the overwhelming public interest in price stability....[The purpose] of a board

of review will be to get price stability with a higher current level of employment than we could have if we relied only on fiscal and monetary measures."⁸⁴

The reaction of the CLC, who would be pivotal to any possible success any review board could hope to achieve, to the austerity strategy was more candid. "workers must suffer, through rising joblessness, to appease the nervousness of the international financial community."⁸⁵

The course of the economy through the remainder of 1968 depicted the difficulty of squeezing inflation out of the system while attempting to steer along an export-led high growth path. Although the level of business investment fell by 2 per cent, exports grew by a whopping 26 per cent. The exports were chiefly to the U.S. where renewed hostilities in Vietnam and Congressional delays in imposing a tax surcharge kept spending high. The level of exports pulled the growth rate of GDP up to 5.2 per cent for the year. Despite the restraint efforts of the spring, consumer prices edged up over 4 per cent annually, causing the unions to pursue even more vigorously high real wage settlements. Yet even with stronger growth (and the higher inflation implying a move down the Phillips curve), the Canadian economy was clearly failing, as Deutsch had forewarned in 1966, to absorb the 'natural growth' of the labour force. Unemployment reached a rate of 5.3 per cent in the summer of 1968 (with only the prairies at the 3 per cent 'full employment target').⁸⁶

The June election of Trudeau's government can hardly be said to have extended a new conception of the 'just society' to the unemployed. Indeed, the lesson Trudeau drew from the dollar crisis was to stabilize domestic prices to keep export positions at whatever the short-term cost in unemployment.⁸⁷ Through the summer Trudeau met with business and

labour leaders to urge wage and price stability. In August the government cancelled the winter works program and announced additional cuts. The first Budget of the Trudeau regime, and of the new Finance Minister Edgar Benson, kept at the anti-inflation message. On 22 October 1968 Benson told the House:

...unless our policies are firmly set to resist inflation, there is great danger that continued prosperity in 1969 will cause pressures that will set in train a new round of price and cost increases...recent and current inflation is hurting many more than the number who suffer from unemployment.⁶⁸

On the revenue side the objective was to cover the cost of medicare and to bring down the deficit. This included a series of tax increases to raise about \$1.6 billion (about half in new taxes); a social development tax of 2 per cent of taxable income, capped at \$120 per year; a slightly more comprehensive taxation of financial institutions; and further acceleration of corporate tax payments. On the expenditure side little changed. Federal employment levels would continue to be frozen and provincial governments would be pressured to control shared-cost transfer programs. The overall fiscal balance projected a deficit of \$675 million for 1968-69, and a substantial surplus for 1969-70 as the higher taxes kicked in. There was little notice, and even less concern, with unemployment. Indeed, the Trudeau government had adopted the 'monetarist' formulation of the Bank of Canada that "inflation would precipitate the kind of economic disruption in which unemployment would surely increase."⁶⁹ Yet at the end of the stop-go fiscal policy of 1966-68 both inflation and unemployment already stood higher.

Monetary Policy Moves South

The pre-eminent means used to fight inflation throughout the postwar

period was monetary policy. The vast majority of interpretations of the monetary policy of the late 1960s have stressed the inability of the Bank of Canada to fight demand-pull inflation because of the restrictions imposed on Canadian reserve levels to obtain exemptions from U.S. payments policies. Additionally, the fixed exchange rate limited the use of currency appreciation to fight inflation.⁹⁰ Both of these views are, no doubt, part of the explanation of the stop-go behaviour of the Bank's policy, but they neglect other aspects. Notably, Canadian monetary policy had long been geared to preserving external stability of the dollar at the expense of domestic stabilization (especially unemployment).

The government continued to attempt to maintain a stable currency, and it is difficult not to suggest that the absence of a reserve ceiling and a pegged dollar would only have marginally altered monetary policy. The Bank embraced further monetary dependence on the U.S. for short term exchange stability precisely on these grounds, and they led the Bank of Canada to counsel the use of incomes policy.

As of the spring of 1965, the Bank of Canada had begun to push monetary restraint, allowing nominal interest rates to rise and chartered bank liquidity to decline. The money supply grew by only 2 per cent between December 1965 and June 1966. The foreign exchange reserve restrictions imposed in December 1965, however, kept the Bank from 'leaning against the wind' harder, causing the traditional Canada-U.S. yield spread to narrow.⁹ During the late 1966 pause the Bank briefly eased 'credit conditions', the favoured policy target since the Porter Commission, allowing chartered bank reserves to increase and the bank rate to fall from 5.25 in April 1966 to 4.5 per cent by December 1966.⁹² Consumer

prices rose by 3.5 per cent in 1966. Governor Rasminsky was already alerting that cost-push pressure,

...has been experienced from time to time by all countries that attempt to operate market economies at high levels--the difficulty of having more ambitious targets with respect to output than the country's practices for determining incomes are able to handle consistently with reasonable cost and price stability."

The expansionary position of monetary policy was reversed by the middle of 1967 when it became clear that the economic slowdown would be mild, and fears of inflation mounted, although unemployment continued to grow. The Bank consequently shifted back to restraint and Canadian interest yields rose to year end. Yet monetary restraint was more illusory than real. The boom conditions, created by export demand from U.S. war spending, kept the money supply growing at an annual rate of almost 16 per cent in the last two quarters of 1967.⁹⁴ Additionally, the long-awaited 1967 revisions to the Bank Act enhanced the chartered banks' ability to compete for corporate deposits and eased reserve requirements. These changes added to overall bank liquidity and money supply growth.⁹⁵ The inability of the Bank to yank the monetary policy noose tighter underscored, in the Bank's assessment, the new economic conditions of simultaneous drift upward of unemployment and inflation.

The unsettling impact of exchange rates on domestic policy, however, also reappeared in mid-1967, this time with a vastly different character from earlier dollar crises. The Canadian central bank generally favoured an overvalued dollar for the purposes of fighting inflation and attracting capital. This policy tended to compound chronic current account deficits, leaving the merchandise balance lower and capital imports higher than they

would otherwise be. Attempting to hold the overvalued position well past the point of sustainability typically ended in sharp downward adjustment of the value of the dollar in a period of crisis. The 1962 fixing of the dollar at 92.5 U.S., following just such a crisis, in contrast, left the currency quite undervalued.* The harbinger of the Canadian expansion was now its curse.

A fixed exchange rate compelled the monetary authorities to maintain strict external stability, with credit policies for domestic conditions subordinate to this constraint. This was the basis of the much noted British cycle of stop-go and subsequent devaluation, after a failed incomes policy. The exchange constraint was compounded in Canada. In order to avoid being hit with the U.S. measures to restore its balance of payments position, Canadian exemptions were granted. The exemptions, however, came with a steep cost in the short run, as well as further loss of monetary and political sovereignty.⁹ By accepting limits on reserve holdings to stabilize the Canadian dollar and capital inflows from the U.S., the government also sacrificed some of its ability to impose restraint. Notably, given the fixed exchange rate, if interest differentials widened between the two countries, capital would flow into Canada and reserves would climb. Thus the Bank of Canada's effort to fight inflation was blunted even as inflation accelerated through 1967, causing Governor Rasminsky to warn that "without the support of other types of policies... [external stability] might well require acceptance of an unnecessary amount of under employment of productive resources."¹⁰

A further erosion of monetary policy to placate U.S. interests occurred in late 1967. It came, paradoxically, not from the inability to

appreciate the currency, but from the instability produced by the dependent relationship on U.S. capital inflows. The first blow came from the British devaluation of November. The downgrading of sterling weakened confidence in the world structure of exchange rates causing rampant currency speculation and the buying up of gold, particularly by the French. Despite a strong payments position, the Canadian dollar came under attack as a weak currency due to its structural reliance on capital inflows. In order to support the fixed exchange standard, Canada sold \$100 million of gold to aid the U.S. backing of the official price of gold set at Bretton Woods.⁶

A second blow to the Canadian position came in January 1968 when the U.S. introduced further controls on its multinationals to bolster its payments position, adding to the downward pressure on the dollar, now trading at its lowest rate since the 1962 crisis.⁶⁰ The pressure on the dollar led the Bank of Canada to push the discount rate up from 5 per cent in November 1967 to 7 per cent in late January 1968 and to reduce sharply the money supply. As well, the chartered banks were asked voluntarily to resist extending new credit to foreign subsidiaries to transfer funds to the U.S.; borrowings of \$240 million and \$391 million U.S. were arranged with the U.S. Export-Import Bank and the IMF respectively to put fear into the speculators against the dollar.⁶ Support efforts for the dollar continued through to March with European central banks joining in. Deciding against seeking further short term support from the IMF and, particularly, to refloat the dollar, Canada again attained an exemption from the U.S. capital restraint guidelines on March 7. The exemptions, of course, had a price: U.S. restrictions on flow-throughs of funds to third

countries were extended to Canada, in effect creating a common North American capital market. Furthermore, the gold pool countries allowed a market in gold to develop after March 17 cutting some of the rampant speculation against the U.S. dollar. In a matter of days, the speculative run was over and Canadian exchange reserves began to increase.¹⁰²

The "defence of the exchange value of the Canadian dollar" in the first half of 1968 eased in the second half.¹⁰³ The entirely speculative nature of the attack on the Canadian dollar, which made the exemptions from the U.S. guidelines very costly, allowed reserves to be rebuilt quickly and, indeed, to threaten the reserve ceiling in a matter of months. By mid-1968 the central Bank was adding to the cash reserves of the banking system, as unemployment reached 5.5 per cent and U.S. growth was expected to slow. From the March 1968 high of 7.5 per cent the bank rate slipped to 6 per cent, and chartered bank primary reserves stood well above 1967 levels.¹⁰⁴

By the fall of 1968, however, it was clear that the expected fall in U.S. growth was failing to materialize and inflationary pressures were spilling over into Canada. Inflation was now running at well over four per cent. Yet the reserve ceiling blocked monetary policy from tightening as holdings were easily pushing past the 1963 limits. The Governor of the Bank acknowledged as much noting that "the flexibility of Canadian monetary policy was in danger of being severely limited by the existence of a 'target' level for Canadian exchange reserves."¹⁰⁵ Indeed, with the continued export boom from the low exchange rate and capital flowing in with unusual speed, only an inflationary surge of domestic credit could hold the reserve line. The full price of the exemption from U.S. measures

was now being felt: pursuit of an independent monetary policy was frustrated by bilateral monetary arrangements limiting the size of Canadian reserves to aid the U.S. balance of payments problems.

By December 1968 a trip to Washington was again in order for Canadian financial authorities. On both sides of the border it became clear that the reserve ceiling was untenable and had to give. On December 16 an exchange of letters between the Canadian and U.S. monetary authorities allowed the removal of the reserve limits "to accommodate the adaption of monetary policy to the changing needs of its domestic economy."⁶⁶ Washington, however, did not remove all its restrictions: Canada would have to continue to invest in U.S. government bonds as part of reserve holdings and maintain the pass-through restrictions.⁶⁷

From 1965 through 1968, the Bank of Canada struggled to impose inflationary restraint. It did so despite relatively high rates of unemployment, although the policy reversals of mid-66 and mid-68 indicate there was some concern with economic slowdowns. Expansionary moves were limited both by Canadian dependence on keeping interest differentials high enough to attract capital, and the resolute stance against inflation despite loose labour markets. In terms of the Bank's own goals, the fixed rate and the reserve limits wreaked havoc on monetary restraint. Canada could not simultaneously maintain the advantage of a low fixed rate favourable to exports, a reserve ceiling, and fight inflation with tight money. The reserve ceiling was the first to give out and the pegged rate would soon follow.⁶⁸ In part because of these real and self-imposed constraints, the Bank advocated incomes policies to control inflationary expectations with minimal damage from an economic stop. This was, indeed,

the direction of macroeconomic policy at the end of 1968.

The Clampdown of 1969-70

By late 1968 the economic authorities of the major OECD countries had concluded that the momentum of the expansion had switched. In comparison to the demand-pull recovery of the early 1960s, 'cost-push' forces, fuelled by a militant strike wave spreading across Europe and North America, had raised the underlying inflation rate even though, at least in Canada, unemployment had risen. The 'short term' build-up of price expectations in wage settlements had to be snapped. The 1969-70 clampdown had this as its aim producing the first synchronized postwar recession of the advanced capitalist bloc.¹⁰⁶

In Canada, the clampdown began in earnest in late 1968, as unemployment levels returned to those of the 'sick years' of the 1950s. The new element in the Canadian restraint program was the initiative to establish a guidelines policy, laid out in detail in the December 1968 White Paper, Policies for Price Stability. The White Paper carried the preoccupations of the Bank and Finance, with the rise of labour costs and their impact on Canada's external position:

...the economy must remain competitive in international markets. To do so Canada must contain the inflationary rise of prices at least as effectively as its major trading partners.... It may be that by applying the conventional monetary and fiscal levers with sufficient force, the inflation of the past three years could have been brought to a halt. But the immediate cost in terms of the level of unemployment and output foregone would certainly have been high.... It is of critical importance to seek new additional ways of maintaining reasonable price stability under conditions of high employment and strong economic growth.¹⁰⁷

The White Paper proposed the establishment of a Standing Parliamentary Committee on Price Stability and a Prices and Incomes Commission

(PIC). The role of PIC would be strictly 'persuasive': study of short term economic trends; analysis of wage and price movements; and establishment of a 'consensus' for voluntary income restraint. Unlike the U.S. guidelines policy, PIC had no mandate to intervene in particular wage and price decisions, although PIC had the power, under the federal Inquiries Act, to request information. The Commission was formally established on 19 June 1969, under the Chair of John Young, an academic economist, and aided by three government economists. In July, PIC began to seek a consensus amongst producer groups "to gear down the rate of price and income inflation." This included, moreover, a commitment to use the 'big levers' of economic restraint "to the full extent necessary, and for as long a period as required, to restore price stability." If a consensus obtained around a 'package deal', consisting of a voluntary incomes policy and government measures "to ease a painful period of transition", it would be submitted to a National Conference on Price Stability for ratification.¹

The consensus efforts of PIC through the summer and fall produced only limited success. Although it participated in the initial discussions, the CLC's hesitation to negotiate an incomes policy during the summer turned into open opposition by the fall. The economic policy 'consensus' in the CLC's judgement had everything to do with wage restraint. Although PIC declared its intent to establish limits on all incomes, its initial proposal sought firm commitments around wage guidelines and proposed only a review board for prices. On 17 October, the CLC and the CNTU jointly withdrew their support for PIC, rejecting "outright the idea that voluntary guidelines can cope effectively with the

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current inflation...To be at all fair [an incomes policy] would require all non-wage and salary forms of income, including profits...to be effectively restrained."¹² Without the support of the unions, PIC had little effective leverage, being left to simply 'jawbone' specific wage and price agreements, the role advanced by the Economic Council and Woods.

The Bank of Canada was a strong supporter of PIC and had supplied its chief economist, George Freeman, as a commissioner to PIC. The Bank sought assistance in controlling labour costs and inflation so as to avoid erosion of the fixed exchange rate. Speaking before the House Finance Committee in July 1969, Governor Rasminsky argued,

...fiscal and monetary policies are now set on an anti-inflationary course and the important thing is to have the determination to persist with them as long as necessary....We will be rewarded in the form of a greater competitive capacity in export markets and a greater competitive capacity against U.S. competition in our domestic markets. So to the extent that our policies result in better price performance than in the U.S., we will get closer to the desirable combination that we would all like to see of more stable prices without an undue degree of unemployment."¹³

Freed from the reserve limits and the need to finance the government deficit at the end of 1968, the monetary gears were now yanked in reverse causing Canada to enter "the throes of one of the tightest periods of monetary policy on record."¹⁴ The Bank rate ratcheted up throughout 1969, with the long-term yield on government bonds reaching a historic high of 8.3 per cent in December. The rise in interest rates was one indication of restraint; a second was the special effort of the Bank to limit the availability of credit. Although the liquid asset ratio of the Chartered Banks was already at a historic low, on 1 June the Bank raised the minimum secondary reserve requirements on deposits by a point, taking another \$250 million out of the system. Additionally, the Governor requested an easing

of competition for short term deposits and placed a ceiling on foreign currency deposits (to prevent interest rates from having to go higher and completely choke the economy). At the same time, the chartered banks were requested to maintain loans for mortgages, small business, and less developed regions "to soften the impact of tight credit conditions."¹⁵ As a result of these steps the narrow money supply grew by less than 4 per cent for 1969. The slow pace of price adjustment, however, raised doubts about the cost of restraint, and caused the Bank to warn that the authorities should not be "too ready to abandon policies of restraint before the job is done."¹⁶

The degree of monetary restraint alone was sufficient to tilt the economy into recession. But fiscal policy too played a significant role in the clampdown. The second Benson Budget of 3 June 1969 reiterated the austerity themes of 1968. Indeed, the anti-inflation resolution had firmed since December:

There can be no question that the number one priority in economic policy today must be to deploy all available forces--public and private--more aggressively than ever in the battle against inflation in Canada....In too many cases the attitude is that cost increases, including large wage settlements, can be accepted because they can be easily passed on in higher prices to the consumer. There is a psychology that needs to be broken.¹⁷

The budget itself had few achievements, although it forecast a budgetary surplus of \$375 million. The surplus on a national accounts basis actually came in at an astonishing \$1 billion, representing a reversal of budgetary position of over 1 per cent of GNP. The few budgetary changes targeted specific bottlenecks and price pressures: extension of the 3 per cent tax surcharge to 1971; early introduction of the Kennedy tariff cuts to increase price competitiveness; deferral for two years the CCA on

commercial buildings in Ontario, Alberta, and B.C.; and increases in travel duty exemptions.¹⁸ Alongside the selective restraint, expenditures would be targeted at "areas of the country where restraint is not required" through regional development programs, manpower training and equalization grants.¹⁹ Additionally, on 13 August, Trudeau added to the restraint by announcing a freeze on spending of most government departments, and a planned reduction of 25,000 of public employment over 4 years. It was generally conceded that fiscal restraint would "tend to push the [unemployment] rate higher during the coming year."²⁰

The momentum from 1968 maintained economic activity through much of the year. Real GDP grew at a similar clip in 1969 (about 5 per cent per year), although it slowed down later in the year. Industrial production and the open sector also kept up despite the impact of strike activity on exports. The key lay with investment: private non-residential fixed investment increased for the first year since 1966, but fell off markedly in the second half as financing dried up and a "profits squeeze" developed.²¹ The more troubling trends rested with prices and unemployment.²² At 4.5 per cent, consumer prices grew more rapidly than any year since the explosive Korean war inflation. Similarly, wage settlements and unit labour costs increased more rapidly than in 1968, even as productivity slowed. Unemployment, however, had dropped only slightly to 4.7 per cent for the year, and regional unemployment remained troubling.²³ These mixed signals roused uncertainties about the period of adjustment necessary to squeeze out expectations. As the OECD worried in late 1969, "how much risk is there of a recession developing unexpectedly?"²⁴

All the markings of a recession could be discerned by 1970. The

real growth rate of GDP, for example, was cut in half to 2.4 per cent, largely as a consequence of weak domestic demand. The growth that did occur resulted from a strong export performance, which had turned a current account deficit into a postwar record surplus. The economic standstill also figured in the two trends stirring the greatest controversy: the GNE price deflator finally turned down to 4.1 per cent, while the unemployment rate shot up to an average of 5.9 per cent for the year (climbing to almost 7 per cent in the fall). The higher unemployment levels, moreover, were generalized as both Ontario and the prairies felt the recession's sting. In contrast, there were only a few signs of a deceleration of costs. Strike activity, notably in the construction and auto sectors, experienced record volumes, and helped push the increase in the base rate of major settlements to 8.4 per cent for 1970.¹⁷⁵ The unions, and workers more generally, were insisting on a more equitable distribution of output.

At the outset of 1970, there was little doubt that the 'three-pronged' anti-inflation fight would persist. In a comment that exemplified the government's hardening position on unemployment, Trudeau avowed that he would 'hang tough':

I'm afraid that there are a lot of people who are bargaining that the government can't act tough for too long because it will only get frightened if it sees unemployment go up to 6 per cent....But if people think we are going to lose our nerve because of that, they should think again.¹⁷⁶

Yet once the objective of pushing Canadian inflation rates below world and U.S. levels was accomplished, it was by no means clear how long output could be sacrificed before the clampdown was aborted.

The voluntary incomes policy already had dissension as a result of

the opposition of organized labour to wage restraint. PIC still hoped that voluntary 'price restraints' would aid the "skilful application of persuasion in individual bargaining situations."¹ The National Conference on Price Stability held on 9 to 10 February brought together 250 business and professional leaders. A voluntary agreement was reached: price increases were to be limited in number and paid below cost increases, and PIC would establish a system for price review. A week later, a federal provincial conference agreed also to apply cost-abandonment to the public sector. And in June PIC proposed a new wage yardstick to the unions of 6 per cent, compared to a moderate productivity growth of 2.5 to 3 per cent and price increases of 3 to 3.5.

By the end of 1970 both the wage and price restraints were in tatters. Union leaders remained intransigent in their opposition to guidelines. PIC established a wage and salary review board nonetheless, but it only had a research task. During the year the federal government itself violated the guidelines, in settlements with postal workers and with its own economists. The price review program persisted longer, with a few minor successes in deterring or limiting price hikes, although, in any respect, demand conditions would not support increases. The December 1970 the PIC review of the price restraint program noted that firms have experienced a sharp rise in costs and a contraction of profit margins in 1970."² On 30 December 1970 the Canadian effort at incomes policy ended. Despite the incomes policy, the Canadian economy was now running at higher rather than lower levels of unemployment.

If PIC expired due to its failures, monetary policy suffered from too much success. In the early months of 1970, two factors were at work

building up foreign exchange--the current account surplus and capital inflows attracted by high yields. The fixed exchange rate of 92.5 had been trading at its upper limit. This could only be sustained by large scale purchases of foreign exchange. To prevent an increase in the money supply, government deposits had to be drawn down or the increase in bank deposits frozen. From the end of March to early May, government deposits at the chartered banks precipitously fell by over \$1.3 billion to a mere \$284 million (about equal to the reserve increase of \$1.2 billion). As well, the government floated a special \$250 million Treasury bill issue, and raised the secondary reserve requirements a point to 9 per cent. But this 'sterilization' of the money supply also squeezed Canadian capital out of the market: eventually either the fixed rate or the inflation fight had to give. Unwilling to end the clampdown, on 31 May 1970 the government reluctantly floated the dollar, intending this to be but a temporary measure until a new peg reestablished itself. The dollar immediately shot up, eventually closing the year near par with the U.S. dollar.¹³⁰

The currency appreciation contributed significantly to the inflation fight, especially as the extent of the Canadian clampdown had already ensured better domestic price performance. It also created new complications. Appreciation added to the liquidity crisis caused by the constraints on credit conditions and money supply growth. Price pressures from appreciation were converted into domestic unemployment and smaller profit margins. It was necessary for the Bank, therefore, to engage in a 'dirty float' to ease the rapid revaluation of the dollar by increasing reserves in the exchange fund. Monetary policy also eased. The float and an increase in the money supply allowed the bank rate to drop by half a

point to 6 per cent by November; the short term interest differentials narrowed and actually turned in Canada's favour in the final quarter. Finally, the Bank encouraged borrowers to avoid 'he New York capital market.³³ Surveying the wreckage of the clampdown in the early months of 1971, Rasminsky cautioned that,

Some [unemployment] margin is clearly necessary if there is to be any hope of avoiding bottlenecks and shortages that force up prices; nor is it realistic to suppose that general financial policies are capable of being so finely tuned that there will always be precisely the minimum amount of slack in the system necessary to keep inflationary pressures in check....We should not set such unrealistically ambitious short-run targets for economic performance that they cannot be reached without setting in train a whole series of inflationary developments.³⁴

The economic severity of the clampdown surprised the fiscal authorities as well. But with the government still intent on "squeezing inflation out of the economy," the Budget of 12 March 1970 offered no shift in direction. The 'non-event' Budget offered no new taxes (for the first time since 1913), and dropped the forecast budgetary surplus to only \$300 million, due primarily to increased transfers and a fall in revenue growth.³⁵ Three minor measures extended the principle of 'selectivity' in fiscal policy: limits on the extension of consumer credit; extension of the deferral of depreciation allowances on commercial buildings; and additional funds for low-cost housing. With growth well below potential, Finance Minister Benson conceded that there would be "some increase in unemployment."³⁶

Although the clampdown had placed stress on fiscal caution and stability, in contrast to the six month shifts between stop and go of 1966-68, the mounting economic and political pressures to return to high growth could not be wholly ignored. In July 1970 the OECD, for instance,

noted that "given the degree of under-utilisation of resources that has already developed [in Canada], it is questionable how much additional widening of the margin...is needed to stabilize the trend of prices and wages."³⁵ Indeed, the unemployment shock had produced serious problems in weaker sectors and regions. During the summer of 1970, fiscal stimulus began to be selectively eased: plans for credit controls were abandoned; a summer student employment program was established; funds were increased for low-cost housing and for social assistance to cope with expanding welfare rolls; and payments to training institutions were accelerated.³⁶

In a special economic statement on 13 October 1970, Benson announced an additional effort to cope with the severe regional problems of the clampdown. A small fiscal package of \$60 million for "the alleviation of unemployment where the conditions are especially severe" would be allocated to special capital projects in slow growth regions. Training for the unemployed would be extended, and government public works projects delayed by the clampdown restarted. With his economic program in ruins, Finance Minister Benson stated glumly:

In spite of the levels to which unemployment has risen, I cannot report any convincing evidence that the rise in wage rates has begun to slow down.... We are anxious to achieve a faster rate of growth and higher employment. But we know we cannot achieve and retain this prize through inflation.... These are the hard facts.³⁷

The course of economic policy over the 1966-70 period makes it difficult to build a convincing case that Canada's modest efforts at incomes policies had much to do with running the economy at higher levels of employment. The stop-go cycle of policy from 1966-68, in particular, had already put the inflation fight at the forefront of the government's agenda. Unemployment was allowed to climb during the clampdown of 1969-

70. The intent of macroeconomic policy was to quickly 'shock' inflation out of the economy, as it had in the past, primarily by breaking union efforts to shift income to wages. This economic strategy had much to do with controlling labour costs to maintain external competitiveness and increase profit margins. This was, after all is said and done, the purpose of the clampdown, and the agenda of PII. Indeed, it was not so much that 'cost inflation' was out of control in Canada, but the desire to reestablish this balance. Active labour market policies were conceived as helping overcome some of these macroeconomic dilemmas, but they also eventually had to confront the consequence of swelling unemployment rolls.

7.3 Economic Growth and Labour Market Policies

In countries with market led regimes, the stop-go cycle of macroeconomic policy has a counterpart within the labour market. An economic go entails widening wage differentials to reallocate labour to expanding sectors with skill shortages; in turn, workers in weaker sectors bid up wages to restore relative wage differentials. The wage norm of an incomes policy can attempt to thwart this process, but at the price of reallocation of labour by wage differentials. An economic stop to break wage pressure also has limits: while eventually effective if imposed long enough, a stop also halts accumulation and tends to 'export' unemployment to vulnerable sectors and regions. The burden of adjustment falls heaviest on older, less skilled, and new workers. Active labour policies were conceived as a means to keep the expansion going without 'inflationary' wage pressure by 'pro-actively' adjusting the labour supply. As the OECD's Gosta Rehn phrased it, active labour policies aim "to facilitate a

wholesale reallocation of resources from areas which should decline to those where an expansion was particularly desirable, e.g. export or domestic growth industries."¹³⁶

Broadly-speaking active labour market policies, however, can be implemented, in two distinct ways: as a set of 'incentive' measures for adjustment of the labour supply to changes in the market, or as a process of building the institutions and capacities of workers to defend and control the level and distribution of employment and unemployment. The employment policy regimes of North America, throughout the postwar period, emphasized the first approach, but even Swedish active policies, which came closest to embodying the latter objective, had adjustment of the labour supply to economic growth as its foremost priority.

The shortcomings of Canadian active labour market policies should be placed in relation to overall employment policy. The determination of the volume of employment in Canada had been left entirely to stabilization policies and, especially trade flows, but there was no consistent adjustment of effective demand to changes in short run capacity utilization. Indeed, short run employment policies typically attempted to improve the long run productive capacity of export industries via the stimulation of industrial incentives and by widening the domestic market through attracting foreign capital and workers. It followed that labour market policies had responsibility for supplying reserves of workers with appropriate skills as needed, with postwar policies especially reliant upon inflows of skilled immigrant workers. As the policy capacity for either short term employment creation or counter-cyclical training was slight, unemployment insurance took a significant proportion of labour market expenditures.

The active labour market policies of the late 1960s, as we shall see, were conceived within this general economic strategy. It is in this sense, despite the creation of a new manpower department, that the modernization of Canadian labour market policy remained circumscribed, passing through the prism of a deeply embedded incentive approach to adjustment. There was little in this modernization project that could contain the unemployment pressures building into the 1970s.

Economic Growth and the Labour Supply

The 1960s are often cited as the decade of optimism in the ability of Keynesian stabilization policies to sustain rapid growth and low unemployment. The formation of the Department of Manpower and Immigration in 1966 reflected the optimism. In the most significant statement of labour market goals, Manpower Minister Alan MacLachlan argued that "the main objective... is to further the economic growth of Canada by endeavouring to ensure that the supply of manpower matches the demand qualitatively, quantitatively and geographically."¹ The growth focus of labour market policy placed other economic goals, notably the employment and equity goals expressed by the Economic Council, clearly in secondary position.

The growth strategy represented a subtle, but important, shift of labour market strategy from the early 1960s when the impending automation scare linked unemployment and labour market policies more closely. The optimism in sustained growth meant, for example, that the absorption of the domestic labour force, and youth and female employment in particular, received less attention. An era of vigorous growth suggested, moreover, that immigration flows should be increased and maintained irrespective of temporary cyclical setbacks in the capacity of the economy to absorb

additional labour stocks. Manpower's initial policy strategy consequently proceeded from the assumption that Canada would be a labour scarce economy, rather than an economy with a growing secular tendency to produce excess labour reserves.

In terms of specific policies, as the 1976 Senate Manpower Report later observed, the concept guiding their formation was 'allocative efficiency.'¹⁴⁹ The matching of labour supply to labour demand had several dimensions. First, while technological change would continue to increase skill levels, training could not be limited to the transition from school to work; in particular, the labour displacement caused by economic growth meant adult workers had to be retrained for new jobs. Additionally, areas of concentrated unemployment existed beside regions suffering the stress of tight labour markets thus "limiting the attainment of potential output."¹⁵⁰ Finally, a revitalized employment service would co-ordinate national and local labour market information and programs. Retraining unemployed adult workers, reducing inter-regional immobility, and better matching of workers and vacancies would, therefore, raise output and improve the stabilization trade-off.¹⁵²

The organizational design of the new Department of Manpower reflected the priority given to economic growth over unemployment.¹⁵³ The 1965 transfer of the NES from the UIC to the Department of Labour, a move that had broad public support, began the transition to a more activist labour market policy. The new Manpower Department made the break with the traditional concerns of labour market policy--unemployment insurance and industrial relations--even sharper, although at the expense of dividing labour issues across three agencies (functions traditionally integrated

into a single ministry in other countries). The network of NES offices, soon to be converted into Canada Manpower Centres (CMCs), and the Canadian Immigration Service (CIS), transferred from Citizenship and Immigration, constituted the main operating arms of national labour market policy. Both entailed an extensive network of decentralized offices, with some 7500 staff spread across Canada and overseas, distinct organizational cultures, and, as often observed, archaic operating procedures. The third major component was the Program Development Service, drawn from the Economics and Research Branch of the Department of Labour, and charged with research, labour market information and policy evaluation. The first agenda item for Manpower and Immigration was simply to bring some order to these diverse entities and stamp them with the growth objective. The second entailed upgrading the programs--the employment service, immigration policy, training system, and mobility grants--which constituted the active policies.

As envisioned in 1966, active policies had a restructured employment service as their centrepiece. Since forming a country-wide net of labour exchanges with the introduction of UI in 1941, the NES's primary responsibility had been the processing of claims and verifying the unavailability of work. It comonly was said that this conveyed a negative 'unemployment' connotation to the service. These criticisms were not unfounded. The NES's information and placement capacity, for example, was dismal, and in many offices simply absent. The Economic Council protested that "the average quality of worker referred to jobs by the NES was not as high as could be obtained through other means." " With unemployment at a low point and vacancies at a high point in the mid-60s, an employment service

that was actively assessing the demand for labour and counselling workers about new skills, rather than simply allowing wage movements to fill vacancies, could "improve the speed of response of workers to technological and economic changes."¹⁴⁵

The vision behind the CMCs was the comprehensive 'manpower agency' model developed by the ILO and the OECD.¹⁴⁶ Each centre, in the words of their driving force, Deputy Minister Tom Kent, was to have "the best possible information system about employment opportunities, about employment trends, and about the ways [workers] can best prepare for the changes that lie ahead."¹⁴⁷ Although controlled from Ottawa, the centres were grouped into five regions--Atlantic, Quebec, Ontario, Prairies, Pacific--for co-ordinating and facilitating the flow of information across local, provincial, and regional boundaries. In 1966, some 200 offices were transferred to Manpower, with the intention of moving them from the 'backstreets' by modernizing their appearance and location to indicate their new, positive role. The CMC network was completed, by and large, by 1970 with 380 centres and 3500 counsellors.¹⁴⁸ The traditional employment service programs--counselling, placement, information--were, under the assumption of continued labour scarcity, also renovated.¹⁴⁹ The capacity of the CMCs, however, was sharply curtailed with respect to managing the demand for labour: the relationship with employers on notification of job vacancies was voluntary, technological displacement programs remained minimal and plant-specific, and, moreover, the employment service had no mandate to intervene in local labour markets with, to use the term popularized by the OECD, 'compensatory employment programmes.'¹⁵⁰

The CMC's decentralized delivery structure allowed individual

centres to identify local labour market conditions, vacancies and job seekers, while plugging the latter into a national network. Yet the information flows necessary to the national network evolved slowly.¹⁵¹ The NES offices only had limited job postings and lacked the means to reach out to employers or to undertake occupational forecasting of labour demand. Similarly, data on workers remained limited to NES registrations and scattered training and labour market statistics. Beginning in 1967, the dissemination of labour market information to local CMCs improved, particularly in the form of monthly regional manpower bulletins and area profiles of economic and demographic characteristics, but the information flows that would, in Manpower's own words, "shorten the time of unemployment and...reduce the time that jobs go unfilled" remained patchy.¹⁵² The provision of 'extensive information' of job listings barely improved as job notification was left a voluntary option for employers.¹⁵³ The CMCs also used a 'closed-file' listing, in contrast to the Swedish system, which allowed counsellors to screen applicants but inhibited the access of workers to listings of available jobs. The availability of aggregate information on labour demand fared no better: the Survey of Hirings and Separations was discontinued in 1966, but a new job vacancy survey and a more detailed employment forecast remained only in the development stages by 1970. The OECD attributed these critical information gaps to the escape valve of importing skilled labour.¹⁵⁴

The effective utilization of labour market information depended upon 'active' counselling for existing or future job openings to improve "market transparency and flexibility."¹⁵⁵ In practice, the CMCs were limited to simply informing potential trainees of available programs. The

NES processed unemployed trainees under Program 5 of the TVTA, for example, but direct job counselling fell to the provinces due to knowledge of, and control over, training. The national employment and training objectives of the active labour policies, however, required that the CMCs be able to counsel workers directly for skills training to meet forecasted job requirements. These objectives were blocked by the myriad of unrelated provincial training programs. Counselling could easily be upgraded, and Manpower improved the training and qualifications of counsellors through the late 1960s,¹⁶ but the modernization of placement activities inevitably pointed to the the lack of federal government control of entrance to training programs and the need to redesign of the TVTA.

It is pointless to dispute the necessity of modernizing the employment service and Canada, relative to other countries, made notable advances. Yet the losses, as well as the gains, need to be counted. Notably, the potential of the labour exchanges to intervene in the labour market, particularly in terms of unemployment, remained seriously compromised. Throughout the postwar period jurisdictional and institutional divisions plagued labour market policy. Rather than involving institutional consolidation, the 1966 re-organization added to the fragmentation. The separation of UI from the CMCs, for example, meant that a parallel set of labour market offices, and often placement services, ran across the country (with yet another set of provincial agencies in Quebec). This narrow functional specialization meant that an unemployed worker registered at one office for UI, then went across town to another office to register with Manpower for job counselling, and then possibly a third provincial office to apply for training. Without direct responsibility

for UI or the unemployed, Manpower's focus was skewed to mobilizing a skilled labour supply leaving, as Kerton's thorough survey concluded, "among the sectors not being well served...the unemployed group."¹⁵⁷

The narrower benchmark of effectiveness as a labour exchange underscored the design limits of the CMCs. The local CMCs were designed exclusively as a source of information and counselling, yet there was no compulsory posting of job openings or limitations on the role of private employment agencies (as there were in most European countries). Indeed, permanent placements by CMCs actually declined from 960,000 in 1965-66 to 650,000 in 1970-71; the CMCs were simply not where 'good jobs' would be listed by employers.¹⁵⁸ CMCs received less than 22 percent of all listings and only 10 percent of professional and technical listings. In terms of market penetration, private employment agencies "were more important in Canada than in the U.S." and were especially successful in "exploiting shortages of workers in particular occupations" to fill vacancies.¹⁵⁹ In turn, only 10 per cent of workers had success with using CMC job information as opposed to directly contacting employers. Thus the 'public good' component of lowering information costs, a principle argument for active policies, remained limited as long as the CMCs remained a voluntary service of last resort.

The linkage between occupational demand and labour supply recruitment was to apply to the CIS as well, and, here too, it entailed a modernization of policy. As Reg Whitaker has argued, Canadian postwar immigration policy was played out in a conflict "between the short term economic demands...and long-term development strategies for the economy."¹⁶⁰ The strategy of stop-go immigration according to unemployment levels had been

the view of the Department of Labour and the trade unions, and, loosely speaking, formed a component of Keynesian employment policy. The long term policy, associated with the Department of Citizenship and Immigration, the economic ministries and capitalist interests, favoured the 'extensive accumulation' strategy of increasing the size of the national labour supply and the domestic market. The management of postwar immigration according to the 'absorptive capacity' of the economy had been both: generally expansionary in line with the postwar boom, but with minor slowing of inflows when unemployment ticked upward.

The integration of Immigration with Manpower, which marginalized the voice of the Department of Labour in favour of the short term strategy, tilted immigration policy toward the expansive growth strategy. The corollary to the growth strategy was, of course, that skill levels would be increasing, and, if past trends were an indication, Canada would likely 'underproduce' skilled labour. The October 1966 White Paper on Immigration outlined a policy that encompassed both these conclusions:

The Canadian economy has a large segment exposed to world competition. Industries in this segment, even more than others, require...highly qualified workers to achieve the level of productivity necessary to survive....We should vigorously recruit educated and skilled immigrants on a steady basis; and, secondly, that we have to be on our guard against admitting large numbers...of uneducated and unskilled immigrants.¹⁶

The immigration regulations which followed in October 1967 had a number of profound, and eventually destabilizing, consequences. The changes had a 'technocratic' emphasis similar to the CMCs: a points system would rank potential migrants according to their education, skills and resources against occupational vacancies and labour market forecasts. This points system would formally end the discriminatory treatment of

immigrants, allowing Canada to strip skills equally from developing countries as it had always done from the now labour scarce Europe. The regulatory changes had the desired impact. Both 1966 and 1967 set record immigration volumes, more than doubling the levels from the early 1960s, and cutting the proportion of unskilled migrants in half.¹⁶² The 1967 changes, however, also expanded the family sponsorship category, which grew in volume from about 35 per cent of immigrants in 1966 to over half by 1971.¹⁶³ Sponsored migrants partly offset skill selectivity for they tended to fill, in this period, a low-skill labour pool.

Canada's two-track immigration policy--of the highly and minimally skilled--worked efficiently in drawing migrant labour stocks to Canada, but it could only be effective insofar as the condition of labour scarcity existed. Skilled immigrant inflows, for example, deflected, as they historically had, from the urgency of establishing national labour market institutions for relocation, skills training, and counter-cyclical training of the unemployed. Indeed, the White Paper, and several other official studies, explicitly claimed that Canada benefitted from not having to invest in education and training.¹⁶⁴ This view, of course, begged the question of which Canadians benefitted. So, for example, even as unemployment climbed after 1967, immigrants with technical training and occupational trades were disproportionately entering the labour force, a pattern unique amongst the advanced capitalist countries.¹⁶⁵

The 1967 changes, moreover, built in persistent pressures to add to the labour supply even when the economy was failing to provide enough jobs to absorb the existing labour stock, as skilled inflows had to be "planned as a steady policy of recruitment based on long-term considerations of

economic growth."⁶⁶ Similarly, the family sponsorship group was quite insensitive to economic conditions. Thus, even as the 1969-70 clampdown caused employment conditions to seriously deteriorate, Manpower and Immigration forecasted that "because occupational shortages will continue, the decline [in immigration] may not be proportionate to the increase in unemployment."⁶⁷

Retreat and Advance in Training Policy

As conceived by Manpower and Immigration, training policy was pivotal to the mobilization of labour force potential: the CMCs would place unemployed workers in training programs to meet the occupational demands produced by sustained growth and technological change. Training policy, moreover, contributed to other economic objectives: investment in human capital aided the war on poverty and, in terms of stabilization policy, training absorbed the unemployed in recessions and reduced wage pressures in the upswing.

At first glance, these objectives appeared to build upon the strategy and institutions established in response to the unemployment fears of the 'automation scare', but the comparable emphasis on skill upgrading hid profound differences. The TVTA had targeted youth in particular, and left the administration of training and the selection of trainees in the hands of the provinces. In contrast, the new Manpower strategy, if it was to utilize the new CMCs, counted upon the federal government being able to counsel and select trainees to fill the vacancies identified by the labour exchange system. Additionally, the trainee target group differed: young workers had high levels of general education, but older workers lacked general education and would thus have difficulty adjusting to the constant

changes in industrial techniques. This different vision for training policy posed an important choice: either to rework the administrative structure and expand the comprehensiveness of the TVTA or to abandon the TVTA and completely overhaul training institutions for the second time in five years.

From the perspective of active labour policies, the most noted flaw of the TVTA, perhaps, was the inability to link training levels with occupational demand. This stemmed from two sources: a lack of information on the composition of labour demand, and the failure to co-ordinate federal government payment for training with provincial government supply of training. The training that did occur in Canada tended to be in institutional settings, yet there was no planning capacity to link training with current labour market vacancies and projections of future skill requirements. The Department of Labour, for instance, had only randomly undertaken research on occupational growth, and provincial training branches had done even less. Similarly, the NES, "had not provided a continuing flow of information on job openings or, more importantly, a projection of future job openings to guide in the establishment of new courses."¹⁶ The state of planning under the TVTA was so impoverished that there was not even consolidated information available on vocational courses being offered or enrolments.¹⁷

The lack of co-ordination was compounded by the fact that the provinces controlled the delivery of training and did not make their course offerings and capital expenditures decisions on the basis of national labour market needs. The TVTA allowed the federal government to propose the range and rate of contribution to programs, but did not permit

the regulation of occupations being trained. The provincial and local advisory boards on training, who reported to both levels of government, failed to establish regional plans or even assessments of needs. Thus, for instance, 2000 workers might enrol in training as mechanics, provincial training institutions supply spaces for 2500, but with the labour market in reality capable of absorbing, say, only 1000 mechanics. Even on narrow efficiency grounds, it was difficult to conclude, that the TVTA could meet labour market needs without substantive planning of both trainee levels and capital infrastructure.

The TVTA programs also had gaps on the labour supply side. The TVTA's target group was youth. Provincial control over training without reference to a national plan, and the youth focus thereof reinforced provincial control over education. Consequently, training and adjustment programs for older workers severely lagged in development: as no comprehensive adjustment program existed, adult workers had to fit into programs designed for either training-in-industry or training for the unemployed. Even after the 1963 amendments to increase training in industry the training record of Canadian business did not dramatically alter. Industry remained reliant on 'poaching' skilled workers from overseas and only a few collective agreements contained retraining provisions. A Department of Labour Survey estimated that only 17 percent of industry was providing any training at all.¹⁷²

The training of the unemployed provided under Program 5 did not adequately reach adult workers either. The typical entrant was under the age of twenty and had been out of the labour market in the last two years. The program had a dropout rate of 50 per cent and low post-training

earnings (partly because of the numbers of youth). This reflected deep-seated problems. The then current Program 5 had been largely designed as a short-term response to the high unemployment of 1960-62, and it lacked a clear long term focus. The NES, for example, "had not actively engaged in recruiting the registered unemployed into the program."¹⁷ Thus, of half the employers reporting skill shortages in 1965, over 77 per cent of these shortages were in skills that could have been trained for under Program 5. Other design flaws were equally damning: there was no clear definition of the unemployed who qualified or control over the basic skills courses offered; one-half of the trainees were in low unemployment Ontario; and only 5 per cent of the unemployed were even enrolled in training.¹⁸ These were, indeed, serious flaws in the tight labour market conditions of the mid-60s.

The reorganization of labour market policy furnished the opportunity to reassess the TVIA as well. Part of the rethinking began outside labour market policy per se, prompted by the reassertion by the provinces, especially Quebec, of control over spending in education.¹⁹ It was hardly a matter of contention that the federal government could use its spending power--this was seen as essential to the provision of services--only that they should do so without interfering in provincial educational systems. The TVIA matching funds for vocational and technical schools were, of course, a major function between the provinces and the federal government. The TVIA's cost-matching of capital expenditures and operating grants favoured the wealthier provinces who had the fiscal capacity to match the federal offers. Some provincial training structures were so backward, notably in Quebec, that they simply were not geared up to take

advantage of capital grants, and they fell dramatically behind in per capita program expenditures. The IVIA design was seen, therefore, as an obstacle to meeting both the equalization goals of federal transfers and the stabilization objectives of active labour policies.

In a stroke, the federal-provincial fiscal arrangements reached in the fall of 1966 forged a new compromise for cost-shared programs: an equalization formula to even out provincial fiscal capacity to provide social programs; curtailment of conditional grants in areas of provincial jurisdiction; and broader tax and fiscal transfers for functional spending areas. The new arrangements, as Dupre's detailed study has demonstrated, sounded the "death knell of the IVIA."¹⁴ In effect, with little public debate and only five years after launching the IVIA, the federal government had unilaterally undertaken a dramatic u-turn in postwar training policy. The IVIA had essentially modernized and extended federal involvement in the transition from school-to-work of youth. This objective had suddenly disappeared: the federal government had sacrificed its capacity, as well as the institutional linkages which had been built up since the early 1960s, for a national policy between education and work. The training of 'new' workers would now fall outside a national active labour market policy.

After dispensing with youth training, the question remained of what to do with federal support for the training of adult workers either in industry or on the dole. In this case, the federal government's aims were more expansive, with the Prime Minister claiming a "constitutional and necessary role in the training and development of our adult labour force for economic growth and full employment."¹⁵ In other words, the federal

government would retrain adults under its responsibility for economic growth, but, because of political concessions to the jurisdictional supremacy of the provinces, they would not establish a national policy for the training of youth (under the supposition that this would not impair the capacity to address youth unemployment).

The training of adults under the TVTA, however, was undeveloped, partly because industry failed to train and partly because of the federal government's resistance to developing a comprehensive adjustment policy. The Adult Occupational Training Act (AOTA), effective as of 8 May 1967, attempted to alter the passive federal role: the federal government would act as a 'purchaser' of adult training spaces, nominally supplied as a grant to individual trainees, from the provincial or industry 'sellers' of training. The federal government would pay 100 per cent of the costs, including a capital cost allocation, and also finance the training allowances. Adults would be defined as workers in the labour market for at least one year, and for at least three years for eligibility for allowances. Training periods, consequently, were to be short, not longer than 52 weeks or 1800 hours part-time, and to be based on a marketable skill. Trainees were eligible for one year of basic skills training and one year of occupational skills. As well, as part of the TVTA phase-out, the federal government would continue to pay out capital grants to equalize provincial spending at \$480 per capita of the youth population (ending in 1970-71).⁷⁶ As Dupre noted, "the unemployed, the underemployed, and those about to become unemployed because of technological change were to have the highest priority."⁷⁷ But the emphasis on growth produced a catch: selected trainees had to be able to benefit in terms of increased

earnings capacity (the return on investment), but the unemployed were often notably absent of marketable skills.

The underdevelopment of adult training meant, similar to the initial TVTA years, enormous immediate growth in the AOTA programs. Federal expenditures for adults increased from \$64 million for the last year of the TVTA to \$290 million for 1970-71. This represented 60 per cent of the Manpower and Immigration budget and a quadrupling of expenditures per labour force member.¹⁷⁸ Trainee volumes under AOTA, however, remained relatively constant in the 300-350 thousand range. In comparative terms, the level of government training expenditure in Canada came closest to Sweden's (at about 0.4 per cent of GDP), as did the numbers on training programs (at 1 per cent of the labour force in Sweden and 0.75 per cent in Canada).¹⁷⁹ There was, however, no discernible pattern in the 1960s with respect to counter-cyclical training of the unemployed. In contrast to the TVTA, training expenditures were positively skewed to the 'have-not' provinces, although some provinces which had high unemployment, notably Newfoundland, still suffered from low expenditure levels per unemployed person.¹⁸⁰

The shift in the overall volume of public training of adults was impressive, but in other respects the AOTA repeated a familiar labour market story. The breakdown of expenditures of the Canada Manpower Training Program (CMTF), illustrated, for example, the continued failure of training-in-industry. Institutional training took about 90 per cent of the budget: about half of institutional training went to occupational skills, a third to basic skills, and the rest divided between language training and the institutional portion of apprenticeships. Industry

training was also 100 per cent paid for by the government, but occupied only about 10 per cent of the budget (and a slightly higher proportion of trainees). Indeed, the best available studies on industrial training in Canada suggest that training levels actually fell with the introduction of AOTA, and especially during the clampdown of 1969-70.¹⁰¹ Part of this could be explained by the stricter AOTA criterion (industry training had to provide transferable skills or compensate for technological unemployment). But the major reason was the federal government commitment to keep the freshly built college system full, and the desire of industry to avoid paying for training by relying on technical college grads. Manpower's most detailed occupational forecasts of Manpower, however, voiced familiar warnings of shortages in apprenticeships and industry training.¹⁰²

The number of adult workers enrolled in basic skills training represented a deeper malaise. A staggering 40 per cent of adult male workers only had an elementary level of education.¹⁰³ With the cutoff for occupational training usually at grades 10 or 11, most trainees needed basic skills upgrading before proceeding. Adult trainees were inevitably drawn from the low-skilled unemployed and thus gave AOTA an equity dimension, but too much should not be made of AOTA's equity role either. The average age of the trainees, for example, remained below that of the unemployed and the program showed little "effort to compensate for the disadvantage of age in the labour market."¹⁰⁴ Similarly, post-training employment rates increased for trainees, although, according to Manpower's own studies, a fifth of skills and two-fifths of basic skills graduates were still unemployed.¹⁰⁵

Unlike the U.S. War on Poverty, AOTA made no significant effort to

meet the needs of the 'hard-to-employ'. Basic skills training was restricted to 52 weeks, which meant that "no person requiring more than one year's academic upgrading...is eligible for occupational training."¹⁸⁶ The CMC counsellors, therefore, treated the hard-core unemployed as untrainable and beyond the economic growth mandate. Outside the AOTA structure, several pilot projects were launched as part of Canada's poverty war, but these were tiny and had limited mandates. Thus even by the late 1960s Canada's active labour market policies had a large gap in terms of structural unemployment.

Worker adjustment assistance for trade or technological displacement also made no advance under AOTA. The plant-specific MCS, the TAB for the auto sector and the various advance notice provisions at the provincial level still represented the entirety of adjustment policy. The recommendations of the Freedman and Woods Task Forces on extending collective bargaining and advance notice provisions for technological change remained stalled within the bureaucracy over the entire period. The singular innovation of the period was the more extended usage of the MMP and adult retraining in MCS assisted adjustment packages.¹⁸⁷ The growth of activity should not hide the fragmented, defensiveness of the MCS's "extra-service" adjustment policy.¹⁸⁸

In terms of developing the labour market capacity to train Canadian workers, and to contain growing unemployment pressures, losses counted for as much as gains with AOTA as well. Adult training levels increased but at the expense of a national strategy for the transition from school to work, and a federal training policy that could be targeted at the growing levels of youth unemployment. AOTA forsook the objectives advanced by the

TVTA and added to the fragmentation of Canadian training institutions. Similarly, the 'buy-sell' arrangement moved beyond the passive transfer of funds, but did not develop the institutional capacity to target the use of training dollars or to pressure business into increasing the level of training-in-industry. This left skills in many sectors 'under-supplied,' to be met by immigration. Without adequate information and planning, skills were being selected for training "without any real economic knowledge about shortages."¹⁸⁹ The problem was not that AOTA interfered too much in the market, as some have contended, but that the federal government deliberately limited its planning role vis-a-vis provincial jurisdictional claims over education and the market-led growth strategy. Up to 1970, the new training structure of AOTA altered who was unemployed, but contributed only marginally to controlling the numbers of unemployed. The lingering 'new unemployment' from the clampdown would again force re-assessment of Canadian training policies.

The Regional Question: Migration or Jobs?

The policies initially formulated by Manpower and Immigration were constructed to supply a stock of skilled labour to meet the optimistic growth projections. Indeed, the labour exchange, immigration and training policies all assumed relative labour scarcity. Manpower's labour market strategy consequently ignored, particularly at the 1966-67 peak of the boom, high pockets of regional unemployment and was scarcely any readier to cope with the spread of general unemployment during the clampdown. The OECD had early pointed out that "governments were not very well prepared for the application of selective measures differentiating between areas where a dampening of excess demand was required and those still in need of

stimulus."¹⁹⁰

In Canada, the overwhelming faith in the efficacy of the market had always blocked any sustained effort at direct job creation (the Keynesian public works shelf remained a notional idea rather than an actual planned capacity of the Canadian state). Counter-cyclical training, promoted by the OECD, was never explored as a serious option, even the minor contra-seasonal Winter Works program was abandoned in 1968 in Trudeau's rush to restrain spending.¹⁹¹ The labour market measures that did exist to deal directly with unemployment were UI and the selective 'structural' measures prompted by the automation scare. The selective policies--mobility grants and regional development--treated unemployment as a specific problem of either 'manpower utilization' or a lack of incentives to attract capital investment. But these programs, from 1966-70, had only the slightest resources to counter the impact of the economic clampdown and the general spiral of regional unemployment.

The UI fund has always been a sensitive barometer of the politics of unemployment because of the predominance of income support in Canadian labour market spending. The low unemployment of the mid-60s provided stability in the administration of UI and a strong financial position for the fund. Consequently the 1962 recommendations of the Gill Committee barely moved through the UIC and Department of Labour bureaucracies. The 1966 rejigging of the Canada Assistance Plan (CAP), moreover, consolidated and raised income assistance, including benefits for the unemployed. The CAP, a regionally-sensitive and cost-shared plan, reduced the regional pressures for special UI benefits for the long-term unemployed and for seasonal industries. In June 1968 minor regulatory changes were intro-

duced to UI, largely as a result of inflationary trends, which raised the weekly benefits and earnings ceiling as well as contribution levels.¹⁹²

As unemployment reached serious proportions in parts of Quebec and Atlantic Canada, the old question of the fund's role in income maintenance returned. Benefits were tagged to individuals, but long-term and seasonal unemployment tended to be concentrated in depressed regions. This posed a choice for income support. The fund could maintain strict insurance principles, as Gill had insisted and the authorities had traditionally endorsed, leaving general welfare or a guaranteed annual income for individuals to bridge the gap. Alternatively, the UI benefits structure could extend coverage and benefit levels for high unemployment regions and act as a lever on the government to keep unemployment down. These issues were placed on the agenda by three discussion papers on income security and UI released in the midst of the clampdown.¹⁹³ New initiatives, however, waited until the 1970s as the regional balance of economic growth continued to falter.

The tiny 1965 Manpower Mobility Program (MMP) served as the only program directed explicitly at regional unemployment. The MMP subsidized migration of unemployed and underemployed workers unable to find work or appropriate training in their local areas. The program was extended and liberalized in 1967 by three changes: mobility grants were modified to increase the number of migrants with families by compensating for a loss in the re-sale of a house; mobility loans were dropped and grant assistance extended to re-location, job exploration and travel for training; and long-term unemployment dropped as a requirement for receiving grants. These changes were intended to assist workers "least likely to move on

their own and most likely to settle successfully afterwards."¹⁹⁴

The actual contribution of the mobility program to the problems of regional unemployment was quite another matter. Although the program grew substantially after 1967, expenditures growing from \$3.1 million for 28,547 migrants in 1967-8 to \$7.2 million for 84,846 migrants in 1970-1, this was only about 1 per cent of the Manpower budget. Relocation grants received about 60 per cent of the expenditures. The Economic Council's thorough review of the program estimated that the relocation grants covered less than 1 per cent of the total number of workers who moved and under 2 per cent of the unemployed in 1970-71.¹⁹⁵ This data supported the general assessment that middle-income workers with technical skills were the largest proportion of assisted movers.

At this level the mobility program had only a marginal impact on stabilization, especially as Canada was already a high mobility economy with even higher labour turnover. As a solution to regional unemployment assisted migration could do even less. The widespread opposition to the 'de-population' of depressed regions meant that the vast bulk of the grants went to intra-provincial movements for training. Migration, moreover, also adversely effected the sending regions by stripping skills from the area and adding to the spatial concentration of growth.¹⁹⁶

The alternative to pushing people out of regions--a strategy consistent with market-led adjustment but politically unpalatable--was pulling capital into depressed regions to increase employment opportunities.¹⁹⁷ The policies for 'slow growth' regions pursued by both the Diefenbaker and Pearson regimes had focused on rural development in low income, high unemployment areas (following the Gordon Commission's view

that rural poverty induced regional disparities). These policies--ARDA, ADB and ADA--tended to follow the short-term infrastructure and capital subsidies spending pattern which had reigned over industrial policy. The 1966 Fund for Rural Economic Development, located in the new Department of Forestry and Rural Development, attempted to establish long-term development plans for rural diversification and social infrastructure. As well, the expanded income support and equalization payments of CAP helped to maintain local demand and industries.¹⁹⁸ But these fragmented policies and agencies could do little to alleviate chronic unemployment, or to retard the progression of relative economic decline without a substantial planning capacity to alter the regional distribution of industry.

The failure of the mid-60s growth push to spread evenly across Canada made these shortcomings clear. In particular it seemed that the capital incentives approach developed for high unemployment areas were of limited use if the entire region suffered from retarded growth and lacked industrial diversification. In the eyes of the regional planners, the collapse of the Nova Scotia coal and steel industries, which led to the creation of the Cape Breton Development Corporation in 1967, starkly illustrated this thesis. The two main 'economic planning' agencies, the ECC and the ADB had been arguing for improved policy co-ordination and an emphasis on regional growth incentives as opposed to equity transfers to high unemployment areas. The Atlantic Provinces Economic Council was blunter still: "Areas for assistance should not be chosen on the basis of surplus labour without regard to the potential of such areas for viable economic development; rather, we suggest the Atlantic region be designated as an area for assistance and a number of centres within the region be

designated as growth centres."¹⁹⁹

The 'rational planning' exercise of the early Trudeau regime consolidated the regional development programs scattered across several departments into a single ministry in 1969, the Department of Regional Economic Expansion (DREE). The new ministry, headed by the former Manpower team of Marchand and Kent, partly materialized the Liberal's 'just society' and 'national unity' agenda. But Marchand and Kent also adopted the pro-growth strategies they developed at Manpower to switch the development focus from rural poverty to industry. Before the Senate's Poverty Committee, Kent outlined DREE's dual objectives: "In Canada, the employment problem is a regional problem....We therefore state our goal as being that economic growth should be dispersed widely enough across Canada to bring employment and earnings opportunities to what have been the slow growth regions....We must attract as many industries as possible to the centres within slow growth regions."²⁰⁰

DREE's strategy, then, attempted to create a set of 'urban growth poles' around which re-industrialization could occur. Twenty-three cities, concentrated in Quebec and Atlantic Canada, became special areas for infrastructure support or also designated regions for industrial subsidies to pull capital in under the new Regional Development Incentives Act. These cities included the relatively prosperous cities of Halifax and Fredericton (and soon Montreal) and were no longer as closely linked to income and unemployment levels. But if DREE had an imagination lacking in the earlier programs, it suffered even more profoundly from a lack of a planning capacity to link its growth pole conception to actual policies. Indeed, the initial years resembled "an ad hoc merger of previous 'area

incentives' and agriculture and rural infrastructure grants."²⁰¹ DREE's initial expenditure patterns reflected the old 'staples-trap' pattern: about 70 per cent was concentrated in infrastructure and rural development and the balance in industrial subsidies.²⁰² Regional industrial planning remained peripheral to the market-driven growth strategy of the economic centres of policy-making and, as such, contributed insignificantly to containing the growth of regional unemployment during the 1969-70 clampdown.

The regional employment problem was the most visible sign of the deeper impasse developing in the labour market. One of the successes of Fordism was the parallel growth in the rates of growth of the labour force and employment. Employment growth in Canada, while impressive in many respects, consistently fell short of the labour supply over the cycle. The restraint measures inflicted in 1969-70 added significantly to the regional employment crisis and to rising levels of general unemployment. The active labour market policies of the late 1960s contributed little to combatting these pressures. Active policies were designed, under the auspices of the Manpower and Immigration Department, to expand the labour supply and increase skill levels for high growth in the long run. Relative labour shortages, and not growing labour surpluses, was the guiding premise of Canadian active policies. Even as stabilisation policies shifted to the inflation fight, and unemployment was deliberately pushed up, the same supply side policies were justified on the basis of subduing wage pressures.

Canadian active labour policies, moreover, reinforced the dependence of employment on capitalist sector growth. There was little effort, and

negligible institutional capacity developed that could cope with a sudden rise in unemployment, or, more profoundly, a longer secular drift upward of numbers on the dole. The warning of the OECD's Gosta Rehn in 1966 remained unheeded by 1970: "an adequate administrative and planning apparatus for manpower policy must be functioning in boom as well as recession if it is to play the role that economic policy makers should be able to expect from it: to be an important factor in both stability and growth."²³ As high unemployment turned into mass unemployment in the 1970s, the expansionary period of the 1960s began to take the cast of the years of 'missed opportunities' for labour market policy.

7.4 Conclusion: A Transitional Period

Histories of the postwar period typically celebrate the late 1960s as the apogee of the Fordist boom. In many ways this was indeed the case. Confronted by the high unemployment of the early 1960s, the advanced capitalist governments cast their ballots for high rates of economic growth. On the strength of the 'growth push' the numbers of jobless fell and a temporary period of 'full employment' was reached, particularly in Western Europe. In Canada, however, the unprecedented 1960s growth only briefly slowed the secular drift upward of unemployment.

The period of 1966-70 was also significant to revealing the limits of the Fordist 'golden age'. The 'stable' Phillips curve relation that had existed over much of the Fordist period had begun to deteriorate as inflation gained momentum. The stop-go employment policies of 1966-68, sparked by the distributional struggle over wages and labour costs at the core of Fordism, were one symptom of the mounting difficulties. The stop-

go rhythm in Canada was all the more remarkable given the relatively high unemployment level and balance of payments surpluses. Both the payments surplus and the labour slack provided room for a more consistent policy of expansion, and certainly room for a shift of income to the waged class and the public sector in the interests of lowering unemployment.

This was not, however, the course of events. In order to keep Canadian inflation rates below the rest of the world, or at least the U.S., Canada led the rest of the capitalist bloc into the clampdown of 1969-71, with both monetary and fiscal policy slapped into reverse and a voluntary incomes policy launched to control wage costs. The consequence of these policies, of course, was to beat a retreat from even the modest 'full employment targets' of the ECC and to shove unemployment rates to postwar highs.

The resort to an 'unemployment shock' also exposed the limits of the organizational redesign of Canada's active labour market policies. The Manpower and Immigration Department had limited capacity to assist short term stabilisation objectives. Notably, countercyclical training and adjustment policies that could have been used to absorb the unemployed in a downturn, and that could have acted as a brake on cost pressures in an upturn, were peripheral to the expansionary labour supply policies for long term growth of immigration, the CMCs and even the training agenda of AOTA. The new CMCs barely contributed to the capacity of local communities to control employment conditions in their regions. If stabilisation policy was adding to the unemployment rolls, labour market policies was of little import in containing unemployment.

Developments during the transitional period of 1966-70 raised

fundamental questions about the postwar order. Robert Bryce, the leading official at the centre of postwar Canadian economic policy, pointedly observed what was at peril:

We have to demonstrate...to the strongly organized unions and to the strong business firms that they cannot count on public policy giving a continuing preference to full employment over price stability--that they cannot, in the jargon, 'look across the valley' and count on their current inflationary actions being vindicated by the weakness of public policy in relaxing restraint before the pattern of price and wage behaviour has been changed....Indeed what seems to me to be at stake is whether the basic full employment policy that evolved after the depression and war can be made to work without exploding in the economic environment of the latter third of this century.²⁰⁴

Employment policy in Canada, and indeed across the capitalist bloc, was at a crossroads. The impasse of Fordism in the 1970s, as we shall discuss in the chapter to follow, breathed new life into the debates of the 1930s, between disciplinary unemployment or Keynesian reflation, as the old instabilities began to re-stalk postwar capitalism.

Endnotes

1. The New Industrial State (New York: New American Library 1967), 243, 251.
2. Budget Speech, 29 March 1966, 7. The same view was expressed by Bryce before the Committee on Credit. The Economic Council wanted a more medium term perspective.
3. EIU, QER, N. 3 (1968), 9.
4. "The Phillips curve then reflects the adjustment process by which the labour market moves toward equilibrium." C. Holt, et al., The Inflation-Unemployment Dilemma: A Manpower Solution (Washington: Urban Institute 1971), 20.
5. The many variables included: sectoral phillips curves, expectations, lags, preceding price changes, profits, and related country unemployment rates. See: G. Perry, Unemployment, Money Wage Rates and Inflation (Cambridge: MIT Press 1966); and R. Bodkin, The Wage-Price-Productivity Nexus (Philadelphia: Temple University Press 1966).
6. 'The Cruel Dilemma,' in A. Okun, ed. The Battle Against Unemployment (New York: W.W. Norton 1972), 46.
7. Abba Lerner's American Economics Association Presidential address was noteworthy: "We can arrange to enjoy the benefits of high full employment and price stability. I am referring of course to incomes policy and wage and price guideposts." See: 'Employment Theory and Employment Policy,' American Economic Review, 57:2 (1967).
8. C. Riddell, Dealing with Inflation and Unemployment in Canada (Toronto: University of Toronto Press 1986), 6-9; and R. Flanagan, D. Soskice, and L. Ulman, Unionism, Economic Stabilization and Incomes Policies (Washington: Brookings 1983), 2-3.
9. See: B. Warren, 'Capitalist Planning and the State,' New Left Review, N. 72 (1972), 4-5.
10. See: A. Braun, 'The Role of Incomes Policy in Industrial Countries Since World War II,' IMF Staff Papers, 21:1 (1975), 1-9; A. Romanis, 'Cost Inflation and Incomes Policy in Industrial Countries,' IMF Staff Papers, 14:1 (1967), 200-6; and Flanagan, et al., Unionism, 2-3. The monetarist view of inflation also had a keynesian counterpart, notably 'Paish's lash' in Britain, which argued for higher unemployment.
11. 'What Price Guideposts?' in G. Shultz and R. Aliber, eds., Guidelines, Informal Controls and the Marketplace (Chicago: University of Chicago Press 1966), 17-8. Also see: A. Burns and P. Samuelson, Full Employment, Guideposts and Economic Stability (Washington: American Enterprise Institute 1967); and G. Haberler, Inflation and the Unions

(London: Institute of Economic Affairs 1972).

12. Exceptions to the norm would be allowed for skill shortages and larger increases for the lowest paid.

13. N. Wulwick, 'The Phillips Curve: Which? Whose? To Do What? How?' Southern Economic Journal, 53:4 (1987), 851-2; S. Weintraub, Keynes, Keynesians and Monetarists (Philadelphia: University of Pennsylvania Press 1973); and M. Kalecki, Theory of Economic Dynamics (London: Allen and Unwin 1965).

14. J. Robinson, Economics: An Awkward Corner (London: George Allen and Unwin 1966), 21-23. It should be recalled that the major left-keynesian intervention of the 1940s, the Kalecki-led, Economics of Full Employment (Oxford: Basil Blackwell 1944), had proposed incomes policy as part of the redistributive route to full employment. See the reflections of G. Worswick, 'Jobs for All?' Economic Journal, 95 (1985), 14. The contrasting view is: F. Paish, Rise and Fall of Incomes Policy (London: IEA 1969).

15. Tobin, 'Cruel Dilemma,' 51-2; and L. Thurow, Dangerous Currents (New York: Random House 1983), 73-5. As incomes policies were to affect only nominal wage magnitudes at this time, real wages and income distribution would still be set by marginal productivity theory. There would, then, be no incentive to upset the guides.

16. 'The Problems in Policy Context,' in idem, ed., Manpower Programs in the Policy Mix (Baltimore: John Hopkins University 1973), 5; D. Johnston, 'The Labour Market Twist, 1964-69,' Monthly Labor Review, 94:7 (1971); and G. Archibald, 'The Phillips Curve and the Distribution of Unemployment,' American Economic Review, 59:2 (1969).

17. Holt, et al., Unemployment-Inflation Dilemma, 16; and C. Killingsworth, 'The Continuing Labour Market Twist,' Monthly Labor Review, 91:9 (1968); and idem, 'Full Employment and the New Economics,' Scottish Journal of Political Economy, 16:1 (1969).

18. See: R. Gordon, The Goal of Full Employment (N.Y.: John Wiley 1967), Ch. 4. This view also had a specific foundation within the phillips curve literature as R. Lipsey's original modification of the curve was derived from sectoral phillips curves. Also see: N. Bosanquet and G. Standing, 'Government and Unemployment, 1966-1970,' British Journal of Industrial Relations, 10:2 (1972).

19. R. Gordon, 'Introduction,' in idem, ed., Toward a Manpower Policy (N.Y.: John Wiley 1967), 8.

20. Full Employment, 6. These views could be extended to include the problem of disguised unemployment so full employment could be related to the potential labour force.

21. Employment Stabilization in a Growth Economy (Paris: OECD 1968), 9 emphasis added. Another influential report noted: "All the countries reviewed have achieved what can be regarded as reasonably full employment.... Management of an economy within the 'narrow band' around full employment poses, in particular, the problems of controlling inflationary pressures and proper resource allocation." Fiscal Policy for A Balanced Economy (Paris: OECD 1968), 81-2.
22. OEEC, The Problem of Rising Prices (Paris: OEEC 1961), 9; Policies for Price Stability (Paris: OECD 1962); and M. Fratiani and J. Pattison, 'The Economics of the OECD,' in K. Brunner, ed., Institutions, Policies and Economic Performance (New York: Oxford 1976), 148-52.
23. (Paris: OECD 1970), 37. Also see: Non-Wage Incomes and Prices Policy (Paris: OECD 1966).
24. G. Rehn, 'Manpower Policy and European Unemployment,' OECD Observer, N. 31 (Dec. 1967); 'The Role of the Public Employment Service in an Active Manpower Policy,' OECD Observer, N.36 (Oct. 1968); and Employment Fluctuations and Manpower Policy (Paris: OECD 1969).
25. Manpower Aspects of Recent Economic Developments in Europe (Geneva: ILO 1969), 1. Also see the following ILO studies: H. Turner and H. Zoetewij, Prices, Wages and Income Policies in Industrialized Market Economies (Geneva: ILO 1966); and A. Smith, ed., The Labour Market and Inflation (London: Macmillan 1968).
26. N. Franklin, 'Employment and Unemployment: Views and Policies, 1919-1969,' International Labour Review, 99:3 (1969), 307-14.
27. R. Meidner and R. Andersson, 'The Overall Impact of an Active Labour Market Policy in Sweden,' in L. Ulman, ed., Manpower Programs in the Policy Mix (Baltimore: John Hopkins University Press 1973), 126. This was a point made earlier by Abba Lerner, Economics of Employment (New York: McGraw-Hill 1951), 213ff.
28. 'Active Manpower Policy and the Inflation-Unemployment Dilemma,' Swedish Journal of Economics, 71 (1969), 168. This more activist route was limited, by and large, to Sweden.
29. L. Thurow, Dangerous Currents (New York: Vintage 1983), 32-3; C.D. Goodwin, ed., Exhortation and Controls: Search for a Wage-Price Policy, 1945-1971 (Washington: Brookings 1975); and J. Sheahan, The Wage-Price Guideposts (Washington: Brookings 1967).
30. See: J. Kershaw, 'Manpower Policy, Poverty and the State of the Economy,' in F. Harbison and J. Mooney, eds., Critical Issues in Employment Policy (Princeton: Princeton University Press 1966); R. Gordon, ed., Toward a Manpower Policy (New York: John Wiley 1967); and H. Aaron, Politics and the Professors: The Great Society in Perspective (Washington: Brookings 1978), 128-32.

31. As one popular analysis suggested: "To generalize, then, it would seem that the keynesian technique of creating enough effective demand in the economy as a whole is a necessary condition of full employment in every part of the country, but not a sufficient condition." M. Stewart, Keynes and After (London: Penguin 1972), 197.

32. T. Janoski, The Political Economy of Unemployment (Berkeley: University of California Press 1990), 96-8; E. Clague, Manpower Policy and Programs: A Review, 1935-79 (Kalamazoo: W.E. Upjohn Institute 1976), 15-31; and S. Wolfbein, Education and Training for Full Employment (New York: Columbia University Press 1967).

33. A. Burns and P. Samuelson, Full Employment, Guideposts and Economic Stability (Washington: AEI 1967), 54. On the U.S. policy stance, see: D. Calleo, The Imperious Economy (Cambridge: Harvard University Press 1982), 27-8; and R.J. Gordon, 'Postwar Macroeconomics: The Evolution of Events and Ideas,' in M. Feldstein, ed., The American Economy in Transition (Chicago: University of Chicago 1980), 138-40.

34. The most prominent left-nationalist writings on unemployment were associated with Cy Gonick, following from his Berkeley doctoral dissertation on unemployment in Canada. See: 'The Scourge of Unemployment: Ten Lessons in Capitalist Economics,' Canadian Dimension, 8:1 (1971); and 'Continentalism and Inflation,' Canadian Forum (April 1967).

35. S. Kaliski, 'The Relation Between Unemployment and the Rate of Change of Money Wages in Canada,' International Economic Review, 5:1 (1964); G. Reuber, 'Wage Adjustments in Canadian Industry, 1953-1966,' Review of Economic Studies, 37:4 (1970); A. Porter, 'Inflation, Wage Behaviour and Labour Mobility,' Relations Industrielles, 24:3 (1969); and G. Rosenbluth, 'Wage Rates and Allocation of labour,' Canadian Journal of Economics, 2:3 (1968).

36. R. Bodkin, et al., Price Stability and High Employment (Ottawa: Queen's Printer 1967), 69-71. Also see: R. Bodkin, 'Real Wages and Cyclical Variation in Employment,' Canadian Journal of Economics, 3:3 (1969); and W. Thirsk, Regional Dimensions of Inflation and Unemployment (Ottawa: Information Canada 1973).

37. (Ottawa: Queen's Printer 1966), 35-6. The Fourth and Fifth Reviews, however, pushed back the 97 per cent target for employment to the mid-70s. The Carter Tax Commission did as well, although it warned of Canada's overemphasis on price stability.

38. Ibid., 76.

39. Ibid., 158, 164-5. The Council allowed that incomes policy might be useful in emergency situations. For discussions of this strategy for the Canadian economy see: J. Crispo, ed., Wages, Prices, Profits and Economic Policy (Toronto: University of Toronto Press 1968); and H. Eastman, The Economic Council's Third Annual Review (Montreal: Private Planning Association 1967).

40. Incomes Policies: Some Foreign Experiences and Their Relevance for Canada (Ottawa: Queen's Printer 1966), 202-6. These views were strongly supported by the Council's chair. See: A. Smith, 'A Policy for Canada,' in Crispo, ed., Prices. More descriptive studies focused on institutional features were prepared by P. Malles for the Woods Task Force, but see his: Economic Consultative Bodies (Ottawa: Information Canada 1971).
41. Sixth Annual Review: Perspective 1975 (Ottawa: Queen's Printer 1969), 163.
42. Canadian Industrial Relations (Ottawa: Queen's Printer 1969), 81-2 and 75-80. Also see: Bob Russell, Back to Work: Labour, State and Industrial Relations in Canada (Toronto: Nelson 1990), 247-54.
43. Canadian Industrial Relations, 191. Also see: D. Smith, Income and Wage-Price Policy (Kingston: Industrial Relations Centre 1967).
44. S. Jamieson, 'Labour Unionism and Collective Bargaining,' in M. Oliver, ed., Social Purpose for Canada (Toronto: University of Toronto 1961); J. Crispo, 'Organized labour and National Planning,' in A. Rotstein, ed., The Prospect of Change (Toronto: McGraw-Hill 1965); and F. Anton, Wages and Productivity (Toronto: Copp Clark 1969), 69-92.
45. Quoted in F. Anton, 'An Incomes Policy for Canada?' Canadian Public Administration, 9:4 (1966), 449.
46. Bank of Canada, Annual Report of the Governor, 1969 (Ottawa Bank of Canada 1969), 6, 10. Also see: P. Fortin, A Study of Bank of Canada Behaviour, 1962-73 (University of California, Berkeley: Ph.D. Thesis 1975), 95-110; and J. Chant and K. Acheson, 'Mythology and Central Banking,' Kyklos, 26:2 (1973).
47. AR 1969, 10. Also see: AR 1966, 10-1; AR 1968, 6; L. Rasminsky, 'Testimony: Interest Rates and Inflation,' House of Commons, Standing Committee on Finance, Trade and Economic Affairs, Proceedings, N. 55, 3 July 1969; and E. Neufeld, 'Inflation-Unemployment: A New Commission for a Sticky Problem,' The Canadian Banker, 76:1 (1969).
48. Economic Surveys: Canada 1968 (Paris: OECD 1968), 20.
49. Dept. of Labour, Response to Technological Change (Ottawa: Dept. of Labour 1967). Also see: C. Jecchinis, 'Technological Change and Socio-Economic Development in North America,' Lakehead University Review, 6:2 (1973), 155-64.
50. A Declaration on Manpower Adjustments to Technological and Other Changes (Ottawa: Queen's Printer 1967), 6.
51. For a discussion of these issues: D. Ross, 'Re-openers: The Task Force on Labour Relations and Freedman,' Relations Industrielles, 26:1 (1971); F. Quinet, 'Technological Innovations and Collective Bargaining,' Relations Industrielles, 23:2 (1968); and J. Cardin, Canadian Labour

Relations in an Era of Technological Change (Ottawa: Queen's Printer 1967).

52. Industrial Inquiry Commission CNR "Run-Throughs", Report (Ottawa: Queen's Printer 1965), 135-6; and H. Pentland, 'The Freedman Report,' The Canadian Personnel and Industrial Relations Journal, 13:5 (1966), 19-23.

53. Canadian Industrial Relations, 195; and H. Woods, 'Technological Change and the Right to Strike,' Relations Industrielles, 27:4 (1972).

54. Canadian Industrial Relations, 195. See: D. Ross, 'An Economic Critique of Current Technological Change Displacement Techniques,' Relations Industrielles, 26:4 (1971).

55. A. MacEachen, 'Testimony,' House of Commons, Standing Committee on Labour, Manpower and Immigration, Proceedings, N. 3, 14 November 1968, 28.

56. (Ottawa: CLC 1966), 22. The federal NDP endorsed income policy more broadly. Also see the convention documents: 'Economic Policy,' Canadian Labour (May 1968), 35; and 'PIC Guidelines,' Canadian Labour (July 1970).

57. 'Unemployment,' Canadian Labour (July 1970), 23.

58. This was the view presented most forcefully on the CLC's major statement on technological change: 'Automation: A National Program,' Canadian Labour (May 1966), 33.

59. It is also how PIC saw it: PIC, Inflation, Unemployment and Incomes Policy (Ottawa: Information Canada 1972); and F. Anton, 'The PIC in Retrospect,' Relations Industrielles, 28:3 (1973).

60. 'Capitalist Planning and the State,' 3-4.

61. Task Force on the Structure of Canadian Industry, Foreign Ownership and the Structure of Canadian Industry (Ottawa: Queen's Printer 1968).

62. 'Testimony,' Special Joint Committee of the Senate and House of Commons on Consumer Credit, Proceedings, N. 21, 24 November 1966, 1541. This was one of the reasons the Council favoured growth measures: growth potential was at 5 per cent with the trend growth rates of the labour force and productivity at 3 and 2 per cent respectively. Only a few analysts were noting that this meant failing to address the overly rapid growth of the labour supply and high unemployment: Economist Intelligence Unit (EIU), Quarterly Economic Review: Canada (QER), N. 3 (Sept. 1966), 1 and 5-6.

63. OECD, Towards Full Employment and Price Stability (Paris: OECD 1977), 46; and Economic Surveys: Canada 1967, 5-7.

64. 'Government Policy and Recent Inflation in Canada,' in N. Swan and D. Wilton, eds., Inflation and the Canadian Experience (Kingston: Industrial Relations Centre 1971), 230. The OECD simply noted that unemployment was

"in the Canadian experience at an exceptionally low level." Economic Surveys: Canada 1967, 13.

65. OECD, Economic Surveys: Canada 1968, 15-7; and R. Bryce, 'Testimony,' Special Joint Committee on Consumer Credit, Proceedings, N. 2, 28 September 1966, 58-61. The OECD noted that "with the advent of full employment conditions, it may have been difficult to avoid some adjustment of income shares."

66. EIU, QER, N. 2 (June 1966), 8.

67. OECD, Economic Surveys: Canada 1967, 5.

68. House of Commons, Debates, 8 September 1966, 8212-18. Bryce suggested that fiscal and monetary policies would steer a stable growth path while incomes policies would deal with expectations. See: Bryce, 'Testimony,' 79-81.

69. Budget Speech, 19 December 1966, 4; and The National Finances, 1967-68 (Toronto: Canadian Tax Foundation 1968). Both the OECD and The Economist, which were more keynesian, urged Canada to adopt incomes policies in the fall; the Economic Council's Third Review rejected their views.

70. Canada Year Book 1968, 1063; and OECD, Economic Surveys: Canada 1968, 10-2.

71. OECD, Economic Surveys: Canada 1968, 16-8.

72. EIU, QER, N. 3 (1967), 3.

73. CAR 1967, 318-9. Finance had an optimistic view of investment responses to marginal incentive changes. See: Budget Speech, 1 June 1967, 4.

74. Budget Speech, 1 June 1967, 8; Bryce, 'Government Policy,' 234; and OECD, Economic Surveys: Canada 1968, 27.

75. Budget Speech, 1 June 1967, 10-1.

76. Budget Speech, 8-9. Also see: M. Sharp, 'Testimony,' House of Commons, Standing Committee on Finance, Trade and Economic Affairs, Proceedings, N. 43, 6 February 1967.

77. Budget Speech, 12.

78. The National Finances, 1967-68 (Toronto: Canadian Tax Foundation 1967), 25.

79. House of Commons, Debates, 4 October 1967, 2809. Sharp told the House on 11 October that the government was beginning to organize for guidelines. See: Debates, 11 October 1967, 2978.

80. Budget Speech, 30 November 1967, 4.
81. EIU, QER, N. 4 (1967), 1-3. This was the case for the government recognized the problem of labour force growth, which was due in part to policy decisions, would outpace employment growth for some time. See: Budget Speech, 30 November 1967, 4-5; and Debates, 4 October 1967, 2808.
82. OECD, Economic Surveys: Canada 1968, 31.
83. M. Sharp, House of Commons, Debates, 6 March 1968, 7332.
84. Debates, 6 March 1968, 7337. The OECD called for an incomes policy in February. See: Economic Surveys: Canada 1968, 32.
85. CAR 1968, 322.
86. Department of Finance, Economic Review (Ottawa: Information Canada 1972), 105, 127-9; Bank of Canada, Statistical Summary: Annual Supplement 1969, 145; and OECD, Economic Surveys: Canada 1969, 6.
87. A. Westell, Paradox: Trudeau as Prime Minister (Scarborough: Prentice-Hall 1972), 140-1.
88. Budget Speech, 22 October 1968, 7.
89. Budget Speech, 22 October 1968, 8.
90. For a discussion of this period and the Bank's commitment to the fixed rate system see: Fortin, Bank of Canada Behaviour, 1962-73, 83-5; and P. Brennan, The Evolution of Pragmatic Monetarism (McGill University: M.A. Thesis 1979), 53-69.
91. T. Courchene, 'Recent Canadian Monetary Policy,' Journal of Money, Banking and Credit, 3:1 (1971), 45-6; Bank of Canada, AR 1966, 5; and G. Boreham, Money, Banking and Finance (Toronto: Holt, Rinehart and Winston 1988), 676.
92. "The concept of the money supply...is one which I myself do not regard as the essential operational concept in the conduct of monetary policy." See: L. Rasminsky, 'Testimony,' House of Commons, Standing Committee on Finance, Trade and Economic Affairs, Proceedings, N. 19, 31 Oct. 1966; and J. Young, 'Credit Conditions and the Bank of Canada,' The Canadian Banker, 74:1 (1967). The Bank's target variable in this period was credit conditions based on the passive keynesian view known as the availability doctrine--spending decisions are more based on the availability of credit than its cost (and the rate of growth of the money supply is not of primary importance).
93. Annual Report 1966, 9.

94. Courchene, 'Canadian Monetary Policy,' 46; and J. Pesando and L. Smith, 'Monetary Policy in Canada,' in K. Holbik, ed., Monetary Policy in Twelve Industrial Countries (Boston: Federal Reserve Bank of Boston 1973), 94.
95. Boreham, Money, 676-7. The 1967 Bank revisions are discussed in the Canadian Journal of Economics, 1:1 (1968).
96. This was a point well recognized at the time in the Royal Commission on Banking and Finance, Report (Ottawa: Queen's Printer 1964), 503. This meshed with the Commission's views that monetary policy be used less for stabilisation.
97. See: G. Wright, 'Persuasive Influence: The Case of the IET,' in A. Axline, et al., eds., Continental Community? (Toronto: McClelland and Stewart 1974); and G. Wright and M. Molot, 'Capital Movements and Government Control,' International Organization, 28:4 (1974). Both Walter Gordon and Eric Kierans made the point that Canada was making a net contribution to the U.S. payments position, yet the central bank, in effect, advocated further dependence.
98. Annual Report 1967, 8. Cf. H. Grubel, 'Canadian Monetary Policy as a Reflection of Major Trends in Economic Theory, 1951-81,' Western Economic Review, 2:1 (1983).
99. Pesando and Smith, 'Monetary Policy,' 95-6; and Department of Finance, 'Testimony,' House of Commons, Standing Committee on Finance, Trade and Economic Affairs, Proceedings, N. 19, 21 January 1969, 1018-24. The gold sale to defend the U.S. position cost Canada tremendously when a market in gold was created.
100. Mel Watkins acidly commented on the U.S. controls that "Ottawa found that it could communicate with Canadian incorporated firms only through Washington." 'Economics and Mystification,' Journal of Canadian Studies, 4:1 (1969), 58.
101. W. Plumptre, Three Decades of Decision (Toronto: McClelland and Stewart 1977), 217.
102. R. Dunn, Jr., Canada's Experience with Fixed and Flexible Exchange Rates in a North American Capital Market (Montreal: National Planning Association 1971), 40-3.
103. Bank of Canada, Annual Report 1968, 5. It should be re-called that the Canadian monetary theorists, Robert Mundell and Harry Johnson, were two of the leading opponents to these actions on the belief that flexible rates would allow more room for domestic balance. The alternative to increased monetary flexibility, of course, was the use of capital controls, as many European countries had done to great advantage.

104. R. Bryce, 'Government Policy and Recent Inflation in Canada,' in N. Swan and D. Wilton, eds., Inflation and the Canadian Experience (Kingston: Industrial Relations Centre 1971), 235; and Dunn, Canada's Experience, 40.

105. Bank of Canada, AR 1968, 14. The loss of monetary control was a bitter irony for the Bank. As Walter Gordon recalled these events: "The Bank of Canada was a strong advocate of the IMF...and very much opposed those who might suggest that it would be in Canada's best interest to adopt a floating exchange rate." A Political Memoir (Toronto: McClelland and Stewart 1977), 309.

106. Letter from the Secretary of the Treasury of the U.S. to the Minister of Finance. Reprinted in Bank of Canada, AR 1968, 67.

107. L. Robinson, Canada's Crippled Dollar (Toronto: Lorimer 1980), 39-41; and Plumptre, Three Decades, 218.

108. This seemed to confirm the views of Johnson and Mundell on the benefits of a flexible rate system. The unmanaged floating rate, however, has proven to be even more destabilizing.

109. P. Armstrong, A. Glyn, and J. Harrison, Capitalism Since 1945 (Oxford: Basil Blackwell 1991), 207.

110. Government of Canada, Policies for Price Stability (Ottawa: Queen's Printer 1968), 8-10.

111. G. Berger, Canada's Experience with Incomes Policy 1969-70 (Ottawa: Information Canada 1973), 3, 10; G. Haythorne, 'Prices and Incomes Policy: The Canadian Experience, 1969-72,' International Labour Review, 108:6 (1973); and S. Scharf, "Tripartism" or Controls? Changing Relations Between the CLC and the State, 1969-1978 (Carleton University: M.A. Thesis 1985), Ch. 2.

112. Berger, Canada's Experience, 10. On the role of PLC in terms of wage restraint see: H. McAllister, Labour and the State: The CLC, Consultative Forums, and Incomes Policies, 1960-1978 (University of Toronto: Ph.D. Thesis 1982), 82-138; and W. Walsh, 'The Canadian Experience with Voluntary Incomes Restraint, Degree of Labour Organization, and Cyclical Sensitivity to Employment,' Relations Industrielles, 30:3 (1975).

113. 'Testimony,' House of Commons, Standing Committee on Finance, Trade and Economic Affairs, Proceedings, N. 55, 3 July 1969, 2751, 2763. The rise in interest rates sparked special hearings as the ceiling of 6 per cent had been removed in 1967.

114. T. Courchene, Money, Inflation and the Bank of Canada (Montreal: C.D. Howe Research Institute 1976), 154. This point was made before the House Committee on Finance by Rasminsky, 'Testimony,' 2744.

115. Bank of Canada, AR 1969, 13. The data is from: Bryce, 'Government Policy,' 236; Boreham, Money, 679, and Dunn, Canada's Experience, 41.

116. L. Rasminsky, 'Canadian Monetary Policy and the Problem of Inflation,' Conference Board Record, 6:12 (1969), 58; and J. Beattie, 'Comments,' Inflation in Canada: Dimensions and Policies (Montreal: National Industrial Conference Board 1970), 29ff.

117. Budget Speech, 3 June 1969, 2, 5. The fiscal policy sparked debate about the unemployment crisis in the House: Debates, 29 June 1969, 4900-23; 30 June 1969, 4944-4980; and 27 October 1969, 142-6.

118. For the Budget and August cuts, see: Budget Speech, 4ff; CAR 1969, 317; and EIU, QER, N. 3 (1969), 7-8.

119. E. Benson, 'Testimony,' House of Commons, Standing Committee on Finance, Trade and Economic Affairs, Proceedings, N. 1, 4 November 1969, 16. The government hinted at a zero inflation policy: "...we can now move forward with relatively full employment in this country and also with a modest or no inflationary effect upon the economy." (50)

120. Economic Council of Canada, 'Testimony,' House of Commons, Standing Committee on Finance, Trade and Economic Affairs, Proceedings, N. 61, 6 October 1969, 3342. The Council had stirred controversy in its Sixth Review in cautioning the government not to overstate the inflationary threat. The Council itself, however, was backing off its own full employment targets.

121. OECD, Economic Survey 1970, 8-10 and 39-41; EIU, QER, N. 3 (1969), 9-10; and Finance, Economic Review, 105.

122. Bryce, 'Government Policy,' 236.

123. OECD, Economic Surveys: Canada 1970, 12-8; and E. Neufeld, 'Testimony,' Senate of Canada, Standing Committee on National Finances, Proceedings, N. 8, 27 March 1969, 100, 108.

124. OECD, Economic Outlook (Paris: Dec. 1969), 4.

125. The data below is from: Finance, Economic Review, 105 and 127-8; and OECD, Economic Surveys: Canada 1971, 10-3 and 19. Signs of deflation were developing in some regions where unemployment had approached 10 per cent.

126. Quoted in G. Radwanski, Trudeau (Toronto: Signet 1978), 233-4.

127. OECD, Economic Surveys: Canada 1970, 37. The price program is summarized in: A. McKeen, 'Wage-Price Guidelines: Canada's Approach,' Review of Social Economy, 30:1 (1972); B. Downie and P. Buchan, An Assessment of Canada's Price and Incomes Commission (Kingston: School of Business 1971); and E. Schiff, Incomes Policies Abroad (Washington: AEI 1971), 35-42.

128. Berger, Canada's Experience, 31-2.

129. Berger, Canada's Experience, 41. Also see: B. Bilson, The Effect of Incomes Policy on Collective Bargaining in Great Britain and Canada, 1964-1978 (University College, London: Ph.D. Thesis 1981), 458-68; and G. Reuber, 'Incomes Policy,' Canada's Political Economy (Toronto: McGraw-Hill 1980).

130. Boreham, Money, Banking and Finance, 680; Wonnacott, Floating Canadian Dollar, 61, 75-7; and Plumptre, Three Decades, 120-1. The government rejected revaluation through May; the Bank opposed any policy going against IMF wishes.

131. Wonnacott, Floating Canadian Dollar, 72-5; Courchene, Money, 160-2, 288; and Bank of Canada, AR 1970, 7-8.

132. AR 1970, 11-2.

133. Budget Speech, 12 March 1970, 1, 5. The surplus would in fact turn into a deficit with the extent of the slowdown, but remain slightly in surplus on a national accounts basis.

134. Ibid., 3.

135. Economic Outlook, July 1970, 68.

136. P. Cook, G. Jump, C. Hodgins, and C. Szabo, Economic Impact of Selected Government Programs Directed Toward the Labour Market (Ottawa: Supply and Services 1969), 27.

137. House of Commons, Debates, 13 October 1970, 70-3.

138. G. Rehn, 'Manpower Policy and European Unemployment,' OECD Observer, N. 31 (Dec. 1967), 16.

139. Allen MacEachen, 'Testimony,' House of Commons Standing Committee on Labour, Manpower and Immigration, Proceedings, N. 1, 24 March 1970, 10. On the subordinate role of equity and employment objectives see: Department of Manpower and Immigration, 'Testimony,' Special Senate Committee on Poverty, Proceedings, N. 10, 10 June 1969, 375.

140. Senate of Canada, Standing Committee on National Finances, Canada Manpower (Ottawa: Supply and Services 1976). Also see: S. Ostry and M. Zaidi, Labour Economics in Canada, 3rd ed. (Toronto: Macmillan 1979), 172; and OECD, Manpower Policies and Programmes in Canada (Paris: OECD 1966), 55.

141. W. Dymond, Manpower Policy in Canada as a Selective Instrument of Manpower Policy (Ottawa: Department of Manpower and Immigration, mimeo 1970), 5. Also see: O. Mehmet, 'A Critical Appraisal of the Economic Rationale of Government Subsidized Manpower Training,' Relations Industrielles, 25:3 (1970); and ECC, Fifth Annual Review: The Challenge of Growth and Change (Ottawa: Queen's Printer 1968), 116-27.

142. See: S. Kaliski: 'Structural Unemployment: A New stage in the Debate,' The Canadian Banker, 74:3 (1967); 'Structural Unemployment in Canada: Towards a Definition of the Geographic Dimension,' Canadian Journal of Economics, 1:3 (1968); and 'Structural Unemployment in Canada: The Occupational Dimension,' Canadian Journal of Economics, 2:2 (1969).
143. See: T. Kent, 'Department of Manpower and Immigration Tackles Giant Organizational Task,' Canadian Vocational Journal, 2:3 (1967); J. Nininger and G. Forsyth, 'Solving Canada's Manpower Crisis: Whose Responsibility?' The Business Quarterly, 31:3 (1966); and G. Osbaldeston, Organizing to Govern (Toronto: McGraw-Hill 1992), 69-76.
144. Economic Council of Canada, Eighth Annual Review: Design for Decision-Making (Ottawa: Information Canada 1971), 189-90.
145. LG (Oct. 1966), 576; and Employment and Immigration Canada, Labour Market Development in the 1980s (Ottawa: Supply and Services 1981), 75.
146. The Public Employment Service in Social and Economic Policy (Paris: OECD 1969), 33.
147. 'Manpower and Immigration Tackles Organizational Task,' 5.
148. Manpower and Immigration, Annual Report, 1966-67, 7; and J. Manion, 'The Manpower Challenge,' Canadian Vocational Journal, 6:4 (1970), 22. A set of national, regional and local advisory boards were also established to replace the National Employment Committees.
149. Manpower and Immigration, 'Testimony,' House of Commons Standing Committee on Labour, Manpower and Immigration, Proceedings, N. 4, 19 November 1968, 52.
150. Department of Manpower and Immigration, 'Testimony,' House of Commons, Standing Committee on Labour, Manpower and Immigration, Proceedings, N. 1, 24 March 1970, 17; and E. Howenstein, Compensatory Employment Programmes (Paris: OECD 1968).
151. See: N. Meltz, A Study of labour Market Information Systems (Ottawa: Manpower and Immigration 1968); and S. Ostry and D. Bailey, 'Canadian Manpower Statistics,' Canadian Statistical Review, 42:3 (1967).
152. House of Commons, Standing Committee on Labour, Manpower and Immigration, Proceedings, N. 9, 6 May 1969, 152.
153. 'Information in the Labour Market,' Journal of Political Economy, 70:5 (1962). On this point: R. Kerton, Active Manpower Programs in Canada (Ottawa: Information Canada 1973), 25-37; and A. Raynaud, 'The Objectives of a Manpower Policy,' LG (Oct. 1966).
154. OECD, Training of and Demand for High-Level Scientific and Technical Personnel in Canada (Paris: OECD 1966), 121-3; and ECC, Eighth Annual Review, 190-2.

155. OECD, A Medium Term Strategy For Employment and Manpower Policies (Paris: OECD 1978), 45.
156. S. Dupre, et al., Federalism and Policy Development (Toronto: University of Toronto Press 1973), 51-3; and N. Meltz, 'Implications of Manpower and Immigration Policy,' in L. Officer and L. Smith, eds., Issues in Canadian Economics (Toronto: McGraw-Hill 1974), 253.
157. Kerton, Active Manpower, 27. The OECD also noted this point and contrasted it to the U.S. where the public employment service focused on the hardcore unemployed: Role of the PES, 16.
158. This decline was a trend: Kerton, Active Manpower, 28; and EIC, Labour Market Development in the 1980s, 76.
159. ECC, Eighth Annual Review, 181 and 186-8. See: OECD, Manpower Policy in Canada, 87-8; and Manpower and Immigration, 'Testimony,' House of Commons, Standing Committee on Labour, Manpower and Immigration, Proceedings, N. 9, 8 May 1969, 215.
160. Canadian Immigration Policy Since Confederation (Ottawa: Canadian Historical Association 1991), 15; and A. Green, Immigration and the Postwar Canadian Economy (Toronto: Macmillan 1976), 37-8.
161. White Paper on Immigration (Ottawa: Queen's Printer 1966), 9 and 13. The changes are discussed in detail in: N. Moldofsky, 'Planning in Immigration?' Australian Outlook, 26:1 (1972); and F. Hawkins, Canada and Immigration (Montreal: McGill-Queen's University Press 1972), Ch. 6.
162. L. Parai, 'Canada's Immigration Policy, 1962-74,' International Migration Review, 9:4 (1975), 471; and W. Marr, 'Canadian Immigration Policies Since 1962,' Canadian Public Policy, 1:2 (1975), 201. This included an effort to get Canadian emigrants to return in a policy dubbed 'Operation Retrieval'.
163. Parai, 'Canada's Immigration Policy,' 473.
164. See: H. Eastman, The Economic Council's Third Annual Review (Montreal: Private Planning Association 1967), 23; and B. Wilkinson, Studies in the Economics of Education (Ottawa: Queen's Printer 1965).
165. H. Buckley and S. Nielson, Immigration and the Canadian Labour Market (Ottawa: Manpower and Immigration 1976), 17-23; and J. Holland and M. Skolnick, Public Policy and Manpower Development (Toronto: OISE 1975), 53.
166. White Paper, 12.
167. 'Immigration and the Labour Force, 1966-69,' Canada Manpower Review, 3:2 (1970), 25. The issue is discussed thoroughly in: L. Parai, The Economic Impact of Immigration (Ottawa: Manpower and Immigration 1974), 4 and passim.

168. G. Forsyth and T. Nininger, Expanding Employability in Ontario (Toronto: Ontario Economic Council 1966), 6. Also see: CAR 1964, 264; and OECD, Manpower Policy and Programmes in Canada (Paris: OECD 1966), 145-6.
169. The first partial study was: Dominion Bureau of Statistics, Full-Time Enrolment in Vocational Courses under the Federal-Provincial Agreements (Ottawa: Queen's Printer 1965).
170. This study was reported on by the head of the training branch: C. Ford, 'The Personnel Man's Part in Canada's Technical and Vocational Educational Program,' The Canadian Personnel and Industrial Relations Journal, 13:2 (1966), 43.
171. Forsyth and Nininger, Expanding Employability, 6.
172. The figures on Program 5 are drawn from: Forsyth and Nininger, Expanding Employability, 5-11; CAR 1964, 264; and L. Orlikow, Dominion-Provincial Partnership in Education With Special Emphasis upon the TVTA, 1960-67 (University of Chicago: Ph.D. Thesis 1969), 151.
173. B. Doern, 'Vocational Training and Manpower Policy,' Canadian Public Administration, 12:1 (1969); Orlikow, Dominion-Provincial Partnership, 102ff; and Dupre, et al., Federalism, 19-20. Orlikow reports that even in 1966 Department of Labour officials were still actively considering TVTA amendments and had no intention of abandoning the youth component.
174. Dupre, et al., Federalism, 25.
175. Federal-Provincial Conference 1966 (Ottawa: Queen's Printer 1968), 16.
176. Meltz, 'Implications of Manpower Policy,' 252; and Dupre, et al., Federalism, 28-9.
177. Dupre, et al., Federalism, 97.
178. Kerton, Active Manpower, 41; and Ostry and Zaidi, Labour Economics, 3rd ed., 174.
179. M. Gunderson, 'Training in Canada: Progress and Problems,' in B. Pettman, ed., Government Involvement in Training (Bradford: MCB Publishing), 109, 115.
180. ECC, Eighth Annual Review, 97.
181. W. Simpson, An Economic Analysis of Industrial Training in Canada, Discussion Paper N. 224 (Ottawa: ECC 1983), 131 and 62-3; and K. Weiermair, Apprenticeship Training in Canada, Discussion Paper N. 250 (Ottawa: ECC 1984), 24 and 28-9.

182. N. Meltz and P. Penz, Canada's Manpower Requirements in 1970 (Ottawa: Manpower and Immigration 1968), 64-7; and 'The Need for Qualified Manpower,' LG (Sept. 1969), 520.
183. Statistics Canada, Educational Attainment of the Canadian Population and Labour Force, 1960-65, Special Labour Force Study, N. 1 (Ottawa: Statistics Canada 1968), Table 1.
184. G. Somers, 'Federal Manpower Policies,' in R. Miller and F. Isbester, eds., Canadian Labour in Transition (Scarborough: Prentice-Hall 1971), 66.
185. K. Newton, 'Conflicts and Complementarities in the Objectives of Manpower Policy,' Industrial Relations Journal, 4:2 (1973), 29-30; and Kerton, Active Manpower, 45.
186. Frontier College, 'Testimony,' Special Senate Committee on Poverty, Proceedings, N. 13, 16 December 1969, 30.
187. T. Kent, Government Policies and Programs Relating to Manpower and Adjustment Problems (Ottawa: Manpower and Immigration, mimeo 1967), 16. Studies of MCS programs are few, but see: R. George, Technological Redundancy in a Small Isolated Society (Montreal: McGill University Industrial Relations Centre 1969); and LG (Sept. 1970), 642-4.
188. Department of Manpower and Immigration, Annual Report, 1969-70 (Ottawa: Information Canada 1971), 18. The utilization of the MCS, however, increased rapidly given its negligible starting position, with the tighter competitive conditions of the late 1960s forcing industrial rationalization. For the period covering 1965-70, the MCS had developed 95 plant-site programs covering 174 thousand workers at a total committed cost of \$1.3 million.
189. Kerton, Active Manpower, 45.
190. 'Manpower Policy and European Unemployment,' OECD Observer, N. 31 (1967), 16.
191. Department of Manpower and Immigration, 'Testimony,' House of Commons Standing Committee on Labour, Manpower and Immigration, Proceedings, N. 3, 14 November 1968, 41.
192. G. Dingleline, A Chronology of Response (Ottawa: Supply and Services 1981), 47; UIC, 'Testimony,' House of Commons, Standing Committee on Labour, Manpower and Immigration, Proceedings, N. 8, 27 March 1969.
193. Income Security and Social Services (Ottawa: Supply and Services 1969); Income Security for Canadians (Ottawa: Supply and Services 1970); and Unemployment Insurance in the 1970s (Ottawa: Supply and Services 1970).

194. Dymond, Manpower as a Selective Instrument, 20; R. Jenness, 'Canadian Migration and Immigration Patterns and Government Policy,' International Migration Review, 8:1 (1974), 12-5; and J. Vanderkamp, 'Manpower Policies and the Adjustment of the Labour Force,' in R. Shearer, ed., Exploiting Our Economic Potential (Toronto: Holt, Rinehart and Winston 1968).

195. Department of Manpower and Immigration, Annual Report, various years; and ECC, Eighth Annual Review, 147. From 1965-66 the MMP only spent about \$1 million of \$5 million allocated. The Department of Fisheries financed the Newfoundland Resettlement Program from 1965-70 which began to shutdown outports.

196. ECC, Eighth Annual Review, 151; 'Inflation, Wage Behaviour and Labour Mobility,' LG (April 1969); and J. Vanderkamp, 'The Effect of Out-Migration on Regional Employment,' Canadian Journal of Economics, 3:4 (1970).

197. As Kaliski noted, "the areas of high unemployment are largely identifiable and persistent, rather than an accidental group changing from year to year." See: 'Structural Unemployment in Canada,' 563; and F. Denton, An Analysis of Interregional Differences in Manpower Utilization and Earnings (Ottawa: ECC 1966).

198. R. Phidd and B. Doern, The Politics and Management of Canadian Economic Policy (Toronto: Macmillan 1978), 318-21; and L. Poetschke, 'Regional Planning for Depressed Rural Areas: The Canadian Experience,' Canadian Journal of Agricultural Economics, 16:1 (1968).

199. Quoted in J. Bickerton, Nova Scotia, Ottawa, and the Politics of Regional Development (Toronto: University of Toronto Press 1990), 183.

200. T. Kent, 'Brief to the Senate Special Committee on Poverty' (Ottawa: DREE, mimeo 1969), 7, 11-2.

201. Phidd and Doern, Politics and Management, 412.

202. H. Lithwick, 'Regional Policy: The Embodiment of Contradictions,' in B. Doern, ed., How Ottawa Spends 1982 (Toronto: Lorimer 1982), 133.

203. 'An Account of Progress in Manpower Policies,' OECD Observer, N. 21 (1966), 4.

204. 'Government Policy,' 241.

Chapter 8

The 'New Unemployment' and the Turn to Monetarism, 1971-1974

It is ironic that after the great technical achievements brought by the age of growth, all we are offered is a return to large-scale unemployment and poverty in the midst of plenty, in an age of frustration. Kalecki was right to be sceptical: the modern economies have failed to develop the political and social institutions, at either the domestic or international level, that are needed to make permanent full employment compatible with capitalism.

Joan Robinson

Despite setbacks during the late 1950s recession, widespread confidence that low unemployment could permanently be maintained prevailed in the 1960s. The rapid recovery from the 'automation scare' had turned these sentiments into hard convictions. Yet the casualties of a high employment economy had begun to appear by the end of the decade at the peak of the postwar boom. The first victim in many countries was the 'Fordist generation' of incomes policies that had attempted to match growth in real wages and productivity. The second was full employment itself, as the advanced capitalist countries imposed a clampdown designed to squeeze out growing inflationary expectations through labour market slack. These strains, and the social dissension they fuelled, disrupted the Keynesian employment policy consensus that seemed to have acquired such permanency in the 1960s. Indeed, as economic circumstances turned gloomy in the 1970s all the assurances of lasting full employment, spoken so frequently and eloquently in the 1960s, became just as effortlessly dismissed as unrealistic notions for a dynamic capitalist economy, let alone capitalism in crisis.

This chapter will examine the end of high employment policies in Canada. It will be argued that fears of rising unemployment played a part in the government's decision to reflate from 1971-73, in a brief 'social

democratic turn', alongside other OECD countries. There was, however, no concerted effort to force unemployment levels back down to those of the 1960s, and 'full employment targets' were allowed to drift upward. The signs of overaccumulation--real wage pressures, higher social spending, falling productivity and smaller profits--that were becoming evident in Europe also began to appear in Canada. These symptoms were partly 'hidden' in Canada as the commodities boom kept up the pace of accumulation and restored gross profit levels, but this also meant that the fall was all the steeper when international demand conditions foundered after 1974. Indeed, even as inflationary pressures built and the economy 'overheated' from 1971-73, unemployment proved to be intractable (as it was across the West). In the view of many observers and governments high employment had to be rejected as no longer practical. With the open crisis after 1975 Keynesian employment policies would be slowly abandoned and monetarist disciplinary unemployment accepted as the centre of employment policies in Canada. The transition from the postwar passive employment policies of market control to the policies of market reinforcement which would become dominant in the subsequent years of crisis was well underway.

It will be shown, first, that the employment policy discourse evolving in Canada in the early 1970s began to adopt the monetarist view of high unemployment as 'natural'. The labour movement was again the most significant, but increasingly marginalized, advocate of Keynesian employment policies. In contrast, the institutions of the state and much economic commentary was embracing the monetarist position--notably, the final report of PIC--to explain away the secular rise in unemployment. It will be argued, second, that after the initial reflationary effort

stabilisation policies began to follow the monetarist view as early as 1973 that inflation stemmed from high wage expectations accommodated by a slack monetary policy and, consequently, unemployment from a 'real wage gap'. These policies were compatible with the long term erosion of national employment policy capacity to 'external regulation' of the economy, further subsidies to business (in lieu of an industrial policy), and continued pursuit of export-led growth on a slipping competitive base. The new view would eventually culminate in a determined effort to use high unemployment and wage controls to force real wage adjustments on workers with the crash of 1974-75. Finally, after an initial bid to control the budding unemployment crisis with direct job creation, labour market policies also began to move toward market forms of adjustment, although the sheer numbers of jobless made this process contradictory and conflictual. Canada's postwar journey toward mass unemployment--a feature of Canadian society unmistakable by the mid-70s--must be located, therefore, in developments internal to the capitalist world, associated with the breakup of the postwar order, and specific to the protracted decline of Canada's 'limping Fordism'.

8.1 The 'New Unemployment' and the Challenge to Keynesianism

The clampdown from 1969-70 raised complex issues for employment policy. On the one hand, if the recession was maintained, unemployment might restore discipline to the workers (and let less profitable capitals go under); but profits would suffer and it would be more difficult to climb out of the recession the longer it lasted. On the other hand, reflation would restore the conditions for realization and also possibly

profitable growth, but at the risk of re-sparking labour market pressures. There appeared to be no route out of stop-go Keynesian employment policy.

The 'new unemployment' created by the clampdown bestowed an additional complexity. It was not so clear that rapid growth to lower unemployment, as Keynesians had counselled in the 1960s, could be sustained without creating further inflationary instability. Indeed, inflation hardly broke from the slowdown, while unemployment remained high even with renewed accumulation. At the same time it appeared quite unlikely that employment growth would grow parallel to accumulation--one of the characteristics of stability of the Fordist boom--due to the higher degree of mechanization of the capital stock from automation and new sources of labour from youth and female participation. Further measures to create employment directly might be necessary (as long as taxes would support it) to control the market and contain unemployment pressures.

It was also possible simply to accept higher rates of unemployment--and many monetarist economists and governments were willing to do so--as a 'natural' reflection of excessive wage demands and market restricting measures. Profitable accumulation, in this case, depended on a period of disciplinary unemployment and a retreat from the Keynesian intervention thought to be feeding inflationary expectations. A quite opposite analysis was also possible: the new unemployment reflected the limits of postwar economic policy to control adequately investment flows or to address labour market structures. In this case, a 'Keynes-plus' strategy was necessary to further control employment and investment flows in the market. This third option was less frequently raised, and would have depended upon a determined political strategy of market disengagement, a

strategy with little basis of support in the market-led regimes of postwar North America. The wage-push of workers, and the protests of other social movements, could disrupt the consensus of Keynesian market control but not necessarily forge a new political direction. The 1970s theoretical debate about unemployment was dominated, therefore, by the hardening antagonism between monetarists and Keynesians. By the early 1970s, then, alternate employment policy paths were forming, and some countries would inevitably be attracted to the monetarist road.

Keynesians, Monetarists and Shifting Phillips Curves

Since the early 1960s, the employment policy debate in the capitalist countries had been about the shape and management of national Phillips curves. Prior to the conceptualization of a tradeoff curve, as we demonstrated in Chapter 5, neo-classical unemployment and inflation were interpreted as separate empirical phenomena. The curve provided Keynesianism with an explanation for the postwar co-existence of unemployment and (wage) inflation. Unemployment was positive because of frictional unemployment at equilibrium, and inflation was positive because of the excess demand for labour purchased by expansionary policies. A number of specific features defined the analytics of the curve through the 1960s. The curve was specified in national conditions through a multitude of variables yet always depicted--and this was crucial for the 1970s controversies--as stable through time. The curve only shifted as structural policies altered its position but always in a timeless equilibrium.'

The 'policy menu' of unemployment-inflation depended, moreover, upon the 'money illusion' of workers and wage rigidity. That is, increases in demand are split between output and price effects as workers bargain in

rigid nominal wages so that the inflation produced by demand stimulation lowers real wages and purchases increased output. The critical difference between policy schools is, then, the extent to which output or prices increase in the long run and whether fiscal or monetary policy should dominate. It was this form of 'neoclassical Keynesianism'--with its minimalist employment policy--which was challenged by the economic turmoil of the 1970s.

After 1968, it became impossible to employ a fixed Phillips curve policy paradigm as money wage increases were consistently correlating with higher rates of unemployment. By the 1970s, moreover, inflation was accelerating and unemployment rising making it as easy to 'fit' a curve that was vertical (implying no tradeoff) as it was a negatively-sloped relationship. In other words, the Phillips curve was shifting, but why? Given the definitional inverse relationship between wages and unemployment within the neoclassical framework, there were two possible answers. Full employment goals may no longer represent the actual amount of involuntary unemployment and thus correspond to a point of stable prices. The character of the 'new unemployment' was quite different, it was argued, in being less responsive to lower wages due to higher reservation wages, so stimulus feeds inflation rather than increasing output. Alternatively, it could be argued that the 'expectations' about future prices forming nominal wages had altered: the 'money illusion' no longer increased employment at the old price level. In either case, real wages are either adjusting too slowly or are too high, causing 'new unemployment'.

Within a neoclassical framework, the analytical means to solve the shifting Phillips curve was straight enough: incorporate a variable for

expectations and re-estimate the 'full employment' level at which inflation stabilized. In such 'expectations-augmented' Phillips curves--which became the pivotal reference in unemployment discussions in the early 1970s--expectations figure as prominently as aggregate demand in determining employment. The consequence for policy was, however, profoundly pessimistic: the expectations that kept inflation accelerating had to be snapped, but at the short run expense of either wages or employment. If it was 'demand-pull' forces trying erroneously to push unemployment too low that sparked high wage expectations, this could occur through a deceleration of demand policy. Or, if it was 'cost-push' pressures from high wage demands, then income policies could play a role in lowering expectations. But what processes formed expectations and the levels of unemployment that lay behind shifting Phillips curves?

So much of neoclassical Keynesianism rested on wage and price rigidities that once this relationship destabilized--which was the entire point of a theory of expectations as Joan Robinson had pointed out in the 1940s--the entire theoretical edifice threatened to collapse. The threat came from an alternative theoretical paradigm. The so-called 'classical school' that Keynesianism had displaced still had adherents--particularly at the University of Chicago and the London School of Economics--to the view of the market as naturally self-equilibrating. This 'monetarist' school had always formed a part of postwar employment policy discourse in terms of the relative role of monetary versus fiscal policy (whether 'money matters'), the interest elasticity of investment (as opposed to credit availability) and the slope of the Phillips curve (how much output for a bit of inflation). The monetarist view consistently came down on

the view that government intervention was potentially destabilizing and that unemployment was foremost a voluntary response to wage offers. The monetarists dismissed, as Phelps put it, "the romantics among the Keynesians [who] believed...that within wide limits the norm of 'full employment' was what the nation wished to make it."

The theoretical salience of the monetarist position arose in the early 1970s from a seeming capacity to explain--and to have predicted--the degeneration of the Phillips curve tradeoff.¹ In a series of influential articles from the late 1960s, two American monetarists, Edmund Phelps and Milton Friedman, began elaborating an explanation of why demand stimulation was likely to cause rising inflation and was unlikely to dent the 'new unemployment'.² The Keynesian Phillips curve tradeoff, they argued, was only possible in the short run, dependent upon thwarted wage expectations producing more work effort than would be obtained in the long run if the real wage offer was known. "The relative speed of adjustment of prices and quantity," Friedman proffered, "is still the key to the difference in approach and analysis between those economists who regard themselves as Keynesians and those who do not."

The increase in employment from expansionary demand policies depends on the 'money illusion' defeating wage expectations. In the real world, however, workers' wage expectations adapt so the 'money illusion', the monetarists contended, loses its efficacy. In other words, natural market forces restore the balance between wages, employment and productivity appropriate to existing production techniques and individual economic agents wage decisions. The additional gains in employment exist only in the short run, therefore, and the critical question is for how long.

Workers' wage expectations incorporate the new inflation rate, Phelps and Friedman argued, so a continuation of higher rates of employment can only occur by an acceleration of inflation.' The short-run Phillips curve shifts outward so that the long run curve is in fact vertical at a natural (or equilibrium) rate of unemployment. Demand stimulus, therefore, does not affect real output and long term "employment will be back at the level that prevailed before the assumed unanticipated acceleration in aggregate nominal demand."⁸ The monetarist conclusion is, then, that the real illusion is Keynesian full employment targets which are likely to be below the equilibrium rate of unemployment and thus a source of inflationary economic instability (as appeared to be occurring in the early 1970s).

There were a number of practical propositions which followed from the 'monetarist counter-revolution' to Keynesianism which began to infiltrate employment policy in the 1970s. The monetarist case pivoted, first of all, on a separation of the determinants of the price level from that of output and employment. In restoring the pre-Keynesian quantity theory of money, the general price level is, by and large, determined by the money supply. According to the monetarist slogan, inflation is, then, 'everywhere and always a monetary phenomena' as economic agents respond to real variables with complete market flexibility.⁹ Monetary policy has the assigned responsibility of applying a rule for stable growth of the monetary stock--rather than attempting to fine-tune the economy--to foster stable expectations of inflation. As long as government, in the words of Harry Johnson, "pampers resistance by supportive policies involving inflation" the economic instability of high expectations will persist ultimately damaging the employment situation even more.¹⁰ The central

question for monetarist employment policy is, therefore, the structure of the labour market which determines wage offers and hence the reasons for the emergence of the new unemployment in the 1970s.

Two important extensions to the monetarist framework, initially formulated in the late 1960s, added to the notion that employment policy should let market forces run their course. The Friedman formulation pivoted around 'adaptive expectations' to inflation in the long run to eliminate employment gains. As a result, in the much repeated monetarist solipsism, 'only surprises matter' in effecting real economic outcomes. The same logic applied, according to Mundell and Johnson, to exchange rates. With flexible exchange rates, domestic expansion will fuel inflation which, in turn, will cause a depreciating currency and higher import prices (lowering incomes). As the exchange rate re-establishes purchasing parity, the devaluation only leads to higher prices and not increased output, thus defeating Keynesian expansion.' The more open the economy, therefore, the less likely employment can be purchased and the more likely inflation can. The addition of 'rational expectations' cuts the room for employment policy activism even further. According to Lucas and Sargent, expectations about the future are not based on perfect knowledge, but on understanding of the economy by economic agents who act as if they had perfect information. There will be virtually instant adjustment to higher inflation thereby completely discarding the money illusion allowing even short term gains in output. Employment policy is, then, in the widely mooted rational expectations conclusion, 'impotent'. Only unpredictable events what became technically called 'pure surprise functions' could affect unemployment: but the direction was completely unpredictable.

Given the simultaneous breakdown of Bretton Woods and stagflation, these two elaborations of the monetarist framework gained enormous influence in the 1970s, and added to the theoretical momentum running against Keynesian employment policies.

The monetarist framework undermined the case for activist stabilization policies. The other task was to explain the permanent rise in 'new unemployment' as part of an efficient labour market and not involuntary unemployment in the Keynesian sense, or a reserve army in the Marxian, representing a visible failure of capitalism. Such a theory would eliminate the case that stagflation called for stronger market controls and active labour policies. The 1960s discourse on unemployment had disaggregated labour reserves into different components. This led to the Keynesian position that full employment should not just be established as an aggregate target, as we showed in Chapter 7, but disaggregated because its determinants were set in the labour market by structural conditions facing different groups of workers.¹³ The monetarist views, too, were disaggregated and structural in that unemployment was a mismatch between the demand and supply of labour and skills (at the existing real wage). In the monetarist account, however, frictional and structural unemployment converged in the long run as a result of voluntary choices, flexible real wages and malleable production techniques.

The disaggregation of unemployment still left a rising unemployment rate to be accounted for. One account entailed reviving the argument that the new unemployment no longer measured hardship. To explain the breakdown of a stable U.S. Phillips curve, for example, Perry developed what became known as a 'Perry-weighted' curve controlling unemployment for

changes in labour force composition." In this case, measured unemployment increased, but largely because of demographic changes that increased the numbers of youth and women entering the labour market. The level of slack, it was argued, was less than indicated and less cause for concern, particularly when the lower marginal productivity of these groups was considered, as these workers had other resources to fall back on. Gordon took another tack, but similarly arrived at the conclusion that the new unemployment did not represent large 'welfare costs' as these groups--women and youth--had alternative productive activities such as job search, housework, scholarly, illegal activities or leisure to select from. When a monetary value is imputed to these activities, "unemployment that appears to be involuntary is actually voluntary, since the unemployed can choose not to look for a job if the hourly return to unemployment falls below the minimum levels." Because youth and women were often in a dependent household relationship, their imputed value for non-market activities was likely to be high. Unemployment insurance programs played a similar function of reducing hardship and extending the period in which unemployment could be endured, especially for the 'new unemployed'.

This did not complete the monetarist case against activist employment policy in that it could still be contended--and Sweden's active policies made the case for it--that employment should be maximized at rising and solidaristic wages. If the unemployment was 'natural', it had to be both 'voluntary' and 'pareto optimal'. The theoretical foundation for the short run Phillips curve already resided in 'job search' in that imperfect information, search costs and job specific training all led to an association between unemployment and inflation. The challenge was to

extend this analysis to microeconomic labour market behaviour to explain the new unemployment (and its contribution to macroeconomic instability). Thus theories of job search and information 'modelled' unemployment as a rational activity of comparing the returns from employment with further job search in an effort to maximize individual leisure-labour tradeoffs.¹⁶ Notably, Hall argued that when unemployment was looked at in detail, the unemployed were not a 'stagnant pool'--which would recall Marxian theory--but engaged in a process of continual job turnover as part of a more efficient allocation of resources.¹⁷ High rates of unemployment correspond, therefore, to high frequency of short term job search. Thus Holt argued that "unemployment is a state through which many pass, rather than...a condition that contributes a chronic problem for a fixed group of workers."¹⁸ The majority of unemployment reflects, then, normal voluntary job seeking, especially for the 'new unemployed', and does not require any demand stimulus. The wage floors imposed by minimum wages, UI and unions had the effect, in light of rational search activity, not only of pricing workers out of a job, but also of raising reservation wages and lengthening search time. These market restrictions especially affected the job opportunities of the 'new unemployed' who had less skills to offer and thus needed to accept lower wages.¹⁹

Job search and turnover as an explanation of unemployment still left, however, the problem of layoffs the latter would seem to be an obvious case of involuntary unemployment, leaving a role for activist employment policies along Swedish lines of countercyclical training. In a series of formative articles, Feldstein also reduced temporary layoffs to worker preferences as part of the decision to accept job offers. As a

result of unemployment insurance, workers prefer layoffs to shorter work hours during slowdowns such that "in a competitive labour market, employees will have to offer the economically feasible combination of unemployment, wages and conditions that workers prefer."²⁶ The capitalist unemployment problem is, then, in all situations, a misnomer, as all unemployment is truly a voluntary choice for all workers (which employers are meeting the demand for). Thus one of the leading monetarist political tracts could calmly declare that "in one sense all unemployment could be regarded as voluntary because there is some wage level at which almost any individual could price himself into a job."²⁷

These specific interpretations of the microeconomics of unemployment were less important in the early 1970s than they would only directly influence labour market policies in the late 1970s than the case being made for unemployment as a rational non macroeconomic activity. The views combined neatly in completing the monetarist case against Keynesian activism: the lack of hardship allowed the 'new unemployed' to stretch their search time, or lose their job attachment through quits, causing the natural rate of unemployment to rise. Demand stimulus, to meet outdated full employment targets, fuelled wage inflation in what were, in fact, tight labour markets. Only a period of market discipline which would determine the period of the 'monetary correction' could restore stable non inflationary growth.

The New Unemployment and the Arrival of Monetarism in Canada

The truncated postwar settlement in Canada had always been reflected in the narrow confines of its Keynesian employment policies. Indeed, even during the growth boom of the 1960s, when Keynesian ideas provided the

lenses through which unemployment was interpreted and which guided employment policy, there were significant detractors. This reflected, in good part, the actual structure of Canada's limping Fordism which was a 'low-pressure' economy in terms of labour reserves and dependence on export trade. It also reflected the peripheralization of the one force making the case for full employment, the labour movement. Thus defenders of a strong Keynesian orthodoxy were few in number in the midst of the 1970s turmoil. It was, moreover, quite difficult to contend that Canada's new unemployment was due to deficient demand although some, such as the CLC, did when growth was at a postwar high. Monetarist ideas found, therefore, fertile ground in Canada. A few monetarist seeds in fact had been planted earlier. Canada's postwar employment policy regime was, as we have argued in this thesis, explicitly oriented to capitalist sector led growth and the hard currency policy of the Bank of Canada. While technically different, it was not all that conceptually distinct from monetarism and even less so in practice. If monetarism was to find a wedge into postwar employment policy institutions in its revolt against Keynesianism, Canada was a good place to start.

Given that inflation and unemployment were rising faster in Canada than elsewhere, a vast amount of research effort was directed at the instability of the Phillips curve since the 1960s (although a few dissenters noted that a deterioration could be traced back to the 1940s). These studies were heavily technical estimation exercises attempting to specify the variables determining wage inflation and the reasons for the parametric shifting of the curve. There were two main strands of research, each incorporating a facet of the monetarist arguments on wage expecta-

tions and the new unemployment and advancing the case against low full employment targets and for a natural rate of unemployment."

The studies on wage expectations had virtual unanimity. To cite the foremost example of a Keynesian taking up monetarist themes, Kaliski's pivotal 1972 study for the Economic Council concluded that "the unemployment rate 'required' for price stability is, in all cases, higher for the longer period." Wage expectations were adapting so "price changes are now more fully reflected in changes in wages than was the case earlier."¹⁰ Similarly, the influential Kingston conference papers on inflation opened with the warning that "what is unusual about Canada's recent inflation, in the international context, is neither its level nor its duration, but rather the acceleration in the rate which appears to have taken place in the 1960s."¹¹ If there was still some controversy over the shape and slope of the curve, the consensus held quite clearly "that the tradeoff had shifted upwards over time."¹² The uniqueness of 'expectations formation' in Canada appeared to be in the higher level of unemployment associated with any rate of wage change and the spillover of U.S. inflation into Canada. The PIC's Final Report, for example, concluded that "rather disturbingly...a particular price or wage change in the United States is reflected in Canadian prices or wages in the same way whether or not the exchange rate also changed during the period."¹³ Thus, for both internal and external factors, demand stimulus was unlikely to increase employment in the economic climate of the 1970s as it once had.

The traditional tradeoff was also shifting outward, it was argued, by the 'new unemployment' so that for any degree of unused capacity of capital measured, unemployment appeared to be higher (a distinguishing

characteristic of Canada's postwar growth model). The new unemployment equally seemed to be behind a shift in the Beveridge curve--the relationship between job vacancies and unemployment--in the early 1970s, which gave the appearance of increased labour demand and labour surplus at the same time.²⁷ There were a number of lines of argument to explain these results, following the monetarist strategy of voluntary rational unemployment, and all conceding that the full employment level had moved. It had been widely suggested since the early 1960s, for example, that the demographic changes which resulted in increasing female participation and a rise in youth entrants to the labour market--especially strong trends in Canada--were also behind the high unemployment rate.²⁸ Studies of the broadening of unemployment insurance coverage linked the higher wage floor to higher unemployment contending that "insurance raises recorded unemployment due to either increased job-search duration or leisure... As a result, monetary and fiscal policies aimed at achieving 'full employment' and public concern about the plight of the unemployed ought to be modified accordingly."²⁹ The liberalization of UI, and the rising number of youth and female workers who had 'less attachment' to the labour market, especially encouraged 'rational' unemployment in Canada through longer job search time and higher rates of quits.³⁰ Starting from the early 1970s, the Economic Council of Canada had been developing the job search model, eventually culminated in its 1976 report People and Jobs. These studies followed the Brookings' turnover studies and found similar activity flows in Canada, with as much as 40 per cent of the labour force changing labour market status over the year.³¹ The high levels of unemployment in Canada were not, therefore, necessarily lost output or wasted human resources,

but signs of efficient and dynamic labour market processes. The explanation of the 'new unemployment' was only a small analytic step, but it amounted to a huge conceptual assault on the original Keynesian position and the deficient demand view of unemployment that had prevailed in the 1960s.

The 'new unemployment' debate popularized the monetarist natural rate of unemployment and raised doubts about Keynesian high employment targets even as modest as those Canada had pursued. Three sources- the 1971 Senate Finance Committee Report on Growth, the Annual Reports of the Bank of Canada, and the 1972 Final Report of PIC- made the case against activist employment policies. The Senate Report, which canvassed a wide spectrum of economic opinion after the upset of the clampdown, still reflected some of the Keynesian optimism in sustained growth and "purposeful management of national economic stabilization policies." In managing the tradeoff, however, "supply and structural policies (such as Manpower and competitive policies) which encourage growth...should receive heavy emphasis in our economic stabilization strategy." Against the policies of the 1960s, the Senate argued, like many of the briefs presented, that policy "lags make nonsense out of attempts to 'fine tune' the economy." Rather, there should be a focus on medium term stabilization objectives, with an unemployment target in the range of 4 to 4.5 per cent and an inflation rate at 2 to 3 per cent. Much like the strategy that PIC would endorse more firmly a year later, the Senate Report argued that the latter could be achieved through income guidelines and a demand management policy to "bring about a short-term psychological adjustment towards a less inflationary climate."

Although still couched in the discourse of Keynesianism, the Senate's analysis was not altogether that different from the monetary caution that the Bank of Canada had been pronouncing since the clampdown. In the 1960s, Governor Rasminsky had already raised themes close to the monetarist position:

One of the most powerful arguments against inflation is that although it does not result in any increase in real output, except perhaps in the very short run, it places economic expansion in great jeopardy.

This also meant being wary of full employment targets:

One of the big unsolved problems of all modern societies is what degree of pressure can be on the economy, which is another way of saying, what degree of economic slack has to be maintained in the economy in order to produce a continuous expansion of a non-inflationary character."

Admittedly, Rasminsky's views reproduced the Bank's hard currency policy and the wariness expressed since the 1940s about targeting high employment. The monetary turmoil that erupted with unkind regularity over the postwar period, from the contradiction between hard currency policy and competitive weakness, had sustained an abiding fear of an activist monetary policy for, what Coyne called, 'sound money'. When combined with its institutional independence, the Bank would obviously be receptive to any ideas that made the case that discretionary monetary policy could not ease unemployment and threatened inflation." So, for example, the Bank's 1972 Annual Report contained systematic warnings of "demand pressure, on prices and costs" allowing "a certain amount of 'built-in' inflation...[that would] not be easy to reduce." The Bank also found excess demand at higher rates of unemployment as employers were finding difficulty "hiring workers...at a time when the reported unemployment figures were higher." This could be explained, the Bank offered, by "changing

income maintenance arrangements [that] may be tending to increase the number of those who are reported as remaining in the labour force but who want jobs only from time to time, and may be lessening the urgency with which others seek re-employment."² Such arguments were not uncommon in earlier reports and they became prevalent as inflation picked up steam. Indeed, as stagflation took off in the 1970's, there was every reason for the Bank to affirm its prejudices and become the institutional flag-bearer of monetarism in Canada.

The Final Report of the Prices and Incomes Commission represents, perhaps, one of the pivotal documents in postwar Canadian economic policy. If its incomes guidelines during the clampdown were an abysmal failure, PIC nonetheless played a formative role in re-orienting Canadian employment policy and propagating monetarist ideas. Indeed, its paradigmatic shift from postwar Keynesianism was thorough: almost all the ideas of the Phelps Friedman-Johnson view of the natural (which PIC termed 'normal') rate of unemployment and monetarist employment policies found a place. There was one qualification, however: incomes policies still had a role, although not to sustain a 1960s style growth push, as part of a deflationary strategy to break real wage expectations." In the Commission's view, inflationary instability in Canada began in the mid-60s due to excess demand pressures from the low peg of the dollar, slack stabilization policies and imported inflation from the U.S. It was not until 1970 when unemployment "was decisively above the five per cent level, that significant excess demand pressure was clearly eliminated."³ The 1960s experience suggested, PIC argued, that when unemployment dropped below this level inflation tended to accelerate (making 5 per cent the estimated

natural rate of unemployment for the early 1970s). The Commission located the reason for inflationary acceleration and for the slow response to slack demand in 'expectations' now "incorporated...in the trend of wages and prices...whatever the balance between demand and supply in markets for labour, goods and services." There was, as well, substantial evidence of 'new unemployment' from demographic changes which made the old employment targets deceptive. The real source for Canada's comparatively poor unemployment record, however, could only be accounted for by regional problems such that "interregional labour mobility has not been great enough in the past to bring about any marked reduction in differential levels of regional unemployment."⁶ This meant, PIC concluded, that when the 'heartland' of the Canada economy overheated, there was still a high, and misleading, national rate of unemployment.

PIC drew a number of policy conclusions from this experience- all but one against Keynesian policy activism. The foremost lesson, recalling Friedman's formulation, was that the adaptation of expectations meant that it is not "possible to achieve any significant long-run output or employment gains by attempting to run an economy below its critical range of unemployment through techniques of demand management." The level of unemployment that emerges reflects the institutional characteristics of labour and product markets. There was, moreover, little active labour market policies might do "to reduce the critical range of national unemployment at which inflationary problems arise." Regional development policies--other than market mobility assistance--fared no better. The short run costs of winding down inflationary expectations, PIC contended, were outweighed by long run stability. This included "the possibility of

insulating Canada to any important extent from inflation in the United States...[by] the accommodations provided by an appreciating exchange rate." How inflation, in other words, would provide the basis for Canadian competitiveness and the worries of an overvalued dollar costing national employment were needless. Temporary incomes controls--PIC's one activist policy, accepted as a means to break expectations--offer a supplement to deflationary demand management to "reduce the transitional loss of jobs."¹⁹ Thus, after a period of 'overshooting' the 'natural rate', unemployment and wage restraint today could be traded off with economic stability and, hopefully, lower unemployment tomorrow. After all is said and done, the monetarist conception was truly Keynesianism set on its head.

8.2 The End of Keynesian Stabilisation Policies in Canada

The polarisation of views on the new unemployment served as a register of the apprehensions confronting stabilisation policies in the early 1970s. The 1960s effort at a voluntary incomes policy in Canada proved to be much more than a costless way of controlling inflation and improving the 'tradeoff'. The clampdown of 1969-70, intended to shock the major economies back along a stable growth path, explicitly carried costs: although inflation eased, unemployment was more persistent and remained high. In July 1970 the OECD forewarned of the political unease that would cut the recession short:

No country today is likely to be prepared deliberately to provoke a severe recession as a means of combating inflation. And the experience of those countries which, at one time or another during the 1960s fell short of their potential growth rates for some period of time, suggests that the undercurrents of social and political discontent thus generated may event-

ually have rather violent economic repercussions which are difficult to control or foresee."³

These political worries concerned the economic authorities in Canada, where a strike wave and the NDP's stronger electoral showings since the mid-60s, had been pushing up real wages and social spending. Given Canada's declining competitive fortunes, the anxieties were overlaid with a compelling economic dilemma. If Ottawa pursued a vigorous go-it-alone inflation fight, the lost output costs would be high and unemployment, under existing labour supply pressures from the national growth model, would quickly spiral out of control, taking with it any reasonable high employment commitment. The OECD and other economic bodies were already advising that Canada needed a bout of sustained growth above 5 per cent to bring unemployment down to 1960s levels. Yet if the authorities boosted capacity usage the predicament was "to gauge how much further scope there is for relaxation without jeopardizing the aim of gaining control over inflation."⁴ As the pressures of overaccumulation, simultaneously intensifying inflation unemployment, and international competition, began to be felt in the 1970s the economic management of this dilemma in Canada proved precarious indeed.

As shown in the previous chapter, the passive Keynesian stabilisation policy that had evolved over the postwar period in Canada had little capacity to manage the Phillips curve tradeoff. Even with monetary and fiscal policies united in restraint during the clampdown, the signs of renewed economic instability and an employment policy impasse gained visibility. It was uncertain whether a high employment stimulus strategy or a deflationary shock strategy should be followed. Canada's postwar competitive strategy depended upon the ability of stabilisation

policy to keep Canadian unemployment rates above, and inflation below, the rest of the capitalist countries, especially the U.S. Low unemployment was not a problem and, in fact, seemed to be dangerously rising. Yet the inflation objective was also jeopardized. These circumstances could not but threaten to unsettle the postwar consensus.

The external constraint added to the complexity of stabilisation policy. The floating of the Canadian dollar in 1970, which prefaced the collapse of Bretton Woods, that we shall examine below, was professed by many Keynesians (and monetarists) to have freed Canada to apply more vigorously national policies. This proved illusory as the greater capital mobility it allowed, alongside the expansion of trade flows, increased the national exposure to international pressures. In Canada, this meant an even greater commitment to a hard currency policy and monetary integration with the U.S. As a consequence, monetary policy could do little in the short run for domestic stabilization other than to manage the exchange rate, without a decisive break with the trajectory of policy adopted since at least the early 1960s. Yet the fiscal policy of supply side stimulus to business investment and export growth had failed to raise the relative competitive position of Canadian industry. The attempt at a voluntary incomes policy to constrain wage expectations and to provide more room for demand stimulus and export competitiveness, equally misfired.

With domestic uncertainty and international weakness in the mid-70s, the options for containing unemployment had become decidedly awkward. The possibility of a more coercive incomes policy remained, attempting to shift the burden of slower growth onto workers and to lessen pressures for all out deflationary measures (which would transpire in the competitive

austerity of the 1980s). Postwar Canadian employment policies had institutionalized only a passive Keynesianism; monetarism was a possible course within easy reach, particularly as a 'transmission belt' for international discipline to preserve competitiveness. When a full-blown unemployment crisis arrived in the mid-70s, the national policy capacity to contain unemployment had already been relinquished. It was the details of the route to mass unemployment that remained to be worked out.

The 'Mini-Boom' of 1971-73

The pressures impinging upon Canadian employment policies from 1971-73 need to be set in their international context. An attribute of the boom had been a desynchronization of economic cycles -when Europe slumped, America boomed--that reinforced economic stability. The steady integration of trade and capital flows now produced cyclical synchronization: rather than attenuating economic movements, international developments accentuated them. The national limits of Fordism were thus being reinforced and spread at the same time.

For instance, the recession of 1969-70 was cut short by a coordinated expansion, although capacity utilization was still above the levels of earlier recessions. The major capitalist governments simultaneously introduced a package of state expenditures from 1971-72. In an effort to ensure that the recovery was led by capitalist investment, the emphasis was on bringing interest rates down by monetary expansion to stimulate capital spending. The annual rate of money supply growth more than doubled that of the 1960s. The monetary expansion received a boost when the U.S. unilaterally depreciated the dollar in 1971, breaking the Bretton Woods gold exchange system. To prevent an appreciation of their cur-

rencies and a squeeze on exports, other countries also responded with a looser monetary policy, with many undergoing "an almost berserk feeling of liberation from the old constraints of stop go, which led to the adoption of a wildly expansionist policy."¹ The package worked producing a mini-boom with growth rates at a clip of 7 per cent per year within the OECD.²

The piper had to be paid, however, for the tune being played. The inflationary cycle had not been broken by the clampdown, and by early 1973 (well before the oil shock hit) inflation began to accelerate at an annual rate of 7.5 per cent. The inflationary momentum added to speculation, particularly in basic materials which doubled in price, and this fuelled a commodities boom whose high point was the quadrupling of oil prices in 1973. Apart from the price acceleration, one feature graphically illustrated the declining conditions of the boom: despite the declarations of the end of the business cycle, across the capitalist countries unemployment failed to recede to the levels of the 1960s.³

The erosion of the international and national conditions for accumulation could also be seen. World industrial growth failed to return to the 1960s peaks; profits and productivity failed fully to recover.⁴ Competitive conditions, in short, had been worsened since the 1960s. The productivity gains from the further extension of Fordist principles with automation had dwindled. The increased scale of production meant, moreover, that even a fully developed home market could not absorb all the output. Production had to find export outlets and this invited international competition. Thus at the same time that competitive pressures to control wages intensified, organized workers were seeking to recover wages held back by the clampdown. The demand conditions for realisation of

profits had improved considerably as capacity utilisation increased during 1972-73, yet the conditions for producing profits were abrading, squeezed between international competition, declining productivity and higher real wages. A full-blown crisis could be triggered at any time.

Canada followed this economic rhythm albeit in a slightly different tempo. The national conditions for a short term boom were especially propitious. The freeing of the U.S. dollar led to its depreciation against other currencies, taking with it the Canadian dollar (which, however, rose relative to the U.S. dollar). This added to the strong export demand that came from the surge in commodities markets and which favoured Canada's terms of trade. The value of Canadian exports increased by 40 per cent from 1972 to 1973, while operating capacity approached 95 per cent in 1973, after being below 85 per cent during the clampdown. Buoyant external demand and high capacity usage provided a spur to domestic private investment. Indeed, Canada's rate of GNP growth for 1971-73 actually climbed above 1960s levels (and finally matched the OECD average)."

The 'inflation-unemployment tradeoff', however, signalled the same impediments developing elsewhere. After dropping in 1971 consumer prices had more than doubled by 1973. The combination of strong exports and a high dollar increased the price of imports thereby contributing to price pressures. The Conference Board of Canada estimated that over 40 per cent of Canadian inflation could be attributed to international sources." Nonetheless, unemployment kept climbing, only declining modestly at the 1973 peak, and it never dropped below 5 per cent. Rapid economic growth and full capacity utilization no longer played the role of absorbing the

reserve army, as they had in the 1960s growth push and this made the "tendency towards a secular increase in unemployment" in Canada unmistakable (and, in truth, dating as far back as 1947).¹⁶ The high prices and profits from the commodities boom allowed high wage demands to be met, despite the weak labour market. The effects of overaccumulation in Canada were, therefore, especially felt in goods markets, although wage pressures also played a role. Profits were sustained only as long as resource rents could be earned in export markets. Canada's 'limping Fordism' was booming, but on the basis of a growth model of resource exports and labour supply expansion that was clearly unsustainable.

The conflicting economic signals produced a stabilisation policy that tried to be all things - Keynesian and expansionary yet still anti-inflationary. The voluntary incomes policy of the PIC was present in name only and provided no obstacle, institutional or ideological, to shifting gears. The policy reversal that occurred in Canada from 1971 essentially exchanged the deflationary policies of the clampdown for a 'social democratic' expansion. The move to a dollar float in 1970 and the breakup of Bretton Woods, which we will discuss below, enabled monetary policy to switch ground. The rapid growth of the money supply from 1972-73 was crucial, and despite inflation it stayed expansionary for fear that a dollar appreciation would destroy the export and domestic competitiveness of Canadian manufacturers.

Fiscal policy, too, shifted in a slowly expansionary direction in an attempt to stimulate investment and improve the productivity of capital over the long period. Indeed, the package of fiscal measures between 1971-73 was of crucial importance in shaping the expansion, and it had

both short and long period implications for the efforts to control stagflation pressures. In its broad conception, the fiscal policy adopted was quite distinct from the Keynesian stabilisation policies of Sharp and Benson in the late 1960s in that the focus shifted to medium-term stabilisation objectives. The stubbornness of unemployment levels blocked fiscal policy from playing a decisive role in fighting inflation. There was also no desire to directly control the labour supply or to expand massively public employment (although some minor steps were taken here) to alleviate unemployment as this would involve a redefinition of the growth model. If unemployment was to be controlled, then, capitalist sector growth would have to be stimulated by keeping fiscal policy mildly expansionary or at least neutral. Yet, in order to fight inflation, fiscal stimulus would add output capacity to restrain prices from too much demand and to improve the competitive strength of export industries which were feeling the effects of a high dollar.

The practical proposal, however, maintained the passive Keynesianism, allowing the automatic stabilisers to run up spending with rising unemployment, and attempting to stimulate productivity-enhancing investment through targeted industrial subsidies. The medium term supply side strategy had a greater coherence than earlier efforts in that the Ministry of Industry, under Jean-luc Pepin, was preparing an outline of an industrial strategy in 1972, DREF now had a more secure basis, and a few minor policies for encouraging Canadian firms and controlling foreign investment were in place. Yet, as Richard French has documented, the Department of Finance assumed that structural problems were only short term in nature and formed its expenditure strategy "within a conservative and relatively

short term stabilization framework."⁴⁹ Thus a concerted industrial policy supported by fiscal measures never fully emerged. As well, the capitalist boom was to be coupled with public austerity by capping public investment (which was seen to harm the allocative efficiency of the market), and keeping the growth in social spending below the rate of growth in GNP.⁵⁰ The fiscal strategy proposed to contain unemployment, as Canada's postwar employment policy had often done, by "promoting an investment boom in the private sector by investment allowances to the mining, petroleum and manufacturing industries."⁵¹

The concern with unemployment as an unmanageable problem had already appeared by late 1970. The new priority was "intensifying our fight against unemployment."⁵² The 3 December 1970 'emergency budget' of Finance Minister Edgar Benson outlined the fiscal approach which would prevail during the mini-boom--supply side stimulation with the aim of adding to capacity to ease inflation and to take up the unemployed. The supply side measures included: a special capital cost allowance to run to 1972 for the manufacturing and processing sectors of 115 per cent of actual value to encourage capital expenditures; an \$103 million increase in federal capital projects and for roads; additional funds for the shipbuilding and footwear industries; and \$40 million in additional support for the CMHC capital budget. The Budget also incorporated expenditure programs to 'redistribute' growth: \$130 million in regional development incentives; an increase in unemployment insurance benefits; \$150 million for low interest loans to the provinces for job creating public works; a \$100 million grain stabilization plan; and increases in social security and veteran's pensions. The special surtax would be extended for

a year partly to pay for these measures. In Canadian terms, the net impact of the budgetary proposal was a remarkable expansionary move from the surplus of \$250 million proposed in June to a Keynesian budgetary deficit of \$320 million. The actual budget deficit was even more stimulative, coming in at \$379 million.⁵³

Although growth picked up in the first half of 1971, unlike previous recoveries, unemployment continued to climb. The 18 June 1971 Budget of Benson argued that "unemployment remains too high."⁵⁴ The budgetary measures themselves were designed to encourage "confident spending in the private sector of the economy."⁵⁵ They included: increased transfers to the provinces; removal of the corporate tax surcharge and reduction of the personal amount; removal of the sales tax on a number of specific items; and exemption of the guaranteed income supplement from taxation.

A tax reform package resulting from the Carter Royal Commission on Taxation was also announced. The reforms were to increase the equity and efficiency of the tax system while being revenue neutral. Although marginal tax rates were raised, the measures were generally modest and did little to advance the redistribution of consumption patterns that might have stabilised employment. A sustained political effort would be necessary to break the postwar policy of stimulating capital through a "wide range of special programmes and incentives [that] were an essential component of the tax system."⁵⁶ The overall package of tax cuts was estimated at about \$500 million, and the overall budgetary deficit was to rise to \$750 million.

Two factors prompted a supplementary Budget on 14 October 1971. In August 1971 U.S. President Nixon announced his New Economic Policy that

was designed to remedy the troubling U.S. balance of payments situation by strengthening U.S. exports and returning investment dollars to the national economy. Both measures would have a deleterious impact on Canadian exports and employment. With an election imminent in 1972, unemployment levels in Canada remained, as Benson stated, "very disappointing."¹ Benson's proposals were "the largest fiscal changes made to deal with unemployment that have been made in the postwar period."² To boost consumer spending and profit margins, from July 1971 to December 1972 personal income taxes were to be reduced by 3 per cent and corporate taxes for Canadian corporations by 7 per cent - tax cuts amounting to \$350 million and \$335 million respectively. Additionally, a number of measures to create jobs 'directly' were advanced: \$100 million for a Local Initiatives Program (LIP) for municipalities and organizations; a \$20 million on-the-job training program with an "emphasis on unemployed young people"; a \$15 million expansion of the CMIP; and \$360 million for various federal, municipal, and housing "job creating" capital projects. The additional package was estimated to be about \$1 billion, with the proposed deficit at a similar level (although strong growth would bring the deficit in at half that amount).³

The dual concern with international competition and rising unemployment that had formed the basis for Benson's last Budget also preoccupied the new Liberal Finance Minister John Turner. Indeed, the "competitive challenge" to Canadian industry pushed to the side the mild redistributive efforts of 1970-71 as the 'Turner Turn of 1972-74' made supply side stimulus the main element of his Budgets. Canadian fears were raised by Britain beginning the process of entering the EEC, and the Nixon NIP

measures that induced multinationals to relocate branch plants in the U.S. Notably, the Domestic International Sales Corporation (DISC) was designed to support U.S. exports by a tax deferral on profits earned. This threatened existing branch plants in Canada and, particularly, new investment that might be shifted south.⁴⁹ Following the pattern it had already established, the Canadian government was prepared to bid for the investment of U.S. multinationals rather than to risk short run damage to the Canadian economy in the interest of reduced dependence.

The Turner Budget of 8 May 1972, for example, clearly stated that competition for investment was central to employment:

The main thrust of this budget is to deal with this [unemployment] problem: to buttress the Canadian economy--to provide incentives for Canadian industry to grow and compete and provide jobs.... Multinational corporate giants have come to assume an increasingly dominant role on the world economic stage and in the Canadian economy. I fear that the world is in the process of being transformed into massive trading blocs... What I shall strive to do tonight is to set the stage for Canadian industry to be competitive in world markets. Our ability to gain access to world markets is a prerequisite to the success of any industrial policy that focuses on growth and jobs.⁵⁰

The actual proposals for "growth and jobs" lavishly added, however, to tax concessions for private capital spending with no clear industrial strategy. Indeed, only the amounts differed from earlier measures: accelerated depreciation of new manufacturing machinery and equipment was raised to 50 per cent from 20; the top corporate tax brackets for manufacturing, processing and small business were dropped from 49 to 40 per cent; and depletion allowances for mineral processing were extended. As well, the OAS and the GIS were indexed to inflation, and some minor personal tax expenditures were adjusted to provide "social justice". These measures, however, hardly offset the perverse redistributive effects of the corpor-

ate tax proposals. The budgetary deficit was mildly expansionary, proposed at about \$450 million (the extent of growth would yield a much smaller deficit). The main thrust of the Budget was, however, the attempt to provide greater tax incentives to corporations than the U.S. was offering in order to keep branch plants in Canada from shifting employment south.⁶⁷ This bidding war would come to preoccupy Canadian economic policy.

The return of a minority government in the 1972 election did not alter the fiscal policy presented in the Turner Budget of 19 February 1973. Indeed, the minority government position, dependent upon support of the NDP, favoured a further expansionary Budget. Unemployment and inflation would both be combatted by "an expansion of output [that] will contribute to the solution of both."⁶⁸ Yet the hardship of unemployment was also dismissed as a result of "more generous provisions for the unemployed and the availability of support for many unemployed persons from spouses or parents permit people to take more time in finding the jobs that suit them best." According to the Department of Finance, this also explained why employers were "reporting difficulty in filling the growing number of vacancies" even though unemployment remained high.⁶⁹

The 1972 corporate tax cuts, delayed in passage by the election, were reintroduced.⁷⁰ Reduction of tariffs on a number of imported consumer goods and of the sales tax on food and children's clothing were meant to reduce prices and stimulate production. The emphasis on capitalist sector led growth also was evident in a cut of personal taxes by 5 per cent (to a maximum of \$500) through increased personal exemptions (which would now be, following the monetarist view, indexed to the rate of

inflation). The tax cuts were estimated to be about \$1.3 billion. The Budget was intended to be mildly expansionary with an anticipated deficit of just under \$1 billion. Yet with a growth rate at an astonishing 7 per cent for the year, the budgetary position ended in surplus.⁶⁵

The mini-boom of 1971-73 signalled, in retrospect, an important transition. The failure of this period of 'social democratic management' to restrain inflation or markedly to lower unemployment through the expansion of output capacity convinced many observers, in government and the private sector, that conventional reflation (even though the stimulus was modest), in labour market conditions where workers could still advance wage claims, was no longer adequate. Nor were more specific budgetary policies any more capable of restraining prices or coping with the new demography of the labour supply. Either more coercive measures in wage-setting would be necessary, or a more dramatic unemployment shock to break wage rigidities as monetarists called for, or both. The domestic regulation of the distribution of output and employment was, moreover, increasingly inhibited by international instabilities and competitiveness. Canada's postwar commitment to high employment was quite clearly in a precarious position.

Monetary Ease and the 'Managed Rate'

Fiscal policy provided some of the spark for the growth surge in Canada. Much of the 1971-73 mini-boom was fuelled, however, by monetary expansion. The clampdown of 1969-70 had been led by monetary policy with the intent of quickly shocking inflation out of the system. It proved more effective in pushing up unemployment and destabilizing Canada's fixed exchange rate, while leaving Canadian inflation rates still above U.S.

levels (an unusual situation for the postwar era). The Trudeau government's turnaround on macroeconomic policy from the clampdown began, paradoxically, soon after the floating of the dollar in 1970 which enabled a more restrictive monetary policy to be applied without worry of cracking the fixed exchange rate. A hard currency policy with a floating rate aided the inflation fight via appreciation, it was argued, but threatened the trade advantages of the lower fixed rate and even higher unemployment. By early 1971 the dollar was already trading near par, which put pressure on exports, especially in labour intensive manufacturing industries." The support for an economic upswing, and hence lower unemployment, required an easier monetary policy, although with the "danger that a high degree of monetary stimulus, if it becomes prolonged, will begin to spill over into higher prices."

As with fiscal policy, the choices facing Canadian monetary policy were also complicated, as with fiscal policy, by international developments. The U.S. dollar had supplied the international liquidity to support the boom as part of the gold based, fixed exchange rates of Bretton Woods. The cumulative effect of this system, however, was to produce a surplus of American dollars held abroad over American assets. The situation was becoming serious in the 1960s as foreign capital outflows were being added to by a U.S. current account deficit. High interest rates during the clampdown attracted capital and eased the payments situation, but the move to expansion in the U.S. lowered interest rates and caused 'hot money' to flee. During 1970 and into 1971 the campaign against the dollar became pitched as speculators anticipated a major realignment of currencies. Between April and June 1971 speculation

against the dollar was at an annual rate of \$14 billion, and \$35 billion between July and September." As a result, foreign governments sought to convert dollar reserves into gold causing U.S. reserves to drop. On 15 August 1971 the U.S. unilaterally suspended the convertibility of the dollar into gold. This was the most significant component of Nixon's NEP, which included a wage and price freeze, budget cuts and a 'Job Development' tax incentive to manage stagflation. The Bank of Canada's Annual Report aridly pointed to the forces that were at play in reshaping the world configuration:

At the core of the international monetary problem was a vast deterioration in the international trade position of the U.S. and continued large exports of long-term capital. The disequilibrium had been growing rapidly for several years.... As the size of the U.S. deficit grew and confidence in the existing structure of exchange rates eroded, these short-term capital movements were greatly augmented by flows of a speculative character."¹⁰

The gold exchange component of Bretton Woods system expired with the unilateral U.S. actions. The Smithsonian Agreement of December 1971 attempted to re-establish a new system of fixed rates of 12.5 per cent in reference to the dollar, but with U.S. currency devalued by almost 10 per cent. (The U.S. also agreed to drop the import surcharge and the Job Development tax credit.) The misalignment between the international monetary system and the sliding U.S. competitive position meant, however, that the Agreement would only be temporary. Throughout 1972 the U.S. still pursued a permissive monetary policy and heavy capital exports continued as "a major priority for many of the dominating U.S. multinationals." This placed further inordinate pressure on the dollar, eventually causing an additional 10 per cent devaluation, and creating more currency speculation. With U.S. foreign reserves still being

depleted, from rising imports and capital exports, on 19 March 1973 the major central banks abandoned the commitment to a fixed exchange rate. All currencies would now 'float freely'. The postwar international monetary system was eclipsed.

The difficulties of the international economic system and U.S. competitiveness were, however, still not settled. The monetary stability and trade adjustment, that were claimed by the neoclassicals as the stakes from floating currencies, were meagre. The chain of events that shattered Bretton Woods 'internationalized the crisis' as it became formidable to insulate national conditions from currency instability and capital outflows. Payments asymmetries, competitive devaluation, and trade wars between the three emerging currency and trade zones immediately ascended onto the scene. Demand stimulus could easily generate increased imports or capital flight. Thus to preserve employment countries had to export more, but as all countries faced the same international constraint any economic shock entailed the peril of spiralling into a crisis of competitive austerity. Indeed, soon after March 1973 the major central banks would discover that "it was simply not possible to abandon exchange rates to market forces completely."

From the Canadian vantage point, the U.S. remedies for its balance of payments deficit had the effect of exporting unemployment by directly fostering home production and employment. This was the appeal of the DISC program, the import surcharge and the jobs credit. The Canadian authorities initially, and not surprisingly, again sought exemptions from the U.S. measures and further integration into U.S. markets. This time, however, Canada was rebuffed as it now was running a substantial current

account surplus with the U.S., and the Secretary of the Treasury, John Connally, made it clear that Canada would begin to pay a higher price for its structural dependence. The U.S. instead attempted to get Canada to fix its rate during the Smithsonian talks; the request was, in turn, rejected by Canada, although not before it pledged to avoid competitive devaluations and to maintain a 'clean float' as part of the Agreements."

Unlike the other advanced capitalist countries, who gained from the U.S. balance of payments crisis by building up reserves which allowed them to pursue easy or tight credit conditions as they wished in the 1960s, Canada had a serious external constraint from its dependent industrialization vis-a-vis the U.S. When the American dollar was floated, for a period other countries were further freed to pursue policies of their own devise. This was not so for Canada. The integration of capital markets, and U.S. threats to close off Canadian imports, produced general opposition to devaluation. Strong commodities prices in the 1970s, moreover, were producing a favourable Canadian payments position. Yet too strong an appreciation of the currency also carried immense risks- as the 1950s recessions reminded--for manufacturing exporters and unemployment. The Bank of Canada thus had to 'manage' the exchange rate between inflationary pressures, export competitiveness and its Smithsonian commitments. After the clampdown and rising unemployment, Canada, too, followed the other capitalist countries in easing monetary restraint to improve national production conditions in an effort to keep the national currency from soaring against the U.S. dollar." The Bank of Canada clearly stated this strategy:

The exchange rate is a very important price in a country that trades with the outside world as Canada does...It is not

possible therefore to ignore it, even when it floats. Public financial management must continue to be concerned that the exchange rate is broadly suitable to the development of Canada's international trade, and compatible with the desired structure of our balance of payments, in particular the size of the balance on current account."

The speed with which the dollar appreciated in the second half of 1970--aggravating the unemployment situation into 1971--had already indicated that the float had to be managed. Whether the shift to an expansionary monetary policy with the float was as abrupt as monetarist critics suggest is debatable. What should not be in doubt, however, is that given the underlying economic crisis, following the monetarist line which meant simply allowing the dollar to appreciate might not have cured inflation and it would most certainly have caused even more irreparable unemployment damage. The decision to keep the dollar from going much above par did coincide, however, with the reversal of macroeconomic policy announced in December 1970." The Bank continued to build up foreign exchange reserves in 1971 "in the face of upward movement of the Canadian dollar...to stabilize rather than to push the Canadian dollar down." Canada's foreign exchange reserves grew by a stunning 17 per cent over the year largely through purchase of U.S. dollars. These purchases could have been financed by bond sales, but this would have raised interest rates, spurred capital inflows, and placed further pressure on the dollar. The government instead borrowed from the chartered banks which increased their liquid assets and allowed monetary expansion. The Minister of Finance and the Governor of the Bank of Canada also used 'moral suasion' as occurred in 1970 -to request Provincial treasuries and investment dealers to limit "foreign borrowing [as this] will benefit all Canadians by contributing directly to greater production and employment in Canada."⁸ Although the

request cut in half foreign borrowings for 1971, it was never more than a short term policy and contained no commitment to lessen national dependence on foreign capital markets.

Other expansionary measures to 'lean against the wind' of appreciation and reverse the clampdown also occurred in 1971. The bank rate was reduced from 6 per cent to 4.75 per cent (after falling from 7.5 per cent in 1970), which pushed down long and short term interest rates, and the narrow money supply increased at an annual rate of over 16 per cent.²⁴ The Bank had also not given up on incomes policies, even after the PIC debacle, and continued to stress their utility in lessening the need for expansionary measures to keep the currency from appreciating by directly constraining labour costs. Yet it was becoming more difficult to square Canada's external dependence, a hard currency policy, and control of unemployment. Something would have to give in the longer run. In the short term with upward pressure on the dollar, however, Governor Rasminsky noted that "monetary and fiscal policy have been set to promote rising levels of output... Despite almost two years of high unemployment and unused industrial capacity...there has not yet been enough moderation of costs to insure further slowing of price inflation."²⁵

This was also the Bank's assessment throughout 1972 as it kept monetary policy geared to an expansionary course, under the political pressure of a strong showing by the NDP and the formation of a minority government, so as to keep the exchange rate from appreciating and doing further damage to domestic employment. The Bank contended,

it was apparent that large increases in demand, output and employment would be needed for a time in Canada if the economy was to regain more satisfactory operating levels. This was the dominant consideration underlying the expansionary policy

followed...[keeping] in mind the potentially damping effect, on economic expansion of an undue appreciation of the foreign exchange value of the Canadian dollar."

Hence M1 rose at a rate of about 14 per cent for 1972, and the secondary reserve ratio for chartered banks was lowered from 8.5 per cent to 8 per cent in January 1972 (where it would stay until the drama of 1974).²⁷ The exchange rate also preoccupied monetary policy throughout 1972, with over half a billion dollars in reserves added in the first six months of 1972, and this helped keep the dollar trading around a two cent premium for most of the year. Domestic circumstances also forced an expansion of the money supply to prevent a climb in interest rates that would draw in capital inflows. The pressure came partly from government financial requirements, but especially from the speculative fervour and shortage of loan capital being created in the capitalist sector from the mini boom. In the spring, the chartered banks were vigorously bidding for money market funds. This pushed up short term interest rates, widened the differential with U.S. rates, and placed upward pressure on the dollar. To keep the structure of interest rates from further rising, the Winnipeg Agreement of June 1972 was reached limiting rates on 1 year term deposits for \$100 000 or more to 5.5 per cent.²⁸

The underlying economic difficulties, however, raised concerns for the Bank that were troubling employment policy throughout 1972. In its assessment of the year, Governor Kasnerky interjected that despite the pace of economic growth results were "less satisfactory than had been hoped for...as unemployment remained high and prices rose more rapidly than in the previous year."²⁹ The conflicting economic signals, moreover, were compounding: the brief current account surplus Canada managed from

production of 3 per cent in 1972 causing food prices to rise substantially through 1973, and adding to the already rampant speculation in commodity futures. The sharp rise in food and material prices contributed significantly to inflation and tended to reduce profit margins. By the fall of 1974 commodity prices began to collapse and were down by half by 1975, but by then the damage had been done.

The oil crisis that ripped through the world economy, upsetting already precarious balances, was a second trigger. During the mini-boom the price of oil had almost doubled; it then quadrupled between October 1973 and early 1974 by design of the OPEC cartel. Although production initially held up into 1974, by the spring the price hikes were working through the system. This significantly increased costs and intensified the distributional struggle over whether profits or wages would take the hit, helping boost inflation for the year to over 15 per cent in the advanced countries. The oil shock, moreover, transferred about 1.5 per cent of world capitalist output in 1974 from the advanced capitalist bloc to oil producers in the Third World."

There were two important effects of the oil crisis. At the level of the world economy, the oil shock only meant a reapportioning of the economic surplus in the short run, but it also entailed a withdrawal of demand that could not be easily replaced by equivalent foreign demand. The deterioration in conditions for realisation accentuated the underlying problems already surfacing during the mini-boom of a decline in profit margins, squeezed by falling productivity, rising costs and stiffer international competition. The oil crisis, then, effected the OECD countries in general, although with some divergence. Major oil producing

1970-71 returned to its traditional deficit suggesting an overvalued currency counter to the prevailing winds of appreciation. Broaching the monetarist view, the Bank argued there was good reason to believe that structural changes in the economy were altering the utility of unemployment as a measure of unused capacity:

Although there is undoubtedly too much slack in the economy, there is, at the same time, some reason to believe that unemployment rates may no longer reflect the same degree of ease in labour markets as they formerly did.... [N]umerous reports of employers finding difficulty in hiring workers in 1972 at a time when the reported unemployment figures were higher than at any time since the beginning of the sixties suggest that some new element has been affecting the situation.⁴⁶

By 1973 the Bank began to openly question its own record of monetary expansion as inflation accelerated and unemployment remained high. Indeed, an important policy shift was beginning to unfold, partly symbolized by the retirement of the 'Keynesian' Governor Rasminsky and the installation of the monetarist, Gerald Bouey, in February. The new Governor immediately questioned the Keynesian view of providing increased credit availability in the short run, and intimated that a monetary policy along the lines of monetarist thinking might be desirable:

In 1973 the Canadian economy began to press against the limits of its capacity, and the main objective of the Bank of Canada became that of lessening the degree of expansionary stimulus that monetary policy had been providing.... Looking back on the experience of Canada and other countries over a longer period, it is difficult to avoid the impression that from time to time there have been more substantial and persistent departures from reasonably steady monetary growth than would appear in retrospect to have been desirable.... [I]he high rates of monetary expansion around the world during the two years leading up to the surge in economic activity in the latter part of 1972 and early 1973 illustrate this basic problem. In the light of these considerations, I have a certain amount of sympathy with the case that is often made for more stable monetary growth over time.⁴⁷

The decision to tighten conditions was prompted at once by a "spiral

of price increases for farm and industrial commodities of an intensity without modern precedent."⁸ This entailed an effort to tighten the availability of credit and to raise its costs. The growth of M1 moderated somewhat but remained in double digits in 1973, although it fell well below this level in the fourth quarter. Nonetheless, when the higher rates of growth and inflation for 1973 are considered, this represented a significant tightening. Chartered bank liquidity ratios reached historically low levels by the end of 1973. The movement of the bank rate (which altered the Winnipeg setting) was also indicative of an attempt to tighten economic conditions. After staying at 4.25 per cent since October 1971, the rate was increased 5 times to 7.25 per cent by September. Finally, the exchange rate for the year remained stable against the U.S. dollar, but also followed the dollar in its sharp swings against other currencies, dropping with the U.S. devaluation and then rising in the second half of the year when the oil price hikes added strength to the terms of trade.⁹

Yet the gradual movement to a stricter monetary policy was not so easily accomplished in an exceedingly complex environment. The bluntness of monetary policy meant that restraint would impact on loan capital in all regions of Canada, and the politically-sensitive Quebec and Atlantic regions were already experiencing unemployment over 8 per cent, double the high unemployment target of the 1960s. This made it difficult to apply the degree of restraint being implemented in Germany and the U.S. (unless the fanciful view is held that all this unemployment, as well as the newly-created, could be seen as voluntary). There were also technical challenges emerging from applying restraint in an inflationary climate with declining national controls. Boosting interest rates to limit

credit, for example, would be defeated if inflation was running at a pace that would in fact lower the real rate of interest. It is arguable that this was occurring over 1973. The loosening of state regulation of the financial market and the easing of capital flows controls, moreover, were even more crucial in producing a qualitative change in monetary oversight of credit availability. The commercial paper market in Canada expanded by 84 per cent on an annual basis in the first half of 1973, and the growth of short term business credit was well over 30 per cent. The growth of new forms of financial intermediation were adding to a credit inflation, partly resulting from the deregulation of the 1967 Bank Act revisions (for example, the lifting of the 6 per cent ceiling on loans also removed it in bidding for deposits to expand credit as the Winnipeg Agreement testified to).⁹⁹ Yet the overseas loan market was, perhaps, the pivotal element undermining Keynesian monetary regulation. The growth of an unregulated Eurodollar market also expanded the availability of bank liquidity. The banks could attain foreign deposits, for which there was no reserve requirement, and draw down these deposits to add to their available domestic credit. This they had been doing extensively since 1972. Because of the growing intricacy of controlling credit, the monetary policy options appeared to be either to focus on cash reserves via a monetarist money supply growth rule or to turn to greater controls over capital markets.⁹⁹

These developments underscored the quandary of Keynesian employment policy from both technical evolutions in the market outside national controls and a blossoming unemployment crisis. It is accordingly quite specious to put forward a 'technical mistakes' argument to the effect that

"monetary and fiscal policy are generally viewed as having been too expansionary from 1971...and thus as having contributed to the building up of inflationary expectations...[when] an unemployment rate of 6.2 per cent may have indicated...a moderately tight market."⁹ This interpretation essentially becomes a claim that Canada should not have let its inflation rate rise with world inflation and unemployment should have been allowed to shoot even higher as it was not measuring hardship or unused capacity due to concurrent structural changes. Yet Canada's inflation rate never got out of line with the rest of the world (or even the U.S.); unemployment had been climbing parallel to increasing output since the 1960s; and appreciation would have destroyed an already weakened manufacturing sector."

This does not salvage the Keynesian argument, however, for it is difficult to envision how more rapid capitalist sector growth was possible or how it would have resolved Canada's huge regional unemployment problem. Indeed, it is reasonable to concede with the monetarists that excessive expansionary pressures, especially from credit inflation, were already contributing to price pressures. Yet this does not mean that application of a simple monetary rule (the monetarist view) or more adroit finetuning of the Phillips tradeoff (the Keynesian view) could have rectified the economic crisis beginning to surface. Fiscal policy could have been more expansionary only in the redistributive sense of expanding non-capitalist sector employment through higher taxes, using budgetary surpluses to payoff external debt to lessen Canadian dependence (and to keep downward pressure on the dollar), and at last exploiting the favourable postwar terms of trade to convert resource rents into forward linkages to the

manufacturing sector through a concerted industrial policy. This was the opportunity afforded by the mini-boom to alter Canada's postwar national growth model before a crash would make all such endeavours fraught with potential economic chaos and political turmoil.

The Crash of 1974

The underlying exhaustion of the Fordist accumulation regime, discussed in Chapter 6, meant the mini-boom could not be sustained. The overwhelmingly monetary basis to the boom could not reverse real investment expectations- the 'animal spirits' of Keynes. Some of the signs of stagnation and crisis could already be seen in 1973, notably, the price hikes that had begun in goods markets spread to labour markets, threatening a wage-price spiral as firms tried to preserve profit margins. As well, the easy money policies had led to negative real interest rates and widespread financial speculation (especially in the gold market, which had doubled in price since the collapse of the gold-exchange standard). To prevent these pressures from getting out of hand the advanced countries had moved to restrictive policies in 1973 causing real GDP growth to fall from 8 per cent in the first half to an annual rate of only 3 per cent in the second.⁹³ As the McCracken Report would observe, "1974 was likely to be a recession year even without the oil crisis."⁹⁴

Several factors converged to trigger the crash of the summer of 1974 (each important to the course of employment policy in Canada). The long boom had reduced material stockpiles and contributed to an increase in commodity prices.⁹⁵ From 1972-74 there was a \$47 billion dollar (U.S.) increase in world expenditures on raw materials (excluding food). Major crop failures around the world, moreover, led to a fall in world cereals

production of 3 per cent in 1972 causing food prices to rise substantially through 1973, and adding to the already rampant speculation in commodity futures. The sharp rise in food and material prices contributed significantly to inflation and tended to reduce profit margins. By the fall of 1974 commodity prices began to collapse and were down by half by 1975, but by then the damage had been done.

The oil crisis that ripped through the world economy, upsetting already precarious balances, was a second trigger. During the mini-boom the price of oil had almost doubled; it then quadrupled between October 1973 and early 1974 by design of the OPEC cartel. Although production initially held up into 1974, by the spring the price hikes were working through the system. This significantly increased costs and intensified the distributional struggle over whether profits or wages would take the hit, helping boost inflation for the year to over 15 per cent in the advanced countries. The oil shock, moreover, transferred about 1.5 per cent of world capitalist output in 1974 from the advanced capitalist bloc to oil producers in the Third World."

There were two important effects of the oil crisis. At the level of the world economy, the oil shock only meant a reapportioning of the economic surplus in the short run, but it also entailed a withdrawal of demand that could not be easily replaced by equivalent foreign demand. The deterioration in conditions for realisation accentuated the underlying problems already surfacing during the mini-boom of a decline in profit margins, squeezed by falling productivity, rising costs and stiffer international competition. The oil crisis, then, effected the OECD countries in general, although with some divergence. Major oil producing

countries--Canada and, to a lesser degree, the U.S.--were partly insulated. The dynamic centres of the boom--Japan and Germany--were hit more directly. The latter countries had to turn even more to exports to cover their oil import bills thus making them incapable of playing 'locomotives' for the world economy, or undertaking the 'rotating Keynesianism' advocated by the OECD, to sustain the boom." The long run impact of the oil crisis dramatically subverted, then, the complementarity of national economies that had been a major facet of the boom.

The strains in world commodity markets, and the huge problem of recycling petrodollars so as to sustain world demand, amplified the frailties of the world financial and payments systems. This was the third shock triggering the crash. The financial processes by which the recycling occurred had the oil exporting countries placing their dollar holdings in the unregulated offshore Eurodollar market. This is also where debtors obtained credit to pay for their fiscal and payments deficits. International financial flows were, therefore, concurrently expanding and integrating national financial markets to create a seamless web of unregulated credit obligations. Yet the foundation for this process was incredibly precarious. The U.S. dollar remained the primary means of international payment, but the U.S. continued to run trade deficits and to export capital. These processes could only be paid for by issuing more currency. Hence the world was awash in dollars of uncertain value, making the flexible exchange system untenable and racked by continuous anxiety over speculation. The U.S., moreover, was intent on letting the dollar find its own--much lower--value to improve its competitive position relative to its trading partners. It was quite unpredictable where this value would

end up given the huge dollar overhang, the capital exports from further internationalization of U.S. capital, the uncontrolled Eurodollar market and the onslaught of competition from Germany and Japan squeezing U.S. manufacturing.

The new linkages of financial instability were on display in the summer of 1974: share prices tumbled (to a greater extent than they did in 1929) and encompassed all the major exchanges; several banks failed, most notably the largest German private bank; and foreign exchange trading collapsed.⁹⁸ None of these events spelled the end of the international financial system. Indeed, quite paradoxically, the financial crash broke investor confidence at the national level, but only to be replaced by a more internationalized system of financial and trade flows without an anchor in a hegemonic country or at level of the world-system as a whole. The reconfiguration of the world economy after 1974 would be much less 'autocentric', plagued by slower growth and subject to a fitful, and deflation-biased, external regulation.

The litany of casualties from the crash was lengthy. Industrial production collapsed, falling by 10 per cent between July 1974 and April 1975 amongst the advanced capitalist countries.⁹⁹ Output also suffered an absolute decline from 1974 to 1975--the most significant downturn of the postwar period--and encompassed all the major countries (except Japan and Canada). Neither industrial production nor total output would return to postwar growth rates. Productivity trends had been sliding since the late 1960s; they fell further in 1974 and also never recovered to postwar levels. Aggregate investment in the OECD area fell by 4.6 per cent in 1974; the real volume of world exports fell by a similar amount in 1975.

By 1975 over 10 per cent of productive fixed capital was idle, and the number of unemployed workers had doubled. The postwar levels of high employment would not be seen again. Yet even with excess capacity inflation expectations proved stubborn, so prices as a whole continued to increase at a rate of 10 per cent annually (undermining nominal wage gains). All these instabilities ultimately found their way to the pivotal element inducing capitalist stagnation: the rate of business profit amongst the advanced capitalist countries had fallen by 40 per cent since 1968, with half the decline occurring in 1974-75. The plunge in accumulation was least in North America (although the U.S. experienced negative growth) which had gone through a long period of relative decline and had the shortest distance to fall to slower growth and higher unemployment. The golden age conditions that had spawned the high employment stability of Fordism were ruptured.

The extent of the erosion of national regulation was not immediately recognized by capitalist governments. The price shock could have been met with easy demand management policies allowing higher prices, interventionist policies to restructure goods production and a scheme to begin reining in international financial markets. This 'Keynes-plus' strategy had advocates amidst the ranks of various labour movements, but nowhere the political resources to make it viable. Instead, the majority of Western governments tightened already restrictive policies forcing "a slow-down...intended...and seen necessary to counter the threat of runaway inflation."³⁹ The 'struggle against inflation'--the hackneyed phrase of the 1970s--had the purpose of deterring the instability of exchange markets from taking over national markets which, once real incomes

absorbed the cost shock, could return to stable growth and high employment.⁶⁰ This elusive strategy of short term austerity for long term stability would often be echoed.

As a major resource export zone, Canada was relatively insulated from the oil price hikes. Amongst the major industrial countries Canada was the only one self-sufficient in energy and capable of exporting oil and gas; it was also a leading exporter of minerals and foods. The increase in commodity prices thus favoured some Canadian industries and led to high profits for resource capitals. Although lower domestic oil prices would help, the weak manufacturing industries would clearly suffer from an appreciation of the currency. Canada's growth rate was cut in half in 1974, although it remained at a respectable 3.6 per cent (largely from the expansion in employment). This was quite dissimilar from the U.S. recession which had output falling below its 1973 peak, undercutting a major source of external demand for Canada. Unemployment levels barely moved from 1973. Prices, however, were quite another story as consumer prices followed the rest of the OECD zone and were near a lofty 11 per cent for the year (and above U.S. rates).⁶¹

Compared to other countries, then, Canada's recession was mild. Yet, the short term advantage from favourable trade terms was in the context of long term relative economic decline and increased exposure to external uncertainties. Canada's limping Fordist growth model could not be shielded from the general crash, and even the open sector betrayed emerging problems. The current account balance had already deteriorated and was in a serious deficit in 1974 as the merchandise trade surplus was cut by more than a third as exports began to decline in late 1974. The

terms of trade had turned in favour of Canada in the order of 16 per cent from 1971-74; but this could only last as long as world markets remained strong. Canadian trade terms declined from 1974 on.²¹

There were other signs of trouble. Despite the size of Canada's reserve army, the oil shock added to the tensions already occurring over the distribution of output as a result of the pace of the boom. Workers wanted to partake in some of the rewards earned by high commodity prices and to ensure protection from inflation. The drop in labour productivity--which fell precipitously after 1973--made it more difficult, however, to accommodate wage increases. Under the pressure of stiffer international competition, it was opportune for capitalists to solidify their opposition to real wage increases. Collective agreements became, therefore, more difficult to negotiate and strikes more frequent (in fact setting a postwar high for proportion of days lost). After being locked into longer contracts under more stable conditions, unions aspired to shorter contract periods and cost of living clauses. Wage settlements in collective agreements in 1974 were running at 15 per cent as workers sought "to catch up for inflation and to obtain their traditional share of increased economic output, even though the Canadian economy [had] now entered the contraction phase of the business cycle."²² The old rules of co-ordination that provided for demand stability were buckling under the strain of new economic conditions.

The inflationary conditions reflected arising difficulties of stable production, from the exhaustion of Fordism and internationalization, although the proliferation of credit and new sources of liquidity served to keep up investment levels. Inflation also 'neutralized' cost-push

pressures from workers who were trying to advance wage claims, by eroding real wages and maintaining profit margins (if not necessarily profit rates). This process could conserve accumulation in the short run, but with the combined force of the expansion and the commodities shock it could also degenerate into a price-wage spiral and undercut economic stability. And even a labour surplus economy such as Canada's could not avoid the general overaccumulation process which had tightened labour and input markets in the long period sense. It was not very easy to read these confusing and startling developments as they unfolded during 1974.¹⁰⁶ Because of Canada's energy resources it was altogether possible to interpret the 1974 crash as a transient event that "would be short-lived...[resulting] from the coincident timing of a number of external events."¹⁰⁶ There was every reason to focus on gradually decelerating prices while waiting out the storm. The labour movement could strike for wages but did not have the political capacities necessary to push for a Keynes-plus agenda. The monetarist alternative, which was gaining adherents, would entail a deflation--via gradualism or a shock--which would repress accumulation and drive up unemployment.

The Trudeau government's employment policy in early 1974 was, consequently, one of caution and ambiguity: "In terms of the total demand required to keep the supply of goods flowing at capacity rates, we are on the right course now. We do not require additional stimulus. Neither do we need any severe contraction of demand."¹⁰⁷ Against the policies being adopted elsewhere, the decision to ease the transition to higher oil policies by not adopting a restraint package seemed bold. Yet the long period competitive and unemployment problems were by no means passing, nor

was it even clear how Canada could maintain the projected 5 per cent growth target in the short run. In introducing the Budget of 6 May 1974, Finance Minister Turner outlined the government's reasoning:

In our fight against inflation, I have rejected two possible approaches. One is the deflation of demand by severe measures of fiscal and monetary restraint. The effect of this would be stagnation and rising unemployment. In my judgement, such a cure would be worse than the disease. The second approach, urged by the official Opposition, is to impose a general system of wage and price controls. This would be totally ineffective in overcoming the kind of inflationary problem we have been and are still facing. What we need, still, is not controls but an increase in supply.¹⁰⁶

This strategy sustained the 'Turner Turn' that expansion of supply capacity could fight both inflation and unemployment. The specific measures proposed, however, were bewildering (reflecting the Budget's election intent).¹⁰⁷ There was, in fact, little in the way of budgetary measures for inflation was 'world-wide': some extension of inflation protection for fixed income categories that had not been aided earlier, and removal of the sales tax for domestic shoes and clothing at a saving to consumers of \$280 million.¹⁰⁸ The most significant inflation measures were not budgetary at all: a two price system for oil, with the domestic price well below world levels, first developed in 1973, and pursuit of consensus talks with business groups and the CIC for voluntary income restraint (which would continue into 1975). The Department of Finance was clearly of the view that the supply shocks could be waited out (and were quite possibly to Canada's competitive advantage).

The more specific Budget measures proposed by Turner were an odd blend. Some measures were to provide stimulus: notably, a \$1000 interest income deduction from personal income taxes, a registered home ownership savings plan, some minor incentives for the construction industry, and

personal income tax cuts in the order of \$440 million through the extension of the tax credit scheme. These were to be financed by an increase in business taxes of about \$800 million. The taxes included special levies on resource industries and financial institutions, a quicker tax payment schedule, and a temporary 10 per cent general surtax on corporate profits. Unemployment now appeared to be generally acceptable to the economic authorities if in the 6 per cent range.

Apart from economic circumstances, the Budget was doomed from the outset for political reasons: the Liberals had not consulted the NDP--who wanted additional stimulus and some reversal of earlier corporate tax cuts--in a minority Parliament. They hoped it would precipitate a summer election and this is what did, indeed, happen.¹¹ In the summer election of 1974, the Liberals returned with a majority government, with no particular agenda except opposition to wage and price controls. This was a commitment that would prove difficult to keep.

The Liberal indifference of May, however, had to confront the sharp deceleration of growth and employment of the fall. The crisis was beginning to bite into even advanced resource exporting zones like Canada. The supplementary Budget of 18 November 1974 was a little bolder (but much wilder in its prediction of 4 per cent real growth for the coming year). Finance Minister Turner expressed the optimism that incentives to the capitalist sector would keep Canada out of a severe recession: "The first essential is action to sustain demand.... this is imperative if we are to achieve a rate of growth of production and employment that more closely approaches potential.... [T]he fiscal stimulus should come primarily from a further cut in taxes, rather than an additional increase in expendi-

ture."¹² Although this suggested a stimulative stance, the actual policies and results were, again, a perplexing mix. To sustain aggregate demand, and particularly employment in the housing sector, the Budget proposed a series of incentives: a cut of the sales tax on building materials from 12 to 5 per cent at a cost of \$450 million; liberal capital cost allowances on multi-unit residential buildings started in the next year; and a small grant for first-time home buyers (in addition to savings plan). Investment stimulus was also the logic of the indefinite extension of the two year writeoff for machinery and equipment purchases used in manufacturing. The income tax cuts of May were also re-introduced, with the interest deduction now extended to dividends and the tax credit increased. These cuts were to be financed, in part, by the corporate tax hikes of May (although this hardly altered the general regressiveness of the tax package).¹³

The Budget was by no means a reckless Keynesian policy. As a whole the proposals had a consistent thread of insisting that somehow more growth and employment could be squeezed out of the capitalist sector through tax cuts. It was also part of finance's long-time position of building "new capacity...[as] a prerequisite for moderating prices."¹⁴ As a policy of stimulus the Budget was something less. Government spending growth would be held below the growth of GNP (precisely at a point when non-capitalist sector employment was needed most).¹⁵ The planned Budget balance for 1974-75, as a result of the earlier restraint, was a small surplus of \$250 million (and would come in, on a national accounts basis, at over a billion). The planned balance for 1975-76 was, however, a deficit of \$1.5 billion, but with slow growth would actually be near \$4

billion. Against the weight of the crash, Canada's effort at Keynesian regulation of the crisis was remarkably shallow.

Monetary policy in 1974 did not depart from the process of deceleration started in 1973, though it eased somewhat in the second half to aid the fiscal expansion.¹¹⁶ After the credit explosion from 1971-73, which failed to lower unemployment, the Bank of Canada saw its option as "offering increasingly strong resistance to the excessively rapid growth of aggregate spending."¹¹⁷ Either option carried the risk of significant economic damage if pushed too far. Monetary gradualism was, therefore, being pursued in the belief that market forces could adjust expectations and new costs with little injury to manufacturing competitiveness and employment.¹¹⁸ M1 growth, for example, moved below double digits in 1974. The bank rate was also raised three times over the year, finally settling at a peak of 9.25 per cent in July, before falling slightly in November. The consequences of the Bank of Canada's new monetarist hard currency policy were, however, also becoming evident as it did nothing to alter the underlying weaknesses of the Canadian economy and, indeed, compounded them.¹¹⁹ The interest differential with the U.S. widened and this led to further appreciation of the dollar in early 1974. This damaged the current account, which was now in a deficit (where it would remain into the 1980s), and employment. The capital export guidelines introduced in 1968 were withdrawn in January, following a similar move by the U.S., allowing deeper financial integration to develop in the context of floating rates. Monetarism had gained a presence in the Bank of Canada, and whatever was to be done for unemployment would have to come from fiscal policy.

At the end of the crash of 1974, stabilisation policy stood in unison in objective in confronting the latest unemployment challenge. Yet it was plain that as a policy target high employment was in retreat. There was, in contrast, a sense of mounting crisis with respect to inflation. The attempt to restore Canada's traditional low inflation rate relative to the rest of the world could only be accomplished, however, with grave damage on the employment side. Substantial appreciation of the currency from stricter monetary policies would, moreover, inevitably provoke, after such an extended period of relative productivity decline, a payments crisis and a sudden tumultuous devaluation (an inevitable consequence of Governor Bouey's policies as it was earlier of Coyne's). The Keynesian regulation of the fall was only a brief pause before market reinforcement employment policies were ascendant. This would now be amidst the wreckage of the postwar order.

The End of the Postwar Order in Canada

The crash bottomed out in 1975 but 'golden age' economic conditions failed to re-emerge. The depth of the recession and increased pressure from the political left and trade unions led to an effort to stimulate economic recovery in late 1974. Budgets of OECD governments moved from the balance achieved during the early 1970s to a deficit of 4 per cent of GDP in 1975, in part from "substantial deliberate increases in government deficits aimed at sustaining demand."¹² Monetary expansion was also undertaken, albeit more cautiously than the early 1970s. Although growth remained flat for 1975, it worked for 1976: industrial production revived by 10 per cent and gross output by 6 per cent in the OECD area. The world economy moved sideways after this, however, as growth stagnated making

"the recovery too limited to reabsorb unemployment."¹²¹ Unemployment steadily mounted as labour force growth continued (even as countries like Germany began to expel guest-workers) and employment growth faltered.¹²²

The attempt at reflation from 1975-76 was symptomatic of the initial employment policy toward the erosion of the golden age of Fordism. Indeed, it is possible to follow Lipietz and characterize the first stage of the crisis as an attempt at 'social democratic management' in the majority of the advanced countries.¹²³ There was, in other words, some stability in the national form of regulation in the context of changed economic conditions. Real wages, for example, often became more connected to inflation through escalator clauses (although less matched to productivity).¹²⁴ The social safety net continued to sustain workers' consumption, and most central banks had not yet embraced monetarism. The persistence of Keynesian regulation after the 1974 crash prevented, therefore, an economic slump from developing by sustaining demand. It also perpetuated the stagflationary conditions of high inflation and slow growth since increased demand could not settle, but only amplify, the internal crisis of Fordism or the instability of the world economy.

The crash thus revealed the exposure of national employment policy to international disturbances. This instability was compounded by the generality of the payments crises from the oil shock. World trade in 1975 contracted by 10 per cent, even though the ratio of manufacturing exports as a portion of output had been rising.¹²⁵ The recovery after 1976 established a new dynamic at the centre of the world economy as a consequence of the international asymmetries and the domestic crash. Each non-OPEC country hoped that it could reduce imports and expand exports to pay for

oil and reverse payments deficits (or return to surpluses), and each sought to do likewise to support national employment.¹²⁵ There was no international regulation of this compositional fallacy except the blind hope that flexible exchange rates would clear imbalances. That would have been a miracle enough if there were not other problems. The long decline of the U.S. meant that it could no longer manage 'international aggregate demand' since it had a formidable external constraint and was only capable of flooding the world with more dollars of uncertain value. The international order also persevered with the old regulation, then, in the sense of being sustained by a massive expansion of dollar credits.¹²⁶

Yet, the world economy was also quite different in that capital mobility and increasing trade volumes reinforced competition over unit labour costs between national economies competing for markets and employment. The postwar international agencies "could only struggle with a few compromises essentially unsatisfactory to all and aggravate the chaotic condition of international monetary affairs."¹²⁷ The OECD governments had tried and failed in July 1974 to form new rules for monetary co-operation and trade. In November 1976 the leading capitalist powers forming the G7 held their first economic summit, but equally failed to stabilize the chaos of floating exchange rates or to find a dynamic growth pole to pull the world economy out of crisis.¹²⁸ The world configuration was now entering a phase of competitive austerity incapable of supplying adequate world demand or supporting national employment policies.

Canada could not avoid the economic forces of stagflation unleashed by the breakup of the postwar system. Favourable terms of trade and a more neutral stabilisation policy initially made the crash less traumatic

as profits, output and employment held up better than elsewhere. By 1975, however, stagnation had swept into Canada with economic growth falling to an anaemic 1.2 per cent. The accumulation that did take place largely depended upon employment growth as productivity had not recovered. Indeed, per capita income in Canada actually declined in 1975. Canadian inflation rates were equally troubling: postwar Canadian competitiveness had counted on Canadian inflation running below the rest of the world, and particularly the U.S., but had spiked above most OECD countries in 1975. Stagnant growth meant rising unemployment, which began to rival the levels of 1957-61.¹³⁰ The unemployment trend, moreover, also seemed to reveal a growing divergence from U.S. rates, causing the most detailed study of the period to worry that "never since the Canadian statistics were first recorded has unemployment in the two countries shown such opposing trends."¹³¹

The deterioration of income and employment from the golden age were long period trends beginning to reap 'leaden age' consequences. There was also a specifically conjunctural crisis on which the attention of employment policy was firmly riveted. As a result of output holding up in 1974, the growth of the reserve army did not check the bargaining power of workers who were scrambling to keep up with inflation and gain a portion of the profits from the resource boom. The November Budget had warned of a dynamic of wage expectations such that "each group feels compelled to seek protection against the highest rate of inflation which it thinks might occur.... [I]n this struggle the sum total of all the claims on the nation's resources...clearly exceeds what is in fact available to be shared."¹³² Wage demands in 1975 were still running at the frantic pace

of almost 20 per cent in new collective agreements, sustaining inflation at almost 11 per cent for the year.¹³ The wage push appeared particularly troubling to the economic authorities as unemployment and vacancy rates were both high and rising (suggesting, paradoxically, too little labour demand and too much).¹⁴

The wage demands hurt Canada's competitive position insofar as capitalists resisted a distributional shift to wages, productivity slumped and other countries were experiencing a wage deceleration because of a steeper crash. Canada's hard currency policy ruled out a competitive devaluation, and the moves toward monetarism in 1973 made it even harder. Yet quite apart from unit labour costs there was good reason to suggest that the dollar was overvalued. Despite the strong position in energy, Canada recorded a record current account deficit in 1975 with even the merchandise trade balance going into deficit for the first time since the 1950s crisis. This was partly due to a collapse of exports, but also to competitive decline as imports had been growing at more than double the pace of exports since 1970. American capital had also begun to extract its reward for past investments, causing outflows in interest and dividend payments to double between 1970 and 1975 and Canada to become, as Wolfe has noted, a net exporter of capital.¹⁵

A sense of economic emergency slowly unfolded throughout 1975 defined, much like the late 1950s, by rising unemployment, a deteriorating current account, an overvalued dollar and falling output. The sources of the employment policy impasse also had parallels: a fiscal policy wholly dependent on capitalist sector growth, a hard currency policy to bring Canadian inflation rates below the rest of the world, and economic depend-

ency vis-a-vis the U.S. cutting the room for manoeuvre. These long period problems were now interwoven with the breakup of Fordism. Canada's reaction, however, was quite distinct from the 'social democratic management of the crisis' that was proceeding elsewhere. The high employment commitment of stabilisation policy had been weakly institutionalized and had already fallen to the wayside; but the open break with Keynesian regulation--ideologically or practically--had yet to be tackled. The crisis of Canada's limping Fordism meant, moreover, that the pressure to maintain external competitiveness was precisely when transitions in the world configuration were bringing 'wages into competition'. The allure of monetarism for Canadian employment policy was irresistible with its resolve "to create unemployment in order to fight inflation."¹³⁶

In November deteriorating economic conditions had led to a policy of stimulus. By summer 1975 output and employment were in much worse shape but were met by a policy of competitive austerity. The 23 June 1975 Budget of Turner broke with the Keynesian 'supply side expansion' to broach the monetarist case:

Faced with these conflicting requirements in dealing with inflation, unemployment and energy, I have had to strike a careful balance in the choice of policies.... The major cause of this increase in costs has been the accelerating rise of wages and salaries...and their continuing acceleration in a period of slow growth and high unemployment.... [Inflation] undermines the effectiveness of the traditional instruments of demand management policy to keep the economy on course. When inflation reaches a certain point, the stimulation of spending may simply lead to higher prices rather than more goods and more jobs; in the longer run, it actually makes unemployment worse.¹³⁷

The fiscal policy, moreover, went some distance in advancing monetarist policies of market reinforcement. Notably, the preponderance of the Budget directed itself at adjusting Canada's competitive environment and

public austerity: a reduction in public sector capital spending and hiring of new employees; a ceiling on transfers to the provinces; tighter eligibility and reduced benefits for UI; and calls to reduce wage and price expectations as the government would no longer "underwrite...ever higher rates of inflation by further expansionary policies."¹³⁸ The public expenditure cuts for 1975 were to be about \$1 billion, which roughly equalled the cost of personal income tax indexation--a key monetarist precept--coming into effect in 1975.¹³⁹ The proposed 5 per cent investment tax credit for machinery and equipment purchases undertaken by June 1977 also had the markings of the monetarist tenet of permanently lowering taxes on capital spending.¹⁴⁰ There were, as well, a few minor measures reflecting the old regulation, including \$450 million dollars over two years for direct job creation, incentives for housing, tax exemptions for interest on long term corporate securities, a reduction of the maximum personal income tax credit, and a ten cent a gallon excise tax on gasoline for personal use. Fiscal austerity, however, could not offset the sheer magnitude of the slowdown from cutting revenue and leaving an actual budgetary deficit of over \$4 billion.

The shift of fiscal policy brought it along the same track that monetary policy had been running on since 1973. The gradual deceleration of inflation through tighter control of the money supply--with the consequent acceptance of higher unemployment--remained the agenda of 1975. There was ample evidence of this process. M1 growth for 1975--which the Bank would make its key monetary target--remained high at an annual rate of over 13 per cent. But when deflated, real money supply growth indicated a quite sharp slowing, and suggested that monetary policy had been

tight since 1974."⁴¹ The Bank rate was also bumped up from 8.25 to 9 per cent in September, the second largest increase since 1970 and a clear warning that despite the collapse of output the Bank would persist in a sharp 'monetary correction'. The slackness of the economy, however, allowed the secondary reserve ratio of the chartered banks to fall increasing bank liquidity (which was then offset by Bank purchases of Treasury Bills to finance the government deficit).⁴² This process neutralized the expansionary stimulus of the deficit, as did the Bank's use of cash reserves to keep interest rates from declining.

The extent and nature of the crash also raised some issues that pertained to holding too tenaciously to a fixation on simple monetary growth rules. The supply side shocks meant that there had to be some accommodation between inflation and lower output. Any rigid monetary policy to block easier money could only have caused even more damage to output than the 1974-75 crash. The Bank's M1 target, for example, often grew erratically from quarter to quarter, as with its annual rate of growth of 30 per cent in the fourth quarter. This was not unusual. Even over the course of a year it was by no means easy to follow simple non-interventionist rules: despite the decline in output the Bank still had to admit that its monetary target for 1975 came in "somewhat above the range that was being pursued."⁴³ Broader issues of monetary control also marred monetary deceleration. As shown during the mini-boom, other forms of credit creation were expanding at an alarming rate in both domestic and offshore markets. The much discussed need for a broader monetary target would hardly have altered these processes. The open capital markets and non-interventionist policies that the Bank was adopting--which a broader

target would still have left untouched--had no capacity to control the potential financial and debt explosion inherent in these developments. Rather than insulating national employment policies, as PIC and many monetarists argued, they sacrificed them to international discipline and national deflation.

As it had in the past, Canada's hard currency policy immediately raised problems of external regulation. The level of interest rates from the tight money supply widened short term differentials with the U.S. (which had been negative from 1969-73). The Bank "chose to ignore the exchange rate and the balance of payments" impact of the higher rates, following the monetarist view, although there was nothing in Canada's competitive position to warrant the dollar trading at a premium with the U.S (which would have been even higher without an increase in reserves).⁴⁵ The long decline of Canadian manufacturing industry meant, moreover, that the current account was potentially in chronic deficit even without a high dollar (and certainly with one). The deficit would cause international debt to build up, as it would be covered by capital inflows, and higher interest charges abroad.⁴⁶ The current count deficit for 1975 had already haemorrhaged from \$1.5 billion in 1974 to a record \$5 billion in 1975 (with corresponding record capital inflows).⁴⁶ Thus rather than insulating the economy from the international constraint, monetarism in Canada had the potential to increase external regulation and the necessity of putting 'wages into competition' as external competitiveness would hinge on labour costs in a low productivity-high dollar economy if held to over any length of time.

Despite these obstacles, which would become even more unsurmountable

as the crisis unfolded, the Bank openly endorsed monetarism in the fall. In the ironically-called 'Saskatoon Manifesto' of 22 September 1975, Governor Bouey broke with Keynesianism declaring that in the 1960s it was believed that governments could increase employment but,

...now we find ourselves back at square one with higher unemployment rates, with higher underlying rates of cost and price inflation, and with higher interest rates. For more than 20 years almost every country in the western world has given rapid growth and high unemployment much higher priority in its policies than the preservation of the value of money. This approach worked well for quite a while, but it will not work well any longer.... We now have no option but to contain inflation and inflationary expectations..."

As the Bank made clear here and in its 1975 Report, this meant abandoning some of the instruments of Keynesian stabilization policy to stable monetary expansion and market forces such "that interest rates and the exchange rate be allowed scope for such movement as may be needed in either direction."⁴⁸ Monetary policy began explicitly to make its policy conversion--parallel to the technical shifting of the June Budget--from short term economic stability through management of credit availability to long term price stability through monetary targeting. In November 1975 the Bank set its first targets for the growth of the money supply: M1 would expand by 10-15 per cent in the coming year and decline thereafter to approach long term price stability.⁴⁹ The advance targeting had the intent of bending future inflation expectations toward price stability. The Bank summarized the stance as monetary gradualism:

One answer sometimes given to this question is that the Bank of Canada should do the job through a sharp and immediate reduction of the growth rate of the money supply to a rate approximately in line with the sustainable real growth of the economy. If that were to happen, it is asserted, inflation would readily come to an end. The trouble with this prescription is not with the medicine but with the dosage.... It would sharply curtail the growth of spending on goods and services

in the face of continuing large increases in production costs already built into the economy, and this would almost certainly result in extremely weak markets, widespread bankruptcies and soaring unemployment.... The attempt to force as rapid a transition to price and cost stability as this prescription involves would be too disruptive in economic and social terms to be sensible or tolerable."⁹

Yet, despite subsequent 'extremely weak markets and soaring unemployment', the Bank "doggedly followed this tight money policy over a 7 year period."¹⁰

Since the summer of 1975 the government had been actively redirecting its entire stabilization program toward austerity and inflationary restraint. The June Budget and the September proclamation of the Bank began explicitly steering stabilisation policy along monetarist lines. By pushing up unemployment, the strategy was to bring 'wages into competition' in order to break inflation expectations--as the PIC Final Report had counselled--and the linkage between productivity and real wages. A higher 'natural' rate of unemployment was seen as central to ease the squeeze on the manufacturing sector from the crash of domestic output and heightened pressure in external markets. There was still the question of what role incomes policy could play, as the Bank of Canada would put it, "to supplement financial discipline by direct action to restrain increases in income."¹¹ A program of controls on wages and prices had been discussed since 1974, when proposed by the Opposition Tories but rejected by the Liberals in favour of voluntary restraint. There were other forces at play. The capitalist sector, for example, wanted help in reducing labour costs, and there was some sentiment for direct controls on wages if the voluntary talks failed. The CLC leadership, too, found some favour with voluntary restraint under the view that extravagant wage

demands were causing needless strikes and jobs. Yet, in early 1975 when it became clear that the objective of an incomes policy would no longer be productivity sharing but real wage losses, the CLC found it impossible to hold off rank and file hostility toward wage restraint. The suspicion of workers that real wages were being set up to carry the burden of slower growth was clear by the voluntary plan announced in April. The government proposed guidelines of 12 per cent for wages and prices, with the consequence that all productivity increases would go to the capitalists.¹⁵³

The recalcitrance of the CLC meant that the voluntary talks had failed by June, opening the way to some form of mandatory incomes restraint in the Budget. Turner, moreover, was little inclined ideologically to implement mandatory incomes policy. As pressure began to mount from business quarters for more direct action, Turner began to feel the strain, and on 11 September 1975, for reasons still unclear, offered his resignation. With the main link to capitalist interests gone, the government needed to take decisive action to restore 'business confidence'. Donald MacDonald was appointed Turner's successor and, hardly before taking his place as Finance Minister, he tabled the government's new Anti-Inflation Program (AIP) in the House on 14 October 1975.¹⁵⁴

The government's program, outlined in combative tone in Attack on Inflation, had four major policy aspects: restrictive demand policies to align with a falling rate of inflation; a declining share of the public sector by keeping employment and expenditures below the rate of growth of GNP; structural policies to deal with energy, housing and food prices; and, most centrally, a program of price and incomes controls, administered by an Anti-Inflation Board, for firms with more than 500 employees, govern-

ments and professional fees. The government's intent was in keeping with the monetarist view, as the AIP phrased it, "not to accomodate continued high or increasing inflation...in the settings of fiscal and monetary policy."¹⁵⁵ As if to make sure nobody could miss the Trudeau government's new policy line, the President of the Treasury Board, Jean Chretien, announced additional austerity measures on 18 December 1975. The expenditure reductions of \$1.5 billion included additional cuts in federal hiring and capital spending (to reduce the size of government in the economy), a freeze on DREF expenditures and suspension of family allowance indexation for a year--all measures that were components of the old Keynesian regulation.¹⁵⁶

There exist several rationales for the resort to wage and price controls. The most commonly invoked is the argument that the AIP represented a "brave attempt to avoid...a deflationary course of action...[by] preventing accelerating inflation."¹⁵⁷ Yet this suggests that controls only had to do with limiting nominal wage expectations when, in fact, they attempted to force real wage losses on workers. Wage and price controls were intended to "create a window for major structural adjustments" by aiding profits.¹⁵⁸ The major study of the AIP contends that they must be seen "as a wage control program," and from 1976 real wages started decelerating and turning negative in Canada.¹⁵⁹ Without an industrial strategy, the structural adjustments could only constitute an attempt to induce a permanently lower labour cost structure for export competitiveness (partly because the domestic market was being constricted of purchasing power).¹⁶⁰ Trudeau was most forthright when he submitted that the AIP "must accomplish nothing less than a wrenching adjustment of our expecta-

tions--an adjustment of our national life-style to our means."¹⁶¹ This was, indeed, the end of Keynesian stabilisation policies.

8.3 Unemployment and Labour Market Policy

With no specific role to play in support of an industrial policy, Canadian labour market policies, we have argued, suffered from a lack of a strategic focus and institutional instability. Policy tended to be pulled in two directions: market-led policies intended to aid capitalist sector growth, particularly through rapid labour supply growth, and compensatory policies focused on offsetting market failures in the provision of training and providing income support for the high rates of layoff and unemployment. The active labour market policies formed in the 1960s, under the new Department of Manpower and Immigration, emphasized the first direction via expansionary immigration policies, an upgraded network of labour exchanges to promote mobility and job search, and institutional training for adult workers. The early 1970s were intended by the labour market authorities to be a period of consolidation of expansionary labour market policies for high growth.

The economic instability upsetting stabilisation policy, however, also found its way into labour market policy as the 'new unemployment' after the clampdown of 1969-70 shifted attention to the compensatory tendency. There was a new dimension to these policies: the government proposed to stimulate the demand side directly through job creation under the assumption that, following the Keynesian view, the new unemployment was 'transitional' in being primarily a result of a demographic bulge.¹⁶² This thinking was also an aspect of the decision to extend UI and target

training more closely. The general concern with poverty after the Senate Committee Report also lent itself to compensatory policies as part of meeting 'equity' objectives of economic policy. The 'social democratic' expansion of the mini-boom of 1971-73 thus equally characterized much of the initial tone of labour market policies. The compensatory demand side policies also met retrenchment, however, as monetarist ideas spread and high unemployment became intractable in the wake of the crash. It is possible to argue, then, that labour market policies in the early 1970s were looking backward to the old Keynesian rules of co-ordination in the sense of attempting to control unemployment through demand side policies, and looking forward to the monetarist rules that would come to characterize the post-1975 period in the sense of accepting high unemployment as 'natural' and retrenching from interventionist policies .

Job Creation for Transitional Unemployment

The famous Keynesian 'public works shelf' of the 1940s always remained more of an idea than an actual policy in Canada. To give it any substance central and local employment planning capacities would have had to have formed. These were not, however, part of the postwar Canadian state structure: public job creation had been left to the minor incentive program of Winter Works, and Manpower Centres played largely an information role. The expansion of job creation commenced in the early 1970s under severe institutional constraint. There was, moreover, no commitment on the part of the government to the view that public job creation should be a permanent feature of employment policy on the basis that capitalist sector employment could no longer absorb the labour force. Indeed, for both the youth and poverty targets of job creation, unemployment was seen

as non-cyclical, or structural, but in the sense of the limited capacity of the capitalist sector to absorb the surging growth of the youth labour force or to provide the basic job skills necessary for the long term unemployed to enter the labour force. As the Dodge Report later commented:

Demand side policies were used and justified as an instrument of fiscal policy to reduce the general level of unemployment, as an instrument of structural policy to influence the composition of labour demand across regions and, also as an instrument of structural policy, to improve the employability of target groups by providing people with job experience.¹⁶³

This view established the essential attributes of the job creation strategy: jobs would be temporary and 'community-based' to resolve a transitional problem of capitalist sector absorption and thus required no long term commitment to expanding the employment planning capacity. The actual programs, therefore, had much of 'ad hocery' that Doern and Phidd have argued characterizes Canadian labour market policy.¹⁶⁴ The Secretary of State's Opportunities for Youth (OFY) program, for example, developed in late 1970 (and lasting until 1976) to replace the Company of Young Canadians and furnished short term federal grants to local community projects providing summer employment to youth. OFY only involved modest funds in relation Manpower expenditure or to the levels of youth unemployment; its importance, as Muszynski observed, was as a "challenge to the dissident youth movement."¹⁶⁵

The major job creation departure was contained in the Special Employment Plan (SEP), announced on 14 October 1971 by the Minister of Finance. The SEP proposed a total expenditure of \$498 million over seven programmes: a Local Initiatives Program (LIP) at \$100 million; a \$15 million expansion of the CMTF; a \$20 million On-the-Job Training Program

(CMOJTP); an expanded \$160 million Special Employment Loan Program (SELP), administered by DREE and supplying grants for capital project labour costs up to 75 per cent till 31 May 1972; \$80 million for a Federal Labour Intensive Program (FLIP) for capital works; an accelerated loan program for CMHC for housing of \$113 million; and a \$10 million building program for agricultural exhibitions.¹⁶⁴ In December 1972, the Ministers of Finance and Manpower expanded the basic structure of the SEP in launching a \$500 million Winter Job Expansion Plan with the aim of easing seasonal unemployment with funds concentrated "by region, by age group and by the skills of unemployed person."¹⁶⁵

The majority of the SEP was an expansion and rejigging of existing subsidy programs for training and capital works in the hope that incentives would increase employment 'at the margin'. The LIP, however, was a significant departure in that the federal government proposed, following the lead of the U.S. War on Poverty and the British Community Development Program, to fund labour intensive community projects. The program was without either strong central or local structures as the intent was to draw upon local initiative, particularly of youth, for municipal and non-profit projects. Although infused with the rhetoric of participation, the programs actually were more of a 'self-help' solution to unemployment in that they avoided government responsibility for unemployment and left it up to the unemployed to create their own job. In this critical sense, LIP began and remained as an unplanned and non-interventionist form of direct job creation.¹⁶⁶ The 1974 addition of Community Advisory Groups to the LIP structure, consisting of local community interests nominated by a local MP, mainly assisted in 'vetting' proposals rather than adding to a

local planning capacity. This was, moreover, part of a more general move of LIP from unemployed youth to assistance for "areas of chronically high unemployment" that would continue.¹⁶⁹

The Local Employment Assistance Program (LEAP) and Outreach were also job creation programs added by the Department of Manpower in 1973 to include "those unemployed persons considered to be disadvantaged", and encompassed both the disabled and the long term unemployed on public assistance.¹⁷⁰ These programs, too, were to provide community employment. The 1973 Working Paper on Social Security in Canada, released by the Department of Health and Welfare, generalized the strategy into a proposal for a Community Employment Program. This led only to the modest 1975 Community Employment Strategy involving Manpower, Health and Welfare and six provinces in a year long development project to co-ordinate the myriad of community programs attempting to cope with the unfolding unemployment crisis.

The development of new job creation programs was not matched, however, with expenditure levels that could keep pace with the rise in unemployment. The largest expenditure years were 1971-72 under the Special Employment Plan when direct job creation spending was well over \$200 million annually and took up close to 40 per cent of Manpower expenditures, and over 1 per cent of total federal government spending. After dropping substantially from these levels, with expenditures essentially limited to OFY, LIP (the largest program) and LEAP, spending remained flat from 1973-75 at about 25 per cent of the Manpower budget and 0.5 per cent of the overall federal budget. And unlike the response to high unemployment in 1971, the crash of 1974 was met, as McBride has argued,

with only a very modest countercyclical dimension." The lack of funds relative to the scale of the unemployment crisis can be seen in other ways. The decline in expenditures after 1972 cut the numbers of participants from about 120,000 to less than 70,000 in 1975. This meant, of course, a huge decline in job creation participation relative to the numbers unemployed.

The proliferation of job creation programs in the early 1970s was symptomatic of a lack of planning capacity at either the local or national level in Canada to expand non capitalist sector employment. As long as the programs were premised on a transitional view of youth unemployment, it was feasible to keep the job creation short term and unfocused. As long term unemployment in depressed areas became more emphasized, some measure of co-ordination was required. The Community Advisory Groups could not play this role; nor were they sufficient to build the political base of support necessary to challenge the charge that the monetarists began to level that community employment was simply creating short term, dead end jobs." It is difficult to disagree, therefore, with the assessment of the Dodge Report of the 1970s community job creation experience that the lack of strategic clarity "seriously limited the impact and effectiveness of the programs." Such clarity could only have come from recognition of a long period unemployment problem in Canada that further incentives to capitalist sector employment could not resolve either.

Compensation and Coercion in Unemployment Insurance

The typical postwar Canadian response to unemployment was income compensation. It is not surprising, then, that the 'social democratic turn' of 1971-73 encompassed an expansion of UI. The June 1970 White

Paper, Unemployment Insurance in the 1970s, introduced by Labour Minister Bryce Mackasey, proposed a major extension of UI as both a critical component of the campaign against poverty and as a lever in support of an active stabilisation policy. These proposals, too, depended upon strong capitalist sector growth, eventually absorbing the 'new unemployment' for liberal UI provisions, like any income transfer program, would be quite unsustainable with a secular unemployment problem.

The proposals, which were largely incorporated in the 1971 UI Act (including the unimplemented provision for experience rating), had several 'liberalizing' aspects.¹⁷⁴ Coverage, most importantly, would increase from about 80 per cent of the labour force to 96 percent (excluding only the self-employed). As well, the minimum qualifying period would be cut sharply from 30 weeks in the previous 2 years to only 8 weeks in the last 52 weeks. Benefits also increased from an average of 43 per cent of earnings to 66 per cent (with higher ceilings). The qualifying period would be extended from one week to two. There was also embedded in the provisions a 'stick' to compel the government to contain unemployment: a 'trigger' was set at a 4 per cent unemployment level whereby the federal government would have to pay costs above that figure rather than draw down the fund. A similar compulsion existed for high regional unemployment through extended benefits. A revamped UI program was intended, as Pal summarizes, to "enhance worker incentives" by encouraging workers to take up retraining through better income support and to encourage higher participation.¹⁷⁵ The outcome, in other words, was to expand an already rapidly growing labour force. The failure of unemployment rates to approach the 4 per cent trigger at any time in the 1970s meant, however,

that the new program immediately imposed steep financial burdens. The cumulative deficit of the UI account was over \$400 million by the end of 1974 although employee premiums had increased by over 55 per cent since 1971. The government's share of the costs increased to more than half by 1975 in the aftermath of the crash from less than a quarter in 1970. As a portion of GDP, the cost of UI doubled between 1970 and 1975.¹⁷⁵

Although it was impossible to disentangle the secular unemployment crisis and UI problems, the liberal reforms called forth monetarist cries for retrenchment. The retreat had already begun by 1973 when a new UI bill proposed to tighten up the benefits structure by discouraging quits and encouraging job search. The Bill was opposed by the NDP in the minority Parliament, but the changes proceeded administratively through increased disqualifications. Indeed, the intent was to bring UI again closer to labour market policy by assisting "the unemployed in becoming reabsorbed into the labour force as quickly as possible."¹⁷⁶ Besides tightening benefit eligibility, this largely meant realigning UI provision with job placement. In a remarkable reversal of policy, beginning in 1974 an effort was launched to ensure UIC and Manpower Centres shared common premises. As well, a pilot project in Newfoundland explored 'developmental' uses of UI funds by allowing benefits to support training. The largest initiative, however, was a 5 period Job Finding and Placement drive intended to intensify job search efforts or push claimants off the dole. In its first full year operation in 1975, the Placement drive processed over 400,000 recipients, placing only 8 per cent in jobs and less than 1 per cent in training, but disqualifying over 30 per cent from benefits.¹⁷⁸ The proposed changes to the UI Act introduced in 1975 con-

firmed the new direction of lowering the real wage floor in the hope of generating more employment: the period of disqualification for quits or dismissals would be lengthened; eligibility would also be tightened for job refusals; and, finally, the 4 per cent trigger would become an 8 year moving average so as to reduce government contributions.¹⁹ The proposals were intended to lower UI costs and the number of recipients. This was, of course, impossible with the onset of mass unemployment after 1975 and as long as UI remained the basic structure of Canadian labour market policies.

Consolidation and Stagnation of Active Training Policies

Training policy was the major component of federal expenditures on labour markets. Training had figured prominently in the unemployment debates since the 1950s and had been identified as one of the means to improve the Phillips curve tradeoff through better skills matching and faster growth. This conception had been the basis for the AOTA and the CMTP and continued to frame training policies through the 1970s. The 'new unemployment' debate did not centre on training policy in quite the same way in being more concerned with job search and expectations. This allowed a period of consolidation of the rules of co-ordination of training, albeit with the return to some concern with youth (after only shifting towards adult training in 1967). There was, however, also an aspect of stagnation, and even of retrenchment, of training as an active labour policy. The active labour market conception had viewed training policy, following Swedish developments, of playing a countercyclical stabilisation role of absorbing unemployed workers in downturns and supplying new skills for non-inflationary growth in upswings. As unemployment increased, from

both cyclical and structural causes in the early 1970s, training expenditures and training volumes stagnated. Indeed, Canadian training policy was pre-occupied with a debate about on-the-job training (OJT) versus industrial training. The relevance for employment policy was the contention, voiced by an array of observers, that OJT provided greater efficiency by linking workers with necessary skills and thus 'lasting jobs'. This view became associated with the Economic Council of Canada's 1971 Review of labour market policies (although similar critiques could be found outside Canada of institutional training and community job creation).¹⁰⁷ The Council noted a number of disturbing qualities to Canadian training: the vast majority of training was in basic skills and upgrading; private industry, apart from very large employers, did very little training; and Canadian training expenditures were massively skewed towards institutional training. It was argued that trainee earnings would increase from efficiency gains and, as the Senate Manpower Review would conclude, that "a substantially increased proportion of total training funds be used for adults to receive skill training in an industrial or working environment."¹⁰⁸ William Dymond, former Deputy Minister of the Manpower Department, argued that OJT could also play a stabilisation role as "contracting for manpower training from employers can quickly be adjusted to the changing needs of the labour market, and in part the peaks of training activity can be geared to the valleys of business activity."¹⁰⁹

The changes to training policy in the early 1970s mainly dealt with the composition of training, as nothing was established in the way of a countercyclical training capacity. The revisions to AOTA followed an

internal policy review which, according to Phidd and Doern, "recognized that manpower policies should be synchronized with the instruments of economic policy."¹⁹ In essence, this meant attempting, like the initial view of training policy in the 1960s, to target training better to specific occupational needs. This included programmatic and co-ordinative changes. Amendments to AOTA were passed in 1972 allowing subsidization of OJT and reducing the three year period of labour force attachment for training allowance to one year (allowing youth back in similar to the old TVTA). The amendments helped raise the composition of OJT in the overall training supported by the federal government to about 20 per cent of trainees by 1975. The volume of OJT, however, remained low as the total number of participants in federal training programs stagnated at about 300,000 per year from 1971-75. This implied there was less of a training effort in terms of both the size of the labour force and the levels of unemployment.²⁰ The countercyclical role of the CMOTJB under the 1971 SEP, with its focus on the 'hard-to-employ', youth and women re-entering the labour market, failed to play this role either.

The co-ordinating initiative had better success, but also raised new problems of employment planning. The 1972 departmental review put forward a decentralization of the determination of training delivery (again partly reverting to the pre-AOTA structures). This was to be facilitated by an expanded role for Federal-Provincial Needs Committees in identifying occupational skills lacking on a local and regional basis, aiding in the allocation of funds and recommending funding levels.²¹ These structures, however, had only a limited planning capacity and largely supplied local information without integrating into a central employment strategy. The

informational role, moreover, overlapped with labour market information systems in the Manpower Centres and the Community Advisory Groups for job creation. The strategic focus and institutional stability that had plagued postwar labour market policy in Canada continued to be amiss. The Department of Manpower and Immigration remained almost as equally unequipped with the training and employment planning capacities necessary to forecast the level and composition of labour demand and match it with training programs to supply the appropriately skilled workers in 1975 as it was in 1956 when faced with the 'automation scare'.

A familiar set of criticisms began to be re-heard, therefore, about the failures of AOTA to generate a viable training regime. Institutional skills training, for example, had a preponderance of trainees but trained in only a limited number of occupations. A quarter of skills trainees were in clerical occupations and farming, a declining sector of employment, had the third largest number of trainees. Indeed, Ostry and Zaidi concluded that "roughly one-third of trainees in recent years were in occupation groups which might be classified as slack...and therefore unlikely to improve earnings or employability as a consequence of training."⁹⁶ Hence even with the shift to more OJT, training continued to be quite general with about half in general upgrading courses and much of the remainder in skill-defined programs often only loosely related to specific technical training.¹⁹⁷ Yet, turning to the capitalist sector to provide increase training volumes did not solve the problem either. The initial evaluations of the new OJT noted that 90 per cent of the employers with approved training contracts had less than fifty employees and 68 per cent had less than ten. There was little in the way of actual formal training

occurring apart from general job experience. It was impossible not to draw the conclusion that "the small employers...were mostly interested in the lower labour costs resulting from the wage subsidies... [The] Program's objective of creating additional employment through training is open to serious question in...a labour market characterized by high unemployment with many qualified workers available to fill job openings without further training."¹⁸⁸

When examined apart from operational details and programmatic shortcomings, there was little in the specific structure of training policies, or in the overall direction of labour market policies, that altered the rules of co-ordination of the labour market with the growth model. The results of the AOTA structure, before and after the compositional shift to more OJT, confirmed the embeddedness of market-led adjustment processes that were reproducing Canada's relative competitive decline. The other components co-ordinating labour adjustment kept to this track as well. Immigration policy remained expansionary and increasingly targeted to occupational needs, despite the long period problems of absorbing and skilling the national labour force. The 1974 Green Paper on Immigration, however, adopted a much less expansionist view.¹⁸⁹ Similarly, there remained no adjustment strategy for either trade or technological change related layoffs. These occurrences still remained entirely a process of individual adjustment and access to existing labour market programs. The adjustment programs adopted for the textiles, footwear and shipbuilding sectors from 1971-75 followed the experience of TAB for the auto sector and provided only minimum income benefits and little or no retraining provisions.¹⁹⁰ Dependent skills formation and market-led

adjustment processes continued to reinforce the dependent industrialization that was Canada's limping Fordism.

The contradictory nature of labour market policies at the end of the golden age illustrated all too well the failure of Canadian employment policies to form planning and redistributive capacities. Direct job creation could not be sustained over any length of time without local employment capacities identifying local needs and promoting counter-cyclical training. Similarly, redistributive policies limited to income compensation faced major financial complications once high unemployment became a permanent feature of the economic landscape. The economically-pivotal training program never developed the institutional leverage and rules of co-ordination to push the growth model toward more intensive growth. Indeed, the structure of training and adjustment programs continued to assume a capitalist sector led growth process dependent upon an extension of the labour stock to supply skills and to coerce workers to move to new sectors of employment. By the early 1970s this model of labour adjustment was increasingly problematic: even with the astonishing rates of growth of the mini-boom, Canada's unemployment problem mounted. Yet as the crisis was still seen as transitional by the economic authorities in Canada in the mid-70s, they persisted with the faith that labour market imbalances would be cleared by the monetarist strategy of gradually reintroducing some wage and skill flexibility without assaulting the entire postwar labour market regime through a large scale unemployment shock (precisely what occurred in 1981 but with no more success than the gradualist strategy). But with the decline of Fordism, the structural contradictions between rapid growth in the labour supply, stability in the

hours of work, and rising capital-labour ratios, meant that mass unemployment was inevitable after 1975. At the end of the postwar 'golden age' there was little in Canada's labour market policies that could add to a strategy to deal with long term competitive decline except to put 'wages into competition'; nor did labour market structures have the redistributive capacities necessary to control the consequences for employment and unemployment of the slower growth of a 'leaden age'.

8.4 Conclusion: Monetarism and Mass Unemployment

The economic events of 1971 to 1974 had all the earmarks of a period of economic transition. The mini-boom of 1971-73, for instance, had some of the fastest rates of economic growth of the postwar period. It also saw some of the early signs of overaccumulation as what was, in the eyes of Keynesian economists, a stable inflation-unemployment tradeoff began to destabilize and shift to higher levels of discomfort. Notably, unemployment failed to decline after the slowdown, appearing resistant to demand stimulation at ever higher levels of inflation. This phenomena was dubbed the 'new unemployment' and explained as a rational process of worker job search incorporating inflationary expectations in wages. Its real source, however, was exposed by the economic crash of 1974 which brought an end to the postwar order and led to even more marked signs of a long period structural unemployment problem. An economic crisis had been latent in changes internal to the Fordist regime of accumulation before the oil price shocks triggered the collapse. Marglin has noted:

There was, in short, well before the oil shock, a general 'full employment profit squeeze' throughout the OECD countries. This was not a phenomenon associated with business 'cycles'--that is with swings of a few years duration--but the

result of a long period of sustained growth, rising wages, high employment, and increasing economic security for working people.¹⁹

That the troubles were much more fundamental than errors of over-expansionary policies during the mini-boom or the unfortunate coincidence of a series of economic shocks was plainly evidenced by the failure of accumulation to recover after 1975. Stagnant growth could no longer meet the employment stability condition, so countries with labour forces that were still growing soon had sharply higher rates of unemployment. International instability and more open economies, which would configure into a regime of competitive austerity, eroded the realisation conditions for low unemployment. The golden age of full employment had come to an end and a new period of employment insecurity initiated.

The early 1970s were also a transitional period for employment policies. The clampdown had attempted to break inflation expectations with an economic stop, but met only limited success. The growth frenzy of the mini-boom was fuelled by expansionary policies. But it, too, failed to restore low unemployment and stable inflation amidst the breakup of Bretton woods. Both recession and reflation, therefore, seemed to indicate that Keynesian policies were no longer working like they once had. The crash of 1974 and the inability of subsequent reflation from 1975-76, in a period of 'social democratic management', confirmed this spreading opinion. Monetarist employment policies--which openly opposed the redistributional condition for high employment--had a more coherent explanation of the economic instability, but not necessarily any greater capacity to cope with it.

The severe deterioration of the inflation-unemployment tradeoff in

Canada during the early 1970s immediately raised misgivings about whether its 'market-centred' employment strategy could continue to control, if not eliminate, unemployment. Initially, Canada took a modest 'social democratic turn' from 1971-73 in a Keynesian 'economic go' expanding supply side capacity and extending labour market programs to fight inflation and unemployment simultaneously. The steady erosion of national employment capacity through trade-dependence and monetary integration with the U.S., however, constricted the ability to set a course different from that being established by the crash of the world economy in 1974. Canadian employment policies in this period, moreover, exhibited the same policy instability and institutional weakness that had blocked the evolution of a technical capacity to contain unemployment pressures even in favourable conditions. McBride has termed 1975 "a great divide" in Canadian employment policies.¹⁹² This is certainly true in the sense that the Canadian state made clear its commitment to monetarism and the natural rate of unemployment--the first advanced capitalist power to do so--in a way that it never did for Keynesian full employment. The move to monetarist regulation of employment, however, had begun as early as 1973. The monetarist hope, being expressed then by the Bank of Canada, was that the short term pain to bring inflation down would provide long term gains in trade and employment:

Although Canada's present economic circumstances are unpleasant and difficult, the longer term prospects for the Canadian economy are excellent if Canadians can manage to prevent cost and price inflation from undermining the economy's ability to function efficiently at home and to compete strongly in international trade.¹⁹³

Canada was in many ways the lead country to confront the end of the era of 'full employment capitalism'. The Canadian limping Fordist growth

model had, this study has argued, a pronounced long period tendency to surplus labour. Its export dependence also made it especially vulnerable to external shocks throughout the postwar period. The end of Bretton Woods, exchange rate instability and price shocks in the international commodity underscored this point in the early 1970s. The instability of the international regulation exposed the lack of national employment policy capacities in Canada to contain the capitalist unemployment problem. The long period national unemployment trajectory--what we have referred to as a polarising, secular crisis of unemployment--became ever more deeply embedded with the economic crisis. After the turn to monetarist regulation in 1974-75, it was simply a question of how far, and for how long, the unemployment disaster in Canada would proceed once set along the path of market reinforcement policies attempting to maintain the declining competitive position of an economy increasingly oriented to external markets. Only a sustained process of disengaging from the market--a process which Canada lacked a labour movement strong enough to begin--could contain a further eruption of the Canadian unemployment disaster. It was more likely that a 'leaden age' of falling working class incomes, rising unemployment and environmental degradation lay in Canada's future. This is certainly the direction that the initial response to the economic crisis pointed.

Endnotes

1. J. Robinson and F. Wilkinson, 'What Has Become of Employment Policy?' Cambridge Journal of Economics, 1:1 (1977), 13.
2. The original curve was drawn from data over 96 years. Many 1960s studies attempted a similar fit. The article originating much of the 1970s dialogue was: E. Phelps, 'Phillips Curves, Expectations of Inflation and Optimal Unemployment over Time,' Economica, 34 (1967).
3. E. Phelps, 'Economic Policy and Unemployment in the 1960s,' The Public Interest, N.34 (1974), 31, emphasis in original.
4. For surveys on monetarism see: R. Gordon, ed., Milton Friedman's Monetary Framework (Chicago: University of Chicago Press 1974); D. Laidler, 'Monetarism,' Economic Journal, 91 (1981); D. Smith, The Rise and Fall of Monetarism (Middlesex: Penguin 1987); and R. Selden, 'Monetarism', in S. Weintraub, ed., Modern Economic Thought (Oxford: Basil Blackwell 1977).
5. M. Friedman, 'The Role of Monetary Policy', American Economic Review, 58:1 (1968); M. Friedman, Unemployment Versus Inflation (London: Institute of Economic Affairs 1975); Phelps, 'Phillips Curves'; and E. Phelps, ed., Microeconomic Foundations of Employment and Inflation Theory (New York: Norton 1970).
6. M. Friedman, 'A Theoretical Framework for Monetary Analysis,' Journal of Political Economy, 78 (1970), 210-11 cited in M. Blaug, The Methodology of Economics (Cambridge University Press 1980).
7. Experience with inflation makes economic agents more sensitive to incorporating past inflation into wage formation. See: M. Wachter, 'The Changing Cyclical Responsiveness of Wage Inflation,' Brookings Papers on Economic Activity, 1 (1976); R.J. Gordon, 'Wage-Price Controls and the Shifting Phillips Curve,' Brookings Papers on Economic Activity, 2 (1972); and R. Hall, 'The Process of Inflation in the Labour Market,' Brookings Papers on Economic Activity, 2 (1974).
8. M. Friedman, 'Inflation and Unemployment,' Journal of Political Economy, 85:3 (1977), 457. His 1968 'Monetary Policy' article contains the same argument, but not as neat a formulation. Friedman's natural rate of unemployment concept borrowed from the Swede Knut Wicksell's concept of the natural rate of interest where a full employment inflation-free economy would settle. This view, of course, harked back to the classical economists. Its case depends upon steady growth in productive capacity with neutral technical progress, assumptions of dubious merit in actual economic history.
9. In the monetarist view, the interest rate arbitrates the distribution of asset holdings, but not the velocity of money, thus money supply increase translates into price increase, given production conditions.

10. H. Johnson, 'What is Right with Monetarism,' Lloyd's Bank Review, N.120 (1976), 120.

11. Flexible exchange rates were adapted in the 1970s partly under the influence of monetarist reasoning. See: Fine and Murfin, Macroeconomics, 46-7.

12. R. Lucas and L. Rapping, 'Real Wages, Employment and the Price Level,' Journal of Political Economy, 77 (1969); R. Lucas, 'Unemployment Policy,' American Economic Review, 68:2 (1978); and T. Sargent, 'Rational Expectations, the Real Rate of Interest and the Natural Rate of Unemployment,' Brookings Papers on Economic Activity, 2 (1973).

13. J. Mincer had already strongly presented the case for unemployment as voluntary and rational. See: J. Mincer, 'Labour Force Participation and Unemployment,' in Gordon and Gordon, eds., Prosperity and Unemployment.

14. G. Perry, 'Changing Labour Markets and Inflation,' Brookings Papers on Economic Activity, 3 (1970).

15. R.J. Gordon, 'The Welfare Cost of Higher Unemployment,' Brookings Papers on Economic Activity, 1 (1973), 144. In other words, market wages are compared to the job search return of unemployment and the implicit return of non-market activities.

16. D. Mortensen, 'Job Search, The Duration of Unemployment and the Phillips Curve,' American Economic Review, 60 (1970); H. Kaitz, 'Analyzing the Length of Spells of Unemployment,' Monthly Labour Review, 93:11 (1970); and Phelps, ed., Microeconomic Foundations.

17. R. Hall, 'Why is the Unemployment Rate so High at Full Employment?' Brookings Papers on Economic Activity, 3 (1970); and R. Hall, 'Turnover in the Labour Force,' Brookings Papers on Economic Activity, 3 (1972). Hall went so far as to argue that the natural rate is in fact below the optimal level as unemployed workers cause beneficial externalities such as reducing costs (a point becoming incorporated in various theories of disciplinary unemployment in the 1980s). Workers also find solutions to unemployment by taking up leisure.

18. C. Holt, 'Comments,' Brookings Papers on Economic Activity, 2 (1972), 282. See also: G. Perry, 'Unemployment Flows in the U.S. Labor Market,' Brookings Papers on Economic Activity, 2 (1972); and N. Barrett and R. Morgenstern, 'Why Do Blacks and Women have High Unemployment Rates?' Journal of Human Resources, 9 (1974).

19. Besides Feldstein cited below, there were innumerable studies of real wage floors and unemployment. The Canadian studies, which we cite below, were quite influential internationally. See: Aaron, 'Unemployment and Inflation,' 134-6.

20. M. Feldstein, 'Temporary Layoffs in the Theory of Unemployment,' Journal of Political Economy, 84:5 (1976), 938, emphasis in original; and M. Feldstein, 'The Economics of the New Unemployment,' The Public Interest, N.33 (1973).
21. S. Brittan, Second Thoughts on Full Employment (London: Centre for Policy Studies 1975), 35.
22. A thorough bibliography of these studies is contained in Ostry and Zaidi, Labour Economics, 269-72.
23. S. Kaliski, The Trade-Off between Inflation and Unemployment: Some Explorations of the Recent Evidence for Canada, Special Study N.22 (Ottawa: Economic Council of Canada 1972), 29, 109.
24. N. Swan, D. Wilton and W. Needham, 'Inflation in Canada: A Cause for Concern,' in Swan and Wilton, eds., Inflation, 2.
25. Ostry and Zaidi, Labour Economics, 250.
26. Prices and Incomes Commission, Final Report: Inflation, Unemployment and Incomes Policy (Ottawa: Information Canada 1972), 109.
27. F. Denton, et al., Patterns of Unemployment Behaviour in Canada (Ottawa: Economic Council of Canada Discussion Paper N.36 1975); and D. Gower, 'Job Vacancies and Unemployment, 1971 to 1974,' Canadian Statistical Review (July 1975). There were a few other reports on the Beveridge curve for the Council and some discussion in the pages of Relations Industrielles, but all largely after 1975. They were technical in nature, mostly estimating the degree of structural shift (up to 3 per cent unemployment).
28. See: OECD, Economic Surveys: Canada 1971, 13-5, 51-3; Kaliski, The Trade-off, 82; and Ostry and Zaidi, Labour Economics, 153-5.
29. H. Grubel, D. Maki and S. Sax, 'A Reply,' Canadian Journal of Economics, 8:4 (1975), 605. The most significant study in terms of impact, national and international, was: H. Grubel, D. Maki and S. Sax, 'Real and Insurance Induced Unemployment in Canada,' Canadian Journal of Economics, 8:2 (1975). This paper circulated widely earlier and generated a slew of studies from 1975 on trying to estimate the impact on unemployment (usually from less than 0.4 per cent to 1.3 per cent and some at none). Also see: T. Courchene, Migration, Income and Employment: Canada, 1965-68 (Montreal: C.D. Howe Research Institute 1974).
30. Ostry and Zaidi, Labour Economics, 151-4.
31. Economic Council of Canada, People and Jobs (Ottawa: Economic Council of Canada 1976), 94. Various papers began circulating well before the report and are cited therein (especially the studies of Maki and Denton, Feaver and Robb). Statistics Canada was publishing similar studies.

32. Senate of Canada, Standing Committee on National Finance, Report on Growth, Employment and Price Stability (Ottawa: Information Canada 1971), xi-xiv, 65-7. The Senate rejected a strict monetarist money supply rule and wage controls, but did strongly favour income indexation for vulnerable groups, a floating rate and much greater stability in money supply growth and policy to stabilize expectations.

33. L. Rasminsky, 'Testimony,' House of Commons Standing Committee on Finance, Trade and Economic Affairs, Proceedings, Nos. 55 and 56, 3 and 8 July 1969, 2748 and 2844, emphasis added. Rasminsky's speeches during this period, contained in the Bank's Press Releases, had many warnings of the notion of an inflationary tradeoff harming Canadians competitiveness. Also see his general concern for inflation: 'The Role of the Central Banker Today,' The Canadian Banker, 74:1 (1967).

34. This could be seen as the essence of the papers of K. Acheson and J. Chant, 'Bureaucratic Theory and the Choice of Central Bank Goals: The Case of the Bank of Canada,' Journal of Money, Credit and Banking, 4 (1972) and 'Mythology and Central Banking,' Kyklos, 26:2 (1973).

35. Bank of Canada, Annual Report 1972, 7-10. Coyne's warnings in the 1950s about 'inflationary psychosis' very much had the monetarist expectations flavour, especially when combined with his structural view of unemployment. In 1966, Rasminsky made an expectations argument as 11 that inflation would only decrease unemployment temporarily.

36. It should be noted, however, that PIC's research reports had a much more Keynesian cast. For commentary on PIC see: S. Kaliski, 'Inflation, Unemployment and Incomes Policy,' Canadian Journal of Economics, 6:4 (1973); D.C. Smith, 'Same Medicine for the Same Disease,' The Canadian Banker, 80:1 (1973); and F. Anton, 'The Prices and Incomes Commission in Retrospect,' Relations Industrielles, 28:3 (1973).

37. Final Report, 18. Full employment was redefined as a rate at which prices and wages "have no tendency to rise." (116)

38. Final Report, S15, S24.

39. Final Report, 124, S39, 111. 7. The OECD, Economic Surveys: Canada 1971, 13-5 and 51-3 developed a strategy quite similar on the use of controls, but not as against active stabilisation policies.

40. OECD, Economic Outlook, (July 1970), viii.

41. OECD, Economic Outlook (December 1970), 52-3.

42. A. Maddison, Dynamic Forces in Capitalist Development (Oxford: Oxford University Press 1991), 180.

43. P. Armstrong, A. Glyn and J. Harrison, Capitalism Since 1945 (Oxford: Blackwell 1991), 215.

44. A. Glyn and J. Harrison, The British Economic Disaster (London: Pluto 1980), 18-20.
45. A. Lipietz, Mirages and Miracles (London: Verso 1987), 41; and S. Marglin, 'Lessons of the Golden Age,' in S. Marglin and J. Schor, eds., The Golden Age of Capitalism (Oxford: Clarendon Press 1990), 17-20.
46. C. Gonick, Inflation or Depression (Toronto: Lorimer 1975), 128; and Statistics Canada, Capacity Utilization Rates in Canadian Manufacturing (Ottawa: Statistics Canada 1987).
47. Cited in D. Wolfe, 'The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930-1982,' in M. Cross and G. Kealey, eds., Modern Canada, 1930-1980s (Toronto: McClelland and Stewart 1984), 65.
48. A. Waterman, 'Unemployment and Inflation: The Postwar Canadian Experience,' in R. Bellan and W. Pope, eds., The Canadian Economy: Problems and Options (Toronto: McGraw-Hill 1981), 164.
49. R. French, How Ottawa Decides (Toronto: Lorimer 1984), 62.
50. Gordon, 'Postwar Macroeconomics,' 133, notes that in the late 1960s it became the prevailing view that tax policy rather than expenditures should be used for stabilisation.
51. E. Kierans, 'Contribution of the Tax System to Canada's Unemployment and Ownership Problems,' in Canadian Perspectives in Economics (Toronto: Collier-Macmillan 1972), 3.
52. Finance Minister Benson, House of Commons, Debates, 3 December 1970, 1739.
53. J. Perry, A Fiscal History of Canada: The Postwar Years (Toronto: Canadian Tax Foundation 1989), 69; and R. Campbell, Grand Illusions (Peterborough: Broadview Press 1987), 171-2.
54. Budget Speech and Papers, 18 June 1971, 25.
55. Budget Speech and Papers, 18 June 1971, 33. The speech also summed up well the general strategy (albeit overstating the equity dimension): "[The policies build in] stronger safeguards against periodic slowdowns in the growth of the total volume of demand, and thus add new dimensions to the automatic stabilization of the economy. In the area of measures for strengthening the structure of the national economy, we have been concerned to integrate the short-term stimulus in spending with longer-term structural needs. A major point of emphasis has been to increase the attractions to industry to make investments in the slow-growth regions." (31-2)
56. R. Gardner, 'Tax Reform and Class Interests: The Fate of Progressive Reform, 1967-72,' Canadian Taxation, 3:4 (1981), 254.

57. House of Commons, Debates, 14 October 1971, 8688.
58. D. Daly, 'Fiscal Policy,' Canadian Perspectives in Economics (Toronto: Collier-Macmillan 1972), 10.
59. See: House of Commons, Debates, 14 October 1971, 8688-90; Campbell, Grand Illusions, 173-4; and Perry, Fiscal History, 70.
60. Wolfe, 'The State and Economic Policy,' 270.
61. Budget Speech and Papers, 8 May 1972, 1. In his first statement to the House as Minister, Turner had pointed to the problem of cost-push inflation but argued that the "most pressing task is to bring about a substantial reduction in unemployment." House of Commons, Debates, 24 February 1972, 215.
62. D. Wolfe, 'Politics, The Deficit and Tax Reform,' Osgoode Hall Law Journal, 26:2 (1988), 361; and C. Gonick, Out of Work (Toronto: Lorimer 1978), 116. This became the basis of David Lewis's 1972 NDP 'corporate welfare bums' campaign: Louder Voices: The Corporate Welfare Bums (Toronto: Lorimer 1972). On the Budget also see: Purvis and Smith, 'Fiscal Policy,' 19-20; and Perry, Fiscal Policy, 70-71.
63. Budget Speech and Papers, 19 February 1973, 9.
64. Budget Speech and Papers, 19 February 1973, 7.
65. M. Lamontagne, Business Cycles in Canada (Toronto: Lorimer 1984), 77; and D. Purvis and C. Smith, 'Fiscal Policy in Canada, 1963-84,' in J. Sargent, ed., Fiscal and Monetary Policy (Toronto: University of Toronto Press 1986), 20.
66. This was not an unusual result. I. Gillespie's review of Canadian fiscal policy contended that "actual policy was consistently less expansionary or more restrictive than planned fiscal policy during the period examined." This is consistent with our view that Canadian policy was Keynesian in the sense that it was not deliberately perverse, but largely passive, mild and focused on stimulating the expansion of supply side capacity through inducing investment. See: 'Postwar Canadian Fiscal Policy Revisited, 1945-75,' Canadian Tax Journal, 27:3 (1979), 272.
67. A. Plumptre, Three Decades of Decision (Toronto: McClelland and Stewart 1977), 325. This was related to the so-called 'Kierans effect' in Canada in that improvements in terms of trade from resources puts upward pressure on the dollar which, in turn, hurts the more labour intensive manufacturing sector.
68. OECD, Economic Surveys: Canada 1971, 35.
69. Armstrong, et al., Capitalism, 208; and Plumptre, Three Decades, 244-50.

70. Bank of Canada, AR 1971, 11.
71. Armstrong, et al., Capitalism, 210.
72. R. Parboni, The Dollar and Its Rivals (London: Verso 1981), 30.
73. Plumptre, Three Decades, 250-5; and Robinson, Crippled Dollar, 46. Canada also discontinued the Canadian Employment Support Act passed in September 1971 which consisted of giving support to Canadian firms damaged by the U.S. surtax.
74. Royal Commission on the Economic Union, Final Report, Vol. 2, 306.
75. Bank of Canada, Annual Report, 1970, 9.
76. See: T. Courchene, Money, Inflation and the Bank of Canada (Montreal: C.D. Howe Research Institute 1976), 166-7.
77. P. Wonnacott, The Floating Canadian Dollar (Washington: AEI 1972), p. 77. Canada essentially broke its Smithsonian pledge of a clean float.
78. Department of Finance, News Release, 23 April 1971 as cited in Wonnacott, Floating Dollar, 78. The data here is also drawn from J. Pesando and L. Smith, 'Monetary Policy in Canada,' in K. Holbik, ed., Monetary Policy in Twelve Industrial Countries (Boston: Federal Reserve Bank of Boston 1973), 103.
79. Courchene, Money, Ch. 8; Pesando and Smith, 'Monetary Policy,' 102-3; and T. Courchene, 'Stabilization Policy: A Monetarist Interpretation,' in L. Officer and L. Smith, eds., Issues in Canadian Economics (Toronto: McGraw-Hill 1974).
80. Bank of Canada, Annual Report, 1971, 5, 10.
81. Bank of Canada, Annual Report, 1972, 10.
82. G. Sparks, 'The Theory and Practice of Monetary Policy in Canada, 1945-83,' in J. Sargent, ed., Fiscal and Monetary Policy (Toronto: University of Toronto Press 1986), 134; and G. Boreham, Money, Banking and Finance (Toronto: Holt, Rinehart and Winston 1988), 681-2.
83. Plumptre, Three Decades, 255; and Boreham, Money, Banking and Finance, 682.
84. Bank of Canada, Annual Report, 1972, 7.
85. Bank of Canada, Annual Report, 1972, 7-8.
86. Bank of Canada, Annual Report, 1973, 5, 7, emphasis added.
87. Bank of Canada, Annual Report, 1973, 5.

88. Courchene, Money, Inflation and the Bank of Canada, 196, 212-3, 286; and Boreham, Money, Banking and Finance, 682.
89. Courchene, Money, Inflation and the Bank of Canada, 204-7.
90. Courchene, Money, Inflation and the Bank of Canada, 209-11.
91. Royal Commission on the Economic Union, Report, Vol. 2, 305. This view, by and large, followed the 1977 OECD McCracken Report with a slightly more monetarist tinge.
92. See: A. Donner and D. Peters, The Monetarist Counter-Revolution (Toronto: Lorimer 1979), 4-6; and C. Barber and J. McCallum, Unemployment and Inflation (Toronto: Lorimer 1980), 30-4.
93. Armstrong, et al., Capitalism Since 1945, 216-22.
94. OECD, Towards Full Employment and Price Stability (Paris: OECD 1977), 70.
95. The data here is from: A. Frank, Crisis: In the World Economy (New York: Holmes and Meier 1980), 67-8; and A. Glyn and J. Harrison, The British Economic Disaster (London: Pluto 1980), 20.
96. Armstrong, et al., Capitalism Since 1945, 221-5; and Frank, Crisis, 67.
97. Lipietz, Mirages, 133-43.
98. Armstrong, et al., Capitalism Since 1945, 227-8; and Lipietz, Mirages, 141-3. This experience immediately limited the opinion that freely floating exchange rates would enhance stability and national policy autonomy as promulgated by monetarists, especially by Canadians such as Johnson, Mundell and Courchene. See: H. Johnson, 'Inflation, Unemployment and the Floating Rate,' Canadian Public Policy, 1:2 (1975); R. Mundell, 'Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates,' Canadian Journal of Economics and Political Science, 29 (1963); and Courchene, Money.
99. The data here is from: Armstrong, et al., Capitalism Since 1945, 225-9; J. Kolko, Restructuring the World Economy (New York: Random House 1988), 23; Frank, Crisis, 69-70; and E. Mandel, The Second Slump (London: New Left Books 1978), 22-7.
100. OECD, Towards Full Employment, 66.
101. This was the hope of return to some timeless equilibrium. More importantly, the supply side shocks made the point--which Marxians also concede--that some 'accommodation' had to be made for such a cost shock between inflation and real incomes and foiled the monetarist case for a constant growth monetary rule against policy activism.

102. Robinson, Crippled Dollar, 49; Wolfe, 'Rise and Demise,' 51; and Bank of Canada, 'Economic and Financial Developments Abroad in 1974,' Bank of Canada Review (February 1975), 5.
103. Robinson, Crippled Dollar, 47; and Wolfe, 'Rise and Demise,' 70.
104. B. Goldman and J. Maxwell, Wage Developments in Canada (Montreal: C.D. Howe Research Institute 1975), i; Wolfe, 'Rise and Demise,' 65; and Riddell, Dealing with Inflation, 20.
105. See: I. Stewart, 'Global Transformation and Economic Policy,' in T. Axworthy and P. Trudeau, eds., Towards a Just Society (Markham: Penguin Books 1990), 116.
106. A. Maslove and G. Swimmer, Wage Controls in Canada, 1975-78 (Montreal: Institute for Research on Public Policy 1980), 3.
107. Budget Speech and Papers, 6 May 1974, 7.
108. Budget Speech and Papers, 6 May 1974, 6.
109. Budget Speech and Papers, 6 May 1974, passim; Campbell, Grand Illusions, 181; Lamontagne, Business Cycles, 78-9; J. Maxwell, An Assessment of Federal Budget Policy, 1974/75 (Montreal: C.D. Howe Research Institute 1974); and Maslove and Swimmer, Wage Controls, 5.
110. The sales tax reduction is more accurately seen as a stimulative measure and evidence of further erosion of the tax base under Turner.
111. Wolfe, 'The State and Economic Policy,' 273; and Brodie and Jenson, Crisis, Challenge and Change, Ch. 9.
112. Budget Speech and Papers, 18 November 1974, 8.
113. See: Campbell, Grand Illusions, 182; I. Gillespie, An Analysis of Recent Federal Budgetary Policy in Canada (Carleton University: Carleton Economic Papers, N.75-04 1975); J. Maxwell, A Turning Point for Economic Policy in Canada (Montreal: C.D. Howe Research Institute 1975); and D. Peters, 'Weighing the Stabilization Effects of the November 1974 Budget,' Canadian Public Policy, 1:2 (1975).
114. Budget Speech and Papers, 18 November 1974, 31. Finance never explained, however, how it reconciled inflation because of too much demand, and therefore increase capacity, and low output and high unemployment because of a lack of demand, and therefore stimulus.
115. Campbell, Grand Illusions, 183. Although the monetarist argument from the time argued government policy was out of control. D. Wolfe points out, however, that as a counterpart to the tax cuts no new major social program was subsequently implemented in Canada. See his 'Politics, The Deficit and Tax Reform'.

116. This section draws upon: Donner and Peters, Monetarist Counter-Revolution, 25-30; Plumptre, Three Decades, 256; and Boreham, Money, Banking and Finance, 683.

117. Bank of Canada, Annual Report 1974, 7. Bouey would later remark that "many countries were misled by the persistence of apparently high unemployment rates into thinking that the amount of spare productive capacity in their economies was much greater than turned out to be the case." Quoted in Courchene, Money, 229.

118. Monetary gradualism was the term formally given to this monetarist strategy by the Bank in 1976. Its basic components, in my assessment, were already in place by 1973, and it was not a great shift from the postwar hard currency policy. The strategy followed the adaptive expectations view of Friedman and he would endorse the Bank's policy.

119. The conditions for success of this strategy had three aspects: Canadian capitalists would invest appropriately if simply given incentives, markets and low inflation; export markets would grow in a stable international environment and Canada could gain an increasing proportion of them; Canadian unit labour costs could be competitive without a major attack on the real incomes of workers; and any supposed gains from trade would spread across the economy. These conditions all failed to hold through the 1970s. They would again surface as necessary and likely conditions by the proponents of free trade in the 1980s. They would equally fail after free trade in 1989. The consequences of this policy has been to accelerate the relative economic decline and social polarisation of Canada.

120. Armstrong, et al., Capitalism Since 1945, 236. Also see: Bleaney, Rise and Fall, 159-60; and Mandel, Second Slump, 60-2.

121. Mandel, Second Slump, 86.

122. N. Harris, Of Bread and Guns: The World Economy in Crisis (New York: Penguin 1983), 79-83; and Armstrong, et al., Capitalism Since 1945, 243-4.

123. Lipietz, Mirages, 133.

124. Glyn, et al., 'Rise and Fall,' 97.

125. Kolko, Restructuring, 28.

126. So, for example, R. Boyer finds that France, one of the most auto-centric countries of the boom began to launch an export-oriented strategy in this period. See: R. Boyer, 'The Influence of Keynes on French Economic Policy: Past and Present.' (Mimeo: n.d.), 89-90.

127. This, of course, led to the much discussed question of U.S. seigniorage through the 1970s.

128. Kolko, Restructuring, 23.

129. S. Gill, 'Global Finance, Monetary Policy and Cooperation Among the Group of Seven, 1944-92,' in P. Cerny, ed., Finance and World Politics (Aldershot: Edward Elgar 1993), 100. The G5 had been an earlier group; Canada and Italy just joined. The 1976 meeting also agreed that higher unemployment might be used to fight inflation.
130. Campbell, Grand Illusions, 185, 219; and Donner and Peters, Monetarist Counter-Revolution, 7.
131. Barber and McCallum, Unemployment and Inflation, 4.
132. Budget Speech and Papers, 18 November 1974, 9-10.
133. Riddell, Dealing With Inflation, 13.
134. F. Reid, 'Unemployment and Inflation: An Assessment of Canadian Macroeconomic Policy,' Canadian Public Policy, 6:2 (1980), 292-3. Reid's 1975 dissertation at Queen's was on wage expectations and the Phillips curve, and his research did much to frame the debate in the 1970s.
135. Wolfe, 'State and Economic Policy,' 280; Lamontagne, Business Cycles, 74; and Robinson, Crippled Dollar, 49. Government debt at this time was not a major factor in payments.
136. Barber and McCallum, Unemployment and Inflation, 75.
137. Budget Speech and Papers, 23 June 1975, 2, 7, 8, 10, emphasis added.
138. Budget Speech and Papers, 23 June 1975, 13.
139. Lamontagne, Business Cycles, 79; and Perry, Fiscal History, 80; and I. Gillespie, 'The June 1975 Budget: Stabilization and Distribution Effects,' Canadian Public Policy, 1:4 (1975).
140. Wolfe, 'The Deficit,' 363. Previously, corporate incentives were deferred tax liabilities via accelerated depreciation. This tax relief and the personal income tax permanently altered the structure of Federal finances toward monetarist principles.
141. Barber and McCallum, Unemployment and Inflation, 22-32.
142. Boreham, Money, Banking and Finance, 683; and Courchene, Strategy for Gradualism, 79-81.
143. Bank of Canada, Annual Report 1975, 34; and T. Courchene, Monetarism and Controls: The Inflation Fighters (Montreal: C.D. Howe Research Institute 1976), 5-7.
144. Donner and Peters, Monetarist Counter-Revolution, 6.

145. Donner and Peters, Monetarist Counter-Revolution, 6, 27-30. The deepening international integration of financial markets meant less room for monetary policy rather than more, one of the first and most spectacular failures of monetarism. The flexible exchange strategy was strongly argued in Canada by many advocates, especially Harry Johnson, but Canadian integration with U.S. made it a hopelessly misguided policy.
146. Courchene, Monetarism and Controls, 17.
147. Bank of Canada, Monthly Review (October 1975), 29. Thus Canada's leading monetarist could call the Bank "one of the most monetarist banks in deed, as well as in thought" and Friedman could point favourably to Canada in his Nobel lecture: Courchene, Monetarism and Controls, 112 and Friedman, 'Inflation and Unemployment,' 460.
148. Bank of Canada, Annual Report 1975, 11.
149. Bank of Canada, Annual Report 1975, 9. This doctrine would slowly shift as it failed to remedy economic ills from a non-acceleration of inflation to a target of complete price stability.
150. Bank of Canada, Annual Report 1975, 10.
151. Gonick, Great Debate, 115-6.
152. Bank of Canada, Annual Report 1975, 11. As part of the government's general concern with inflation and the need to monitor price-setting behaviour, a Food Prices Review Board had been established in April 1973.
153. Riddell, Dealing, 70; and Campbell, Grand Illusions, 188.
154. The program was announced the evening before on a nation-wide televised broadcast.
155. Government of Canada, Attack on Inflation (Ottawa: Supply and Services 1975), 4.
156. Campbell, Grand Illusions, 186.
157. A. Braun, Inflation and Unemployment in Canada and Other Industrial Countries (Ottawa: Economic Council of Canada Discussion Paper N. 184, 1981), 109.
158. R. French, How Ottawa Decides (Toronto: Lorimer 1984), 67.
159. Maslove and Swimmer, Wage Controls, 11.
160. This is a point conceded by the monetarist T. Courchene who argues that "controls were an integral part of an overall strategy against inflation...[permitting] the Bank to lean more heavily on the levers of restraint." See: The Strategy of Gradualism (Montreal: C.D. Howe Research Institute 1977), 57.

161. Cited in B. Bilson, 'Canada: The Perfect Environment,' in B. Bilson, ed., Wage Restraint and the Control of Inflation (New York: St. Martin's Press 1987), 128.
162. D.A. Smith, 'The Development of Employment and Training Programs,' in A. Maslove, ed., How Ottawa Spends 1984 (Toronto: Methuen 1984), 173-4.
163. Employment and Immigration Canada, Labour Market Development in the 1980s (Ottawa: EIC 1981), 33.
164. B. Doern and R. Phidd, Canadian Public Policy (Toronto: Methuen 1983), Ch.17.
165. L. Muszynski, 'The Politics of Labour Market Policy,' in B. Doern, ed., The Politics of Economic Policy (Toronto: University of Toronto Press 1985), 270; and R. Best, 'Youth Policy,' in B. Doern and V. Wilson, eds., Issues in Canadian Public Policy (Toronto: Macmillan 1974).
166. Cook, et al., Economic Impact, 29-30; and J. Newark, 'Special Employment Plan, 1971-72,' Canada Manpower Review, 3 (1972).
167. Department of Finance, Press Release, 6 December 1972 cited in Cook, et al., Economic Impact, 31-2.
168. See the commentary in the Department of Manpower and Immigration, Annual Report, 1971-72. It would also favour the middle classes who had the knowledge and access to use the grant application procedure.
169. EIC, Labour Market Development in the 1980s, 135.
170. Annual Report 1972-73, 8-10.
171. McBride, Not Working, 126, 142-4. The date is drawn from McBride and the Annual Reports. Also see: S. McBride, 'Trends and Priorities in Job Creation Programs,' in J. Ismael, ed., The Canadian Welfare State (Edmonton: University of Alberta Press 1987).
172. Doern and Phidd, Canadian Public Policy, 512.
173. Labour Market Development in the 1980s, 135.
174. UIC, Annual Report, 1971-72; and L. Pal, 'Revision and Retreat: Canadian Unemployment Insurance, 1971-81,' in J. Ismael, ed., Canadian Social Welfare Policy (Montreal: McGill-Queen's University Press 1985).
175. Pal, 'Revision and Retreat,' 80.
176. UIC, Annual Report 1974-75; and McBride, Not Working, 166-72.
177. G. Dingleline, A Chronology of Response (Ottawa: EIC 1981), 75-6.
178. McBride, Not Working, 172-3.

179. Pal, Class and Bureaucracy, 85-6, 110.
180. ECC, Eighth Annual Review, 104-9; M. Piore, 'On-the-Job Training and Adjustment to Technological Change,' Journal of Human Resources, 3:4 (1968); K. Newton, 'Institutional versus On-the-Job Training: Some Canadian Issues,' Institutional Journal of Social Economics, 3:1 (1976); and W. Dymond, 'Public Manpower Training,' Canadian Business Review (Winter 1974).
181. Senate of Canada. Standing Committee on National Finances, Canada Manpower (Ottawa: Supply and Services 1976), 94.
182. Dymond, 'Manpower Training,' 22.
183. R. Phidd and B. Doern, The Politics and Management of Canadian Economic Policy (Toronto: Macmillan 1978), 391.
184. Department of Manpower and Immigration. Annual Reports, various years; and McBride, Not Working, 126-8.
185. Phidd and Doern, Politics and Management, 390-2.
186. Ostry and Zaidi, Labour Economics, 178.
187. R. Kerton, Active Manpower Programs in Canada (Ottawa: Information Canada 1973), 41-5.
188. Dymond, 'Public Manpower Training,' 23.
189. Department of Manpower and Immigration. Immigration Policy Perspectives (Ottawa: Information Canada 1974).
190. M. Trebilcock, The Political Economy of Economic Adjustment (Toronto: University of Toronto Press 1986); and M. Robertson and A. Grey, 'Trade-Related Worker Adjustment Policies: The Canadian Experience,' in J. Whalley, ed., Domestic Policies in the International Economic Environment (Toronto: University of Toronto Press 1985).
191. Marglin, 'Lessons of the Golden Age,' 19.
192. S. McBride, Not Working (Toronto: University of Toronto Press 1992), 73.
193. Bank of Canada, Annual Report 1974, 9.

Conclusion

The Impasse of Capitalist Employment Policy

No one can be certain of anything in this age of flux and change. Decaying standards of life at a time when our command over the production of material satisfaction is the greatest ever, and a diminishing scope for individual decision and choice at a time when more than before we should be able to afford these satisfactions, are sufficient to indicate an underlying contradiction in every department of our economy. No plan will work for certain in such an epoch. But if they palpably fail, then, of course, we and everyone else will try something different.

J.M. Keynes

The economic crisis which erupted across the advanced capitalist countries from 1974-75 brought a dramatic close to the golden age of capitalism. The optimism of the full employment 1960s had declared the capitalist unemployment problem settled by the postwar reforms of employment policy. Keynesian measures of market control would continue to ensure full employment and rising living standards. Since 1974, however, high unemployment has enveloped the advanced capitalist countries, and the numbers of jobless have continued to increase with the economic stagnation of the 1990s. The Keynesian sentiment that unemployment represented 'unused resources' has been forsaken for the prewar view that unemployment is an unavoidable fate of living in a 'free society' with an 'efficient' economy where some people 'choose' to be unemployed. The full employment commitments formed during reconstruction, and consolidated during the mature years of the boom, no longer serve as the slightest reference point for economic policy makers.

The national growth models and employment policies established during the Fordist boom, however, have had a more enduring legacy. While the general level of labour surpluses has risen, not all the advanced capitalist countries have responded to the crisis in the same manner.

There has been a divergence of unemployment experiences. Notably, several countries--Austria, Japan, Norway, Sweden, and Switzerland--have maintained low unemployment through much of the crisis, although under increasing strain as a result of the competitive pressures produced by a deteriorating world economy. These countries all remained outside the major trading blocs--the European Community and North American continentalism--that had formed during the boom. The low unemployment countries, moreover, developed employment policy regimes over the boom which involved extensive state intervention along at least one dimension critical to employment. In contrast, many of the countries of high unemployment, particularly Britain, Canada and the U.S., were the mainstay of the GATT multilateral process and provide examples of ineffectually institutionalized postwar high employment commitments. The countries of high unemployment all quickly embraced the employment policies of market reinforcement during the crisis and have pursued further economic integration as a solution to national employment crises.

In the conclusion three themes will be taken up. First, the trajectory of Canada as a high unemployment society will be summarized. Canada's 'limping Fordist' growth model began with full employment in the 1940s reconstruction period and, as this thesis has demonstrated, steadily progressed towards high unemployment through the consolidation and boom of Fordism. The economic crisis of Fordism has further propelled Canada along the path of mass unemployment, abetted by the impasse of the national growth model and the collapse of the postwar employment policy regime. The contemporary capitalist employment policy debate--which poses the options of policies of market reinforcement to lower real wages versus

training policies to increase competitiveness as solutions to unemployment--will be presented next. Given the collapse of national markets and employment, it will be argued that these policies have become incorporated in a world configuration of competitive austerity that is adding to the crisis of unemployment in Canada and in the global economy. It is difficult to perceive a solution to the unemployment crisis, it will be concluded, within the existing parameters of capitalist employment policy. A third alternative view of employment policy which extends market control and the processes of market disengagement will, therefore, also be elaborated.

9.1 Canada's Postwar Unemployment Experience

The continuing structural crisis of Fordism often raises a nostalgia for the golden age of high employment. Yet such nostalgia entails, as Boyer warns, "glossing over some of the imbalances or even the contradictions inherent in the old system of regulation." This historical study of Canada's employment policy experience during the postwar boom has raised three questions about the 'virtues, instabilities and contradictions' which formed its long period unemployment trajectory. How did Canada's employment policy evolve over the postwar boom to institutionalize Canada's high employment commitment? Why did Canada not have in place the institutional structures and capacities to contain the pressures of unemployment, especially as they emerged in the early 1970s? What barriers will have to be overcome, and new strategies implemented, to lower unemployment in Canada today? The central thesis that has guided the answers to these questions is that Canada's mass unemployment trajectory

is not an accident of a series of untimely economic events or a result of voluntary individual preferences for unemployment, but is caused by the structural decline and contemporary impasse of the national growth model and employment policy regime forged over the boom.

Canada's postwar unemployment experience has evolved through four stages--reconstruction, consolidation, boom and crisis--each shaping Canada's national politics of unemployment. The unemployment crisis of the depression and the labour shortages of the war altered the political configuration. The strengthened position of the labour movement, in economic and political terms, meant that the reconstruction of postwar economic arrangements made some accommodation toward the employment stability sought by workers. The labour militancy that emerged in the 1940s was, however, tightly channelled into a 'truncated political settlement' between capital, labour and the state. Part of this settlement, and arguably its major element, was the fordist compromise that workers would gain a share of rising productivity growth. This stabilized the demand conditions that were the complement to mass production and formed, in Canada and other advanced countries, the fordist regime of accumulation. The other facet of the settlement was state policies to maintain effective demand and high employment, which formed the basis of a Keynesian mode of regulation. The institutionalization of a 'high employment commitment' in Canada had two features that would configure Canada's postwar unemployment challenges. As employment demand was to be derived from capitalist sector accumulation, rapid economic growth was pivotal to high employment. Canada's postwar growth model, however, could be characterized as a limping Fordism in that growth was also extensive, deriving from rapid

labour supply growth, capital inflows and resource exploitation, as well as from productivity increases, with an underlying long period rising unemployment problem. The limited market control employment policy regime put in place during reconstruction, moreover, undid the investment and planning capacities built during the war. The postwar employment policy would instead rely on passive Keynesian countercyclical policies, export demand and income compensation policies to contain unemployment.

The consolidation of Fordism from 1956-66 was not without adversity. The recession of 1957-60 presented the conjunctural unemployment challenge of co-ordinating stabilisation policies to maintain effective demand and developing adjustment policies for technological change. The labour market pressures arose from the deep cyclical unemployment crisis, which was greeted by a confused and ineffective stabilisation policy to stimulate effective demand. The labour displacement and skill transformations from further Fordist automation also generated widespread concern that changes in labour force skills were lagging behind changes in employment such that Canada had 'creeping unemployment'. The 'automation scare' did not lead directly to new labour market policies, however, as these came in the 1960s with the rapid expansion of new training institutions under the influence of baby boom labour force entrants. The origins of Canada's active labour market policies and the development of a separate Manpower Department resides in the 1961-66 period. The co-ordination failures of stabilisation policy that had generated the strife of the 'Coyne affair' of the early 1960s also became resolved in the 1961-66 period. This was not due to the embrace of a more active stabilisation policy; rather, Canada was pulled along by the high growth generated by the U.S. spending

boom, and pushed by the sudden depreciation of the Canadian dollar. The unemployment challenge in the period of consolidation was met by a moderate expansion of labour market capacities, but it was only alleviated--and only in part as the unemployment 'limp' of the growth model continued to develop--by propitious external economic conditions.

The peak of Fordism and the beginnings of its crisis transpired in the third phase of 1966-74. The conjunctural unemployment challenge had aspects of both processes: managing the characteristic stabilisation problem of the boom of the inflation-unemployment tradeoff, and developing an employment policy capacity to contain a burgeoning unemployment crisis. The boom phase of 1966-70 was wrought with inflationary concerns and efforts to form an incomes policy. These efforts, like so many previous, led nowhere. The resort to an economic clampdown from 1969-70 attempted to shock inflation out of the system to re-establish the boom's stable growth. This failed, too, and created 'new unemployment' that refused to recede with an economic go after 1971. Inflation and unemployment increases were attributed to lags in the adjustment of skills, especially of adult workers, and training policies again shifted to target this group. The high unemployment also led to desperate efforts at job creation but there was no employment planning or training capacities to provide the redistributive and strategic basis for this policy. As the postwar world configuration fell apart from 1971-74, stabilisation policies moved madly between anxiety about inflation, unemployment and external stability. The internationalization of the economy, however, initially sustained Canadian growth from a boom in commodities. The oil shock of 1973 triggered the crisis of Fordism, the end of Keynesian

regulation and the breakup of the golden age of high growth and employment. The structural economic crisis after 1974--the fourth stage of Canada's postwar unemployment experience--unleashed a vicious spiral of currency depreciation, declining competitiveness and even higher unemployment.

Capitalist economies are reproduced, as we argued in Chapter 1, according to historically-specific accumulation regimes and modes of regulation. These attempt to define in an abstract manner--as with the notion of a Fordist accumulation regime--the technical paradigm, distribution of output and social demand across social spaces providing for a stable reproductive cycle. National economies, however, are regulated by institutionally specific growth models and rules of co-ordination. Canada's postwar experience structured, in the long period sense of path-dependency, its national politics of unemployment. The outstanding feature, in comparative and historical terms, was the secular deterioration of unemployment as Canada progressed from full employment at the outset of reconstruction to high unemployment at the end of the boom. We have summarized this historical experience as a transition from a 'limping Fordist golden age' to a 'leaden age of competitive austerity'. A number of conclusions can be drawn from this study as to why Canada did not form a capacity to contain unemployment and thus became a chronic high unemployment society.

It is, first of all, necessary to summarize the long period trends forming the labour market pressures toward high unemployment. There are four tendencies, of varying importance, to Canada's polarising, secular crisis of unemployment.

(1) Canada's long period unemployment problem is most visible in the secular tendency for unemployment to increase across the business cycle. Canada's unemployment trajectory diverged from the rest of the capitalist countries, therefore, and traced a movement from full employment toward high unemployment over the boom. From the 1950s Canadian unemployment rates were consistently amongst the highest of the core capitalist countries. As well, Canada's rate maintained a margin over U.S. unemployment levels, with some tendency for the differential to widen. Canada's high unemployment also had a polarising dimension in that peripheral regions were beginning to experience mass unemployment during the boom, while the core regions had high employment. It is necessary, therefore, to locate the origins of Canada's long period unemployment problem in the evolution of the boom.

(2) Both employment and labour force growth were maintained at impressive rates over the boom. Thus, following a North American pattern, a substantial portion of Canadian postwar growth was 'extensive' in being derived from a widening of the labour stock. As employment growth stagnated in the Fordist industrial sectors, the majority of new employment occurred in services, partly in government and especially in the capitalist sector. Canada became over the boom the leading service-based economy in terms of employment. As unemployment increased in the 1960s, service sector growth was linked to the growth of part-time employment. The labour supply pressures and the composition of labour demand were, therefore, central to the form of job creation and the structure of the long period unemployment problem.

(3) Real wages tended to lag behind productivity in Canada making the

processes of Fordist wage formation underdeveloped relative to the other countries of central Fordism. The low level of unionization, high unemployment, low proportion of contracts with cost-of-living clauses and laggard welfare state all added to the weak redistributational basis to incomes. Effective demand stability was consequently vulnerable to government and capitalist investment intentions and export markets. Nevertheless, wage processes moved from being a source of stability to a major source of conflict in Canada as productivity declined at the same time wage and strike militancy increased in the late 1960s. The long period tendency was, therefore, to bring wages and social costs 'into competition' as unemployment escalated, thereby further undermining the redistributational basis of demand stability.

(4) Worker adjustment to changes in the distribution of employment opportunities depended on market-led processes. In contrast to the flexibility provided by extensive retraining programs in Sweden, adjustments to the labour supply in Germany, or the deep segmentation of the labour market in the U.S., Canada relied more extensively on the pressure of the 'reserve army of unemployed' to provide flexibility. High unemployment aided market-led adjustment through widening wage dispersion, high rates of labour mobility, easier use of layoffs, and deployment of part-time workers. A highly elastic skilled immigrant labour supply was also critical to adjustment. The processes of market-led adjustment was increasingly at odds, particularly by the period of the 1969-70 clampdown, with the employment stability implied by a full employment commitment.

The national growth model is the primary basis for determining the form of accumulation, the distribution of output and the composition of

social demand. The unique institutional structures defining the growth model provide the fundamental regulation of the demand for labour. There are four aspects of Canada's limping Fordist growth model, this thesis has maintained, that acted as constraints on the postwar capacity to contain unemployment.

(1) Canada's postwar growth model--which was part of a more general North American paradigm--had important dimensions of intensive and extensive accumulation. The definitional characteristic of Fordism was intensive accumulation through productivity advances from Taylorist work fragmentation and economies of scale. Both the primary and manufacturing sectors in Canada exhibited these dynamic processes producing superior growth and productivity rates (although below other advanced countries). The particular characteristic of Canada's growth was the extent to which it was extensive, relying on the expansion of the labour stock and economic rents obtained from a thriving market for natural resource exports. Canada's postwar growth model exposed, moreover, an underlying tendency to depart from full employment so it may portrayed as a 'limping Fordism', with the unemployment 'limp' increasing as the underlying rate of growth decreased, breaching the employment stability condition.

(2) The progression from a closed 'national' markets to an open 'global' market also made employment stability vulnerable to an unstable external regulation. The 1945 White Paper stated Canada's intent to have resource exports play a prominent role in stabilising capacity utilisation and employment. The export component of output grew over the boom and, in the absence of a national industrial strategy, resulted in a process of 'disarticulation' of the Canadian economy and traded goods having a

resource bias. As exports increased, Canada continued to pursue a dependent industrialization accumulation strategy with the U.S. in an attempt to preserve markets, in the process ceding control over the national economic space through formal trade arrangements and through the degree of integration of trade and capital flows. The world configuration also evolved toward more open markets in the pursuit of liberal trade and capital policies under Bretton Woods, thus providing less support to divergent macroeconomic processes. This limited the capacity of Canada's national policies to regulate the growth model, and hence conditions for realisation and high employment levels, except by constraining production costs and 'putting wages into competition'. National conditions of production and employment established by capitalist sector growth were increasingly compelled, therefore, to conform to international competition and discipline.

(3) The lack of an industrial strategy over the postwar period meant that Canada's relative productivity decline was not reversed. As a result Canada was pushed down the 'international hierarchy of production'. A series of ad hoc subsidies to selected industrial sectors, particularly resource and exporting sectors, failed to establish a stronger foundation for industrial production. Although service employment was central to employment growth, avoiding a decline in industrial employment was a precondition for sustaining a capacity to contain unemployment.

(4) The technical paradigm of Fordism began to show productivity declines by the early 1970s while, at the same time, production was becoming increasingly dependent upon world markets. The productivity problem stemmed from attempting to squeeze more output from further work fragmen-

tation while increasing capital-intensity in larger plants. This was the material basis for the profitability crisis and the slowdown of accumulation in the 1970s. These pressures constrained the capacity to maintain high employment: increasing capital intensity reduced the amount of labour required for a given level of output, while the realisation of that output became more contingent on external demand. Canada's limping Fordist growth model was especially impeded: relative manufacturing decline made it virtually impossible to expand the level of industrial activity; national conditions for realisation were vulnerable to external conditions; the weakness of Fordist wage formation made it difficult to redistribute income or work in the capitalist sector; and the labour supply pressures threatened to explode into mass unemployment with any slowdown in accumulation.

The historical development of the institutions of employment policy are a critical aspect to containing the capitalist unemployment problem. In Canada, the employment policy and planning capacities expanded greatly during war mobilization in terms of control over national investment, international capital flows, and training policy. Although largely rundown during reconstruction to restore capitalist sector led growth, the Keynesian employment policy regime retained some capacity to regulate employment. In comparative terms, however, Canada adopted an employment policy regime of limited market control comprised of a passive Keynesian fiscal policy, a restrictive, hard currency monetary policy and market-led labour policies. The national rules of co-ordination reinforced, rather than re-channelled, Canada's capitalist sector-led, 'extensive' growth model. There are several aspects to Canada's postwar failure to develop

an institutional capacity to contain unemployment.

(1) The labour movement in capitalist societies is the economic actor most committed to a politics of full employment as both its economic and political strength rests on its bargaining power and employment security. The weakness of the labour movement in Canada, and its defeat in the initial years of reconstruction, left Canada with a truncated postwar settlement and a weak commitment on the part of the government to maintain 'high and stable employment'. This reflected the marginal, although not inconsequential, role of the labour movement in Canada and in particular what Smith has called the 'labour exclusionary politics of Canadian economic policy'. It also meant that relative to other countries 'tripartite' negotiation over employment policy played virtually no role in postwar Canada. This was a political position which did not alter over the course of the boom, although there was some relative strengthening of the labour movement's influence during the period of rapid accumulation in the 1960s, reflected in both the expansion of labour market policies and the discussions over incomes policies. The CLC's interventions on employment policy reflected its adherence to full employment and to strong Keynesian policies for rapid growth, but also its isolation as often the only voice for activist employment policies.

(2) Stabilisation policies in Canada adopted a passive macro-regulation in favouring export market-led growth of the capitalist sector and providing demand stability primarily through the expansion of income support during downturns and use of interest levels and credit conditions to stimulate or restrict private investment. Because of the focus on exports as the means to sustain high growth (and hopefully employment), external stability of

the currency figured prominently as a concern of economic policy and often offset national employment considerations. The magnitude and thus the problem of external regulation would expand over the postwar period and constrain national employment policy.

(3) The historical practice of Keynesian policies in Canada relied on fiscal policy (and partly monetary policy) attempting to stimulate capitalist sector led investment to expand supply side capacity and much less on deficit spending increasing consumptions or redistribution. This budgetary approach entailed keeping private sector growth rates as high as possible through ever greater cuts in corporate taxes, subsidies and tax incentives to keep investment levels increasing. Employment policies were seldom explicitly perverse in the pre-Keynesian sense of governments actively pursuing balanced budgets in recessions. They were, however, most often inadequate relative to the size of unemployed reserves, and repeatedly lagged real economic movements, being too confident in market-led recoveries, and too stimulative of capitalist sector growth at cyclical peaks. The primary countercyclical role of economic policy was, therefore, passive in being reliant on automatic stabilisers, such as UI and welfare payments which moved opposite to unemployment, to keep some purchasing power in the hands of the unemployed. The overall growth of the state sector also played this role in that public expenditures and employment were less sensitive to economic fluctuations, although, relative to Europe, a much smaller proportion of annual expenditures and employment were disengaged from the market in Canada.

(4) The Bank of Canada had a great deal of institutional independence from political authorities and monetary policy reflected this fact. While

nominally committed to consideration of employment conditions in its policy mandate, the Bank's monetary policies were overwhelmingly oriented to control of inflation. The various postwar monetary episodes, notably with Coyne in the 1950s and the overreaction to problems of currency instability in the 1960s, illustrate this priority. If the Bank was not exactly perverse in the Keynesian sense, it was always willing to run the economy with more unused capacity and unemployment than often warranted. The anti-inflation focus was consistent with the overall hard currency policy that the Bank maintained as its overall priority. Although Canada maintained a floating exchange rate during most of the postwar period, the Bank did not employ competitive devaluations to gain a competitive advantage. Rather, the Bank was concerned with external stability to attract capital inflows to Canada and maintain stable trade and commercial relations with the U.S., hence leaving the management of high employment to the fiscal and labour market authorities and to competitive wage rates. The Bank's early adoption of monetarism in the 1970s was consistent, we suggested in Chapter 8, with its traditional hard currency policy (although the policy shift represented more than technical adjustments). The problem of the Bank's hard currency policy over the postwar period, and as would recur in 1978 under monetarism, is that Canada's competitive position as reflected in relative productivity decline and chronic current account deficits, did not support it. Thus any extended period of overly tight monetary policy would inevitably develop into a currency crisis--and this has transpired in every decade at least once--and a sudden devaluation against the best efforts of the Bank to hold onto an overvalued dollar and to force unemployment and lower wages to be the basis for

Canadian competitiveness.

(5) The capacity of Canada's labour market policy to contain unemployment was limited by the contradictory role it played in maximizing labour supply growth and market flexibility and responding to the short term pressures to control cyclical unemployment crises. Labour market policies always play a supportive role to industrial policy, but without a national strategy there was no particular institutional role for labour market policies. Their strategic focus, therefore, was primarily to support market-led growth, and the two dominant policies over the postwar period illustrate the point well. Immigration policy, for example, had major tasks in 'poaching' skilled workers for Canada, which kept capitalist's training costs down and Canadian training and apprenticeship systems backward, and expanding the overall labour stock as part of the extensive growth strategy. Passive income support through UI was the other key labour market policy and it, too, played an essential part in Canada's market-led strategy by allowing firms easier layoff and to avoid compensatory adjustment and training policies. The most developed components of the Canadian labour market system in the postwar period were, therefore, a system of labour exchanges to provide job listings and employment counselling and an adjustment service to assist in negotiated layoff and retraining provisions by plant site. These structures were only modernised during the 1960s active labour market policy period and began to decline by the mid-70s.

The extent of cyclical unemployment crises in Canada, and the secular upward trend of unemployment, compelled short term job creation programs, such as Winter Works. These programs, however, lacked any

concerted commitment on the part of the economic authorities to permanently expand the public and non-market sectors. Their development did not lead to any development of an employment planning capacity at either the national or local levels. The jobs created, therefore, were often extremely short term and ad hoc with any relationship established to local needs coincidental rather than planned. Thus the essential components of a redistributive employment policy remained undeveloped at the end of the postwar period.

(6) In the absence of an industrial policy, the specific role of training policy also lacked an operational strategy. The predominance of market led growth meant training policy suffered from institutional instability and the complete failure over the postwar period to develop an adjustment policy. The availability of an elastic supply of skilled immigrant labour relieved any labour market pressure for a training policy. Indeed, the training capacity developed during the war was never established during peacetime. The institutions for delivering training were only modernised in the 1960s but they still lacked an integrated role in labour market planning, partly due to provincial jurisdiction but especially due to a continually shifting focus on what they should do and the lack of a commitment to training by Canadian capitalists. The core of adjustment programs are provisions for retraining and these, by and large, failed to become institutionalized at all as government policy favoured voluntarily negotiated solutions at the plant site (including advance notification of layoff until the 1970s). No comprehensive adjustment policy was formulated for large layoffs due to either technological change or trade dislocation. The failure to acquire a training policy capacity meant a

chronic shortage of nationally-skilled workers alongside unemployment, and no substantial institutional capacity for countercyclical training or retraining.

Canada's experience of the postwar boom is not without comparison to other countries, as we have tried to show in this thesis, as the rhythm of Canadian growth, the pressures confronting employment policies and the strategies for unemployment had certain similarities across the countries of central Fordism. Yet the postwar unemployment experience of Canada was singular in that as other countries moved toward full employment as the boom proceeded, Canada moved toward high unemployment. At the most general level, as we argued in Chapters 1 and 2, Canada did not develop a capacity to contain unemployment because of the failure to institutionalize a full employment commitment. This failure, in turn, reflected the relative weakness of the labour movement. This political condition--an essential aspect of redistributing the employment impact of the slower growth--did not alter over the boom. The CLC remained 'outsiders' to employment policy-making, although the stronger position of the labour movement in the late 1960s did lead to some expansion of labour market policy capacity and an interlude of 'social democratic' management during the mini-boom of 1971-73. As well, and more centrally to the argument of this thesis, the nationally specific political and institutional conditions to contain unemployment did not form, and to a degree decayed, over the boom: the national growth model did not meet the condition for employment stability as accumulation was too slow and too extensive, while productivity growth was in relative decline; the national conditions for regulation of employment and realisation suffered steady erosion to

external demand and capital flows; and, finally, the employment policy regime of limited market control never established the redistributive conditions to sustain high employment. Canada's national trajectory toward mass unemployment was launched, consequently, neither as a result of over-expansionary stabilisation policies and too generous income maintenance programs in the 1970s claimed by the monetarists, nor in the specific events of the crash of 1974-75 as asserted by Keynesians, but in the politics and history of the postwar boom which established and reproduced Canada's limping Fordist growth model and its truncated employment policy regime.

9.2 The Impasse of Capitalist Employment Policy

The monetarist employment policies that emerged in the early 1970s in Canada, and discussed in Chapter 8, have become firmly embedded in Canadian institutions over the course of the crisis. In this, Canada has not been alone. The breakup of the postwar order has pushed all the advanced countries away from high growth and employment toward stagnation and unemployment. Under the direction of monetarism, the return of a competitive regulation in the labour market through the flexibility of high unemployment, and in product markets through the processes of globalization, has eroded the conditions for high employment. Canada's postwar national growth model and employment policy regime provided few resources to avoid these processes. Indeed, this thesis has argued that Canada was the first of the major capitalist powers to begin reverting to a monetarist competitive regulation. The limping Fordist growth model incorporated a secular tendency to rising unemployment; the market-led employment

policy regime had little institutional capacity to redistribute the employment and income necessary to contain unemployment in an era of slow growth. The shift from a more national Keynesian regulation to a more international competitive regulation, has proven, therefore, an irresistible force to put 'wages and employment into competition'. The current capitalist employment strategies being discussed, both in Canada and abroad, are unlikely to reverse this process, in light of the historical processes examined in this study.

A first strategy is a return to the demand side Keynesian employment policies of market control. Yet, even if many Keynesian criticisms of the unemployment impact of monetarist regulation remain telling, it is difficult to sustain the view that increasing aggregate demand, in either consumption or public investment, will have an impact on stimulating growth or lowering unemployment. Even if there exist real effective demand shortfalls at the national level, due to low investment or the pursuit of restrictive budgetary policies to control domestic costs for international competitiveness, it is doubtful that a stimulative package would call forth private sector investment at levels high and enduring enough to recreate an economic boom. It is even more unlikely that demand stimulation at either the national or even the supranational level can solve the long period unemployment problem which now exists. Nor can the international mechanisms and institutions that might supply stable, long term, balanced aggregate world demand be identified or foreseen. The neoclassical Keynesian employment policies of the postwar period have little potential, on both technical and political grounds, to be recreated as a viable solution to the capitalist unemployment problem today.

The contemporary capitalist employment policy debate has focused, therefore, on improving the flexibility of the supply side and the competitiveness of the export sector as the means to lower unemployment. Two options can be identified. The neoliberal market reinforcement strategy has aimed at breaking the institutional rigidities built into the postwar system to improve market flexibility, lower real wages and, in turn, spur capital accumulation. The progressive competitiveness market control strategy, in contrast, has attempted to stimulate the systematic introduction of new technologies and to develop high-skill training regimes to compete by flexible adjustment of production processes and products rather than by low wages and unemployment. The employment policy conclusions run parallel: rapid economic growth, export-oriented economic policies and freer trade, through the economic integration proposed by the European Community and the North American Free Trade Agreement, or via the multilateral GATT, are the means to contain spiralling unemployment.

The neoliberal position, following from the monetarist views of the 1970s and favoured by most OECD governments and business groups, sees the crisis as a general problem of labour market rigidity and as a specific one of adjusting skill and mobility to the new occupations and locations of emerging industries. The neoclassical 'human capital' school has been central to neoliberal employment policies as the economic transition to new technologies adds to the complexity of job search and training decisions.³ The core of human capital theory is the conception that individuals invest in themselves (in job search, information sources, qualifications, migration) for the sake of future monetary returns--a return on investment in skills (non-pecuniary returns from education being ignored

or reduced to a monetary value). As one of the founders of the school, T. W. Schultz, put it: "knowledge and skill are in great part the product of investment and, combined with other human investment, predominantly account for the productive superiority of the technically advanced countries."⁴ In short, human capital theory suggests that the labour market yields private market signals to individuals which are not at variance with the social signals for the economy as a whole. Unemployment is a specific, individual, voluntary problem of the labour market.' Individual firms and workers voluntarily make, accept or refuse wage offers. Unemployment results when the real wages being asked are too high, relative to skill levels, and profits too low, consequently leading to fewer job offers, a lower rate of investment and the use of labour-saving techniques. As unemployment is individual, demand stimulus does not effect real output and thus unemployment remains, as the monetarist position discussed in Chapter 8 argued, at its 'natural' rate. In Canada, neo-liberal employment policies have been especially associated with the views put forth by the Royal Commission on the Economic Union:

For structural and institutional reasons, the rate of unemployment consistent with stable inflation in Canada is in the range of 6.5 to 8 per cent. Expansionary monetary and fiscal policies cannot sustain levels of unemployment below this range over the longer term. A permanent reduction in such 'structural' unemployment would require structural changes, by which we mean such policies as freer trade, labour market adjustments, and new mechanisms of labour-management relations.'

The present employment difficulties of transition to new industries and international competition are due, based on this analysis, to real wage levels causing a training gap and unemployment. Various labour market restrictions and government programs for training, for example,

keep the costs of training too high and thus skilled workers under-supplied.' This is especially the case for what Becker calls 'transferable skills and competencies'.⁸ These general skills will increase individual productivity equivalently for any enterprise, and thus contrast to the specific skills that increase individual productivity primarily in the firm providing the training (although little training is completely specific to a single firm). Skills provided by general training are in danger of being 'poached': individual firms may forego the costs of training finding it instead to their advantage to bid trained workers away from the training firm by providing a higher wage.⁹ Firms would be willing to finance general training only if the costs could be recouped. The problem of poaching is, however, not market provided training, but trainee wages that are too high relative to their marginal product. If wages are brought in line, either by wage subsidies or lowering trainee allowances and minimum wages, poaching would cease. Firms would undertake training, with prices again signalling socially efficient training levels.

Removing non-market barriers which prevent real wages from falling would also lead to new hires and higher levels of productivity and investment. The neoliberal measures to improve labour market flexibility, in terms of wages and mobility, primarily involve rolling back institutional securities for workers built into the postwar labour market and welfare state: reducing trade union power; minimizing the welfare disincentives to work; improving information flows and labour mobility; and eliminating market restraints, such as minimum wages and unemployment insurance, which limit downward wage flexibility. By moving to an unregulated free market economic adjustment would produce market-clearing wage levels: unemploy-

ment is, then, a voluntary choice given existing competitive conditions.

The neoliberal approach has dominated capitalist employment policy since the origins of monetarism in the early 1970s. The privatization of training, however, has had destructive consequences for skills. Firms have failed to provide adequate levels of trained workers, workers often drop out of training programs because of a lack of adequate living allowances, and unskilled workers on training programs have frequently been little more than subsidized waged labour (especially in the Canadian training programs), on the basis that any paid work provides basic training for further employment. The trajectory of rising unemployment is, moreover, seems ill-accounted for by the neoliberal position. A satisfactory explanation has never been provided as to why the 'natural rate' of unemployment should vary so much over time, between countries, or for any number of institutional reasons. Rather than exhibiting any tendency toward an optimum employment of resources, more than anything else, as we have seen with respect to Canada, the 'natural rate' seems to track the historical rate of unemployment. Bringing down the rate of inflation and increasing downward wage flexibility through the 1980s has not meant a reduction in unemployment. On the contrary, restricted demand policies, and nominal wage increases kept below rates of productivity growth and inflation to remain internationally competitive, have contributed to the deflationary tendency of the crisis by squeezing down social and wage costs. As Lipietz notes: "To the supply-side internal crisis of Fordism was added a demand-side international crisis."⁶

Indeed, the spread across the capitalist bloc of neoliberal policies has led to an unstable vicious circle of competitive austerity: each

country reduces domestic demand and adopts an export-oriented strategy of dumping its surplus production, for which there are fewer consumers in its national economy given the decrease in workers' living standards and productivity gains all going to the capitalists, in the world market. This has created a global demand crisis and the growth of surplus capacity across the business cycle. The structural asymmetries in the world payments system, notably the deficit of the U.S. which has played the role of absorbing other countries export surpluses since the 1970s, as we noted in Chapter 6, has thus proven intractable. As a result, unemployment is climbing even in the centre economies of Japan and Germany which have been consistently running payments surpluses. So long as all countries continue to pursue export-led strategies, which is the conventional wisdom of the IMF, OECD and World Bank policies and the logic of neoliberal trade policies, there seems little reason not to conclude that competitive austerity will continue to push up unemployment rates and push down the living standards of workers in both the North and the South. It is unconvincing, therefore, to continue to avouch that a neoliberal competitive regulation offers a route out of the employment crisis. At the least, it must be conceded that these policies can only be sustained by having workers continue to bear the burden of adjustment--what Therborn terms 'Brazilianization of the West'--through higher unemployment and lower real wages. This is the new world configuration of competitive austerity imposed by the contradiction between national demand and employment conditions and the external constraint imposed by export-oriented policies.

The progressive competitiveness supply side perspective--adopted by

social democratic parties across the OECD and by the Democratic Clinton regime in the U.S.--also stresses the need for labour market flexibility. In this case, however, it is argued that the neoliberal wage and market flexibility has caused undue income polarisation and high unemployment since the 1970s. Rather, flexibility is to be provided by the training of highly-skilled workers who contribute, or indeed cause, the successful integration of new technologies and flexible workplace adaptation to shifting global market demand to maintain national employment. The old mass production processes of Fordism tended to produce, as we showed in Chapter 3, a skill polarization: conception concentrated in specialist technical skills in design offices; skilled manufacturing and trades jobs filled by apprenticeship or specialist training; and a mass of unskilled assembly jobs with limited specific training tied to a minute division of labour. In contrast, flexible automation uses reprogrammable technologies, it is argued, to re-integrate production and design. So as to allow flexibility in responding to differentiated product demand. Flexible automation, however, requires workers that are flexible in terms of multi-skills, general competencies rather than specific ones, and analytic and problem-solving abilities rather than mere procedural capacities. Skills, therefore, are seen as decisive to a re-organized labour process--both to exploit the potential productivity of new technologies and to involve workers directly in improving productivity--for firms exporting high value-added products.¹

The high unemployment levels confronting the advanced capitalist countries today, then, are caused by the upheavals of shifting to a new technological paradigm. The lack of an appropriate skill profile of the

labour force causes a mismatch, as during the 1950s 'great automation scare', between workers' skills and the demand for labour as a result of technological change. As Schumpeter put it, "periods of prolonged super-normal unemployment, coincide with the periods in which the results of inventions are spreading over the system."²² The period of economic transition across this 'industrial divide' can be shortened, however, by re-tooling of factories and rapid adjustment of work skills to meet the new competitive conditions, without the unemployment damage provoked by the competitive austerity of neoliberal employment policies. This conclusion has been most forcefully stated by the Canadian Steelworkers:

The high-skill option requires businesses to pursue strategies of increasing value-added rather than strategies to reduce labour's share in existing value-added.... We need enlightened management who recognize the importance of competing in higher value-added markets on a high-skill basis.... Once there is a commitment to truly developing worker skills and their roles in a workplace, workers will be partners in building toward sustainable prosperity in their workplaces and communities.²³

A period of transition of technical paradigms can easily transform skill shortages, it is argued, into serious problems of adjustment and unemployment. The problem of poaching, for example, will tend to intensify in market-driven training systems in a transitional period. Few skills are exclusively firm-specific and bidding wars will ensue for workers with the new skills in demand. So unless rigid internal labour markets are in place, or the firm is in a monopsony position, capitalists will, in general, under invest in training. Firms in a competitive cost crunch, moreover, are likely to cut training costs as a first step to cutting labour costs (as has happened as a result of more open economies and import pressures during the 1980s). As a result of these two pressures, skill shortages will appear in recoveries from recessions which, in

turn, will spur poaching from weaker firms (many of which will be start-up new technology companies). If the technical paradigm is shifting, training failures will inevitably lengthen the period of adjustment and provide the basis for wrenching levels of unemployment as countries are pushed down the neoliberal path of competing on the basis of low wages and social costs. Streeck has argued that skills should be seen as 'collective goods' for their contribution to technological dynamism:

If an employer provides training, he is no more than adding to a common pool of skilled labour which is in principle accessible to all other employers in the industry or locally, many of which are his competitors... As a result, there will be a chronic undersupply of skilled labour... In this sense, I regard skills as an example of what I described at the outset as collective, social production factors which capitalist firms, acting according to the rational utilitarian model, cannot adequately generate or preserve."

This is the foremost principle enunciated by the progressive competitiveness strategy: product strategies are linked to available skills and technological advance places a premium on highly-skilled workers. Employment policy must, therefore, have as its central concern the production of skills to keep its export share, or increase it to boost employment levels.

It is not possible to generalize, however, that upgrading skills in line with the new technologies will resolve the capitalist unemployment problem today. This position must assume that levels of unemployment have not been secularly increasing for some time. It must further assume that the existing volume and distribution of hours of work is, more or less, already adequate. Only then can unemployment be posed as essentially an adjustment problem caused by lags in skill development in response to new techniques and competitive conditions. Both assumptions are problematic.

The level of unemployment has been increasing for some time for any degree of capital utilization suggesting a growing surplus labour force. As Phillimore has noted: "Paradoxically, the better use production makes of the quality of labour, the smaller the quantity required."¹⁵ As well, the level of unused capacity has been increasing, both nationally and internationally, indicating growing demand side problems. It is only possible to argue that the re-skilling of workers to exploit new technologies may raise the average level of skills, and to a degree may alter the product strategies of firms, but it cannot be sustained that training will increase the aggregate level of employment. This is still a lesson to be drawn from the early 1960s structural unemployment debate.

The progressive competitiveness strategy hinges, then, on sustained high rates of growth in world (not necessarily national) markets to lower unemployment. This is an enormously precarious proposition resting upon a number of strong and dubious assumptions. It counts on, for example, higher value-added production spreading across the national economy so as to replace lower value-added standardized production being lost to low wage producers and regions. This entails the very large risk that the de-industrializing sectors will decline at a faster rate, and with greater employment losses, than the rate of expansion of sectors of high technology (a problem Canada would seem to have experienced since the free trade agreement of 1989). Export growth in high technology sectors, moreover, must be more rapid than previous levels of export growth if unemployment is not to grow because of higher capital-labour ratios in these sectors relative to the declining low-waged sectors. The high technology sectors expanding must also see no cost advantage to moving their oper-

ations to low waged production sites (although there is ample evidence that they do and that developing countries are able to supply skilled workers).¹⁶ The aggregate employment impact, finally, will also depend upon the rules for sharing out productivity increases and export revenues, as well as the various factors which determine the supply of labour.¹⁷ The progressive competitiveness employment thesis engages, therefore, a fallacy of composition: employment gains at the firm level--which is questionable in itself as sectors such as telecommunications have had significant downsizing--are extended to the national economy as a whole.

The compositional fallacy of the strategy is furthered when generalized from the national economy to the international. It is an extremely suspect proposition that rapid enough accumulation can be achieved in world markets to accommodate all the countries and regions engaged in the high-growth, high-productivity, high-tech export-oriented strategy. Such growth rates, given the competitive regulation consolidating since the crisis, would take a near-miracle in itself. The extension of the export-oriented strategy beyond a single country ignores, moreover, the problem of who is going bear the payments deficits as all companies and countries squeeze costs to pursue the high value-added, export-oriented strategy that is to solve national employment crises. The asymmetry of all countries pursuing export markets can only add to the pressures to bargain down national wage and social standards of the competitive regulation. As low-wage zones increasingly adopt leading edge technologies--as mobile productive capital from the North establishes new plants and these countries form their own high-tech strategies--the downward wage pressure will accelerate (as it must, according to both neoclassical and Marxian theory,

with global labour surpluses). The bargaining down process takes demand out of the system, with no clear compensating source, precisely when more output from the higher productivity of the new technologies is being put on the world market. The progressive competitiveness strategy is forced to accept, as social democratic governments have found out, the same competitive austerity as neo-liberalism as a cold necessity of present economic conditions.¹⁸

The experience of the postwar golden age illustrated that reliance on ever-faster economic growth and ever-increasing levels of economic openness to resolve the capitalist unemployment problem contains a dynamic that undermines the very conditions necessary to maintain high employment. The 1980s, moreover, demonstrated all too well that increased output and exports may neither create higher real wages (the cases of Canada and the U.S.) nor increase the aggregate employment level (the foremost example being Germany). The critical issue, as Ajit Singh pointed out some time ago, is whether the productive sector meets domestic needs and also earns enough foreign exchange to pay for required imports, at socially acceptable levels of exchange rate, output and employment.¹⁹ The structure and organization of industry, the desired rate and quality of the growth model, the balance of the foreign accounts and the quantity of labour supplied in terms of hours and numbers of workers are central to determining aggregate employment levels. These are the issues that the experience and breakup of the postwar boom analyzed in this dissertation place on the employment policy agenda.

9.3 Socialist Employment Policy and Market Disengagement

The high employment of the postwar boom emerged, it has been argued in this thesis, out of diverse national conditions to form a unique Fordist accumulation regime that maintained high growth and strong demand, and a particular international configuration of relatively closed economies and managed trade. The impasse of capitalist employment policy today is linked, we have concluded, to three determinants: the crisis of Fordism and the end of Keynesian regulation on a national basis; the contradiction between the increased openness of national economies in terms of trade and capital mobility and the lack of regulation, and the impossibility of doing so under the present international regime, of the world market; and the limitations of market control modes of state intervention in containing unemployment. A socialist employment policy will have to materialize from common strategies pursued across the advanced capitalist countries, adapted to nationally-specific political, institutional and economic conditions, to address these causes.

A few strategic assumptions, following from the preceding analysis of postwar Fordism, are in order. It is foremost necessary to insist, against prevailing opinion, that full employment remains a central objective as expressed in the demands of the labour movement for the 'right to work' and the 'right to a decent income'. The division of workers into those who have paid work in core jobs and those excluded from stable employment at fair wages leads to social polarisation and increases the leverage of capitalists to control production and to influence inordinately democratic deliberation through threat of capital flight. Full employment constitutes the foundation for democratic citizenship and the possibility of a more egalitarian society organized on the basis of production

for need and not for exchange. Second, the postwar economic order and the forces of globalization steadily advanced toward the external regulation of national economies and a homogeneity of development paths. A socialist employment policy will have to reverse these processes by active pursuit of principles that promote national employment stability and a heterogeneity of development paths. This might be stated as the maximization of the capacity of different national collectivities to democratically choose alternate development paths (socialist or capitalist), that do not impose externalities (such as environmental damage) on other countries, without suffering isolation and coercive sanction from the world economy.²⁰ Third, after the social polarisations produced by the crisis of competitive austerity, a socialist employment policy will have to entail a radical redistributive shift of resources and institutional structures: from the traded goods sector to local and national economies; from the highest paid to the lowest paid; from those with too many hours of work to those with too few; from management dominated labour processes to worker controlled; and from private consumption-led production to ecologically-sustainable economies. Finally, it cannot be avoided that Keynesian employment policies of market control self-evidently failed to contain unemployment. Their postwar success depended, moreover, on a set of fortuitous circumstances which kept growth unusually strong. The neoliberal employment policies of market reinforcement adopted since the 1970s have compounded the unemployment crisis. It is necessary, therefore, to advance strategies and institutions that would work 'in and against the market' to dissociate employment from dependence upon private accumulation.²¹

A socialist employment policy for market disengagement can be expressed in a set of principles around which specific programmatic objectives, institutional structures and new modes of state intervention might be constructed.

(1) Inward-oriented economic strategies will be necessary to allow a diversity of development paths and as a condition for employment stability. It is difficult to envision, based on the experiences of the boom and the crisis, either stable macroeconomic conditions or alternate development paths with continued internationalisation of production. The export-oriented strategies which have followed from the decline of national economic policies will have to be replaced, therefore, by a process of inward development. The inward-oriented strategy does not imply closing the economy from trade. Rather, it proposes a planned expansion of domestic services and production to increase employment, and assertion of control over the international economy, to reinforce stable and divergent national macroeconomic outcomes.

International trade will obviously remain important to reach certain economies of scale and to transfer new products and processes. International trade and financial rules need to be restructured, however, so as to allow for diversity of economic models rather than the homogeneity of competitive austerity now demanded by the international adjustment constraint. This points to planned trade between national economies and reforming international institutions to impose symmetrical adjustment on deficit and surplus countries. Protectionism will also have to be allowed. It has proven impossible for surplus countries to inflate enough, or deficit countries to deflate enough, to restore balance (with-

out further devastating job losses). Social tariffs are important to allow countries to adopt advanced environmental and work standards without loss of jobs and international sanction from 'worst-practice' production methods.

The principle of promoting a diversity of development paths has a corollary of re-integration of national economies. Over the course of the boom and from the logic of competitive austerity, governments have poured an inordinate amount of resources into the export sector (which has not been able to absorb the unemployed, and probably could not even in the absence of stagnation). Monetary, fiscal and industrial policies have been geared to fostering capital mobility and common treatment without regard to the integration of national economies or local production. Economic strategies to control the open sector, and to aid regional and local development, will have to be built up. Central banks will have to be made more directly accountable to national parliaments, and the fiscal and planning capacities of economic ministries developed. An inward-oriented strategy will mean, therefore, production and services more centred on local and national needs where the most legitimate democratic collectivities reside.

(2) Macroeconomic balance remains important, but new forms of investment planning and collective bargaining norms even more so. A lesson of the Fordist period is that a Keynesian reflation using only tax or monetary policies will be found wanting in lowering unemployment. Macroeconomic balance will have to entail new mechanisms of control to constrain and shape market forces: national and sectoral planning councils; planning agreements over investment flows; regional and local development boards;

and public ownership of core sectors (including financial industries). The experience of reconstruction, and the instability generated by competitive austerity, illustrates that investment in new technologies cannot be generated by market forces alone. A national technology strategy for planning investment and innovation, co-ordinating production, and ensuring equal access is pressing.

Another lesson of Fordism is that there must be consumers as well as producers, so productivity-sharing in collective bargaining needs to be re-asserted. Yet bargaining practices need to accommodate other principles: wage solidarity with the poorly paid; equal pay for equal work; increased choice between leisure and wages; and worker input into the quality of production and consumption. A bargaining norm of an 'annual free-time factor' should, in solidarity with the unemployed, have precedence over an 'annual wage improvement' in sharing out productivity increases (allocated to favour additional employment and the poorest workers). The macroeconomic logic of Fordism is qualitatively transformed from a focus on consuming goods to increasing free-time."

(3) The 'right to work' in practice will entail less work and a redistribution of work. Macroeconomic expansion will not be sufficient to lower unemployment, and exporting more to increase employment soon becomes a zero-sum game of dumping job losses on other countries who will eventually respond in kind. The increased capital-intensity of production suggests, moreover, that growth rates would have to consistently approach, or exceed, levels of the postwar boom to lower unemployment (unless hours of work were substantially reduced from average postwar levels). Yet levels of growth of the postwar period would be enormously costly to the

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natural environment, and also block redistributive efforts to shift output to the South by soaking up available investment funds. Nor would this account for the enormous unused labour-stocks of part-time and discouraged workers, and lower female participation rates. Postwar employment policies fought unemployment through faster growth and more output. Contemporary capitalist employment policies attempt, with little success, to do the same. Growth-centred strategies must now be firmly rejected as both unviable and undesirable.

The crisis of Fordism has lowered the rate of productivity increases and concentrated these gains in the hands of capital. It is fundamental to an alternative economic model to redistribute existing output more justly and to share-out further productivity gains equally. A just distribution of output requires that the unemployed be incorporated into the waged economy. As well, if sustainable production is a constraint, then increased production through working just as many hours is not a priority. Instead, existing work and future productivity gains would have to be shared so as to employ the jobless at decent incomes and increase free time as central social objectives. The employment crisis can only be resolved by directly confronting the redistribution of work-hours and income.²³

As an economic system, capitalism tends to produce long hours of work for some and a lack of hours or unemployment for others.²⁴ The labour movement has consistently had to apply its alternate logic on this system to free time for leisure and ensure that work is solidaristically shared. Some of the dimensions of redistributing work are straightforward if politically contentious: overtime limits, restrictions on 'double-

dipping' by professionals, extension of vacations, and collective negotiation by worksite of jobsharing to spread existing work. The major dimension for dealing with unemployment is, however, a reduction of standard worktime that is sharp and general, say to a maximum of 1500 hours annually. To be at all effective in dealing with current unemployment levels, it must be faced that the hours reduction will have to be accompanied by a decline in real wages (partially offset by productivity gains and a decline in unemployment claims) so as to redistribute both work and income. It is precisely because wages will have to shift in the short-run that worktime reduction must be solidaristic: apply equally to the public and private sectors and squeeze wage differentials so as to preserve the purchasing power of the lowest paid. As unemployment declines, productivity gains can then be shared-out in both increased purchasing power and declines in worktime. The 'right to work', therefore, must be directly linked to a 'decline in work', in terms of average annual volume of hours per worker.

(4) A 'politics of time' should extend beyond setting standard hours to consider the allocation of work-time and free-time. The redistribution of work can occur through a range of measures that radically reshape and liberate the allocation of work-time: flex hours, banked time, single seniority lists based on hours worked, sabbatical leaves and yearly education days, early retirement, and the sharing of hours of domestic labour. A government might sign 'solidarity contracts' with employers and unions to develop such schemes, financial aid being conditional on the expansion of employment. The struggle for 'work-time flexibility' merges the demand for jobs with the demand, as the feminist movement has

expressed it, that paid work accommodate the diversity of lived experiences.²⁵ The radical reduction in worktime, and greater worker control over the allocation of time, raises the concrete possibility of the long time demand of the socialist movement for a 'different way of living'. The 'right to work' raises the question of 'how we work' and 'how we live'.

(5) Worker involvement in the labour process should be negotiated to extend democratic workplaces and the requalification of work. Part of the economic crisis lies on the supply-side in the impasse of the Fordist labour process and the transition to flexible automation. With competitive austerity it is the worst features of Fordism--speed-up, work fragmentation, increased supervision--that are going ahead. Even if there are productivity gains to be had by increased worker input into production, the political risk this entails for capital in terms of worker self-management has meant opposition. Capital will prefer to continue with Taylorism and negotiate involvement with the fewest workers possible. As the basis for the wage bargain, this labour process will contribute to the polarisation of the labour market. An alternative employment model will, therefore, have to transform work relations.

The upgrading of training to increase worker involvement in production, and to overturn Taylorism, can mean many things.²⁶ In employer-centred versions, it means multi-skilling core workers and preserving the training investment by limiting mobility and training to specific jobs to the extent productivity is raised. Quality training from the standpoint of workers is quite different: long-term, broad skills rather than short-term, specific ones; transferable skills over firm-specific skills;

theoretical as well as practical knowledge; and extension of worker autonomy over the labour process. Technical degrees and apprenticeships provide for a broader skills base, more satisfying work, and transferable skills. Thus formal qualifications, earned through institutional training or a mixture of formal training and on-the-job training, tend to allow workers more flexibility and control over their labour process. The requalification of work requires that broad skills of technical competency are extended to all workers. Educational institutions will have to internalize flexibility in program delivery--quicker course approval, more teacher retraining, new equipment--while preserving common standards, increasing transferable skills, and extending opportunities for learning--for work and apart from work--into working class communities."

(6) The requalification of work should be linked to quality production within a quality-intensive growth model. Linking the demand 'training for skill' to the 'quality of production' connects what goes into the labour process with the use-values which come out. This is important. The requalification of work rejects the narrow management rights clauses of Fordism, and extends both the need and capacity of workers to control the introduction of new technologies, to discuss alternate product design and quality, and to engage in sectoral planning over what to produce. Indeed, a portion of liberated free-time should be dedicated to increasing worker participation in running the enterprises at which they work. It becomes feasible for unions to develop their own technology networks, popular plans for industry, and socially-useful products.²⁸ A socialist employment policy will foster, therefore, a quality-intensive growth model that encourages workers' skills and capacities, incorporates resource-saving

and durable production techniques, and produces free time, collective services and quality products.

(7) The democratic principle of equal access to knowledge must extend training to all workers. The struggle against a rigid division between hand and brain--conception and execution--has long been a demand of the socialist movement, and a variety of educational programs and structures are necessary. Educational opportunities should be available comprehensively in all regions and to all ages. Basic literacy and skills are fundamental to participation in society and at work, and a diversity of public and community programs should be supported. Similarly, access to training means flexibility in delivery and adequate training allowances so older workers and low-income earners are not excluded from gaining training or employment.

Equal access to knowledge also entails, of course, equality of opportunity for women, aboriginal peoples, racial minorities and the disabled. In this sense, the ambiguity towards 'skills' felt by many groups--a social construction of skill which has often meant elitism and exclusion--must be directly attacked." The requalification of work obliges equality of opportunity and solidaristic recognition of differential skills and capacities.

(8) Continual learning is a workers' educational and cultural demand. The continual application of new techniques and innovations in production means that continual learning must be incorporated as a key element in the requalification of work. Older workers need skill upgrading; workers permanently displaced need retraining; younger workers require access to employment and experience in the skills of democratic governance. Workers

with specific skills or trades should have access to both formal and on-the-job training through flexible programs for upgrading during working hours. To better prepare for task and skill changes, unions should be provided information about production plans well in advance of implementation. Other forms of training and learning, specific to the job or not, are a social right for all workers and the required basis for self-management at work and participatory democracy. Annual paid educational leaves that are universally available best allow training choices that are not limited to the specific needs of the job.

(9) Local employment planning capacities will be central to sustaining full employment. The components of an alternate employment policy have in common the need for economic planning to constrain the market. Capitalist employment policies have typically left planning to aggregate demand management, assessment of labour market trends and the targeting of training. The local component of employment planning has been labour exchanges which served as labour market intelligence networks and a location for job listings and counselling. Even the Swedish labour market boards never developed a local planning capacity or direct democratic accountability to the communities they served. An alternate employment policy will have to develop local administrative capacities for both the technical and political basis to address the redistribution of work.

Local employment planning has a number of dimensions. The 'golden age' simply ignored environmental issues, but it seems clear that an alternate model must have this as a binding constraint on production. This will have to be encompassed within employment planning for sustainable production will entail 'dirty' industries of declining jobs,

the distributional consequences of slower growth and the planning for new employment in non-resource intensive services. With the dramatic lowering of the amount of labour employed in the manufacturing sector, employment planning will have its largest component directed at the service sector. This should radically centre our attention on the type of service sector that should be supported in terms of jobs and organizational structure. In particular, the expansion of employment will depend upon redevelopment of urban economies and the so called 'third sector', that is, the self managed community services (either newly formed or partly devolved from traditional state administration) such as cultural production, environmental clean-up, education and leisure." To absorb the unemployed these activities will have to be planned, through local labour market boards, to determine socially-useful activities, community needs and local skills and training.

(10) Democratic administration should be incorporated as an essential element of labour market policy. Currently employment policy is typically administered through traditional hierarchical bureaucracies of central offices of control, planning and funding and decentralized operational employment exchanges. The many proposals to expand training in Canada argue for either a bipartite or tripartite training board system, albeit with some extension to community groups, and ignore other aspects of employment policy." Such corporatist structures have strong limitations in that they tend to be dominated by the most economically powerful producer groups and thus institutionalize the inequalities of capitalist social relations. A wider, mandated representation allows women, racial minorities, and the jobless to have their interests represented as well.

Even the inclusion of community groups has limits, however, as there is no direct democratic participation of workers themselves in the delegation of responsibility to the labour market boards (although the boards would govern over a substantial portion of our daily activities). It would be better, particularly for the disengagement of employment from market pressures, to establish a statutory labour market system structured through local, democratically accountable bodies. This should be encompassed within a national employment policy, with the local boards allowing a decentralization of decision-making and thus local communities to be more active in establishing production, employment and training priorities.³² It could be argued, moreover, that what is needed is 'work and environment boards' which would incorporate environmental considerations directly into employment planning. Such bodies could be divided into units concerned with workplace ecology, unemployment, work standards, occupational and employment forecasting, training, workplace democracy, domestic labour, employment equity and sustainable production. Through such publicly elected labour market boards, workers and their communities could be directly involved in the collective negotiation over the conditions of work, as well as the environmental conditions of production, with the providers of jobs and training.

This outline of a socialist employment strategy of market disengagement departs from the employment principles that have been evolving under the pressures of competitive austerity in the present period. The monetarist employment policies of market reinforcement for export-led growth have caused, even in societies with developed training institutions, higher unemployment and social polarisation. An alternate employment

strategy will have to directly confront these processes. It will also have to proceed well beyond the Keynesian market control strategies of the golden age. Keynesian employment policies pivoted, as we have demonstrated, on the maintenance of high capitalist sector led growth facilitated by demand management and labour adjustment policies. This alternative, in contrast, places an emphasis on reducing unemployment through redistribution--through reduced work time, a squeeze on income differentials and development of collective services in the public and third sectors -rather than growth on ecological and egalitarian grounds. Additionally, the economic planning of resources and non-market activities--at the centre of the national economy and in local communities -has the intent of extensively disengaging the determination of investment and employment from the capitalist world market. A redefinition of the nature of work, the reallocation of worktime and the extension of economic planning lies at the core of any solution to the capitalist unemployment problem today. These are the negative, and the positive, lessons of the history of postwar employment policies examined in this dissertation.

9.4 Capitalist Employment Policy and Canadian Economic Decline

This thesis has contended that the low unemployment of the postwar period resulted from a unique political and economic configuration which provided high growth and supportive national employment policies. The erosion of the boom undermined the conditions for high employment within the countries of central Fordism. By the early 1970s the declining productivity of the Fordist technological paradigm was leading to lower profits and growth rates. The slower pace of employment growth from

sluggish accumulation meant that a growing labour force could no longer be absorbed over the course of the business cycle. By the 1980s the labour saving bias of the new technologies was resulting in 'jobless growth' even during the business cycle upswings of increasingly stagnant economies. The vigorous conditions for realisation that prevailed over the boom also turned adverse. The decline in profits intensified competitive pressures which, in turn, led to real wage increases being pushed below productivity gains and public sector austerity policies within national economic spaces. The effective demand conditions for high employment within any given region have thus become dependent upon export-led growth. The world configuration of more open economies, however, has made the international market more precarious and undermined the efficacy of Keynesianism and other measures of market control. The spread of neoliberal policies has, moreover, contributed to the deflationary pressures of competitive austerity within international markets. National development models that have attempted to maintain a 'progressive' export strategy and to keep unemployment levels low through redistributive policies of work and income within the working class--either by shorter working hours or by the expansion of the public sector--have also become incorporated within the processes of competitive austerity. The high employment of the postwar period appears, therefore, as a unique golden age, aided by expansionary 'Keynesian' policies, "while an underlying tendency to long period unemployment has come to the surface during the present stage of stagnation."

Canada has been implicated in the economic history of central Fordism, but with its own national unemployment trajectory. While the rest of the advanced capitalist countries moved toward full employment

over the course of the 'golden age', Canada began with full employment during the reconstruction period and steadily progressed toward high unemployment. The national employment policy regime that formed during the boom provided few resources to contain unemployment, particularly as external regulation subverted even limited national policy capacities. The erosion of the economic conditions for rapid growth and high employment since 1974 has made mass unemployment a fixture of the Canadian economy. Canada's 'limping golden age' quickly became transformed, this study has argued, into a 'leaden age' of falling working class living standards and mass unemployment.

The alternative employment policy for market disengagement put forth here does not, therefore, emanate from propitious economic and political conditions in Canada or, for that matter, in the rest of the advanced capitalist countries. The combination of mass unemployment and globalization of markets has inhibited the power of national labour movements to enforce postwar full employment commitments. The capacity of Keynesian policies of market control, in present circumstances, can no longer be seen as adequate to re-establish high employment. The mounting unemployment crisis caused by the pressures of competitive austerity necessitates an employment policy of market disengagement. This will dictate, as we have argued, a whole new institutionalization of a full employment commitment at the local, national and international levels. It is useful to recall Keynes's conclusion to The General Theory on national economic policies in the midst of the last great unemployment crisis:

...if nations can learn to provide themselves with full employment by their domestic policy (and, we must add, if they can also attain equilibrium in the trend of their population), there need be no important economic forces calculated to set

the interest of one country against that of its neighbours. There would still be room for the international division of labour and for international lending in appropriate conditions. But there would no longer be a pressing motive why one country need force its wares on another or repulse the offerings of its neighbours, not because this was necessary to enable it to pay for what it wished to purchase, but with the express object of upsetting the equilibrium of payments so as to develop a balance of trade in its own favour. International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbour which is worsted in the struggle, but a willing and unimpeded exchange of goods and services in conditions of mutual advantage."

Keynes's analysis, on this point, still captures the dynamic of competing nation-states (and regional economies) in an unregulated market that again resides at the heart of the world economy. The global economic pressures precipitating a vicious spiral of competitive austerity have not yet led to the traumas of depression and war of the 'beggar-thy-neighbour' policies of the 1930s. Yet, it is difficult to dismiss the continued stagnation--and the potential for collapse--from the deflationary 'beggar-my-working class' policies actively being pursued by the governments of the advanced capitalist countries. The capitalist employment strategies being espoused for export-led growth--of either the market reinforcement policies of pushing wages down or the market control strategy of increasing training--are, following the theoretical insights of Marx and Keynes, contributing to the contemporary capitalist unemployment problem.

If history is at all a guide to the present, Canada can be expected to suffer enormous strain in these economic conditions. Its export-oriented, resource-dependent growth model, and embedded employment policies of market reinforcement, will add a great deal to, and do little to prevent, a continued deterioration of employment conditions. The long

period national unemployment trajectory of relative economic decline and secularly increasing unemployment became well ensconced, according to the historical analysis of this dissertation, during the postwar golden age. These processes of decay and social polarisation have not been, and are unlikely to be, reversed in the leaden age crisis of competitive austerity. In his classic 1963 essay, which has served as the foundation for modern Canadian political economy, Watkins wryly noted that "no doubt luck is a neglected factor in Canadian economic history."¹ Canada's luck may well have run out and chronic economic decline and mass unemployment permanently set in--if the projections from this study are correct--as long as Canada remains embedded in the institutions of 'actually existing capitalism'. Without a 'national politics of employment policy' set in an economic alternative actively disengaging the determination of employment from the market, Canada will continue to march down the tracks of the mass unemployment road laid by the postwar economic order.

Endnotes

1. 'The Balance of Payments in the U.S.,' The Economic Journal, 56:2 (1946), 186.
2. R. Boyer, The Search for Labour Market Flexibility (Oxford: Clarendon Press 1988), 252.
3. For surveys see: A. Ziderman, Manpower Training: Theory and Policy (London: Macmillan 1978); M. Blaug, 'The Empirical Status of Human Capital Theory: A Slightly Jaundiced Survey,' Journal of Economic Literature, 14 (1976); and D. Gordon, Theories of Poverty and Underemployment (Lexington: D. C. Heath 1972). It should be noted that human capital theory, in its early or more recent variations, is more concerned with market-based financing of training than with the dynamic relationship between skills and production. Entrepreneurs are responsible for innovations. New developments in neoclassical economics are beginning to raise some similar concerns. See: F. Green, 'Neoclassical and Marxian Conceptions of Production,' Cambridge Journal of Economics, 12:3 (1988).
4. 'Investment in Human Capital,' American Economic Review, 51 (1961), 3.
5. See: M. Friedman, 'The Role of Monetary Policy,' American Economic Review, 58 (March 1968); and M. Bruno and J. Sachs, The Economics of Worldwide Stagnation (Oxford: Oxford University Press 1985).
6. Royal Commission on the Economic Union and Development Prospects for Canada, Report, Vol. 2 (Ottawa: Supply and Services 1985), 388.
7. Ziderman, Manpower Training, 34-9; and J. Davies, 'Training and Skill Development,' in C. Riddell, ed., Adjusting to Change: Labour Market Adjustment in Canada (Toronto: University of Toronto Press 1986). The problem may also be stated as follows: the contradiction between the generality of a particular skill in terms of its training content (potential transferability) and the generality of the investment (potential mobility of the trainee).
8. G. Becker, Human Capital (New York: National Bureau of Economic Research 1964).
9. The theoretical points in contention can be seen in: Ziderman, Manpower Training, 48-54; Davies, 'Training,' 182-4; and W. Streeck, 'Skills and the Limits of Neo-Liberalism: The Enterprise of the Future as a Place of Learning,' Work, Employment and Society, 3:1 (1989), 92-7.
10. A. Lipietz, Towards a New Economic Order (New York: Oxford University Press 1992), 19.
11. Although differing in their assessment of flexible automation, several authors note the new skills profiles: R. Kaplinsky, 'Industrial Restructuring: Some Questions for Education and Training,' IDS Bulletin,

20:1 (1989); A. Phillimore, 'Flexible Specialisation, Work Organization and Skills,' New Technology, Work and Employment, 4:2 (1989); and P. Mehaut, 'New Firms' Training Policies and Changes in the Wage-Earning Relationship,' Labour and Society, 13:4 (1988).

12. J. Schumpeter, Business Cycles, Vol. 2 (New York: McGraw-Hill 1939), 515. Also see: OECD, Employment Growth and Structural Change (Paris: OECD 1985).

13. Empowering Workers in the Global Economy: A Labour Agenda for the 1990s (Toronto: United Steelworkers of America 1991), 16-7 and 26.

14. Streeck, 'Skills and the Limits of Neo-Liberalism,' 94. Also see: P. Senker, 'Technical Change, Work Organization and Training,' New Technology, Work and Employment, 4:1 (1989).

15. Phillimore, 'Flexible Specialisation,' 87.

16. Guy Standing observes that because high-tech is already present in many low-wage countries notably the Pacific Rim, the flexibility views are 'fanciful'. See: Labour Market Analysis and Employment Planning (World Employment Programme Working Paper N. 23, 1988), 15.

17. See the essays (especially Robert Boyer) gathered in: J. Kregel, E. Matzner and A. Roncaglia, eds., Barriers to Full Employment (London: Macmillan 1988).

18. It is these different potentials which has led A. Gorz to suggest bleakly that "it is a small core of privileged workers who are integrated into new-style enterprises at the expense of a mass of people who are marginalized and whose job security is destroyed...who are often reduced to competing for the privilege of selling personal services (including shoe-shining and house-cleaning) to those who retain a secure income)." Critique of Economic Reason (London: Verso 1990), 70-1.

19. A. Singh, 'UK Industry and the World Economy: A Case of De-industrialization?' Cambridge Journal of Economics, 1:2 (1977).

20. This view has been developed in: M. Bienefeld, 'The International Context for National Development Strategies: Constraints and Opportunities in a Changing World Economy,' in M. Bienefeld and M. Godfrey, eds., The Struggle for Development: National Strategies in an International Context (London: John Wiley & Sons 1982); and Lipietz, New Economic Order.

21. See the brilliant article by Robin Murray on this strategy: 'Ownership, Control and the Market,' New Left Review, N. 164 (1987), 96.

22. See: A. Lipietz. 'An Alternative Design for the 21st Century.' (Paris: CEPREMAP 1987).

23. The diversity of employment experiences through the 1980s has also illustrated that the labour supply must be considered as at least a medium term policy target. That is, countries have handled quite differently the size and composition of the labour supply in terms of access to paid, full-time work. As we confront the crisis of work, this needs to be brought more clearly into democratic deliberation, in terms of paid work as a right of citizenship for all ages, and the extent to which the national market should be open to labour flows.

24. This discussion and the above on work hours draws especially upon: M. Bienefeld, Working Hours in British Industry: An Economic History (London: Weidenfeld and Nicolson 1972); M. Yates, Longer Hours, Fewer Jobs: Employment and Unemployment in the United States (New York: Monthly Review Press 1994); and J. Schor, The Overworked American (New York: Basic Books 1992).

25. A. Gorz, Paths to Paradise (London: Pluto 1985); and M. Luxton, 'Time for Myself: Women's Work and the "Fight for Shorter Hours",' in M. Luxton and H. Maroney, eds., Feminism and Political Economy (Toronto: Metheun 1987).

26. See: M. Rustin, For a Pluralist Socialism (London: Verso 1985); and C. Gill, Work, Unemployment and New Technology (Oxford: Polity 1985), Ch. 7.

27. See: Ontario Council of Regents, Vision 2000: Quality and Opportunity (Toronto: Council of Regents 1990); and N. Jackson, 'Working Knowledge: The Politics of Skills Training,' Our Times 8:3 (1989).

28. See: M. Mackintosh and H. Wainwright, eds., A Taste of Power (London: Verso 1989); and N. Costello, J. Michie and S. Milne, Beyond the Casino Economy (London: Verso 1989). On linking worktime reduction and popular planning see: S. Gindin, 'Time-Out: Reducing Worktime to Our Benefit,' Our Times (March 1991).

29. See: J. Jenson, 'The Talents of Women, the Skills of Men: Flexible Specialization and Women,' in S. Wood, ed., The Transformation of Work? (London: Union Hyman 1989).

30. The problem of planning employment is linked to the reformation of the left's position on state administration. For a recent effort to do so see: G. Albo, D. Langille and L. Panitch, eds., A Different Kind of State? Popular Power and Democratic Administration (Toronto: Oxford University Press 1993).

31. See: R. Mahon, 'Adjusting to Win? The New Tory Training Initiative,' in K. Graham, ed., How Ottawa Spends, 1990-91 (Ottawa: Carleton University Press 1990).

32. M. Rustin, Pluralist Socialism, 161-2; and L. Panitch, 'Capitalist Restructuring and Labour Strategies,' Studies in Political Economy, 24 (1987), 148.

33. J. Robinson, What are the Questions? and Other Essays (Armonk: M.E. Sharpe 1980), 201.
34. The General Theory, 382-3.
35. M. Watkins, 'A Staple Theory of Economic Growth,' Canadian Journal of Economics and Political Science, 29:2 (1963), 157.

APPENDIX

MAIN TRENDS IN MAJOR CAPITALIST ECONOMIES, 1956-1966

	Real GDP Growth (%)		Inflation Rate (%)		Unemployment Rate (%)		Gross Fixed Capital Formation (%)		Current External Balance (% of GNP)		Central Gov't Deficit (% of GNP)	
	1956-61 1962-66		1956-61 1962-66		1956-61 1962-66		1956-61 1962-66		1956-61 1962-66		1956-61 1962-66	
Britain	2.6	2.9	2.6	3.5	1.3	1.4	6.6	6.0	0.5	0.0	-0.7	-0.9
France	5.7	5.8	6.1	3.9	1.1	1.3	7.4	9.5	-1.0	-0.7	-3.0	-0.9
West Germany	7.2	4.5	2.9	3.3	2.0	0.6	8.0	5.3	2.2	-0.1	-0.9	-0.5
Italy	6.9	4.8	1.8	5.2	5.7	3.1	8.9	-1.0	1.1	1.5	-2.0	-3.0
Japan	9.5	10.5	3.7	4.5	1.4	1.1	19.1	10.1	0.0	0.1	0.2	-1.2
United States	2.4	5.4	2.2	1.8	5.3	4.8	0.3	6.4	0.3	0.5	-0.4	-0.8
Canada	3.8	6.5	1.9	3.0	5.7	4.6	-1.1	10.1	-3.7	-1.7	-1.1	-0.8

Sources: IMF, International Financial Statistics, various years; International Financial Statistics Yearbook, various years; OECD, Manpower Statistics, 1954-1964; OECD, Labour Force Statistics, 1964-1975; OECD, National Accounts of OECD Countries 1950-1968; OECD, Economic Outlook, various years; OECD, National Accounts Main Aggregates, various years; United Nations, Statistical Yearbook, various years; and United Nations, Monthly Bulletin of Statistics.

MAIN TRENDS IN MAJOR CAPITALIST ECONOMIES, 1966-1974

	Real GDP Growth (%) 1966-70 1971-74		Inflation Rate (%) 1966-70 1971-74		Unemployment Rate (%) 1966-70 1971-74		Gross Fixed Capital Formation (%) 1966-70 1971-74		Current External Balance (% of GNP) 1966-70 1971-74		Central Gov't Deficit (%) of GNP 1966-70 1971-74	
Britain	2.5	2.9	5.0	9.9	1.9	2.6	4.0	1.9	0.1	-0.8	-1.8	-2.7
France	5.4	4.4	4.9	8.4	2.2	2.8	6.3	5.1	-0.3	-0.1	-0.8	-0.3
West Germany	4.2	3.1	3.5	6.2	0.9	1.2	4.4	-2.3	1.3	1.3	-0.7	-0.5
Italy	6.2	5.6	3.8	12.0	5.5	5.8	8.1	4.0	2.5	-0.8	-4.1	-8.6
Japan	11.2	4.9	5.1	11.7	1.2	1.3	17.6	3.9	0.9	1.2	-1.3	-1.2
United States	3.0	3.2	4.4	7.3	3.8	5.4	0.3	2.5	0.2	0	-0.8	-5.2
Canada	4.6	5.8	4.0	8.8	4.3	5.8	1.2	7.4	-0.7	-0.2	-1.8	-1.2

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