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II POWER AND HEGEMONY

The traditional approach to policy analysis, the pluralist approach, assumes a non-problematical convergence of individual preferences or wants into political actions.(5) Pluralists understand the existence of interest groups and social movements in a society to be a direct consequence of the diversity of economic, socio-cultural, and geographic situations in that society. The existence of the lag between the formulation of the movement and the introduction into the economy of the phenomenon which provoked the dissent cannot be explained. However, in rejecting the assumption of the non-problematic translation of interest into action, several other pluralist notions which build on this understanding of group formation must also be rejected. Particularly important in this regard, is the pluralist notion of power.

The pluralist understanding of power follows from this conception of group formation as well as the conditions within which this formation takes place. Political power, for

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Evaluation of the Foreign Investment Review Agency
as a Response to the Rise of Economic Nationalism

by
Jo-Ann Facella

A Thesis submitted to the Faculty of Graduate Studies and Research
in partial fulfillment of the requirements for the degree of
Master of Arts

Department of Political Science
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The undersigned recommend to the Faculty of Graduate Studies
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"EVALUATION OF THE FOREIGN INVESTMENT REVIEW AGENCY
AS A RESPONSE TO THE RISE OF ECONOMIC NATIONALISM"

submitted by Jo-Ann Facella, Hons. B.A.
in partial fulfilment of the requirements for
the degree of Master of Arts

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Abstract

The paper evaluates FIRA as a response to the nationalist movement which formed in the late 1960s/early 1970s. Gramsci's notion of ideology and hegemony are incorporated into the analytical framework in recognition of problems posed by the case to more traditional forms of analysis. Within this framework, the rise of the movement is understood as dissent to an aspect of the hegemonic articulation of ideas in the conditions of the early stages of a political and economic crisis. With the creation of FIRA the state was able to incorporate the dissent into the prevailing consensus without substantially altering the structure of hegemony. This result is explained by viewing the movement as encompassing a constructed hegemony on which basis an implied and actual challenge can be distinguished.

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CHAPTER ONE: INTRODUCTION

I Introduction

The Foreign Investment Review Agency (FIRA) was established by the government in 1974 to screen the entry and certain facets of the operation of foreign direct investment in Canada. It is generally understood that this agency was created to respond to popularly based demands for government action to deal with the perceived American threat to Canadian economic, political and cultural independence. This paper examines this agency as a response to the movement which formed around this discontent in the late 1960s and early 1970s.

The analytical framework which is used to identify the specific goals against which FIRA should be evaluated, centres around the concepts of ideology and hegemony. It is argued that this case poses a problem to traditional forms of policy evaluation based on a pluralistic understanding of the political process. The apparent lag between the appearance of the phenomenon which constituted the subject of the discontent and the actual formation of the movement require that the selected framework incorporate a role for ideas and their interaction with material conditions.

From 1964 well into the 1970s, Gallup polls recorded not only an increase in interest in foreign investment on the part of the Canadian public but also a trend toward less favourable views of its role.⁽¹⁾ The nationalist movement which mobilised this concern argued that foreign direct investment threatened the independence and domestic control of the Canadian economy. Yet,

the role foreign investment assumed in the economy was, in large part, a result of a policy instituted after Confederation. It was common knowledge as early as the 1880s and 1890s that the establishment of branch plants was a direct result of the National Policy.(2) However, up until the period under study, the encouragement of foreign investment enjoyed widespread support and the establishment of branch plants was popularly applauded "as one of the finest achievements" of the Policy.(3) Then, by the late 1960s and early 1970s public perception of these very branch plants and, more generally, the role of foreign investment in economic growth, or at least action based on their perception, changed. cursory examination of this phenomenon raises the problem of explaining the apparent change in perception of the phenomenon.

The question of why the nationalist movement appeared at the particular historical moment at which it did, given that direct foreign investment was not a new phenomenon to Canada, prevents us from making the pluralist assumption that subjective interests(4) are a direct translation of economic or other conditions, as they affect any individual. How do we understand the lack of concern previous to this period on the issue? More generally stated, if observed action/inaction on the part of individuals or interest groups is not simply a reflection of the individual or group's interest on an issue, how are the activities/inactivities of individuals and groups to be understood? It is argued that in order to understand the

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appearance of the nationalist movement, ideas and their interaction with material conditions must be incorporated into the analytical framework. They must be incorporated as both contributing and inhibiting factors in the perception of interests on the part of social groups, as well as in the identification of viable policy options available to the government at any given moment.

II POWER AND HEGEMONY

The traditional approach to policy analysis, the pluralist approach, assumes a non-problematical convergence of individual preferences or wants into political actions.(5) Pluralists understand the existence of interest groups and social movements in a society to be a direct consequence of the diversity of economic, socio-cultural, and geographic situations in that society. The existence of the lag between the formulation of the movement and the introduction into the economy of the phenomenon which provoked the dissent cannot be explained. However, in rejecting the assumption of the non-problematic translation of interest into action, several other pluralist notions which build on this understanding of group formation must also be rejected. Particularly important, in this regard, is the pluralist notion of power.

The pluralist understanding of power follows from this conception of group formation as well as the conditions within which this formation takes place. Political power, for

pluralists, is understood as a commodity to be possessed by the winners of overt political battles such as elections or policy decisions.(6) The political arena in which this power is understood to exist exhibits two important characteristics: the existence of equality of opportunity and an autonomous state. In this environment, policies are understood to be the product of a competition among interest groups with distinct and separate identities and bases of power. The alignment of these groups with each other is understood to shift from issue to issue with no single set of interests dominant. Since the state is understood to be a neutral aggregating mechanism in which outputs are a response to demands and interests of competing groups, the outcome of a particular conflict depends directly on the relative power of the groups involved at any point in time.

However, if we cannot understand the appearance of interest groups and social movements as unproblematically a reflection of the interests of the individuals which make up these groups, we cannot accept a notion of power manifest simply in the disposition of political issues. In rejecting the equation of an individual's interest in a situation with his actions, we must necessarily reject this conception of power.

In hypothesizing the existence of a non-direct connection between interest and action several possibilities for the exercise of power can be identified which the pluralist notion necessarily excludes. Bachrach and Baratz in their pioneering study Power and Poverty argue that the pluralist understanding of

power ignores the exercise of an important source of power- power which can be exercised by affecting the formulation of demands made in the political sphere.

Bachrach and Baratz expand the notion of the exercise of power from simply the case where an individual (or, in this case, a group) participates in the making of decisions that affect another individual (or group) to "the practice of limiting the scope of actual decision-making to 'safe' issues by manipulating the dominant community values, myths and political institutions and procedures." (7) Bachrach and Baratz refer to the latter type of power as "nondecision-making". More specifically, they define a nondecision as

a decision that results in suppression or thwarting of a latent or manifest challenge to the values or interests of the decision-maker. To be more nearly explicit, nondecision-making is a means by which demands for change in the existing allocation of benefits and privileges in the community can be suffocated before they are even voiced, or kept covert, or killed before they gain access to the relevant decision-making arena, or failing all these things, maimed or destroyed in the decision-implementing stage of the policy process. (8)

Ronald Manzer's developmental approach to policy analysis is illustrative in regards to understanding some of the processes by which such power may be exercised. The approach is particularly helpful in understanding how the very processes of conceptualization and perception of material problems, events and solutions can be limited, and more precisely structured, by the set of unconsciously accepted ideas and

values shared at the societal level. Manzer's application of the notion of "paradigm" is of special interest to the current discussion.

As Manzer notes, the notion of "paradigm" was first developed by Thomas Kuhn to account for "revolutions" in scientific theories. Kuhn used the paradigm concept in two principal ways.

In its broader sociological sense, a paradigm comprises "the entire constellation of beliefs, values (and) techniques" shared by the members of a particular scientific community. The components of this shared group commitment include "symbolic generalizations", "belief in particular models", "values" covering a broad philosophic and methodological spectrum, and what Kuhn calls "exemplars"...[Paradigm] has functional importance, for it provides cohesion to the scientific community....

In a much narrower sense, Kuhn suggests that a "paradigm" constitutes a set of "exemplars" or "analogies" which scientists apply in the "puzzle-solving" research characteristics of normal science. These paradigms are usually crude perceptual devices suggesting ways of relating one set of phenomena to another.(9)

Important to this notion is the postulation of a systematisation of ideas within scientific communities, or in Manzer's case policy fields, in place of the existence of a pluralism of ideas. The connection of ideas into a coherent framework for understanding both physical and social reality is in direct contrast to pluralists' more traditional postulation of independent and competing ideas.

According to Manzer, the existence of such a framework in policy-making communities structures the actions of individuals

in these communities by intervening in the process of comprehension of problems amenable to policy response as well as the perception of available policy responses. In each area of public policy, there are policy principles which "express the current assumptions from which policy-making can proceed, ...[which] limit the appropriate set of policy instruments, and ...[which] summarize the world view of the policy-making community." (10)

Importantly, Manzer identifies the non-rational/subjective basis on which these paradigms are accepted and the fact that the assumptions underlying the acceptance of elements of the paradigms are often lost from immediate view. Elements of the paradigm, according to Manzer, are accepted "because they express what seems to be an effective approach to achieving desired political goods through political action." However, these elements "are not in themselves self-evident conditions for human development." Their acceptance rests on the existence of theories "which purport to demonstrate the efficacy of principles with respect to providing desired political goods." Manzer explains that once the theories are accepted, they drop from view and the elements or principles themselves are left to serve the function of providing the "broad justifications" for governmental action. (11)

It is argued in this paper that this systematisation of ideas is not restricted to policy fields and scientific communities as Manzer and Kuhn argue, but exists at the societal level as well. It is argued that there exist "a set of

predominant values, beliefs, rituals and institutional procedures"(12) which are held by all by virtue of being a member in a society. In the pervasion of one set of values as opposed to another rests the possibility for the exercise of power because as Bachrach and Baratz contend, the structuration of values does not take place on a random basis but a systematic one. Quoting E.F. Schattschneider they note:

All forms of political organization have a bias in favour of the exploitation of some kinds of conflict and the suppression of others because organization is the mobilization of bias. Some issues are organized into politics while others are organized out.(13)

This 'mobilization of bias' according to Bachrach and Baratz operates "systematically and consistently to the benefit of certain persons and groups at the expense of others."(14)

Alford and Friedland's study of political participation is of interest to the present discussion for two reasons. First, it highlights the fact that these values limit action on the part of individuals and groups not simply through the ideological realm. The organization of institutional structures and processes itself acts to subordinate certain social groups to others. What is more, this subordination is accomplished without the use of overt force or even participation on the part of the dominating groups, or the awareness of the dominated groups of their domination. We would argue that this structure is the material reflection of the commonly held set of ideas and values.

Alford and Friedland attempt to document the effect of historically created structures on the rates of participation of individual citizens, organizations and groups and the differential effect of such participation on policy. Based on their analysis of political participation in the United States between 1960 and 1975, Alford and Friedland document the existence of what they refer to as structural and systemic power.

Systemic power refers to the process whereby power is exercised without the direct participation of the benefitting group. This type of power consists of the "ability to shape issues and constrain policy by determining the conditions of functioning for a nominally representative state apparatus." (15) The process by which such power is wielded is explained as follows

The fiscal relationship between the state and economy is an aspect of state structure that maximizes the systemic power of dominant interests. As long as state revenues depend on taxes, the autonomy of the state is limited by the necessity to avoid any policies that impinge upon capital accumulation and growth. And to the extent that growth and thus fiscal capacity depend on continued private control of investment, production and location decisions, issues will not be raised nor policies legislated that impinge upon that control. (16)

According to Alford and Friedland, structural power is manifest in "the ways in which the particular organization of political authority ... differentially affects the level and effectiveness of political participation of different social groups." (17) The structure of the state has "incorporated a

continuous response to certain interests and a systematic exclusion of other interests from representation.(18) More specifically, structures of the state- legislative and administrative- function to maximize the political impact of economic power so that it is unnecessary for these interests to participate in order to exert power. Structures of the state, according to Alford and Friedland, also function to minimize the impact of political participation upon the power of nondominant groups.(19)

To briefly summarize, several points have been made in this discussion of power. First it is argued that there is an interaction between the individual and their environment which affects the individual's perception of their interest on a given issue and the action taken. Perception is affected by the existence of an integrated set of ideas and values embodied in practices and institutions. These values are internalized in an unconscious manner by the individual by virtue of being a citizen in a given community. The interaction between the individual and their environment introduces the possibility that an individual's opinions and perceptions can be structured and limited. To the extent that an individual's perceptions are structured by these community values, the individual has had some of their power taken away. To the extent that these ideas and values structure the individual's perception and limit the individual's actions, power is being exercised over that individual. That is to say, power is exercised by virtue

of the very existence of these values, since these values are not given. Importantly, this set of ideas and values serves the interest of some more so than others.

The problem which remains is that of how to incorporate these insights into an understanding of the policy-making process and particularly the process by which social actors are formed. Referring to the phenomenon called a "non-decision", Bachrach and Baratz note that the effect of this concept is to present a theoretical impasse to systematic analysis. Unless an individual's or group's interest can be determined apart from observation of their actions, the full exercise of a nondecision-making type power cannot be taken into account.

A non-decision can be identified only within the context of a power struggle that is known by the investigator.... For in the absence of a power struggle, there is no way to judge whether the major thrust of a decision will frustrate a potentially threatening demand from being raised against the decision maker. If the demand does not exist then neither does the non-decision. For purposes of a power analysis, a power struggle exists when either both contestants are aware of its existence or only the less powerful party is aware of it.... The difficult case arises when the status quo is universally subscribed to by non-elites and elites alike. Here, admittedly, there is no way to determine empirically whether community adherence to a belief is the product of elite manipulation... or a genuine consensus. An analysis of the problem is beyond the reach of a power oriented approach and perhaps can only be fruitfully analysed philosophically. (20)

In certain instances, it is not difficult to identify the interests of certain groups on a particular issue through

identifying their "stake" in the issue or how the issue affects them. Examples may include the following: "a child has an interest in a diet which provides a certain quantity of protein", "a consumer has an interest in the state of the market economy", or "an individual has an interest in the quality of the air he breathes". (21) To the extent that the group is not aware of their interest or does not act upon it, we could say that power is being exercised. However, the determination of this group as the unit of analysis itself is a function of the material structure and the particular set of values it reflects. Upon viewing the issue, our determination of any group as the unit of analysis may itself be a function of this very exercise of power.

It is argued that Gramsci's notion of ideology and hegemony present solutions to these methodological problems. An ideology, for Antonio Gramsci is a world view which encompasses not only political objectives but economic, intellectual, and moral objectives as well. In fact, ideology is considered the informative principal of all individual and collective activities and is expressed at several levels of abstraction in civil society: language, common sense, "popular religion" and "philosophy". Ideology "serves to rationalize and unify the "common sense" of everyday life, providing a conception of the world that is implicitly manifest in art, in law, in economic activity and in all manifestations of individual and collective life". (22) Defined as such, ideology

does not simply consist in an ensemble of spiritual realities but is materialised into apparatuses. The mobilization of bias in this ideological system is referred to as "hegemony".

A key point necessary for understanding the operation of hegemony is that according to Gramsci, the roots of ideology are found in the economic realm. In fact, for Gramsci, it is "social reality in its productive base that created ideologies." (23) The understanding of hegemony as based in the economic realm enables the identification of objective groups with objective interests. That is to say, economically determined groups or classes would be social actors if there was no structuration of action and perceptions through commonly held values and ideas to prevent their emergence. The postulation of class society offers a methodological tool to the previously described impasse to systematic analysis.

Balbus clearly denotes the theoretical confines within which such an assumption is taken in this paper.

If... the goal is not the empirical measurement of power but rather the explanation of changes in the allocation of values in society, then it is useful to establish by definition the existence of contradictory latent or objective interests and thus latent conflicts as characteristic of the political system. Such an assumption does not require empirical proof that the absence of overt conflict is a product of elite manipulation, since it is not an empirical proposition at all, but rather an assumption whose utility can only be measured in terms of the degree to which it enables one to explain or predict political change. (24)

Interests, no longer random, are considered structured by the

form of social organization. It is argued that the nature of social organization determines the life-chances of the individual whether he is aware of this social determination or not. The fact that an individual's life-chances are similarly affected by similar objective conditions leads to the positing of groups with a common interest, whether the interest is perceived or not.

The distinctive criterion for membership in a class is, by definition, the objective place in the relations of production in the society. Classes are objective in that their reality is external to the consciousness of the individuals. In its simplest form, the structural arrangements of the political system and the character of the dominant system of ideology in society is understood to produce two conflicting classes. The social relationship between owners of capital, who appropriate labour, and workers, who have their labour appropriated, is perceived to be a contradictory one. In this situation, conflict would concern how much and under what specific conditions labour will be appropriated.

It is argued that only hegemony based in the economic realm can equate necessarily structural and systemic power. The hegemonic position of the dominant group is understood to be a function of the critical position the group plays in the economic realm. According to Gramsci, "though hegemony is ethico-political, it must also be economic, must necessarily be based on the decisive function exercised by the leading group

in the decisive nucleus of economic activity."(25) This group provides the "articulating principle" of the common world-view of the society.

The process of construction of hegemony consists of transforming the ideals, values and the like already existent in society around a unique principle, referred to as the hegemonic principle, to create a relatively unified ideological system. This hegemonic principle takes the form of a value system or set of common sense assumptions and social attitudes which organise the existing ideas and values such that their realisation depends on the key rôle played by the fundamental class at the economic level. In this way, the hegemonic class becomes the class expressing the national interest and the world-view is endowed with a distinctive class nature. This is not to argue, however, that ideas or values which form part of this ideological system, taken individually have a class connotation. It is in the organization of these values and ideas that they come to take on this class character. The class nature of an ideology, therefore, can only be determined or identified through "that which constitutes...[its] distinctive unity."(26)

Given the notion of ideology described above, it is now possible to turn to the question of the relationship between classes and social actors. Social actors active at any given historical moment, it is understood, may or may not correspond to the objective determination of class based solely on the

economic element. Due to the fact that individuals perceive their interest in interaction with a material and ideological environment which embodies a hegemonic principle, objective or economic interests may not be translated directly into subjective, that is, political and ideological, class relations. For this reason, subjective and objective interests do not correspond at any given time. Since "men's consciousness of social conflicts takes shape in the field of ideology, and ... these conflicts are fought and settled in this field"(27), the determination of social actors depends on "the ensemble of political and ideological relations of domination and not just the relations of production."(28)

The notion that classes defined at the relations of production do not exist as such can be used as a methodological tool with which to understand struggles which take place in society. It is understood that economically determined classes only come into existence as social actors through struggle within the structure of economic, political and ideological relations. These economic, political and ideological conditions determine realms of possibility for action. At the same time these relations are transformed as effects of class struggles. The process of class formation is understood to be a perpetual one where classes are continually organized, disorganized and reorganized. "Class formation is an effect of the totality of struggles in which multiple historical actors attempt to organise the same people as class members, as

members of collectivities defined in other terms, sometimes simply as members "of" "the society".(29) Given this understanding, "[a]ll conflicts... that occur at any moment of history can be understood in historical terms only if they are viewed as effects of and in turn having an effect upon class formation".(30)

III COMMON SENSE, GOOD SENSE, AND POLITICAL DISSENT

On what basis does social conflict occur? What provokes the formation of social movements? More generally, how does the model explain dissent and social conflict? Two assertions are made in the model in this regard. First, ideology is not understood to be all pervasive. Secondly, the exercise of hegemony is understood to be based on the "consent" of subordinated groups which, under certain conditions, can be "withdrawn".

A characteristic of hegemony, and one which distinguishes it from rule by force is that the leading political and economic role played by the hegemonic group is assumed with the "consent" of the subordinated. This consent not only involves consent to subordination but consent "to the interests and representation of social reality" generated by the hegemonic group. However, as has been previously argued the consent is not a purely conscious and intentional one since the entire social structure acts to generate it. Przeworski has described this socially organized consent as follows

[Consent] should be understood not in psychological or moral terms. Consent is cognitive and behavioural. Social actors, individual and collective, do not march around filled with "predispositions" which they simply execute. Social relations constitute structures of choices within which people perceive, evaluate, and act. They consent when they choose particular courses of action and when they follow these choices in their practice. (31)

However, just as hegemony is understood to be based in material objective conditions, consent is also based in these conditions. This leaves consent open to weakening on this same basis. Consent, for Gramsci is not a hoax or mass delusion because objective conditions provide a basis for both the establishment of hegemony and consent. (32) This consent on the part of subordinated groups to hegemony is based on two factors. First, hegemony requires that the interests of the hegemonic group be "concretely coordinated" with the interests of groups over which hegemony is exercised. This involves "taking systematic account of popular interests and demands, shifting position and making compromises on secondary issues to maintain support and alliances in an inherently unstable and fragile system of political relations [without, however, sacrificing essential interests], and organising this support for the attainment of national goals which serve the fundamental long-run interests of the dominant group." (33) Secondly, in order for a particular configuration of ideas to become the hegemonic one "it must be capable of organizing the actual practical, everyday experiences people have into a

"common sense" understanding of their situation." (34)

The articulating role played by the hegemonic group necessarily situates the hegemonic compromises within the prevailing domestic and international conditions. These material conditions thereby serve as constraints to the continued existence of the particular configuration or articulation of ideas and the compromises which they reflect. Consent to this articulation is vulnerable to changing circumstances at two points. First, subordinated groups must attain a certain minimum level of their interests or goals. (35) If the material conditions no longer enable attainment of these goals, consent is weakened. Secondly, changes in material conditions may "break up the links between the practical experience of the masses and the hegemonic "common sense" and "popular religion" and, finally, the philosophy, which were grounded on the former pattern of experience." (36) When this system of ideas and the material structures which it represents no longer adequately fulfill these criteria, consent weakens and the ideological arena becomes more receptive to alternative explanations and agencies. Consent breaks down completely with political-economic-ideological crises. It is under these conditions that 'good sense' becomes most available as a factor and basis for dissent.

For Gramsci, although the hegemonic system of ideas is taken by the individual as common sense, this does not mean that the world is 'lived' and experienced only within the terms

of the ideology. "They are also lived in the terms of 'good sense' - contradictory and sometimes incoherent ways which escape the categories of the dominant ideology." (37) The distinction between common sense and good sense, it is presumed, would be heightened with deteriorating material conditions. It is this good sense, experiences outside the bounds of the description of the ideology, which forms the basis for dissent from the consensus and challenge to the hegemonic articulation of ideas.

How this good sense is interpreted and the use to which it is put is dependent on the consciousness of individuals brought about by organizations and intellectuals in these organizations. With the leadership of intellectuals, social actors struggle to achieve and perceive their objective interests in the prevailing material conditions. It is argued, therefore, that one of the determinants of the expression of these fundamental interests in a given situation, is the "organizational capacity" of the various groups/classes.

These experiences in the realm of good sense can be brought to the status of knowledge, "given the unity and coherence they deserve", only when they inform and are transformed by systematic theory. For Gramsci, the development of such theory depends on organisation and political activity around the practices which originally gave rise to that "good sense". (38) Political parties and the intellectuals they contain are expected to play a prime role in formulating and

advancing an effective political strategy. Organisations provide the means for formulating strategy and they affect a social agent's ability to pursue its strategy with affect. In conditions of a deteriorating material basis of consent for the prevailing system the challenging group or groups attempt to appropriate the experiences which are not adequately explained by the dominant ideology. These experiences are given meaning by the new explanation and ideas posited by the challenging groups or organisations. These organisations will "articulate and draw attention to those experiences, wishes, hopes and aspirations which are generated in social relations but cannot be accommodated to the categories of bourgeois ideology or met by capitalism." (30)

IV IMPLICATIONS FOR ANALYSIS OF THE CASE

The traditional analytical model was rejected because of its inability to explain the change which occurred in the late 1960s/early 1970s in the perception of foreign investment. In rejecting the pluralist approach two issues which a new model must address were identified. The model must incorporate a role for ideology in the interpretation of events, that is, an understanding of the role of ideas and their interaction with material conditions in understanding the appearance of the nationalist movement, and, adjust the notion of power to incorporate such a role. What are the implications of this theoretical framework to the problem of evaluating FIPA? What

criteria does the framework identify as the proper basis for making such a judgement?

Before we can begin to understand how FIRA was a response to the nationalist movement, we must come to an understanding of the movement itself. This understanding cannot be achieved, however, simply through examination of the composition and listing of the demands of the group. It was argued that power can be exercised without participation, can affect perceptions of interest, participation itself and its effects. For this reason, the nationalist movement cannot be understood in isolation but must be viewed in terms of its relation to the overall structure of hegemony. Since power is not necessarily possessed by the winners of overt political battles, but held by "those who benefit over time from the operation of social, economic and political structures(42)", the overall structure of power in both its ideological and material manifestation must be examined.

The assertion that ideas existent at various levels in the society are linked in some way, has a direct implication for understanding what constitutes dissent from the hegemonic articulation of ideas. The notion of the systematisation of ideas requires that an understanding of dissent go beyond its narrow equation with a frontal attack on the main tenets of the hegemonic system of ideas or the compromises it represents. If we understand ideas and values not as having an independent "existence" but instead as part of theories which, themselves,

rest on assumptions, dissent need not be manifest by a frontal attack on the important ideas or tenets. Criticism of the appropriateness of the theories and assumptions on which basis these tenets are posited as the one and only description of reality necessarily also constitutes dissent to the hegemonic articulation itself. To this end, the description of this articulation must not only include its main tenets, but the system of values and assumptions which support these ideas.

An examination of the underlying ideas in combination with an examination of the change in the material conditions which helped to make the implicit assumptions and values explicit will enable us to view the multidimensionality of the articulation and the various ways which the nationalist movement could pose a serious challenge to this system of ideas. We are also better able to evaluate the severity of the challenge to the consensus.

However, the identification of the articulation itself, is not without problem. If the consensus is in fact adopted ideologically at an unconscious level, how can the values, theories, ideas and assumptions be identified? How can the articulating principle be identified? The model suggests that under the circumstance of changing material conditions, the consent of subordinated groups may weaken. The greater the inability of the prevailing ideas to explain the new conditions the more open the ideological arena becomes to alternative interpretations. In contrast to the new ideas and assumptions

which are put forward, the old ideas and assumptions become identifiable. It is here argued that in examining the nature of the challenge, the components of the ideology become apparent.

Using similar reasoning, however, the challenging components of the nationalist movement only become apparent in the act of making the challenge and in relation to the articulation itself. The process of identification of the major tenets of the articulation and of the challenge is, therefore, a rather circular one. The description of the prevailing articulation undertaken in this paper is very much bound up with and limited by the nature of the challenge to it as embodied in the nationalist movement and vice versa. This point in itself poses a logistical problem to the organization of the paper. The conventional format for intellectual discourse might be characterised as description, analysis, conclusion. Due to the fact that we have argued that the challenge is not evident except in contrast with the set of ideas it challenges and vice versa, it may be misleading to present the description of each using the conventional format. However, though the elements of the articulation and challenge have been identified in this circular manner, the discussion of each will be artificially separated for clarity of presentation. Chapter two focusses on a description of the hegemonic articulation of ideas and the compromises it represents and chapter three focusses on a description of the

challenge.

When the system of ideas around which the consensus is formed is faced with such a challenge, there is an attempt by the state to reintegrate the dissenting elements. Through making small modifications to the articulation which do not alter the structure or exercise of hegemony, the state attempts to incorporate the interests and demands. However, it is argued that all the verbal demands of the movement need not be incorporated in order to accomplish this task.

Just as the consensus around the hegemonic articulation of ideas and compromises is led by one particular group and is structured to incorporate the interests of other groups, we must necessarily understand any popularly based movement which enjoys the support of a cross-section of society to be similarly constructed. The construction of the challenge is viewed similarly as the construction of the consensus with a hegemonic group which attempts to turn the interests of other groups to its own. The interests of other social groups are transformed in such a way that they are dependent for their accomplishment on those of the leading or mobilising group. In order for the dissent of this group to be incorporated into the consensus, it is argued, only the demands or interests of the mobilising group need be met. Therefore, FIRA need not be evaluated in terms of all the demands of the movement, but simply those of the mobilising group. The problem of separating these demands from those which serve to link the

interests of the allied groups, along with the evaluation of FIRA, is addressed in Chapter four.

Since the nationalist movement essentially disappeared with the creation of FIRA indicating that the demands of the mobilising group were met, one question for analysis concerns whether or not the basis for the consensus was significantly altered in the process of neutralising the nationalist challenge. In this regard, it is argued that this cannot be determined through examination of the Agency in isolation. The Agency must be examined in terms of its effect on the institutional manifestation of the hegemonic articulation of ideas.

The theoretical framework also indicates a second basis for judgement of FIRA. Given the understanding of dissent in terms of the process by which it is formed and the conditions under which it is expressed, FIRA should also be evaluated in terms of its response to the conditions which formed the basis for the appearance of the nationalist movement. Since it is these material conditions which enable challenges to rise, if the conditions are not addressed in the long term, the state leaves open the basis for the mounting of future challenges.

CHAPTER TWO: POSTWAR SETTLEMENT AND EARLY DISSENTERS

I INTRODUCTION

This chapter focusses on describing the relationship between the phenomenon around which the nationalist movement mobilised, the quantity and nature of foreign, primarily American, investment in Canada and the hegemonic articulation of ideas. The previous discussion concerning the nature of ideology and the processes by which hegemony is exerted has indicated the importance of identifying the underlying theories, values and assumptions in any description of the hegemonic articulation. By demonstrating the intimate nature of the link between this phenomenon, or more generally the continental orientation of the Canadian economy and the hegemonic articulation of theories, values and assumptions, several points become clear. We begin to understand what constitutes a nationalist dissent in this context. We also begin to understand how dissent to continentalism could constitute a challenge to the bases around which the societal consensus was formed. As a corollary, such a description also lays the basis for evaluating the seriousness of the challenge such a mobilisation poses to the consensus.

In this regard it is argued in the discussion which follows, that continentalism, at least in its origin, was not a strategy intentionally pursued by policy makers. Instead, this orientation was a consequence of the interaction of the assumptions, theories and values inherent in the hegemonic articulation and evident in the major components of the

economic strategy with the particular international economic conditions in the postwar period.

The discussion of continentalism therefore begins with a description of the economic strategy: its major components and the underlying system of ideas as a reflection of the hegemonic articulation and the basis for the existing consensus. It then proceeds to examine the postwar international economic conditions and how, in interaction with these conditions, the nature and direction of the growth brought about by the economic strategy was redefined.

To clarify the confines within which the following discussion is set, one methodological point is noteworthy. The following discussion is not presented as a complete description of the ideas and processes underlying continentalism in the Canadian context. It has been argued above that the prevailing system of ideas is accepted as a popular religion by individuals in the society. It is, therefore, anticipated that the underlying theories, values and assumptions are not readily apparent. They have drooped from conscious view and only do become apparent when challenged. The system of ideas and processes underlying this orientation can necessarily only be identified to the extent that the nationalist dissent made apparent.

II POSTWAR RECONSTRUCTION PLANNING

The structure of hegemony in existence at the time of the

appearance of the nationalist movement was established at the end of the Second World War in response to the change in the political, economic and ideological conditions brought about by the war. Of specific importance in this regard is the leading role the state was forced to adopt as the result of the exigencies of the war, and the failure of existing orthodox economic policies based on 'sound finance' to secure conditions favouring growth and employment. The period also witnessed a shifting in the social configuration of power with the organization and social rise in power of labour.

The war years witnessed a major change in the political values of a large number of Canadians concerning the role and responsibilities of government. The roots of the popular sentiment in favour of greater government responsibility for economic planning lay largely in the change in the economic role of the government necessitated by the increased demands placed upon the Canadian economy by the war. The war years witnessed a massive increase in the overall size and importance of government. Production of the required machinery and weapons necessitated an almost total integration of political and economic resources. As a consequence, over the course of the war "the Canadian state assumed a degree of control over and regulation of the economy which has never been equalled in the country's history." (1) According to one analyst, the Canadian economy operated "in effect" "as a state-controlled and centrally-planned economy". (2) In contrast to the

Depression conditions, the prosperity associated with the war effort constituted an applied lesson in the virtues of economic planning. "The Depression had weakened faith in free enterprise; war and collectivist controls had restored prosperity and a sense of common purpose".(3)

The change in values involved a questioning of the prevailing faith in unrestricted free enterprise to bring about national economic health and, along with demands for social security and a minimum standard of living, introduced state planning as an issue into the political debate. This change in values constituted a significant criticism of the prevailing essentially laissez-faire plan for economic growth adhered to by both the Liberal and Conservative parties.

This shift in values was reflected in the sudden growth of support for the CCF. This dissent was expressed in support of the CCF due to the party's advocacy of increased government intervention through economic planning throughout the Depression years. Many of the policies which were used to solve the problems of the wartime economic mobilisation were those which the CCF advocated during the Depression to deal with the problems of unemployment and economic stagnation. CCF popularity peaked in 1943 and 1944 when the party became the official opposition in Ontario (1943), won several by-elections, led both the Liberals and the Conservatives in a national Gallup Poll, and in 1944 became the Saskatchewan government.

This expression of dissent through support of the CCF

gained increased political importance by virtue of the fact that the CCF was the focus of expression for a second type of dissent and this of an increasingly important social group: labour. The rapid expansion of the secondary manufacturing sector, drop in unemployment and increase in the proportion of the civilian labour force employed by the manufacturing sector brought about by wartime mobilisation, had the effect of increasing the relative strength and overall size of the organized labour movement.

Under these conditions, the campaign to organize labour begun in the 1930s had finally met with success. Union membership in Canada rose from 17% of the non-agricultural labour force at the start of the war to 28% by its end.(4) In combination with the creation of the Canadian Congress of Labour from the merger of two existing unions, "a strong united organization of industrial unions in Canada"(5) was brought into existence. Labour's support for the CCF reflected their dissatisfaction with the Liberal government's administration of its wage control policy and its unwillingness to grant unions a greater degree of collective bargaining rights. The political opposition to the government over the two issues reached a peak in 1943 with the largest strike wave in the country.

The economic strategy devised by the Liberal government for postwar reconstruction addressed the political challenge posed to it by the CCF by incorporating a more interventionist role for the state in maintaining full employment and economic

growth in general.(6) The question which is important to understanding the appearance of the later nationalist movement is how the government managed to incorporate this revised role for the government into its essentially laissez-faire economic strategy.

Prior to the war at least if not from the nation's inception, the fundamental acceptance of the liberal world view was manifest in a conception of economic growth. Predicated on the faith in the built-in harmony of the market society based on the individual pursuit of self interest, Canada's economic growth was understood to depend on the exploitation of the country's traditional strength as determined by international market forces. The export of natural resources was the key to both prosperity and development. Such a conception logically leaves collective subjects such as the nation with no recognized existence as there is no notion in liberalism that an imposed external order is necessary to control the base tendencies of individuals. The nation "...becomes in practice the source of obstruction to the free flow of goods and of capital through instituting tariffs and restrictions. It is further regarded as a source of chauvinism and of parochial and irrational ideas which obstruct the free flow of natural good will and disembodied "ideas" from man to man across the globe.(7)

The logic underlying this tenet of the economic strategy is elucidated in the writings of W.A. Mackintosh. Mackintosh,

who has been characterized as "the leading economic theorist of the inner spring of the governmental mechanism in Canada" during the Second World War(8), was a key civil servant who advised both the Departments of Finance and Trade and Commerce from 1939 through 1946. His central position was also based on his recruitment of other mandarins (mainly from his own university) as well as his work on government advisory boards and royal commissions.

For Mackintosh(9), the pattern of economic development in "countries such as Canada ("pioneer" countries such as the white British Dominions and the United States) depended on a progression through four stages propelled by the export of staples. In the first stage, exploitation of natural resources by the early settlers is the key to a rising living standard. Spurred on by the intensification of resource extraction, a transportation infrastructure is constructed and European technology is adapted to local conditions. Foreign investment plays a key role during this, the second stage, in financing the expansion. The third stage is characterized by an "immature" industrialization behind protective tariff walls with the export of staples continuing to be the focal point of economic development. In the final stage, full economic maturity is reached defined as self-sustaining economic growth based on industrial rather than staples production. In fact, Mackintosh believed that "no large agricultural community has ever passed from primitive poverty to great prosperity except through the gateway of the one-crop system and the export

stable."(10)

Of particular importance to our discussion is the role foreign investment is understood to play in this process. One analyst has described the reasoning on this issue as follows.

With economic growth comes wealth; with wealth come choice and independence. Economic growth, spurred on by new investments, generates new wealth and savings which establish the basis for an ever-increasing degree of independence. Anything which contributes to economic growth, in the long run, contributes to national independence. Foreign investment contributes to economic growth. Therefore, ~~1950 factor~~ it eventually contributes to national independence.(11)

In the combination of state planning and responsibility for welfare and growth and reliance on the freely operating market system to generate this growth, the economic strategy welded two basically opposing ideas. The combining of these two contradictory elements as reflected in such documents as the White Paper on Employment and Income(12) was accomplished by virtue of the following compromise: limit government intervention in the economy to demand management and make growth dependent upon private production and not on social spending. In other words, government intervention was to be restricted to the general level while allowing the market to determine specific results, such as the composition of output and employment.

Therefore, although the government effectively implemented many of the measures for economic planning and social security which had been advocated by the social democratic CCF since the

middle of the Depression, these measures were introduced within the framework of an explicit commitment to the private enterprise system. That is to say, economic decisions were left to the prerogative of private individuals and private businesses. As a result, government intervention to promote full employment was structured to provide the maximum possible support for the continued growth and profitability of existing business enterprises.

The Liberal party program adopted for the 1945 reelection campaign reflected a more interventionist role for government in maintaining full employment. It also included benefits for returning veterans, a national housing programme and an expanded social security scheme to include improved old age pensions, consideration of children's allowances and improved insurance against the consequences of unemployment, accident, ill-health, old age and blindness. The Family Allowances Act was instituted in 1944, Old Age Security in 1951, Old Age Assistance in 1951, Unemployment Assistance Act in 1955 and the National Hospital Insurance and Diagnostic Services Act in 1957. These programs act as automatic stabilizers. "[W]hen GNP falls (or rises) they keep personal income and consumption from falling (or rising) to the same extent, thereby moderating cyclical changes in demand." "All of these programs provide a rise (fall) in payments as income fall (rises) or, in the case of taxes, a fall (rise) in tax liabilities which is greater than the fall (rise) in income." It is important to note that

these automatic stabilizers "operate without special state action." (13) They act automatically and predictably without the direct intervention of the state to the purpose of supporting rather than interfering with market forces.

Government intervention at the level of demand management minimizes the effect of such intervention on the operation of the market by virtue of the fact that it does not involve direct controls on either capital or labour. (14) State intervention is restricted to varying current and capital spending in the public sector and welfare state and/or altering the incidence and level of taxation and/or manipulating the money supply through orthodox open-market operations in government securities, the Bank rate, reserve requirements, and so forth.

However, the change inherent in the new compromise should not be minimised since embodied in it were the seeds of future problems. First, it is argued that the maintenance of such a compromise is highly dependent on the continued existence of the material conditions in which it was established. This is primarily for the reason that such a limited state role may not always be sufficient to bring about growth. And given the establishment of the responsibility of the state for this growth there remains the problem for the state of fulfilling its mandate to achieve such growth without infringing on the operation of capitalism itself. Alternatively stated, what is required for the state to fulfill its commitment to growth and

employment may change with changing material conditions. Changing material conditions may require a state role that directly threatens the dynamic of capitalism itself.

Secondly, in recognizing a new role for the state the questioning of the fundamental proposition that capitalism can be counted on to provide full employment and growth was enshrined in the strategy. With the recognition that the only way that full employment can be maintained is through the intervention of the state to counteract the normal tendencies of investment behaviour (15), from that point forward the appropriate degree of state intervention would be a recognized issue in the realm of social discourse. Therefore, complaints about the operation of the system may naturally lead to calls for increased state intervention irrespective of whether the degree of intervention called for may challenge the very basis of the compromise.

By way of a cautionary note, the intention of the above discussion is not to argue that such a balance between state intervention and unrestricted operation of the market was consciously or intentionally struck. Nor is it meant to deny that the Canadian state had previous to the compromise intervened in the economy to stimulate or maintain economic growth. It is, however, intended to argue that the liberal world-view acted as a limiting factor or alternatively motivating factor for policy-makers when deciding how to respond to pressures from subordinate groups and economic

problems. It is argued that the liberal notions and ideas concerning economic growth exist as a constraint for and boundary within which perception, conceptualization and debate will take place. With the change in the material conditions Keynesian ideas gained some legitimacy and became ideological elements, incorporated in a subordinate position by the hegemonic articulation.

A final factor which is important to note concerning the compromise is the fact that the success which it appeared to enjoy in bringing about economic growth for all in the early postwar years, was based on a unique configuration of factors which were not likely to persist.

The economic boom which characterized the war and postwar years and which laid the basis for consent of the various social groups to the economic strategy was not primarily the result of the strategy but of external factors beyond the government's control. Prosperity merely served to camouflage the more long term implications of the economic strategy. When these external factors changed, signs of structural weakness in the economy and the internal contradictions of the strategy became evident. Unemployment and balance of payments problems are two cases in point.

At the end of the war the economy was faced with the serious problem of generating a sufficient number of jobs to employ the one half million defence workers whose jobs were terminated with the cancellation of defence orders as well as

the close - to one million Canadian servicemen who were waiting to rejoin the labour force.(16) The problem was solved(17) in the short term by the conversion of Canadian industry to civilian production in conjunction with the consumer spending spree resulting from the backlog of nearly eight billion dollars in savings. In this period, new foreign investment was attracted to Canada by the discovery of the petroleum deposits at Leduc, Alberta, in February 1947. In fact, "Americans poured so much money into the exploration of natural resources that Canada became the world's largest importer of private capital".(18) Just as the growth generated by these factors was slowing, the Korean War erupted. Between 1950 and 1957, the Korean War and the American rearmament programme sparked a boom in Canadian economic growth unmatched in Canadian history.(19) The Korean War and its accompanying demand for the raw materials from which armaments are manufactured again attracted a wave of foreign investment to Canada. As well, domestic demand for consumer goods was kept at high levels by the high rate of immigration from Europe.

But by the beginning of 1957, the effect of these factors had exhausted. "Capital expenditures in primary industry were falling and by the autumn of that year an unsaleable surplus of wheat, timber, paper, and minerals was plugging Canada's trade channels and, for the first time since the 'thirties, unemployment was becoming a national problem, with 7.1 per cent of the labour force out of work during the winter of

1957-58." (20) Such exhaustion was manifest in the excess capacity of Canadian factories and the reduction of the total amount of private capital investment flowing into the economy. In fact, between 1957 and 1962, the amount of money being invested in plant construction, industrial machinery, and other fixed-assets had dropped by 25 per cent. (21)

Since the economic boom which characterized these years was more the result of the sustained level of foreign demand for Canada's staple exports and the high level of foreign investment in Canada's resource industries than of the specific policy actions taken by the government, when the fortuitous circumstances ended, so did the prosperity.

III. CONTINENTALISM

Continentalism is here understood as referring not so much to a desire on the part of politicians, officials or the private sector for the Canadian economy to be integrated with that of the United States but the orientation which the postwar reconstruction plan came to take on when implemented in the conditions of the postwar period. The postwar reconstruction plan entailed a strategy for growth which was not necessarily continentalist in orientation. Though given the strategy's focus on exports and assumed virtues of the free movement of capital, in the postwar environment with the United States ascendent and with surplus capital, it necessarily became so. This is not to argue, however, that there did not exist

politicians, officials or members of the private sector who at the time or later openly advocated the integration of the Canadian with the American economy. Certainly a segment of Canadian capital did accommodate itself to the inflow of U.S. direct investment and as such came to have a vested interest as did, to a certain extent, all Canadians particularly those employed in branch plants in the maintenance of this inflow. It is, however, argued here, that a more complex understanding of continentalism is required in order to understand the nature of the nationalist dissent.

Far from pursuing a continental integration in the postwar period, Canadian policy makers actively pursued the reconstruction of the international trading community and a multilateral trading strategy. Canada's prosperity in the prewar period had been based on a triangular pattern of trade between Canada, the United States and Great Britain. With this multilateral pattern of trade the surplus Canada built up in its trade with Britain could be used to cover the habitual Canadian trade deficit with the United States. In other words, exports to the United Kingdom and Europe were used to pay for imports from the United States. (22) Because of the conviction that only a multilateral trading pattern would bring prosperity such documents as the White Paper on Employment and Income, among others, emphasized the importance of policies designed to reconstruct the international economy and promote greater freedom of trade. In the words of one Trade and Commerce

official.

It is generally accepted that Canada's well-being and continued expansion depends on high levels of trade. Accordingly, every effort has been made to improve and expand the opportunities for trade upon which Canada's prosperity depends. This involved Canada's active participation in the work of international cooperation under the G.A.T.T. and other international arrangements, supplemented by direct arrangements with various individual governments. (23)

"Every effort" was made to "expand trade between Canada and the United Kingdom in both directions" (24) and trade agreements were negotiated with Japan and various Eastern European countries.

In fact, during the war Canada had even achieved a measure of independence not before experienced within the Commonwealth and with some diplomatic successes to its credit, had staved off American advances.

The war had irrefutably demonstrated that Canada could produce the necessary goods and raise large, effective fighting forces. War conditions had also shown that Canada could discern and protect its national interests through skillful diplomacy and a willingness to deploy forcefully such power as it possessed. The peace that followed the war emboldened the mandarins to believe that Canada's goals could continue to be pursued. They had already achieved Canada's independence within the Commonwealth and had dealt effectively with the United States throughout the war. (25)

However, in the conditions of the postwar period this multilateral trading strategy necessarily deteriorated into an effectively bilateral one and the postwar strategy became a continentalist oriented one. In the postwar period, Canada

faced an international environment completely dominated by the United States. Before the war, Britain and Germany had been strong economic forces in Europe and Japan had been a strong force in Asia. In 1945, however, Germany and Japan lay defeated and Britain, the 'other' traditional pole of external association for Canada had collapsed as a power and moral force. In contrast, American output in 1945 alone constituted half of the world's output.(26) It was, therefore, "natural" that an increasing proportion of Canada's exports found its way to the United States, and as one official observer remarked "...it is difficult to believe that any other result would have been possible."(27) In contrast with the earlier period, the United States became Canada's most stable and dependable market.(28)

It is important to note here the connection between the continentalist orientation of the economic strategy and the prevailing essentially liberal values in order to understand the necessary implications of any nationalism exerted in this context. Under the postwar conditions, belief in the largely unfettered market system largely served as the basis for the expansion of American capital abroad with the free entry of this investment into host countries. To the extent that free enterprise is linked to foreign control and continentalism, nationalism is necessarily linked to a critique of free enterprise and the advocacy of a greater degree of state intervention and planning.

Similarly, a call for increased intervention in the economy on the part of government in any particular sector or over a particular issue necessarily lends itself to mobilisation behind a nationalist cause to the extent that it is an implicit critique of free enterprise. As an implicit critique of free enterprise it is an implicit critique of continentalism. Therefore, the continuing critique of free enterprise in the form of a call for government intervention in the economy having already been introduced into the political discussion when the compromise was established, comes to be a nationalist critique with the equation of unrestricted free enterprise with continentalism.

Several other forces were involved in the postwar strategy taking on a continentalist orientation. A second force favouring a continental orientation was the problems Canada faced in fulfilling the wartime demands placed upon it. Given the traditional pattern of Canadian economic development and the one embodied in the postwar economic strategy and the growing U.S. role in this pattern as supplier of investment and manufactured goods, fulfillment of Canadian wartime demands gave rise to exchange and supply-oriented problems with the United States. By way of addressing these problems, the Hyde Park agreement provided for the integration of defence production between the two countries. In the words of Mackenzie King it marked "...an acceptance of the economic interdependence of Canada and the United States as the

foundation of the programme of war production in both countries." (22) The agreement declared that in the mobilization of the two economies for war, specialization of production between the two countries would be promoted as much as possible in order to eliminate the unnecessary duplication of efforts. The agreement afforded Canada special treatment in allowing U.S. firms to make war purchases in Canada in order to generate the exchange necessary for the growing volume of Canadian purchases in the United States. Continentalism in defence production was reinforced after the outbreak of the Korean War in 1950 with the statement on the Principles of Economic Co-operation. (30)

A third factor which encouraged continental integration was the Cold War. In the face of a powerful and aggressive United States, there was some belief among Canadian officials that only an international organization, such as the United Nations, which would put the ~~bilateral~~ Canadian American relationship into a multilateral context, could preserve Canada's independence. (31) However, the United Nations itself became an arena of the Cold War, one in which the Western cause had to be maintained and in which independent initiatives were rare. (32) The Cold War demanded the establishment of a western alliance to face the Communist danger, an alliance in which the United States inevitably took the leading role. "The progress of mankind, and Canada, was almost universally seen to rest with the unimpeded leadership of the American colossus." (33)

Canadian resources were needed to fire the furnaces of the American economy; the

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exploitation of these resources would bring prosperity to Canada; expanding American economic power was needed to hold the frontiers of the Free World; and Canadians, among others, were all citizens in that Free World. (34)

IV THE GORDON COMMISSION

The aftermath of the Korean War witnessed the first signs of structural problems in the Canadian economy and the inability of the economic strategy to maintain satisfactory growth for all social groups. Dissent in this period was manifest in two ways, neither of which were deliberately nationalistic. Different segments of the population, in response to the contradictions inherent in the industrial strategy began individually and separately to make demands upon the government for aid to their industries and areas. In other words, demands began to arise to address the effects of the contradictions in the economic strategy. With the intensification of the signs of structural weakness and in the midst of the unique events of the 1960s and early 1970s, a small group of individuals was able to mobilise this dissent around a single factor: foreign investment.

This dissent, it is argued, was available for this later nationalist mobilisation in that the discontent implied dissent from the prevailing continentalist economic strategy. The nationalistic element in the dissent is the implied assertion that Canada has an interest distinct from, and potentially in

conflict with the American interest. Or, alternatively, Canada's national interest may not be furthered by the unrestricted working of the free enterprise system; government intervention may be required.

Several problems associated with the nature of the growth experienced under the economic strategy during the war and immediate postwar period became evident in this period. The foreign investment which had primarily enabled the economic expansion was associated with several problems which began to be experienced in the Canadian social and economic structure in the period. Foreign investment was at the base of problems of economic concentration with its attendant restriction of opportunity for investment and participation by Canadians, the shift in regional economic activity and problems of regional concentration and diversity, balance of payments problems and unemployment. Although it was not foreign investment which was the cause per se of these problems but the economic strategy in interaction with the prevailing economic conditions which encouraged it and provided the parameters in which it operated, the presence and activities of foreign investment were intimately bound up with each problem.

The 1950s had witnessed a dramatic inflow of U.S. capital, primarily direct investment, into Canada on a scale quantitatively greater than any previous period. In the 1945 to 1952 period alone, direct investment by Americans in Canada almost doubled.(35) This investment was carried mainly through the vehicle of multinational corporations.(36) The shift in

Ownership of the Canadian manufacturing sector was extremely narrow. The percentage of foreign control grew from 75% in 1944 to 82% in 1953 and to 87% in 1967. (22) And, even though foreign direct investment in Canadian manufacturing rose less rapidly than in Western Europe, the output of foreign firms as a percentage of total domestic manufacturing output was still higher in Canada than in Western Europe. (23)

Not only did this influx of direct foreign investment represent a transfer of ownership but also a transfer of opportunity and decision-making power. By 1967, the majority of the decision-making positions in the largest mining and manufacturing corporations were held by people who were either in non-Canadian controlled corporations or were not Canadian citizens or residents. Only a minority were indigenous. (24) The resulting restriction of indigenous elites in the manufacturing and resource spheres has the effect of leaving major decisions in the area of manufacturing and, to a lesser extent, resources, to the heads of multinational corporations based mainly in the United States. This was to be a chronic rather than a temporary situation.

Compradorization creates a situation where capital, entrepreneurial talent, and investment potentials are eliminated from the "host" country with the effect of decreasing, rather than increasing, autonomy with development.... U.S. investment has reversed the development toward autonomy and instead has brought Canada into a situation of greater dependency than during previous periods.... In terms of power to decide about the allocation of resources in Canada, there

has seen a regression to the inter-developmental decision making... with loss of control over the future of development, over stability built on an indigenous base, and over the retention and allocation of surplus. (40)

American participation in Canada's economic expansion was associated with a second development in the economy. The inflow of American direct investment was associated with the concentration of industry and economic power. The dramatic expansion of the 1950s was not seen so much expansion of the number of firms but expansion of existing large firms and dominant corporations. (41) The mergers in this period were part of a longer process of consolidation, merger and takeover begun in the early part of the century. (42) Most of the dominant corporations of 1950 dated their origins from the early period and were created as a result of mergers of many smaller units. The decade of the 1950s was one of continuing consolidation, merger, and takeover. Big firms got bigger, not only from internal expansion, but also by joining together. The differentiating characteristic of the mergers of the 1950s was that the mergers were "the combination of giants." (43) Though in this merger movement Canada followed the pattern for most industrial societies, a "good deal" of concentration in Canada could be directly attributed to the presence of U.S. giant corporations operating in Canada. (44)

In the resource sector, the growth period had witnessed a significant shift in economic activity. The Korean War had seen the rise of a new set of staple exports which rivaled in

importance the traditional resources. As outlined in the 1957 Paley Report, Canada's role on the production side in the continental production agreements in the military rearmament for the Korean war was to concentrate on such basic materials as steel, nickel, and aluminum. As a result, new exports to the U.S. emerged of iron ore, uranium, oil, and non-ferrous metals. These exports "rivaled and in some cases superseded in size the traditional staples which were sold in overseas markets." (45) By 1954, pulp and paper and related products declined to 3% while non-ferrous metals accounted for 17% of the market. (46) Foreign investment's association with such trends stems from the fact that the American investment helped to finance and direct the expansion experienced in the resource industries associated with the war boom and accompanied the rising level of resource exports during the mid-1950s as the industries whose exports to the U.S. were growing most rapidly. (47) Therefore, the shift away from old staples to new staples was associated with the penetration of foreign investment. Likewise was the shifting of economic activity between regions as a result of the differential distribution of these resources associated with foreign capital exacerbating the trends to regional concentration of manufacturing also associated with foreign, particularly American, investment.

The role of direct foreign investment in financing the expansion experienced in the war and immediate postwar period also laid the basis for a pattern of trade and investment that

would cause Canada to experience a perennial current account deficit. In the resource sector, the branch plant companies would produce primary products far in excess of Canadian domestic needs, for export mainly to the United States. In the manufacturing sector, these firms would import technology, machinery, and parts from their American parents thereby contributing to a large deficit in Canadian manufacturing trade. (48) The overall merchandise trade pattern which would result was one in which resources would be exported to pay for the importation of manufactured goods. Furthermore, the investments made by foreign investors in Canada would earn dividends and interest which would have to be sent out of the country. (49)

Despite the fact that for most of the postwar period the trade pattern resulted in a merchandise trade surplus for Canada, when the payment of interest and dividends to foreigners for their investments in Canada and the expenditure of Canadian tourists abroad was factored in, Canada had an overall current-account deficit in almost every year since the Second World War. To cover this deficit, further imports of foreign capital was resorted to thereby acquiring new debts. In effect, "Canada has been on an economic treadmill which constantly renews the condition of dependency making impossible the overcoming of foreign indebtedness." (50)

The final problem to be discussed here is unemployment. The process of expansion had not provided an adequate base for

expanding employment opportunities for a growing workforce.(51) First, the growth had been fueled largely by exploitation of resources which is more capital intensive than manufacturing. In addition, raw materials tended to be exported for processing elsewhere or with only minimal processing. The decline in the short-term conditions which spurred a portion of this growth has already been discussed. As a result of the combination of these factors, "Despite the billions of dollars poured into the exploitation of Canada's hinterlands, by 1960 all of the mining, quarrying, forestry, pulpmaking, sawmilling, and non-ferrous smelting being carried on in the country was employing less than 4 per cent of the labour force-- 1 per cent less than in 1950."(52)

With the decline in the external stimulating conditions, employment in manufacturing also declined. The decline in these circumstances also had an indirect impact on this sector. The nature of the foreign investment in the industry ties the growth of this sector to the overall health of the domestic market. Manufacturing, being heavily influenced by foreign ownership, was usually limited to production for the home market and not for export. This contributed to Canada's relatively high rate of unemployment; by the late 1950s, Canada's unemployment rate exceeded that of any other industrialized nation in the world.(53) What is more, this unemployment displayed the characteristics of foreign investment itself in that it was regionally concentrated.(54)

Not only did the dissent in this period manifest itself in demands made upon the government to address the contradictions inherent in the industrial strategy experienced as individual problems with industries, but a second type of dissent was also manifest. This latter dissent was more overtly dissent to a tenet of the economic strategy. Without the artificial stimulation of the war, manufacturers came to see their interests as opposed rather than complementary to those of resource exporters. In this period, the compromise between stable exporters and manufacturers implicit in the emphasis on resource exports versus manufacturing to spur economic growth was made explicit.

The relatively rapid rate of expansion of the secondary manufacturing sector of the economy during the war period, despite the public and private concentration on resource exports, was primarily due to the protection provided during the Second World War } and the additional stimulation by government spending on the Korean War. The Second World War had cut off the flow of many vital imports for crucial lines of production. This created the need for the development of domestic productive capacity to replace these products. In combination with the manufacture of many new and highly complex products in response to the technical requirements of war production, the Canadian economy experienced a significant broadening of its manufacturing base. (55) At the end of the war, further protection and encouragement of import substitutions was afforded by the temporary import controls

imposed as part of the 1947 Emergency Exchange Conservation Act. In this regard, "At least 42 manufacturing firms which commenced operations in Canada between 1948 and 1950 were established because of import controls or with the aid of the Import Control Division of the Department of Trade and Commerce." The Industrial Development Branch of Trade and Commerce, which grew out of the import control division, later actively encouraged the import substitution process. In addition, the Department of Defence Production fostered the establishment and expansion of industries such as aircraft, electronics, and steel through tax concessions, accelerated depreciation allowances, and the tariff. (56)

However, in the fifties, the industrialized European countries, which were severely hit by the Second World War, began to recover. Their recovery, in combination with GATT restrictions which granted "Most Favoured Nation" status to all signatories, resulted in the inflow of industrial imports to Canada which competed with domestic manufactures as well as increased competition in export markets. Restricting the flow of imports to aid or protect these industries proved incompatible with the promotion of staple exports through a relatively liberal foreign economic policy. Any actions taken to restrict the flow of imports into Canada may have brought on retaliation from those countries to which Canada sought to export. The contradiction between the interests of the two groups of capital began to become apparent provoking a

questioning of the economic strategy with its emphasis on resource exports and laissez-faire by industrial capital.

Dissent in this period was evident in the public discontent expressed over the Pipeline Debate, the Royal Commission instituted to study Canada's economic prospects, and in Meebenaker's landslide defeat of the Liberals. Dissent was expressed in many forms and by different social groups.

The bulk of the dissent expressed in this period centred around American investment in Canada: its size, growth rate and its concentration in key industries. Concern was expressed about the acquisition by foreigners, mostly Americans, of Canadian resources and business enterprises, and the need to do something about this before it was too late. The Royal Commission on Canada's Economic Prospects heard more about this than any other single subject in its hearings held across the country throughout the fall of 1955 and the spring of 1956. (57) The concern was expressed, for the most part by representatives of the Canadian business community who felt that they had missed out on many of the great investment opportunities of the 1950s because the government had favoured foreign entrepreneurs. (58)

For instance, in the course of the Royal Commission hearings, oil officials claimed that foreign capital was accounting for a steadily expanding share of oil development because taxation laws put Canadian companies at a competitive disadvantage with U.S. firms.

...but by reason of present tax and financing laws and regulations Canadian citizens and

Canadian companies are both handicapped and limited. They should be able to take a bigger part in the development of their oil resources, but because of restrictions on their ability to use income, the unnatural treatment of costs of acquiring properties, the unrealistic and limited application of the depletion allowance, and the unjustified restrictions on certain sources of funds, they are handicapped in having to compete with foreigners on unequal terms. (59)

For a similar reason, the Royal Commission instituted a study of the inconsistencies and hardships in Canadian tax law which may have influenced investment in Canadian industry. The study concluded, "While it would be wrong to assert that tax considerations are primarily responsible for the growth in foreign investment in Canada, it is undoubtedly true that in two ways (at least) taxation has played a considerable part in shaping the pattern which has developed." (60)

Charges were made in the House, the press and elsewhere that Canada "is in danger of losing her economic independence to the United States, ... that frequently Canadians are not allowed to share in either the management or the earnings of the Canadian operations of these foreign-controlled enterprises, with the result that the interest of the Canadian subsidiary and hence that of Canada as a whole may be subordinated to that of the home plant of the parent company..." (61) The criticism, however, was largely made within the continentalist framework.

Critics of foreign investment were "almost unanimous in agreeing that Canada has benefited very materially from foreign

investment and that a continuation of the inflow of capital from abroad is needed to maintain a high level of economic development in this country." (57) The dissent was directed, for the most part, to the art of getting a better deal from the United States without essentially questioning the basic compatibility of the branch plant system and Canadian development. Robert Fowler, as President of the Canadian All-Party Association, voiced what most Canadian capitalists wanted from the American corporations:

The first essential is respectfully requesting Canadian management in the subsidiary... American company operating in Canada not go to some lengths to discover what are the needs, objectives, policies and what are the basic aspirations of the Canadian people, and seek not only to identify with them but to work towards furthering them. (58)

Mr. Drew expressed similar sentiments in a speech given in Hamilton in the same year:

I believe that Canadians should declare their economic independence of the United States... We do not want to see their tariffs imposed on investment... but I think it is not too much to expect that Canadians are going to run their own financial affairs... we are not going to be treated as though we were the 51st state of the United States. (59)

In other words, financial investment was welcomed insofar as Canadian interests were met.

A concern was also expressed about the large proportion of Canada's trade with the United States and the vulnerability apparent in this concentration. A corollary concern was expressed over the small proportion of Canada's trade with the

United Kingdom. (55) Sales were made on the government to increase its efforts to sell to other countries and enable these countries to buy from Canada by purchasing from them. (46) Though certainly an interested observer, J.S. Duncan, chairman of the Dollar-Sterling Trade Council expressed the concern of a segment of capital to the Royal Commission on Canada's Economic Development. (47)

There is some danger in concentrating too high a proportion of Canadian sales in the direction of the U.S. as the risks of a small country becoming a marginal supplier to a large country are substantial. In many of our exports we are in fact marginal suppliers. Other things being equal, the British and Sterling area markets should present opportunities to Canadian exporters more favourable in some respects than the U.S. market. However, during the past 10 years, our sales to these countries have not grown in proportion to our sales to the U.S. and this lack of growth should be a matter of concern to Canadians. (47)

Moreover, the uneven impact of postwar growth amongst the regions was also expressed by the mid-fifties.

...we do not feel there is any justification for the fact that over the years the industries that were established in that part of the country were siphoned off and concentrated in two of the Canadian provinces, which has given them an 82 per cent monopoly in the fields of manufacturing and distribution. I do not think any government which permits that kind of development is nationally minded and is thinking of the best interests of all the people in the country. (48)

A number of suggestions were offered to facilitate a more regional industrial development ranging from federal subsidies to encourage decentralization of industry to the establishment

response was no longer sufficient to address the inadequacies of the operation of the market. During the prime ministership of Diefenbaker, Canada's imports from the United States grew faster than imports from the United Kingdom; the nation's foreign trade was balanced in only one year; outsiders significantly extended their hold over Canadian enterprises; budget deficits set new records; and unemployment averaged twice the rate of the early fifties. (86) The Keynesian logic which stated that "deficit financed government spending can expand demand and thereby reduce unemployment, without any increase in taxes or cuts in spending, prices or wages..." (87) no longer appeared to apply. In effect, a critical assumption of Keynesian logic, the assumption of growth, was beginning to become apparent.

In this regard, a comment about the Liberal victory should be made. This victory was probably not so much a function of the Liberal's proposal of solutions to the problems Diefenbaker could not address. For, given our definition of the problem, and the international economic conditions during Diefenbaker's years, we would not expect the Liberals to have fared much better. Certainly other factors were involved in Diefenbaker's downfall such as the difficulties with the country's allies, the nuclear-arms issue, and the battles with the press. However, it would appear that it was more the employment situation in particular and economic questions generally (88) in combination with the memory of the balanced budgets (89) under

exported from the country." (72) During 1956, the opposition was particularly vocal on this point:

At the same time our export policies should be related to our own needs for the future and the desirability of processing as much as we can of our own raw materials in Canada to give employment to new millions of Canadian workers. (73)

The Canadian Subsidiary of Dow Chemical, argued for a tariff on new products (74) as did the Rubber Association of Canada.

Under these circumstances, manufacturing industry in Canada is, or shortly will be, facing serious difficulties, not only in maintaining export markets, but also in competing with foreign manufacturers on the domestic market.

There are two alternatives open to this country. One is to follow the present Canadian international trade policy and disregard the growing danger of a decline in manufacturing industry. The other is to make it possible for manufacturing industry and its labour force to survive until such time as the market is large enough to enable Canadian manufacturers to use the most efficient mass-production and distribution methods and until the standard of living is high enough to offset the present disadvantages to Canadian manufacturers due to the cost of labour differential between Canada and Europe or Asia. (75)

Criticism also was evident in this period from labour concerning the maintenance of a high level of employment. (76) This criticism, however, did not take on the form of a critique of American domination or of capitalist relations.

V DUFFENBAKER

The sudden rise to power of Diefenbaker and the Conservative Party in 1957 can be attributed in large part to

their successful mobilization of this discontent. However, the success was only temporary since in 1962, the party lost the largest number of seats ever lost by one party in a single election.(77)

The rise and fall of Diefenbaker is interesting to the discussion for two reasons. The first concerns the fact that Diefenbaker's mobilisation of the discontent was, in part, on a nationalistic basis. His unsuccessful attempt to respond to the discontent once he had mobilised it indicates two points. The first point concerns the complexity inherent in responding to such a mobilisation given the fact that American influence and penetration are rooted in the very operation of the economic strategy itself. It has already been argued that while the discontent was not expressed in a consciously nationalistic way, the role of American investment in the economic problems which formed the basis of the discontent left the public open to such a mobilisation. However, it has also been argued that American penetration is a function of the economic strategy itself and that under these conditions a critique of American investment necessarily implies dissent from the economic strategy. The fact that Diefenbaker's nationalism was simply "anti-Americanism from the pro-British tradition" and did not recognize processes supporting the American role and influence in Canada in large part explains his failure to respond to the demands he had mobilised.

Diefenbaker's failure to adequately respond to this

discontent is interesting to the discussion because it brings to light a second point. It questions the ability of mild Keynesian techniques, those compatible with the balance struck between the free operation of the market and state intervention, to continue to fulfill the function of making up for the inequities and inadequacies of the operation of the market system and the strategy largely reliant on it. More specifically, Diefenbaker's failure highlighted the fact that this Keynesian compromise rested on a critical assumption, and one that was no longer applicable. That assumption is the assumption of growth.

In his 1957 election campaign, Diefenbaker had stressed that U.S. investment in Canada had given Americans too much control over the country's national resources and profit-producing enterprises.⁽⁷⁹⁾ Diefenbaker's strategy to stem American penetration consisted of two elements. The first consisted of strengthening ties, particularly trade, with Britain.⁽⁷⁹⁾ As has been discussed concerning the demise of the original triangular pattern of trade and the government's unsuccessful attempts at the end of the Second World War to reestablish such a pattern of trade, this idea was practically archaic though it still had some emotional support. It may well also be argued that given the quantity and nature of the U.S. investment already existent in the economy even if stronger links were established with Britain, this would not have had a substantial effect on the pro-American orientation

of the economy.

The second element in the strategy to stem American penetration consisted of strengthening the nation through the development of the North.⁽⁹⁰⁾ Diefenbaker identified a new national development policy which was based on spurring growth and development within Canada through exploitation of Northern resources. Through this policy, the nation would become powerful enough to withstand absorption attempts by the United States, and, as well, the problems of unemployment and the chronic imbalance among Canada's economic regions in general would be redressed.

Once in office, however, it was apparent that Diefenbaker did not really intend to implement in any coherent way such a strategy.⁽⁹¹⁾ Instead, Diefenbaker's approach was to redress the discontent of the underprivileged groups and disadvantaged areas through support in the form of increased payments. His major allocations went in large part to agricultural and other primary resource sectors, the "have not" provinces-- the Prairies and the Maritimes, vocational training, hospital insurance, extension and enlargement of unemployment insurance benefits and increased old age pensions.⁽⁹²⁾

Diefenbaker addressed the problem of lagging eastern industry through special Atlantic Provinces adjustment grants and such projects as special assistance to Nova Scotia mines and a plan to carry out new harbour development at Bathurst, New Brunswick. For the West, Diefenbaker instituted the

Prairie Grain Advance Payments Act which extended advance payments to wheat farmers. The farming community, especially in under-developed regions, was also bolstered by the Agricultural and Rural Development Act which made capital available for the rejuvenation of Canadian agriculture.

The special appeals offered by Diefenbaker to these groups constituted a continuation of the narrow Keynesian strategy (83) established after the Second World War in that the balance between state intervention and the free operation of the market was not substantially altered. Intervention by the state in the economy continued, in large part, to be restricted to expansion of demand through government spending and subsidies to groups who were most likely to spend it. His "expansion" of the role of the state in the economy through increased welfare payments to disadvantaged groups was essentially outside the realm of the operation of the market system and was in fact viewed by Diefenbaker as a necessary support to the capitalist system. (84) In harmony with the prevailing liberal ideas and assumptions, these interventions on the part of the government were not "part of a concerted plan to cut unemployment through massive expansion in the economy's public sector." Not surprisingly, the conservative government "saw economic planning as a diabolical precursor of socialism." (85)

The fact that Diefenbaker could not fulfill his campaign promises and, himself, could not maintain office with such a strategy would, in part, indicate that a mild Keynesian type

response was no longer sufficient to address the inadequacies of the operation of the market. During the prime ministership of Diefenbaker, Canada's imports from the United States grew faster than imports from the United Kingdom; the nation's foreign trade was balanced in only one year; outsiders significantly extended their hold over Canadian enterprises; budget deficits set new records; and unemployment averaged twice the rate of the early fifties. (36) The Keynesian logic which stated that "deficit financed government spending can expand demand and thereby reduce unemployment, without any increase in taxes or cuts in spending, prices or wages..." (37) no longer appeared to apply. In effect, a critical assumption of Keynesian logic, the assumption of growth, was beginning to become apparent.

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the Liberal regime which was the basis of the Liberal victory.

VI. CONCLUSION

To briefly summarize, this chapter has focussed on describing the relationship between the hegemonic articulation of ideas as evident in the economic strategy and the phenomenon around which the nationalist movement mobilised. Due to the previous discussion of the nature of ideology and hegemony, it was deemed important to identify the system of ideas, values and assumptions as well as the material processes which underlay this strategy in order that the basis be laid for understanding nationalism in this context.

It was argued that continentalism was not a strategy deliberately pursued by policy makers. Instead, the economy took on this orientation as a function of the interaction of the assumptions underlying the major components of the economic strategy with the particular international economic conditions existent in the post war period.

Consistent with a fundamentally liberal world view, the postwar plan for reconstruction embodied a more interventionist role for the state to the purpose of maintaining a level of employment and welfare while essentially continuing to rely on the free operation of the market to generate this growth and determine its nature. The particular Canadian variant of the compromise understood the development of resource exports, Canada's area of comparative advantage as determined by the

international market, to be the motor of general economic development and growth. In this scheme, the importation of foreign capital was to finance the process and, therefore, was encouraged. The dominance of the United States economy in the postwar international setting, in combination with the Canadian desire for foreign investment to finance its economic growth and belief in the efficacy of the free market to determine the nature and distribution of this growth, laid the basis for the American penetration of the Canadian economy.

On the basis of identifying the structure of ideas underlying the continental orientation and their connection with the components of the economic strategy, several conclusions were made about the nature of nationalist dissent in this context. The first is that a nationalist critique poses a challenge to the economic strategy in that it implies a significant criticism of the assumptions underlying the main components of this strategy. In this regard it was noted that while foreign (American) investment was not the cause of the economic problems which provoked the dissent, it came to be associated with each of the problems by virtue of its tie with the components and assumptions of the strategy.

Secondly, criticism of the operation of the various aspects of the strategy was available to be mobilised as a nationalist critique. In this regard it was argued that the economic problems which began to appear in this period were a function of the contradictions inherent in the strategy and the

assumptions it was based on. Though in the early postwar period these economic problems were perceived to be simply problems with the operation and not the logic of the strategy, it is argued that this early dissent can be viewed as the root of the nationalist critique.

Thirdly, through exposing the underlying system of ideas and processes, the seriousness of the challenge in the form of the problem posed to the state by a nationalist mobilisation in these conditions becomes apparent. The problem facing the state was one of addressing the economic problems which were at the root of the dissent, from within the bounds of the existing compromise between state intervention and the free operation of the market. Niefenbaker's inability to address the bases of dissent he has mobilised for the conservative victory illustrates the difficulty inherent in such a task. The fact that Niefenbaker could not fulfill his campaign promises and, himself, could not maintain office, in part, indicated that a mild Keynesian type response was no longer sufficient to address the inadequacies of the strategy.

CHAPTER THREE: RISE OF ECONOMIC NATIONALISM

I. INTRODUCTION

The problems experienced in the economy as a result of the internal contradictions in the economic strategy were intensified in the 1960s through the impact of changes in the international economy, most particularly, the relative decline of the United States. With the further deterioration of the material bases of consent, the way was open for making what was implicit in the various aspects of the economic strategy explicit and thus a matter for questioning and debate. It was under these conditions that the nationalist movement was mobilised.

This chapter is concerned with identifying and describing the nature of the challenge posed by the nationalist movement to the hegemonic articulation of ideas. Important to this task is the application of the understanding of hegemony to the structure of the movement itself.

Within the consensus around the hegemonic articulation of ideas and corresponding material structure, we understood one group to be dominant and subordinated groups to "consent" to their subordination by virtue of the fact that achievement of their own interests had been linked to the achievement of those of the hegemonic group. It is argued here that the challenge can be viewed as similarly constructed.

The nationalist movement can be understood to comprise a number of groups with varying interests linked in some way to a mobilising group. This understanding is consistent with the

theoretical discussion set out above in that the movement mobilised members from a cross-section of society. The objective interests of the various groups included in the movement are, by definition, different. This postulation of objective interests implies that the interests of at least some of these individuals or groups must have been transformed in order that they be equated or linked with the interests of others. The mobilisation of the various groups into the challenge, therefore, is not understood to represent a genuine convergence of interests on the part of these groups, but a tactical alliance on a limited objective.

This understanding has a number of consequences for identifying the nature of the challenge posed by the movement. Perhaps most importantly, due to the existence of this structure of hegemony within the challenge, the only interests which are understood to be of concern to neutralising the movement are the core concerns of the mobilising group. The other interests of the allied groups are considered peripheral. Since some elements of the movement's platform may be expected to serve the purpose primarily of articulating the interests of subordinate groups to those of the mobilising group, an important methodological question arises. This question concerns how to differentiate elements which serve to articulate the interests of allied groups to the mobilising group itself. This in fact, is only resolved in chapter four.

The second consequence concerns the identification of the

groups and individuals which comprised the nationalist movement. The theoretical discussion outlined above presents certain guidelines to approaching this task. It has been argued that ideas are linked through a hegemonic articulation which manifests itself, ultimately, in all aspects of society. This articulation becomes open to particular challenges when material conditions act to make explicit certain aspects of the articulation and, as a corollary, act to weaken consent around these aspects. If we understand the nationalist movement as dissent under these conditions, we must understand it to include all dissent manifest under these conditions. It would not be inconsistent with the logic of this discussion to expect such dissent to be manifest in several, apparently separate, aspects of the society. To make a complete identification of the groups and individuals in the movement is not only beyond the scope of this paper, but, if the existence of hegemony is posited, unnecessary to the task of identifying the sense in which the movement posed a threat to the hegemonic articulation. If we understand the movement to embody a hegemony, the identification of the mobilising group goes a long way to making apparent the hegemonic articulation within the movement and the bounds within which the challenge to the prevailing system of ideas was made.

The discussion begins with an examination of how the changing conditions experienced in the period acted to weaken the bases of consent. Once the context has been set, the

nature of the challenge posed by the movement is addressed. The challenging ideas have been identified, in contrast to the hegemonic articulation (as it has been identified). In order to get some perspective on the extent of the challenge, the movement's interpretation of the new conditions is contrasted with the interpretation from within the hegemonic articulation of ideas and from within the perspective of a more extreme challenge presented by the Waffle group.

II CONTEXT: SIGNS OF DECAY OF AMERICAN IMPERIALISM AND IMPLICATION FOR CANADA

A number of factors apparent in the decade opened the way for a more explicit questioning of the economic strategy. These factors constituted the relatively early signs of an impending economic and political crisis. It was argued above that though the strategy appeared to be successful in the short term, its internal contradictions were in fact laying the basis for problems to the achievement of indigenous long-term development and growth in the economy. The problems resulting from these internal contradictions were intensified in the 1960s through the impact of changes in the international economy, most particularly, the relative decline of the United States vis-a-vis Western Europe and Japan.

The American economy began to experience chronic difficulties throughout the 1960s. (1) Internationally, the supremacy of the United States in the world economy was

effectively challenged by Japan and Western Europe. Domestically, the impact of the U.S. involvement in the Vietnam War was to heighten the problem of inflation. The diminishing trade surplus resulting from the deteriorating trade position and the increased expenditures for defence brought about by Vietnam involvement combined to create a large increase in the U.S. current-account deficit. It was in reaction to this deficit that the American government instituted measures which came to have serious ramifications in Canada.

In August of 1971 Nixon took the United States off the gold-dollar standard, devalued the American dollar, and, most importantly to this discussion, enacted tax legislation designed to encourage American corporations to make future investments in new productive facilities in the U.S. rather than abroad. These measures included the seven percent investment tax credit which entailed tax cuts for U.S. businesses that increased capital investment. The Domestic International Sales Corporation (DISC) was also created to encourage multinational corporations to shift their production from branch plants abroad back to the United States. DISC allowed U.S. companies exporting goods to write off fifty percent of the taxes on their foreign sales.

These measures had been preceded by similar measures in 1963 and 1965 from which Canada had sought and obtained an exemption. The 1963 Interest Equalization Tax and the 1965 voluntary guidelines were also designed to limit capital

outflow and increase repatriation of earnings of foreign subsidiaries. Canada could not, however, obtain an exemption from the 1966 American direct investment guidelines which not only affected capital investment outflow but which included the retained earnings of American subsidiaries abroad in the definition of "investment", but pressure on those subsidiaries to export their earnings to the United States in lieu of using them for expansion and growth within Canada.

The effect of the restrictive trade policies for Canada in transferring manufacturing away from Canada was reinforced by actions already being taken by multinationals in response to changes in the international economic balance of power. The new international economic climate made investments in manufacturing in Canada less attractive. (8) In 1966 American corporations began shifting their manufacturing investments from Canada to Western Europe. At the same time, their investments in Canadian resources were increased. Though this shifting of capital was part of the more general restructuring of the international economy and the exigencies of multinational corporations in general, given the coincidence of American ownership and the existence of multinationals in Canada, it was the actions of American corporations which were undermining the already weak manufacturing base of the country and exacerbating the reliance of the Canadian economy on resources.

This change in the economic impact of the U.S. on Canada

was a secret secret at the international level. Public opinion
in Canada in the period reflected the growing questioning of the
traditional view of the United States as a society to be
imitated and a powerful ally and protector. (3) The identity of
interests of Canada and the U.S. was no longer taken for
granted. The Cuban missile crisis, in the eyes of many Canadians,
signaled the end of U.S. protection and faith. (4) Canadian
discontent with the U.S. and the "American Dream" was also
reinforced by American participation in Vietnam and U.S.
episodes of internal racial violence which were given
exhaustive coverage by the media. (5)

Several signs of the breakdown of the economic strategy
became evident in the period. One visible sign was the decline
of the manufacturing sector vis-a-vis the rest of the economy.
The decline of manufacturing was evident and noted in several
respects: its contribution to the creation of new jobs in the
economy; productivity; research and development; share of
export markets; share of total exports.

Between 1961 and 1966(6) manufacturing industries
accounted for more than 25 per cent of new jobs created in the
economy. However, by the next period, 1966-72, manufacturing
accounted for just more than five per cent of the new jobs.
The manufacturing sector was also experiencing a rather low
rate of innovation and weak productivity increases relative to
its major international competitors. These trends in
combination with increasing material costs, high wage gains

overly high cost of a strong resource sector and a high exchange rate for the Canadian dollar resulted in increasing unit costs, decreased competitiveness and a decreased share in world trade in manufactured goods. "This was particularly true in certain industries and certain concentrated sectors in which Canadian companies with heavy industrial export operations in South America and the Far East, in labour-intensive sectors, such as textiles and footwear, paid a factor costs in developing countries are mere fractions of such costs in Canada, and Canada's ability to compete suffered accordingly." (7)

As a result, manufactured products declined as a proportion of exports. (8) By 1975, the rise in imports of manufactured goods was so large that it was not fully offset by resource exports. Canada's external balance of trade experienced a sharp deterioration. Although Canada almost continually consumed more than it produced throughout the 1950s and 1960s, it was able to maintain the economy through resource exports. As long as the American economy was expanding and needed the resources Canada possessed, American capital would continue to flow into Canada. However, when the growth in the U.S. economy itself began to slow as it did in this period, this strategy was no longer successful as evidenced by the balance of payments problems experienced in Canada in the 1970s.

For the general public, inflation was the most prominent symptom of the underlying structural problems with the economy.

"one that no Canadian could fail to notice because of the ever-striking value of the 10 to 30." (10)

In these new conditions, the federal government found it increasingly difficult to fulfil its mandate of ensuring nationwide growth and development. The government was unable to address the symptoms of the underlying structural problems in the form of inflation, regional depression, unemployment, industrial stagnation and a loss of foreign markets and a decreasing opportunity to participate in manufacturing by Canadians, and balance of payments problems. This inability on the part of the national government amounted to a growing crisis of federalism.

In terms of the federal structure of the country, this inability on Ottawa's part could serve only to strengthen the position of the provinces vis-à-vis Ottawa and thereby pose further limits on the federal government's ability to respond adequately to these problems. Of particular concern in this regard was the rise of the separatist Parti Quebecois in Quebec where problems of unemployment and industrial stagnation were particularly acute. Unemployment in Quebec was high relative to both the Ontario and Canadian averages. Between 1960 and 1971, for instance, unemployment in Quebec was 90 per cent higher than that of Ontario. (11) Also of concern was the "feeling of remoteness and disenchantment on the part of many people in Western Canada." (11)

Given the discussion to this point, perhaps one of the

most important factors involve in the government's inability to ensure growth for all sectors by addressing the economic problems which were becoming increasingly evident in this period, involves the paradoxical position of the state in regard to foreign capital. With an economic strategy largely reliant on capitalist accumulation for growth, the state was in fact faced with a twofold task: to maintain the conditions for this accumulation, while directing the accumulation to national goals. This has traditionally been accomplished on an ad hoc basis through indirect state intervention. However, in the new economic conditions, and particularly the rise of multinationals, these traditional techniques of manipulating the rounds within which the market operates appeared no longer successful in generating and/or maintaining growth.

Because of the quantitative and qualitative importance of multinationals in the economy (12), the state is, in part, reliant on them to generate growth and therefore the state must secure conditions for multinational capital to expand in order to maintain growth. However, the operations of these multinationals, it has been argued, were highly bound up with the economic decline. This renders the state's ability to affect the actions of these corporations and direct them towards national goals even more important. In this regard, however, the success of the traditional techniques of monetary and fiscal policy in manipulating the actions of these corporations was limited. Intervention in the form of

macro-level demand management with ultimate reliance on the private sector to determine the nature of production and level of employment proved increasingly inadequate in the conditions of the general global trend towards the internationalization of capital.

Multinational firms are relatively immune from such actions in that, in many respects, they are beyond the discipline of the domestic market. This is due to their access to international capital markets, their routine and/or speculative transactions on international money markets, and their ability to manipulate accounts to minimise tax liabilities. The development of an international division of labour and its intra-corporate transfer of goods and services within multinational firms also reduces the state's opportunities to influence the ratio of imports to exports as specific quantities of goods flow between interdependent enterprises in different nations without regard to short-term policy changes in any one society. Because much of Canadian industry was composed of branches of foreign multinational corporations and the corporations are subject to factors beyond the reach of market pressures, the traditional techniques of aggregate demand management were no longer adequate. Given the fact that in the Canadian case the large majority of multinationals were U.S. owned and directed, curtailment of the power of the federal government was a problem of increased American ownership and control of the Canadian economy.

A second factor evident in the period which inhibited the state's ability to fulfill the role it had taken on at the time of the compromise concerned the understanding of economic growth. Whereas during the fifties and early sixties, economic growth had represented a clear and relatively unambiguous objective(13), by the later sixties it was no longer the case that economic growth as pursued by the strategy necessarily satisfied the goals of all social groups simultaneously. Whereas economic growth had been a rallying point for the compromise, a symptom of the breakdown in the economic strategy was the breakdown of the consensus of subordinate groups around economic growth as an economic goal. According to the ideas underlying the prevailing consensus, economic growth was to bring sovereignty, employment and a higher standard of living for Canadians across the country. With the signs of Canadian industrial failure in world markets, rising unemployment, inflation and regional disparity, it became increasingly evident that economic growth as pursued via the strategy did not necessarily entail these goals. With economic growth no longer encompassing the other goals, questions concerning the relative importance of each goal and the trade-offs between them were free to enter the debate.

III THE CHALLENGE IMPLIED IN THE MOVEMENT

Intellectuals

The group which was successful in mobilizing the dissatisfaction embodied in the nationalist movement to its own interests was the Canadian Indigenous business group. Though influenced by other groups, it was this group which set the limits to the debate, defined the issue and attempted to interpret the new conditions.

The identifiable head of the nationalist movement, in terms of first setting out the opposing terms of the debate, is Walter Gordon. His pronouncements on the subject are embodied in his 1957 Royal Commission on Canada's Economic Prospects. In the 1963 budget he produced when minister of Finance, in the terms of reference of the task force which he pressed upon the government in 1962 (known as the Watkins Report) and in his several published books. As a measure of the import of the challenge which his ideas represented, he was forced to withdraw his 1963 budget, and in 1965 was himself removed from the position of Minister of Finance and replaced by the "anti-nationalist" Robert Winters. The Watkins Report which was a concession made to Gordon in 1966 so that he would return to the Cabinet and thereby satisfy the demands of Ontario Liberals was "instantly disowned" precipitating Gordon's departure from the Cabinet.

In 1970, Walter Gordon and several other members of indigenous business formed a non-political organization to lobby the government and increase public awareness over the issue. The stated aim of the Committee for an Independent

Canada, was "to create a greater awareness among Canadians of their personal situation, in the hope that a more informed public opinion will make its influence felt on the programs and decisions of the federal and provincial governments." (14) In June 1971, the Committee was responsible for generating a petition signed by 170,000 Canadians urging that action be taken to regain economic control of the economy. The high profile of the group is at least partly explained by the fact that many of its members were public personalities. (15)

Representing a minority stream in the movement, was a group of left-wing democrats formed to present a manifesto to the 1970 New Democratic Party policy conference. The Waffle group was numerically a very small force. It had a mailing list of only 2,500-3,000 people and was geographically limited largely to Ontario, particularly Toronto. (16) The membership was largely comprised of intellectuals in academic and, to a much lesser degree, labour circles. Despite its size, however, interest concerning the group "snowballed" until riding associations were endorsing our Manifesto and sending delegates to Winnipeg to support it. It was simply spontaneous combustion. The press made us page one news. (17) Its chief spokesman and one which is noteworthy in terms of the media popularity of the group was a radicalized Mel Watkins, chairman of the task force which produced the Watkins Report.

Two other reports were produced under the auspices of the government besides the Watkins Report (the

Report on the Structure of Canadian Industry). In 1970 the Wahn Report, a report of the House of Commons Committee on External Affairs and National Defence, undertaken as a reflection of dissent within the Liberal party itself, was published. After essentially ignoring the Watkins Report and while the Wahn Committee was still conducting its hearings, the Government established a task force, headed by a Cabinet minister without portfolio, Herb Gray, to bring "forward proposals on foreign investment policy for consideration of the government." (19)

The Gray Task Force was formed as a result of "rising pressure from the nationalist wing of the Liberal party and the NDP..." (19). The Report, officially entitled Foreign Direct Investment in Canada, was the most comprehensive survey to date of the issues arising from foreign investment and the alternative responses available to the Canadian government. While the Report provided the underlying rationale and basic framework for the Foreign Investment Review Act, introduced one year after the Report was published, it cannot be considered a reflection of government consensus. In fact, the Report itself was published during the discussion of Bill C-201 only after the Canadiap Forum had published a leaked version. (20)

ii The Challenging Ideas

The nationalist movement was a challenge to the prevailing consensus in a number of respects. The main thrust of the

challenge posed by the nationalist movement concerned the independence of the Canadian economy and society from influence and control by the U.S. It questioned the efficacy of continentalism in terms of asserting the existence of a Canadian national interest separate from the continental system. But as discussed earlier, the continental orientation of the economy was not deliberate but the result of the very way the economic strategy was constructed in interaction with post-war conditions. More specifically, the nationalist movement challenged the consensus on two main points: (1) adequacy of assumptions concerning market economy, which formed the basis of the economic strategy, to the prevailing material circumstances; (2) the success and possible success of the economic strategy dependent as it was on the export of resources for national prosperity and development, and the country's need for foreign capital, and the effect of this capital on Canadian development.

a. adequacy of assumptions concerning market economy

Under the assumptions of a market economy there is a belief in the built-in harmony of a society in which individuals are free to pursue their self interest. The movement of capital including the take-over of one firm by another is a rational process since it is a function of the investor or acquiring firm's superior efficiency, technology and skills. A takeover results in "a more rational allocation

of local resources, waste, and non-competitive product duplication are eliminated, sales staffs are revitalized, management techniques greatly improved, and new working and expansion capital pumped into the firm." (21)

The nationalist movement challenged the efficacy of these assumptions at both the macro and micro level. First, the movement challenged the consideration of foreign investment as a phenomenon which is relevant only at the micro-economic level, a view consistent with the focus on the individual as embodied in the traditional economic assumptions. The movement argued that foreign investment has an effect beyond that which it has on the individual firm or sector. The overall effect of foreign investment includes the shape and nature of the economy.

Furthermore, these macro-level effects are not necessarily all positive. For instance, while the Watkins Report noted that overall foreign investment "as a package of product, management, capital and market access" had provided significant benefits to Canada by contributing to a high standard of living and economic growth, it argued that foreign investment can also involve social, economic and political costs. Against the benefits, the costs of investment in terms of inefficiencies introduced into Canadian industries and a hindering of the capacity of the Canadian economy to experience self-generated growth must be weighed. (22)

The micro-level critique posed by the nationalist movement concerned the very nature of the economic actors (the firms) to

which the traditional assumptions are to apply. The traditional assumptions underlying the economic strategy of a market economy were challenged on the basis of the characteristics of multinational corporations and how these differ from the vision of the firm embodied in traditional economics. Nationalists argued that multinationals have more power vis-a-vis the market than traditional firms and are therefore not subject to the same constraints. This, in turn, has both political and economic costs for Canada as the host country.

More specifically, it was asserted that it is large firms with market power which dominate direct investment. By virtue of their size and scope of operations, these firms are no longer simply disciplined by the impersonal forces of the market but have some autonomy in decision-making within the host country that would not result if the firms were small and fully subject to the discipline of the market.(23) For instance, the fact that multinational corporations which operate on a global scale have the ability to switch export orders from one country to another, shift employment and product lines, and charge arbitrary management and licence fees to avoid tax payments was cited.(24)

Given the multinational characteristics of the foreign firms, nationalists contended that foreign investment does not necessarily introduce a higher degree of competitiveness and efficiency into Canada as the host country. In fact,

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nationalists argued that foreign investment results in the fragmentation of markets, inefficiency, high costs and high prices to Canadian consumers.

Nationalists argued that the multinational character of the foreign investment Canada has received has led to the domestic economy becoming a miniature replica of the foreign economy characterised by truncated firms. It was pointed out that the number of large American firms operating in any industry in Canada is typically the same as in the United States. The international competition of the multinationals is reproduced in the Canadian market with domestic affiliates tending to be small-scale manufacturers of the entire product line of the parent. It is the presence of uselessly competitive and duplicative branches of various U.S. multinationals, according to nationalists, which had led to low innovation, competition, productivity, efficiency and a low level of domestic entrepreneurial ability in Canadian industry.

These Canadian branches, it was argued are not free to act as independent firms. Their operations are often tailored to the parent's global requirements, resulting in restrictions on the branch's freedom to export, purchase locally and engage in research and development projects. It was charged that Canadian affiliates usually perform only secondary or assembly functions while all investment planning, market strategy, research and development and sophisticated production processes occur elsewhere. The Gray Report describes the problem of

truncation, "the most common characteristic of foreign investment in manufacturing", as follows:

A truncated firm is one which does not carry out all the functions- from the original research required through to all the aspects of marketing- necessary for developing, producing and marketing its goods. One or more of these functions are carried out by the foreign parent of the Canadian firm. ... Truncation normally maximizes the achievement of the global objectives of the parent firm and is, from its point of view, a rational business decision. It does not necessarily maximize the profits of the Canadian subsidiary, nor its contribution to the Canadian economy. Depending on which activities are involved, truncation may mean less production for the Canadian market, less opportunity for innovation and entrepreneurship, fewer export sales, fewer supporting services, less training of Canadian personnel in various skills, less specialized product development aimed at Canadian needs or tastes, less spill-over economic activity, and so on. (25)

Research and development spending, it was pointed out, is typically highly concentrated in the United States and subsidiaries in the host countries tend to be perpetually cast in the role of imitators rather than innovators. (26) Since it is the maintenance of an on-going research and development process which gives a nation's industry the capacity to undertake innovation in product design, production techniques, and the creation of new products, the productivity and efficiency of the Canadian industry declines and along with it its competitive position in both domestic and international markets. (27)

The fragmentation of Canadian industry due to the miniature replica effect also results in more firms dividing

the Canadian market than are required for optimum economies of scale making production runs too short to justify large investments in research and development and product development. (28)

Foreign investment was also identified as one of the major factors restricting the development of entrepreneurial and managerial capabilities within the Canadian economy. The logic of the multinational enterprise necessitates a certain degree of truncation in functions performed by affiliates in the host country. The Gray Report asserted that

Canadian subsidiaries seem generally to have little or no authority to make important financing decisions—such as to take independently the decision to undertake major capital investment—to plan with respect to new product lines or to otherwise control innovative activity and the research and development activity related to it. Even with respect to less sweeping questions, such as production planning, labour relations or marketing in Canada, for which there may be a greater degree of autonomy in the subsidiary, a Canadian firm is likely to be working within a framework established by the parent and indirectly subject to its control. (29)

According to one observer, "[w]ithout the vision and initiative that only gifted entrepreneurs can bring to a nation's economy, Canadians will remain locked into the secondary roles offered by the head offices of large multinational enterprises." (30)

A final cost of foreign investment due to the multinational nature of foreign firms was that of "extraterritoriality" defined as "the subjection of residents of one country to the laws and policies of another country" (31)

through the deference shown by American subsidiaries to American law at the expense of Canadian interests. The Report declares that "[t]he direct investment subsidiary, being resident in one country and owned and controlled by residents of another, becomes a vehicle through which extraterritoriality can be exercised ... and the capacity of [the host country] to affect decisions, i.e. its political independence, is [thereby] directly reduced." (32) "The intrusion of American law and policy into Canada by the medium of the Canadian subsidiary erodes Canadian sovereignty and diminishes Canadian independence. It implies that the American-based multi-national corporation is not multi-national but American. It creates political costs for Canada from American direct investment that seriously undermine the economic benefits." (33)

b. economic development strategy

The movement posed a challenge to two other dimensions both concerning the economic development strategy pursued by the government. The prevailing understanding of Canadian economic development as characterized by Mackintosh's four stage view of development - motored by resource exploitation and foreign capital has already been described. (34) The objective of economic policy, given this view, is the growth of national product (GNP) through the introduction of foreign capital, technology, entrepreneurship, and managerial skills and payment for these foreign services through resource exports. Through

most of Canada's history, it has been the deliberate policy of federal and provincial governments to actively encourage foreign investment in virtually any form. Measures to attract foreign investment included the tariff to foster manufacturing, government assistance in the form of construction of communications and other infrastructure and favourable taxation in order to encourage natural resource development.

In contrast to Mackintosh's view, nationalists argued that Canada had in fact stopped developing. Furthermore, they argued that it was not possible for Canada to experience economic growth by the means outlined in the strategy. Defining "economic development" as the development of an indigenous entrepreneurial class and a consequent increasing degree of domestic control over the national economy, Canada appeared to have stopped developing. (35) Kari Levitt, author of the book Silent Surrender went as far as to argue that the Canadian economy bears many characteristics of underdevelopment.

It was argued that despite the fact that Canada was exporting increasing amounts of resources, particularly energy, it is unable to develop manufacturing industry that is really internationally competitive. Nationalists noted that "[t]here is less industrial research and development being done than in 1962. Unemployment and, worse, under-employment are present at levels that would not be tolerated in other industrial countries. These and other symptoms all point clearly to an industrial economy that is overly dependent upon its

diminishing natural wealth."(36) The lack of development based on exploitation of resources was attributed to the American corporate ownership of Canadian resources. According to the Gray Report, "foreign direct investment seems to have led to more natural resource extraction in Canada than would have been the case in the absence of foreign direct investment."(37) According to one nationalist,

The surplus that inheres in resource ownership is alienated into foreign hands instead of being captured by the exporting country to aid in its development. The further processing of raw materials and the jobs generated thereby are more likely to take place in the United States when American corporations call the tune. And the resource industries are exactly those industries in which the exporting country has a comparative advantage in trade and where it could most sensibly engage in that learning by doing, which is at heart of the on-going process of economic development. From this perspective the most serious error that Canada as a resource country has made is to have permitted widespread foreign ownership of its resources.(38)

The nationalists made a two-stage attack on Canada's supposed heavy dependence on imported capital. The nationalists questioned the benefit Canada has reaped from foreign capital and, as a corollary, Canada's continuing need for this capital. They argued first that foreign capital has had the ultimate effect of draining Canadian capital from Canada, and second, that Canada had sufficient domestic capital to fulfill its needs.

Nationalists argued that "instead of levelling off once "economic maturity" was reached, foreign direct investment in

Canada grew astronomically, reaching \$75 billion in the mid-1970s. Rather than moving beyond dependence(39) on resource exports, Canada's economy became more dependent on them than ever before. And far from exhibiting stable manufacturing development associated with economic maturity, Canadian industry was weak- incapable of producing even half the machinery used in Canada, linked to the United States for new technology, and so unable to compete in its own domestic market that the nation suffered a \$10 billion manufacturing trade deficit.

The drain of capital brought about by foreign investment was due to the very nature of that investment. In contrast to the loan capital which had motored U.S. industrialization, foreign equity capital or direct investment, it was pointed out, must be serviced in perpetuity. Foreign capital has, in effect, prevented Canada from moving through the three stages. Foreign direct investment results not in the export of capital from the United States but in a drain of surplus to the United States. "It has been estimated that between 1960 and 1967 Canadian subsidiaries and affiliates sent one billion dollars more to their parent companies in the form of various kinds of distribution of profits, royalties, license fees, management fees, than was received in the form of new capital."(40)

Concerning the lack of sufficient domestic capital, nationalists asserted that Canadian savings were sufficient not only to finance the new capital requirements in the country but

provide a basis for the extension of Canadian ownership in both the public and private sectors.

...in recent years Canadian domestic savings amounted to 23 per cent of the Gross National Product and exceeded all domestic capital requirements through a net export of capital of about \$1-billion per annum. While the gross savings of foreign-controlled corporations formed 16.7 per cent of the gross savings available to the Canadian economy, the balance still remained to be used under Canadian control.(41)

In fact, nationalists noted that the rapid growth of foreign owned companies was not due to importation of capital, but retention of earnings. Nationalists noted that "something like 85% of all foreign ownership in Canada appears to have resulted from savings and investment that has taken place from profits earned right within Canada itself and that the cost of servicing prior inflows of equity now substantially exceeds new equity flowing into the country."(42) As early as 1957, the Royal Commission on Canada's Economic Prospects described the rapid growth of branches of foreign companies by expansion due to retention of earnings as follows:

That retention and reinvestment of earnings, plus amounts set aside for depreciation and depletion, ensures the rapid growth of existing companies and particularly the larger ones which are well entrenched, well financed and which hold dominant positions in their respective industries. In many of Canada's fastest growing industries the principal companies, the ones which hold the dominant positions, are controlled by non-residents.(43)

IV THE CHALLENGE IN PERSPECTIVE

The nationalist challenge could be understood as an attempt to define a position where the shift in the role of the state which was necessary to adequately address the economic problems would not go so far as to fundamentally alter the balance of social power between capital and labour. In other words, as with the original Keynesian compromise, the attempt was being made to meld two seemingly contradictory factors into a new compromise: increased state action with a continued dependence on capital accumulation (the market) for economic growth. The precariousness in the middle position which nationalists attempted to stake out, and in so doing the limit to the actual challenge, are evident in identifying the two markers or 'poles' represented by the consensus and Waffle groups.

The nature of the economic problems identified by the consensus intellectuals, understood from within the logic of the prevailing assumptions and system of ideas, serves as a point of contrast to the interpretation given the deteriorating material conditions by the nationalists. Here the nationalist challenge is viewed in contrast with an interpretation of the economic conditions which does not fundamentally challenge or alter the given assumptions. On the other end of the spectrum, a socialist-oriented challenge from a minority stream in the nationalist movement itself, identifies some of the consensus assumptions not challenged by the nationalists. The comparison of the nationalist movement with these two alternative

interpretations makes apparent some of the problems inherent in striking such a balance and the inconsistencies embodied in the movement.

Consensus intellectuals did not understand the problems facing Canada's economy as ones of the quantity of foreign ownership and American domination. Derived from the precepts of orthodox liberal economic theory, the economic problems Canada was experiencing in this period were perceived as due to comparative advantage in resource trade, tariff barriers, limited domestic market size, and insufficient capital. According to this understanding, it is tariff protection and market opportunities severely limited by foreign tariffs (especially those of Canada's leading trading partner, the U.S.), which are responsible for weakness in the Canadian manufacturing sector. Foreign ownership, therefore, is not the reason for concern, but the fact that Canada is virtually alone among industrialized nations in not having access to a market on the order of 150 million people or more.

Mackintosh himself, aware that Canada's economic development had been arrested in his third stage of industrial immaturity, explained the situation by the tariff barriers erected by Canada's trading partners which had prevented Canadian industry from having a market size large enough to achieve the efficiencies necessary for world competitiveness. (44) Mackintosh's argument was echoed by Harry

Johnson and H.E. English who cited Canada's limited market sized and the effect of the Canadian government policy of protective tariffs. (45)

The problem posed by foreign investment, according to consensus intellectuals, was simply the problem of the extraterritorial application of U.S. law to Canadian branch plants. A.E. Safarian, one of the economists that prepared the Watkins Report, published a monograph which put the subject of extraterritoriality into the news. For Safarian, and the Canadian-American Committee which sponsored the report, "extraterritoriality is the area in which the most serious Canadian-American conflicts have arisen and are most likely to arise and in which solutions most need to be found." (46)

That extraterritoriality should be the problem foreign investment is understood to pose is not surprising. The problem of extraterritoriality is that the overt application of political direction to the American multinational corporations by the home state represents a direct infringement of property rights as embodied in liberal theory. "Few would dispute that application of laws of the home country to its foreign subsidiary is unacceptable- even to the most ardent advocate of the government keeping "hands off" any enterprise, domestic or foreign." (47) The U.S. assertion that its corporations operating abroad are subject to its jurisdiction in the areas of anti-trust policy, east-west trade controls, and balance-of-payments controls also provoked such responses as

that by Maxwell W. Mackenzie, director Canadian Imperial Bank of Commerce, RCA Ltd., International Milling

There are serious questions posed by the extraterritorial effect of the laws and procedures applied domestically in the countries from which Canada's foreign investment comes.... How the United States deals with their own internal problems is, of course, their decision and theirs alone. But what they decide as appropriate for their own country is not necessarily appropriate for others. When they try to impose their philosophy in other countries through the medium of their foreign investments, I think Canadians have a legitimate complaint. (4R)

The prescribed solution to the economic problems, according to consensus intellectuals, therefore, was the free movement of trade and capital across international frontiers and measures to restrict the extraterritorial application of U.S. law to Canadian branch plants. P.J. and P. Wonnacott and H.C. Eastman and S. Stykolt in separate pieces suggested that free trade between Canada and the U.S. would force a nationalization of Canadian industry. Speaking of Johnson, Williams describes the reasoning:

The legacy of 1829 had fostered an "inefficient and backward" secondary industry. Free trade between Canada and the U.S., on the other hand, would lead it to become "efficient and progressive". "Canadian manufacturers, given free access to the large American market", he supposed, "could be able to specialize and obtain the advantage of large-scale mass production, and to exploit the advantages of a lower wage level and location close to some of the richest market areas in the United States." In the unlikely [for Johnson] event that the size of the Canadian manufacturing sector was reduced as the result of the introduction of free trade, this would simply indicate the beneficial operation of the invisible hand of comparative advantage and would signal an

eventual rise in the Canadian standard of living. (49)

In contrast the specific demands which came out of the nationalist dissent were twofold. The first was a call for the screening of foreign investment to increase control. Integral to this demand was the creation of an industrial strategy, and implicit in this, was an altered role for the state. The screening program was to be accompanied by measures to encourage the orderly expansion of Canadian ownership (both public and private) consistent with the available capital being generated in the Canadian economy.

It is argued that the role posited for the government vis-a-vis the economy was a fundamentally different one from that which it traditionally performed. Within the consensus, drawing on the ideology of western economic orthodoxy, the role of the state is confined as much as possible to framework policies. The insistence by the challenge upon the necessity for a significant degree of operation-by-operation intervention to a successful strategy in order to maximize the benefits obtainable from foreign investment, marked a significant change in the role of the state.

Nationalists called for the direct micro-level intervention by government in the Canadian private sector as a means of ensuring the achievement of the national interest. That is, what Canada as a nation received at the hands of the market economy may not be what is in Canada's best interest so Canada must, through the government, intervene in the market

forces to achieve some end identified as its national interest. The very act of identifying a national interest itself poses a challenge to liberal assumptions.

The dissent of the Waffle group went beyond that of the rest of the movement in several respects centring around the interpretation of what independence constitutes and therefore the economic measures required to address the problems identified with Canadian independence.

The question which Wafflers asked and other nationalists did not was whether independence is possible under capitalism. Wafflers understood American investment in Canada to be part of a larger process of economic and cultural imperialism intimately bound up with the processes of capitalism. It was asserted that it is American monopoly capitalism that buttressed the process of Americanization in Canada and which caused or facilitated regional disparity. Through the process of foreign investment as embodied in the multinational corporation "Canada has been reduced to a resource base and consumer market within the American empire." (51) More specifically,

American corporate capitalism is the dominant factor shaping Canadian society... Canadian development is distorted by a corporate capitalist economy. Corporate investment creates and fosters superfluous individual consumption at the expense of social needs. Corporate decision-making concentrates investment in a few major urban areas which become uninhabitable while the rest of the country sinks into underdevelopment,...

The problem of regional disparities is rooted in the profit orientation of capitalism. The social costs

of stagnant areas are irrelevant to the corporations. For Canada the problem is compounded by the reduction of Canada to the position of an economic colony of the United States. The foreign capitalist has even less concern for balanced development of the country than the Canadian capitalist with roots in a particular region.(51)

The solutions to the problems experienced by the Canadian economy which follow from this understanding include replacement of capitalism by socialism, national planning of investment, and public ownership of key resource industries, finance and credit and industries strategic to planning the economy.(52) According to the Waffle group, nationalism requires socialism. The Waffle manifesto called for an independent socialist Canada which would take strong action to free Canada of U.S. domination largely through the nationalization of foreign firms.

The Waffle challenge makes evident several factors concerning the nationalist challenge. Though it has been argued that the nationalist movement was a challenge to the consensus in several respects, the Waffle challenge showed the nationalist challenge largely to have taken place within the realm of certain consensus ideas, namely capitalism and the liberal economic precepts which serve to support a capitalist system. Though the liberal emphasis on the rights inherent in private property was challenged by the nationalist advocacy of a screening agency, the challenge was not to the point of replacing this emphasis with one of the national interest in advocating nationalization as a means of addressing the

ownership problem. Government policies aimed at reclaiming effective political sovereignty were sanctioned only if they did not interfere with existing property relations. In this regard, the recommendations were advanced within the framework of the dominant liberal ideology.

Nationalists did not seek to alter the foreign ownership of natural resources, or manufacturing. Both the Watkins and Gray reports accepted that foreign investment is essential to Canadian economic development and that multinational corporations as the main agency for transmitting foreign investment are here to stay. The reports do not challenge the position of multinationals in the economy. The challenge in the reports concerned the assertion of the existence of costs involved with foreign investment. Since these corporations yield costs as well as benefits in terms of Canadian economic development and political independence, the sensible national strategy was to seek to minimize the costs of foreign direct investment to improve the performance of the economy. The purpose of screening foreign investment was to increase the economic benefits to Canadians.

One of the ways this tenuous balance between increased state intervention and capitalism was struck was through the separation of the heretofore equation of ownership and control. While not fundamentally altering the foreign ownership of natural resources and manufacturing, it was asserted that Canadians can exercise "control" of the economy within the

private sector. While nationalists challenged the liberal equation of control and ownership, they did so without challenging the essential liberal condition of private property. The underlying belief, reflected in controlling foreign investment through screening, was that ownership is not a determining factor in control. Instead, attention was directed to control or influence on "those aspects of operations which are significant to Canada." Though nationalists advocated an increase in Canadian ownership, this increase was not to be brought about by the direct intervention of the state in the form of nationalization but by inducing private Canadian capitalists to expand investment and foreign capitalists to reduce ownership.

However, that the balance was a tenuous one and in fact could not resolve the inconsistencies was illustrated in the movement's treatment of the industrial strategy aspect of its platform. The postwar economic strategy's outline for growth, as has been described, left the industrial sector of the economy to market forces within the constraints of tariffs. State action was limited to the manipulation of monetary and fiscal instruments and the reaction of market forces to the changes in aggregate demand to maintain full employment. In this light, the nationalists' proposal for a plan for economic development within the industrial sector called for a distinct shift in policy. However, despite the fact that there was agreement amongst nationalists and allied groups on the need for an

industrial strategy, the movement was not able to identify a concrete strategy that would address the economic problems identified by its allied groups.

The fact that the consensus around the hegemonic articulation included various social groups such as business, trade unions, less-developed regions of the country and others, and given the breakdown of the general consensus on growth, the only way the interests of these various groups could be linked with that of the mobilising group was to leave one of its central mobilising concepts largely unspecified. As the CIO noted, "No doubt these groups mean quite different things when they call for such an industrial strategy and it is more than likely that no single program will meet all the stated objectives or provide a panacea for all our economic ills." (53)

The CIO notion of an industrial strategy was as follows

It should be pointed out that our intention is not to replace the existing business structure by a wholly government-controlled economy including proliferating bureaucracies for every industry- not detailed economic planning in the traditional sense. Our discussion is premised instead on a joint program of cooperation of government and business, where the role of the government is to provide an optimum framework or climate for economic development and to intervene only to ensure that national guidelines are being met. (54)

Even if the problem of the allied groups were not existent, the Waffle challenged whether the degree of state intervention required to address the stagnation of the industrial sector to make it internationally competitive was at all compatible with the continued reliance on the free operation of the market to

direct economic activity (capitalism).

V THE FAILURE OF THE WAFFLE

A final question to be addressed, and one which follows from the above discussion, is why the nationalist movement was mobilised by a segment of capital and not by the Waffle group? If the mobilisation of a nationalist challenge at this time contained an inherent problem for independent Canadian business, why was it this group and not another group which was more sympathetically situated for the task, such as the Waffle group, which was successful in leading the challenge?

The unsuccessful Waffle strategy for mobilising other social groups around its interest consisted in linking the dissent to continentalism with dissent to capitalism. American imperialism, Canadian independence from it and socialist transformation were seen as being inherently linked. More specifically, the strategy consisted in identifying "the national development strategy of continentalism as being sufficiently discriminatory that all Canadians who bore the costs of a continentalized economy could be assembled into a movement for change." The NDP convention of 1969, with resolutions partially inspired by the Waffle, identified "millions of Canadians [who] share our faith in Canada and our determination to strengthen and enrich Canada's independence and place in the world "because" continental integration has become so pervasive that Canadians who value an independent

Canada and New Democrats who reflect the values of corporate capitalism now share a common agenda." (55) The task was to construct an alliance of forces around the task of breaking the links to American capitalism as a necessary first step on the road to socialism. (56)

It has already been argued in this paper that theoretically this crucial link did exist. In chapter two we argued that the existence of continentalism in the Canadian case is reliant on the existence of the liberal assumptions which underly capitalism. It has also been argued, in chapter one, that, by definition, labour has a fundamental interest in socialism, or dissent from capitalism. Given the above, it is argued that two factors are important to explaining why it was not the Waffle group which mobilised the dissent in the nationalist movement. The two interdependent factors are, the extent of deterioration of consent to capitalism and the organizational capacity of labour as the most sympathetic social group to socialism.

Because of the link between continentalism and liberal assumptions in the Canadian case, an alliance around the issue of continentalism lends itself to the socialist cause. At the same time, however, it poses the problem to mobilising around the continentalist issue itself. It will be argued that consent around capitalism had not deteriorated to a sufficient extent and that labour, for a variety of reasons, did not possess the organizational capacity at this historical moment.

to define its interest on this issue, or to define the issue in such a way as to perceive its fundamental interest.

Why does consent to capitalism not break down in this period? More precisely, how do we understand capitalism as a system of ideas and as part of the process of consent. And, under what conditions would we expect this dissent to deteriorate? Two characteristics of hegemony have already been identified. First, that it has its basis in the decisive function that the leading group exercises in the key sectors of production. Second, that hegemony presupposes that account is taken of the interests and groups over which hegemony is exercised. Under the capitalist organization of production capitalists appear as bearers of universal interests because the entire society is structurally dependent on their actions. In a capitalist system, capitalists "represent future universal interests while interests of all other groups appear as particularistic and hence inimical to future developments." (57) This is because decisions of capitalists to save and to choose techniques of production constitute the parameters which constrain the possibility of improvement of material conditions of everyone else. "If capitalists do not appropriate profit, if they do not exploit, production falls, consumption decreases, and no other group can satisfy its material interests. Current realization of material interests of capitalists is a necessary condition for the future realization of material interests of any group under capitalism." (58)

"Wage-earners consent to capitalist organisation of society when they act as if they could improve their material conditions within the confines of capitalism. More specifically, they consent when they act collectively as if capitalism was a positive sum game, that is, when they cooperate with capitalists as they choose their strategies." (59)

Given this understanding of capitalism as a system of ideas and consent to capitalism, under what conditions would we expect this dissent to deteriorate? Gramsci asserts (60) that consent becomes reproduced on the condition that the hegemonic system, based as it is on the private property of the means of production, yields outcomes that to some degree satisfy short term material interests of various groups. Even though consent is socially organized in the sense of the entire structure of social and political organizations is constructed to generate it, consent cannot be maintained unless it corresponds to the actual interests of the consenting. Consent to capitalism is therefore seen to be "permanently conditional" with material limits beyond which it will not be granted.

However, this limitation of realization of material interests must be qualified. These "interests" are defined within the system itself. The economic coercion inherent in the capitalist system restricts the definition of "interest" in any given situation as well as the acceptable minimum level of realization of these interests to reproduce consent. The

operation of a capitalist system embodies coercion in two respects. In a capitalist system, "production is oriented toward the satisfaction of needs of others, towards exchange, which implies that ... the immediate producers cannot survive on their own". As well, it is a system in which "part of the total societal product is withheld from immediate producers in the form of profit which accrues to owners of the means of production." (61) This profit is held to generate future realisation of interests in the form of improvements of material conditions for wage earners. Economic relations are coercive in that "anyone who does not own the means of production must subject him or herself to the wage relation as a condition of physical survival." (62)

Crises of capitalism, therefore, are in no one's material interest. In particular, crises of capitalism are a threat to wage-earners since capitalism is a system in which economic crises must fall eventually on their shoulders. Unless the capacity to institute socialism is organized economically, politically, and ideologically within the capitalist society, therefore, wage-earners are better off avoiding crises and cooperating in the reproduction of capitalism.

In the discussion of ideology, it was argued that at any particular historical moment the subjective or immediate interests of a group may not correspond to ~~their~~ fundamental or objective interests. It was also argued that classes do not exist as such in society as actors but must be formed through

the heightened consciousness of individuals brought about by organizations and intellectuals in those organizations. It is here argued that one of the determinants of the expression of these fundamental interests in a given situation, is the "organizational capacity" of the various groups/classes. Poulantzas has argued that organizations "play a constitutive role" vis-à-vis the formation of class positions in the conjuncture. (63)

According to Mahon, organizational capacity determines the ability of a given force not only to define, but also to advance, its interests. "It would be the relative organizational capacities of each of the potential forces which would determine the face of the issue presented to the state. When conflicting interpretations are advanced, that backed by the most effectively organized would likely prevail... When coalitions are forged, it is again the more coherent force which is likely to place its stamp on the issue." (64)

At least two factors can be identified as inhibiting the organizational capacity of labour in this period: the fact that labour unions were primarily under the direction of international as opposed to national unions; and, the fact that the political party which represented the interests of labour at the political level was, for reasons of its own historical development, unable to mobilize this dissent.

At least since the Depression when labour underwent a substantial increase in organization, the Canadian trade union

movement has not been structurally independent from that of the United States though this situation would begin to change in the 1970s.(65) 'International unions' accounted for 66.2 per cent of all Canadian unionists in 1945 and 70.5 per cent by the early 1950s. Many of these union members were in manufacturing, mining or petroleum where the new American capital inflow was taking place. The very presence of American corporations in these areas could be used as justification for American-based unions.(66) In "numerical and financial strength and collective bargaining leverage within the private economy- and within some important publicly-owned enterprises as well- the internationals dominate the Canadian trade union movement.(67) Because of the international, or rather continentalist orientation of these unions, these organizations were unlikely to mobilise a challenge to capitalism through mobilization of nationalist dissent.

This international orientation was the result of the international unions' penetration of Canada at a time when Canada's weak industrial base and sparse population inhibited the formation of a national trade union movement. "Workers seeking representation naturally turned to the internationals. This was especially true during the period following the Great Depression and during the war years when the newly organized "industrial" unions emerged in the mass-production industries and were eagerly welcomed by Canadian workers who were unable to survive independently. They did not deliberately choose to

join American unions because they were American, but because they were much stronger than the fledgling Canadian organizations and could point to solid gains in bargaining with the same employer south of the border." (68)

The other organization which was in a position to organize labour was the New Democratic Party as the political party closest to labour. The party's failure to organize labour on this issue is signified by the rejection of the Waffle faction of the party and its strategy for mobilisation in 1969. (69) The failure of the NDP to play a major role in the organization of labour and allied groups can be explained in part, in terms of the party's historical development and in part the role of unions in the party.

The Cold War had the effect of alienating the left-wing leadership from the Communist Party. The period 1945-48 "thoroughly poisoned relations between communist and social democratic supporters in the trade union movement, thus making any cooperation against military, political and economic encroachment on Canada impossible." (70) "Retreating further and further from any fundamental criticisms of capitalism, Canadian social democrats began to lose even the memory of the days when they had considered themselves a real alternative. Instead they became little more than a pressure group for a number of welfare measures. In effect, they promised a government that would make capitalism more humane in the interests of the little man." (71)

Caplan and Laxer also note two serious deficiencies in the CCF strategy as derived from the party's roots in British Methodism, British Fabianism, and British Labourism. "In the first place, it had an inadequate theory of social change, and no concept of how society is transformed from a capitalist to a socialist one. There was instead the naïve conviction that the cumulative effect of selective nationalization plus social welfare measures would automatically produce a qualitatively new society; the whole would be greater than the sum of its parts. Secure in its chiliastic faith, the central role of property and the realities of power relations could blithely be ignored at worst, vastly oversimplified at best." (72)

VI CONCLUSION

This chapter was concerned with identifying the nature of the challenge posed by the nationalist movement to the consensus around the hegemonic articulation of ideas. It was argued that the movement challenged the hegemonic articulation on two main fronts. By explicitly asserting the existence of a separate national interest, the efficacy of continentalism was brought forward for discussion. The movement also challenged the hegemonic articulation by questioning the success and possible success of the economic strategy reliant as it was on resource exports for economic growth. However, it is argued that the challenge posed by the movement to the hegemonic configuration of ideas was limited by the acceptance of certain

aspects of the hegemonic articulation.

It was argued that a differentiation can be made between the challenge implied by the nationalist movement to the hegemonic articulation and the actual challenge presented by the movement. This was for two reasons. The discussion of the challenge as itself a hegemonic system laid the basis for the assertion that some elements of the nationalists' platform served the purpose primarily of articulating the interests of subordinate groups to those of the mobilising group. In this regard it was argued that the only interests which are of concern to neutralising the movement are the core concerns of the mobilising group. The other interests of the allied groups were considered peripheral.

The second factor was, in part, a restatement of the first and concerned the existence of contradictions within the movement. It was argued in chapter two that contradictions in the economic strategy and the state's inability to address the new conditions given these contradictions were at the base of this dissent. However, though these contradictions were made explicit and brought into the forum of public debate, which very act implied a substantial challenge to the movement, the movement was unable to resolve the contradictions. As a consequence, these contradictions were encased within the movement itself, effectively limiting the actual challenge the movement could pose.

These contradictions were, in large part, embodied in the

position of the mobilising group on the issue. The problems of stagnation and international competitiveness in the manufacturing sector appeared to require a degree of increased state intervention to resolve that would seriously threaten the capitalist character of the economy and thus the basis of the hegemonic position of capital in regards to labour. The intractability of this problem was further intensified by the fact that solutions to inflation, unemployment and regional disparity, as per the expectations of the allied groups, must simultaneously be addressed by any industrial strategy identified. The fact that the movement was unable to define a specific industrial strategy, though it was a key element of its program would indicate that the mobilising group was unable to identify an alternative compromise between state intervention and the free operation of the market which would accomplish these objectives with which to present the state.

CHAPTER 4: EVALUATION OF FIRA

I INTRODUCTION

The analytical framework adopted for the purpose of this discussion directs us to two goals against which to evaluate the government's response to the nationalist movement. First, FIRA can be evaluated in terms of incorporating the dissent represented by the challenge into the consensus around the hegemonic articulation without significantly altering the structure of hegemony. The creation of FIRA marked the end of the nationalist movement as an important challenge. This would seem to indicate that the nationalist dissent was adequately addressed by the creation of FIRA. However, it has been argued that implied in the nationalist movement was a challenge to the hegemonic articulation and, therefore, the distribution of power encased in the postwar compromise. As the policy adopted to address this compromise, it remains a matter for examination whether or not the creation of FIRA marked a shift in the distribution of power underlying the hegemonic articulation. If a new compromise was struck, what were its terms. Alternatively, if the compromise was not significantly altered, why were nationalists satisfied with the policy?

The determination of whether or not the structure of hegemony was altered by the creation of FIRA is not without problem. Given our discussion of this structure as ideas symbiotically related to a whole material structure of institutions and processes, it is here argued that FIRA cannot be evaluated in isolation. In order to determine whether or

not the challenge substantially changed the structure of hegemony as signified with the creation of FIRA, the Agency must be examined in terms of the effect its incorporation had on the material means by which the original compromise was produced. In what way does the Agency combine the interest of nationalists with that of the hegemonic group? It is beyond the scope of this paper to examine the effect of the challenge on the hegemonic structure as embodied in the economic strategy in its social, cultural, psychological, economic and political manifestations. Instead, the impact of FIRA on the direction of the economic strategy will be evaluated through focus on the government structure using Mahon's notion of "unequal structure of representation".

The second goal against which the model directs the evaluation of FIRA, is in terms of its adequacy in addressing the material conditions which enabled the mobilisation of the challenge in the first place. It has been argued that the dissent of the nationalist movement was rooted in, and its mobilisation facilitated by, the impact of changing international conditions on the Canadian economy. It has also been argued that under these new economic conditions, and given the hegemonic system of ideas regarding the make up of the economy and mechanics of economic growth and the state's role in it, the state was unable to address the conditions which provoked the discontent.

It is argued that in order to evaluate FIRA, it is

necessary to evaluate its contribution to enabling the state fulfill its mandate in the changing conditions. The final question to be addressed is whether the incorporation of FIRA into the (new) consensus allows the state to address the original problem of maintaining the compromise under the changing economic conditions, or in other words, address the economic problems which had laid the conditions for the nationalist mobilisation.

II UNEQUAL STRUCTURE OF REPRESENTATION

Mahon argues, from Poulantzas, that the structure of hegemony is created and maintained through the institutions of the state. It is through the structuration of class relations 'inside' the state, that the interests of various social forces are combined in such a way as to organise around the long-term political interests of the hegemonic group. It is the political logic inscribed in the internal relations of the state that permits the interests of the hegemonic fraction 'to emerge unintentionally'.(1)

It has already been discussed how the maintenance of the hegemony of the power block demands that the interests of the dominated classes be taken into account in a way which does not seriously affect the pursuit of those of the hegemonic group. The state facilitates the process of accommodation of these interests by providing a framework through which the ability of subordinated groups to satisfy their material interests is made

contingent upon the realisation of the interests of the hegemonic group.

The combination of these various interests within the limits specified by the core interests of the hegemonic group is accomplished in the Canadian case, according to Mahon, through the unequal ordering or weighting of the various organs and branches of the state.(2) These various institutions are understood to represent the interests of the classes and segments of classes present in the social formation. The organs and branches of the state act as the means through which the state is able to 'hear' and formulate a response to the issues arising out of inter- and intra- class conflict. The inequalities between the hegemonic group and subordinate groups and various groups within the hegemonic group are expressed in a hierarchy of values and the quality or nature of the representation received by the various groups.

...[t]he representatives of non-hegemonic groups are subordinated to the branch (or branches) that constitute the 'seat of power' of the hegemonic fraction. The paramount position held by the latter's representative within the state is the mechanism by which concessions to other fractions are held within the limits specified by the core interests of the hegemonic fraction. Nevertheless, the representatives of the other fractions of the dominant class take as their operating assumption the class power of those they represent whereas those of the subordinate classes represent the latter's opposition in ways which presuppose their subordination to capital.(3)

In this regard, the relationship between several key state structures is important to our evaluation of FIRA. The

Department of Finance can be identified as a key institution in maintaining the consensus as it has been described in this paper. (4) Through its control of the major instruments of economic policy, shared with the Treasury Board and the Bank of Canada, and its role in negotiating with the provinces, Finance was the primary department charged with maintaining the staples-Keynesian strategy. Finance's internal superiority is highlighted by its responsibility for the fiscal framework, with its limits on aggregate federal expenditure and its particular taxation and expenditure components, the management of public debt and regulation of the supply of money and credit. (5) Finance also played a key role, in combination with Industry, Trade and Commerce and External Affairs, in shaping the means by which integration of the Canadian economy with the international economy through import substitution took place. (6)

The mobilising group of the challenge, domestic manufacturers, had access to the state largely through the Department of Industry, Trade and Commerce (ITC). (7) The subordination of this group to the hegemonic group is evident in two respects: the subordination of ITC to Finance, and the subordination of the indigenous group of manufacturers within ITC itself. The subordination of the Department of Industry, Trade and Commerce to Finance is reflected in the fact that while ITC was responsible for industrial development, the principal instruments affecting corporate decision-making rest

in the Department of Finance. As French notes in his study of industrial policy, business perceptions of government policy are most influenced by commercial policy and especially by tax policy, which reside ultimately in the hands of Finance, and only secondarily by the promotional, incentive and regulatory instruments managed by ITC.(8)

The subordination of domestic manufacturers to the hegemonic group within ITC itself is evident in the free-trade orientation of the department. Even the brief separation of Industry from Trade and Commerce as a new department in 1963 did not alter the subordinate status.(9) The subordination of Industry to Trade and Commerce in the reunited department is reflected in the emphasis on exports in the development of the secondary sector.(10)

Given this understanding, identification of the changes (if any) in the structures of representation which resulted from the addition of the agency to the state structure is crucial to determination of whether or not FIRA affected the long term interests of the hegemonic group. The relationship between key parts of the state apparatus should be examined in order to determine whether or not the means by which the interests of the hegemonic group emerge within the state administration changed substantially.

III THE LEGISLATION

Before proceeding to evaluate FIRA, it is useful to note

briefly the main elements of the legislation and the political events surrounding its creation by the state.

The legislation creating the Foreign Investment Review Agency was passed as Bill C-132 by the House of Commons on November 26, 1973. The legislation provided for the establishment of an agency to review proposed foreign takeovers of Canadian companies, new foreign investment, and investment in new lines of activity by existing foreign controlled companies in Canada. The rationale and basic framework for this legislation was a direct result of the Gray task force commissioned by the government in the Spring of 1970. This task force followed the 1957 Report of the Royal Commission on Canada's Economic Prospects, the 1968 Report on the Structure of Canadian Industry (Watkins Report), and the 1970 Wahn Report. The resulting report, Foreign Direct Investment in Canada (Gray Report), was only officially released after the Canadian Forum had published a leaked version.

Bill C-132 would not have been as comprehensive as it was were it not for the leaking of the Gray Report and the minority position the Liberal party found itself in after the 1972 election. Bill C-132 was in fact the second bill presented on the matter since Gray had introduced to the House of Commons Bill C-201 in May of 1972 which was directed only at the potential takeovers of Canadian companies by foreign corporations rather than the screening of all new foreign

investment as recommended by the Report. According to the Minister's statement in the House when the Bill received first reading:

takeovers are the form of investment least likely to add significant benefits to the Canadian economy. The extent of foreign control of a number of industries in Canada is large enough to make the acquisitions of more Canadian businesses a matter of concern to the government and to Canadians generally. (11)

It is believed that Gray, perhaps with the support of other Cabinet members, had recommended the policy in the report and had been voted down by the majority of the cabinet. (3) Trudeau, at this time, firmly stated that there was no intention in the foreseeable future to extend screening to other investments.

When the Gray Report was finally officially released, bitter opposition to the more moderate Bill C-201 was sparked from nationalists and the NDP who asserted that the bill provided "merely additional instruments in the ad hoc arsenal". (4) Premier Davis of Ontario expressed the opinion that the takeover review system was inadequate and stronger measures should be taken. Within the Liberal Party itself Ian Wahn, along with thirteen other Liberal MPs also endorsed this stand and Robert Kaplan, chairman of the Commons committee which reviewed the bill, spoke publicly outside of Parliament in favour of the screening of all investments recommended by the Gray Report. The Canadian business community, labour and the other provincial premiers were critical of the bill citing its investment-inhibiting aspects and the limited list of

exemptions.

Replying to the opposition to the bill, the government moved a series of amendments to moderate the application of the proposals, largely by raising the ceilings on the proportion of foreign ownership making a corporation "non-eligible" to purchase a Canadian company. The bill however died on the order paper when Parliament dissolved in September 1972 for the fall elections. In October 1972, a minority Liberal government was elected with the NDP holding the balance of power.

The NDP made the government's foreign investment policy one of the chief determinants of its conditional support for the minority government. This, in combination with the heavy Liberal losses in Ontario where economic nationalism was high induced the government to introduce a new Bill providing for wider surveillance of foreign investment. Trudeau also replaced the defeated former minister of Industry Trade and Commerce, Jean-Luc Pepin (known for his pro-American attitude⁽⁵⁾) with Alastair Gillespie, both an Ontarian, and a member with excellent credentials among proponents of control over the foreign economic presence in Canada.

The revised bill moved two steps nearer the recommendations of the Gray Report. The Bill created a formal review agency to replace simply a departmental official to administer the Act and extended the limited coverage of Bill C-201 beyond takeovers to include screening of new investments by companies not already established in Canada and of new

businesses opened in unrelated lines by existing foreign-controlled firms. Moreover, the expanded Act was announced not as a one-shot assault on the issue but as part of a broad range of controls being contemplated by the Government. Other enactments planned "in the spirit of the Gray Report" included provision for the registration, and ultimately the screening, of licensing and other transfer arrangements for foreign technology, and the consideration of "measures" to increase Canadian participation in the ownership and control of resource projects.(6) None of these measures had been implemented by the time of writing.

The Act took effect in two separate stages. On April 9, 1974 the provisions relating to acquisitions of Canadian business took effect. The stated reason for the two stage process was to allow the government the opportunity to gain experience in administering the takeover provisions and consult with the provinces before the second stage affecting the establishment of new foreign-owned businesses would be made.(12) The second phase came into effect on October 15, 1975.

IV EFFECT OF THE AGENCY ON THE COMPROMISE

The first task to be addressed in the evaluation of FIRA, then, is to determine the effect the Agency had on the compromise. Several factors are worthy of consideration: the location of the Agency in the government hierarchy, capability

to represent the challenging values, and, capability to put into effect the challenging values.

i Institutional weakness

The institutional weakness of the Agency vis-a-vis the rest of the government structure is in part a function of the decision to have the screening process administered by an agency rather than a more powerful bureau or division within a larger department. According to participants (13) the agency form of intervention was chosen for several reasons the most important of which was the considered bias in favour of foreign investment of the two obvious departmental candidates for administering the screening process, the Department of Finance and the Department of Industry Trade and Commerce.

However, as a separate agency assigned no decision making power of its own, FIRA neither has the resources nor a base of power from which to compete with the entrenched interests and ideas represented by these two departments. In fact, the Agency's only access to the state structure is through the minister of Industry, Trade and Commerce who then advises Cabinet, the ultimate decision-maker. This dependence underlines the Agency's subordination to the entrenched values and interests embodied in the state structure. (The precursor of the Foreign Investment Review Act, the Foreign Takeovers Review Bill had even provided for simply a departmental official and not a separate agency, to process the assessment

of applications.)

The very review process as outlined in legislation also reinforces the subordinate stature of the Agency vis-a-vis other institutions in the state. The Act stipulates that among the factors to be considered in the determination of significant benefit is "the compatibility of the acquisition or establishment with national industrial and economic policies, taking into consideration industrial and economic policy objectives enunciated by the government or legislature of any province likely to be significantly affected by the acquisition or establishment." The Act also requires the consideration of "any representations submitted... by a province that is likely to be significantly affected by the proposed or actual investment ..." (14) The Agency has interpreted both these sections as requiring it to consult with relevant provincial authorities on each application. (15) Agency weakness in this regard is most significant where there are no articulated federal and provincial policies and the Agency must therefore consult with federal departments and provincial governments on each individual application.

Agency weakness in relation to other departments is exacerbated by two factors. The Agency is often dependent on other federal departments for expertise critical to the bargaining for significant benefit. This results in the Agency feeling that it must keep departments "on side" which it does by deferring to their demands. (16) Secondly, is the fact that

the Agency must report the results of interdepartmental consultation to the Minister and Cabinet with dissatisfied departments provided the opportunity to pursue, through their Minister at the Cabinet level, any disagreements. This "mandated" consultation process gives both provinces and federal departments considerable influence in the review process.

The fact that the Act, as interpreted, has come to mean that both departments and provinces must be consulted, has come to give the latter considerable influence and leverage over the process in general and individual applications in particular. The resulting consensus seeking behaviour on the part of the Agency reinforces the attachment of the interest of the Agency with that of the rest of the state structure. This is reflected in the high agreement rate on individual applications between the two. (17)

ii Political subordination

This institutional subordination alone may not have been sufficient to neutralize the Agency as a focal point and base of support within the state for nationalist oriented lobbying and publication of dissent. While not altering the compromise per se, the Agency may yet have been able to represent an ideological position in the state on which the interested public, including Parliament, could focus in order to further these values. It may have allowed public attention to focus on

the Agency and provide an external base of support. However, the Agency's mandate was never clearly defined and this, combined with the absence in any detail of the publication of decisions and the criteria used to make them, effectively prevented the Agency from holding this position.

According to the legislation, the Agency's responsibilities extend only to advising the Minister. All the decisions, both on policy matters and on individual decisions are, by statute, made by elected officials. For instance, it is only the Minister responsible who can decide whether a potential investor is a "non-eligible person" or whether a transaction is reviewable. Only the Minister can order, according to the requirements of the statute, investigations into possible foreign takeovers or investments, and subject "non-eligible persons" to screening. It is the Minister alone who decides whether to publish undertakings agreed to by applicants when decisions are announced. It is the Minister who is authorized to issue guidelines related to the implementation and administration of the Act. It is the Cabinet which alone is empowered to make all regulations under the provisions of the Act. Most importantly, it is the Cabinet, on the recommendation of the Minister, which alone decides whether the proposed foreign investment meets the statutory test of "significant benefit to Canada" and is, or is not, permitted. Finally, only the Minister can order investigations into whether or not the terms and conditions

which were crucial to the determination of the significant benefit of an application are being respected.

To further the dependency of the Agency to the political element the chief executive of the Agency, the Commissioner, holds office at the pleasure of the Governor in Council (in effect the Cabinet). He can therefore be removed for any reason and not solely "for cause".

All these decisions are taken within the confidentiality that protects Cabinet decision-making. The informality of the process combined with the absence of publication of reasons for individual decisions prevents independent evaluation of the operation of the Act.(18) Neither can a clear policy be identified from observation of the case-by-case decision-making.

Given that so little information is published, it is also extremely difficult for interested observers to monitor how faithfully the Act is being complied with by both investors as well as the designated Minister and Cabinet itself. According to Herb Gray, "the agency's operations are so shrouded in secrecy that it is impossible to judge whether it has wrung additional benefits from a new investor or whether the jobs and export contracts would have been obtained no matter who owned a particular company."(19)

iii Scope of coverage

Even if the screening process had been administered by an

independent, decision-making agency, it is argued that, the direction of economic growth in the economy as embodied in the compromise would not substantially have been affected, at least in a deliberate way. More specifically, it is doubtful whether the terms of integration with the US would have been changed by such a process due to the limited scope of the coverage of the screening process.

FIPA's jurisdiction extended to review of takeovers, the establishment of new businesses and unrelated expansions of multinational corporations already carrying on business in Canada. The existing operations and expansions of foreign controlled firms remained totally exempt so long as they did not enter new and unrelated fields. The foreign investment which was covered, takeovers and new investment, in an average year accounted for only a fraction of the annual increase in foreign investment in the country. New Democratic Party members of Parliament estimated that only 20% of the transactions which accounted for the growth of foreign investment would be screened by the Agency by virtue of the fact that the statute did not cover expansion into related businesses by existing foreign enterprises. (20)

Of the limited number of new businesses that would otherwise be screenable, a large number would be exempt due to the flexibility of the guidelines concerning the definition of non-eligible persons. The control that the legislation had over the growth of existing foreign companies rested solely on

the provision to consider diversification into unrelated areas as subject to review. However, to be exempted from reviewability, only one of six specified criteria needed to be met. Relatedness could be shown by means of vertical integration (backward and/or forward), production of a substitute product or service, use of the same technology or production process, falling into the same industrial classification, or the fact that a product or service resulted from research and development carried on in Canada. Moreover, the guidelines provided that a new business may be related to an established business on the basis of yet some other principle. The effect of this flexibility, it has been suggested is to exempt from screening "a large- perhaps the majority- of new businesses that would otherwise be screenable." (21)

In addition, the guidelines themselves are open to extremely flexible interpretation. Interpretable provisions of the guidelines include such terms as 'essential', 'customary', 'substantially similar', 'to an important extent', and so on. (22) In the judgement of one observer, this implicit flexibility in combination with the flexibility discussed above "endow the guidelines with breadth and tolerance that make it virtually impossible for them to be "too narrowly" applied." (23)

Given our discussion concerning the decline of the United States in the international community and the ramifications of

this decline in Canada in Chapter three, the decline in the entry of foreign capital to Canada notwithstanding these weaknesses of FIRA is not surprising. Between 1974, the year FIRA began to exercise its authority, and 1981 foreign ownership of Canadian-based industries increased only marginally according to Gorse Howarth then head of the Agency.(24) Inflows of foreign direct investment also decreased.(25) For the first time in Canadian history, in 1974, direct foreign investment in Canada was actually negative. The outflow of capital reached \$410 million which represented a net decrease of over a billion dollars with respect to 1975 indicating that some divestment by foreign-controlled companies was taking place.(26) However, the Calvet and Crenner study found that the causes of this decline lay in world phenomena, particularly in structural changes taking place in the U.S. economy rather than "the Canadian government's policy with regard to foreign investors".(27)

In summary, FIRA was created as a dependent, subordinate agency with no decision making power of its own. The institutional weakness of the agency vis-a-vis the state apparatus handicaps the process of foreign investment review and minimizes the effect of the ideas and values inherent in the process on the hegemonic articulation of ideas.

FIRA has been formally located outside the institutional complex of central government since its creation and its access point is an unsympathetic one in terms of the Agency infusing

new values into the system. Located outside of the state structure, it has very little effect on the overall economic strategy being pursued.

Furthermore, the scope of its coverage and the vagueness of its mandate combined with Cabinet control does not even allow the Agency to define a position within the state from which opposing values and interests can be supported or put forward. Given FIRA's weakness, it would be difficult for it to represent a challenge to the hegemonic articulation from within the state. In fact, its position in the state structure may actually serve to deflect nationalist type pressures from those state institutions critical to the maintenance of the consensus.

V. NATIONALIST REACTION

Examination of the effect of FIRA on the compromise as represented by the government structure has led to the conclusion that the terms of the compromise, and therefore the interests of the hegemonic group, were not substantially effected. However, the fact that the nationalist movement disintegrated with the creation of FIRA would appear to indicate that the demands of the movement were addressed by the state. What remains to be explained is how the state could, by only responding to certain of the movement's demands and this in a way which did not encompass fundamental changes, neutralise its dissent.

It was argued in chapter three that as a constructed hegemony, the mobilisation of the various groups into the challenge does not represent a genuine convergence of interests on the part of these groups but a tactical alliance on a limited objective. Two assertions concerning the nature of the challenge posed by the movement were derived from this understanding of hegemony. First, it is understood that some elements of the nationalist platform serve the purpose primarily of articulating the interests of subordinate groups to those of the mobilising group. As such, it is not important that they be addressed by the state. Secondly, and perhaps more importantly, the interests which are of primary concern to neutralising the movement are the core concerns of the mobilising group. The other interests of the other groups are considered peripheral. Given the prime importance of the interests of the mobilising group to addressing the movement as a whole, it is argued here that the contradictions associated with the mobilising group are critical to note in understanding why the demands of the movement were 'satisfied' by FIRA.

The specific demands which came out of the nationalist movement were twofold. The first was a call for the screening of foreign investment. Integral to this demand was the creation of an industrial strategy. The screening program was to be accompanied by measures to encourage the orderly expansion of Canadian ownership, both public and private. Closer examination of these demands and comparison with the

nature of the government response, highlights how the contradictions embodied within the mobilising group limited the challenge implied in the demands to such an extent that they were "met" in the creation of FIRA. In this procedure, an important methodological caveat is the separation of the demands of the mobilising group from those elements of the platform which merely serve to link the interests of the allied groups with those of the mobilising group.

i Industrial strategy

Obvious by its absence in the FIRA policy response was the institution of an overall industrial strategy in which to situate FIRA though, an unsuccessful attempt was made by the government to bring one forward. In fact, contrary to the Gray Report's intentions, bargaining became a "substitute for ... more general policy instruments." (28)

The establishment of an industrial strategy was to have been a crucial element in this screening according to nationalists. The Gray Report argued that if we wished to be more selective in our choice of new foreign investment or wished to control effectively the operations of existing firms, we needed some overall set of goals and priorities, or some general economic framework within which we could judge the operations of foreign firms. An industrial strategy was to act as a central constraint within which the case-by-case bargaining could take place. It was important, the Gray Report

argued, that the bargaining "not operate on the basis of economically unsound incrementalism ..." (29) The Report

describes the operation of the screening process as follows.

...administrative intervention ... in the normal course of events would involve the Canadian government or one of its agencies in negotiations with the foreign investor to undertake more production, more exports, more domestic procurement and more R&D in Canada. By indicating areas of specialization where Canadians should concentrate their efforts and resources, an industrial strategy would constitute a safeguard against indiscriminate efforts to develop all industries equally without regard for those in which Canada has the potential to be most efficient.... An industrial development strategy would help to ensure that the integration [of Canada into the world economy] is on a basis which most benefits Canada's long-term interests. (30)

However, the nationalists' notion of such an industrial strategy was fraught with the very contradictions which prevented the state from creating an industrial strategy itself. Not only did the existence of such contradictions prevent the movement from continuing to pressure for such a strategy, but upon closer examination of the nationalists' understanding in this regard, the screening agency would appear to address the intent of their demands.

The changing material economic conditions which formed the basis of the appearance of the nationalist movement have been linked to the processes underlying the drive towards continentalism of the economic strategy. This orientation of the economic strategy has also been linked to the reliance on the free operation of the market to determine the character of economic activity. The challenge mounted by the Waffle group

suggested that an industrial strategy formulated to address the economic problems forming the basis of the nationalist dissent in these conditions would involve a degree of planning which may threaten the primary reliance on the free operation of the market to determine economic activity and, by implication, the balance of social power between capital and labour.

The nationalists' solution to this dilemma was an unhappy compromise between direct and indirect measures. Though the formulation of an industrial strategy implied a challenge to reliance on the market in replacing the logic of the market with that of the "nation", the nationalists' intent was instead to supplement the operations of the market towards the goal of restoring its operation rather than its replacement.

In terms of an industrial strategy, the Watkins Report had recommended the amendment of anti-combines and tariff legislation as measures to encourage greater efficiency and competitiveness in Canadian industry; legislation to block the intrusion into Canada of American anti-trust and trade prohibition laws and balance of payment regulations; the creation of the Canada Development Corporation "as a large holding company with entrepreneurial and management functions to assume a leadership role in Canada's business and financial community"; and the provision of stronger tax incentives to encourage the Canadianization of management. The CIC also suggested regional development programs, government-sponsored programs for technological innovation, as well as a variety of

other vehicles to encourage and provide a proper climate for the Canadian entrepreneur.(1)

However, these more general policies were not, alone, expected to be sufficient to satisfy government objectives.(32)

...domestic economic policies will not, however, get at the imperfections of the international market place in allocating industrial activity, nor will they themselves overcome any institutional biases of the multinational enterprise of the foreign investor. They will not deal with the phenomenon of market power, which is rooted outside of Canada, nor easily offset the interventions of other governments in influencing the location and trade decisions of the multinational enterprise.(33)

Very importantly, it was to be the screening process which would correct for the imperfections in the market as represented by the multinational corporation(34) and not the industrial strategy. But with the passage of time and the strengthening of the Canadian economy, it was anticipated that the screening process would become less important, perhaps eventually being supplanted by the market.

Thus, the screening process would "protect" areas of basic Canadian strength from arbitrary displacement. It would rely on the Government's positive policies to develop additional areas of strength through improvements in capital markets, technology policy, competition policy, etc. Over time, as Canadian strengths developed, more foreign direct investment would probably be blocked or displaced in the ordinary working of the market place.(35)

ii Screening

It has been argued that the prevailing compromise was not

substantially altered by the addition of FIRA in part because of the very way FIRA was structured. The Agency, as a dependent non-decision making body was weak and open to political manipulation. Moreover, the criteria on which basis it operated were ill defined and the scope of its coverage limited. However, criticism of the operation of the Agency by liberal nationalists was largely restricted to details of the process such as the length of time involved⁽³⁶⁾, the level of the ceiling designating reviewable investment and the lack of information available in which to ensure and judge compliance.⁽³⁷⁾ The lack of fundamental criticism of the review process is largely a function of the fact that nationalists did not envisage the screening function to be performed much differently.

It has been argued that the weakness of FIRA vis-a-vis the rest of the state structure was crucial to incorporating the screening mechanism without fundamentally altering the compromise. It was noted that under the Act, decision-making power rests solely in the political realm. The Minister responsible would have some decision-making power but would advise Cabinet which in turn would make the decisions on the key issues, most importantly whether to approve or block individual investments. Nationalists themselves, however, envisaged the Agency to be limited to an advisory function with the Minister responsible alone making decisions on individual investments.

The Watkins Task Force recommended among its comprehensive list of changes, that an agency be established to exercise surveillance over the operations and investments of foreign corporations in Canada although it did not propose that the agency be granted any specific powers to back up its surveillance function.(38) The Wahn Report recommended the establishment of a "Canadian Ownership and Control Bureau" whose function would be to perform many of the advisory and research functions referred to in the Watkins Report but suggested that the Bureau might have some screening and decision-making powers.(39) The Gray Report recommended that the Minister responsible for the review agency should make the decisions permitting individual investments with other Cabinet members assigned solely an advisory role.(40)

The weakness of FIRA has also been associated with the vagueness of its guidelines. However this vagueness is probably, at least in part, a function of the lack of an industrial strategy and it has been argued that neither were nationalists able to address this issue. Because FIRA was not embedded in a framework of policy that would help its arbiters make rational and consistent decisions, the criteria with which foreign investment was to be evaluated were necessarily left very imprecise. The imprecision of the guidelines and the lack of a grounding in an industrial strategy facilitated the entry of foreign investment with few restrictions. As one commentator remarked, it is possible to show some benefit from

virtually any investment. The problem was stated as follows: Nobody argued that a beneficial investment should increase employment, encourage research and development, help develop resources and source supplies in Canada, create exports and eventually pass under Canadian control and management. Where things got sticky was in defining quantities. How many new jobs would be enough? What percentage of sales would have to be dedicated to F&N? How much production would have to be exported? And if an investor was going to have to make equity, directorships and management jobs available to Canadians, at what price and within what time limits? Moreover, if a new investment or takeover of a Canadian-owned firm met all the criteria, but would create competition for another Canadian operation in the same industry, would that be good or bad? (41)

FIRA has been lugged down since it did not screen the main growth area of foreign control - expansion of existing multinational corporations. Neither did liberal nationalists advocate that this area be screened. The Gray Report envisaged the review process screening the following categories of investment: takeovers of Canadian operations by foreign firms, new foreign investments, licensing and franchising, unrelated expansion of foreign owned firms now in Canada, current operations of foreign firms in Canada, Canadian multinational firms. The review of new investments by foreign-controlled companies in a current line of business, and of Canadian operations of foreign controlled companies in general, was not advocated by the Report. According to nationalists, review of these investments would infringe on the capitalist accumulation process by virtue of it signalling a fundamental change in the rules of the game for investors, an alteration in

traditional government-business relationships, and impinge on necessary management discretion in decision making and the operations of the marketplace. (42)

Neither would nationalists have had the process be comprehensive. As if to minimize government interference in the capitalist process while generating the highest effect per intervention, intervention was to "concentrate on that relatively small proportion of foreign investments which are of greatest concern to Canada at any point in time" or "transactions of defined significance". Investments which did not meet designated criteria of economic significance were not to be reviewed or subject to bargaining.

Neither had nationalists conceived of FIRA to be a method of reducing the rate of foreign investment or the level of ownership and control. The Gray Report had pointed out, in fact, that screening foreign takeover proposals, but not Canadian investment, might increase the relative efficiency and size of the foreign-controlled sector. It warned that a "review process by itself would not further Canadian ownership significantly." (43) Increased ownership was to be brought about through indirect measures such as tax policy, to encourage an increase in the proportion of Canadian stockholders. (44)

The report of the Gordon Royal Commission contained the first official admonition to foreign-owned subsidiaries to "Canadianize themselves". The report recommended increased Canadian representation on boards of directors recruitment of

more Canadians, for key management positions and issuance of a sizeable minority of equity stock to Canadians. The Wahn Report was the most radical of all the reports as it called for an eventual transfer to Canadian majority ownership on all corporate boards of directors, limitations on foreign borrowing in the Canadian market, and appointment of a government trustee to exercise the voting rights of the foreign-owned shares of any company affected by extraterritorial assertions of foreign law.

VI. CONCLUSION: THE ACTUAL CHALLENGE

The one area in which FIRA may claim to have a degree of success was in increasing the rate of participation of Canadian industrialists in the area of foreign growth in the economy. Among the benefits attributed to FIRA's negotiations by nationalists were: increased participation in the direction, management and ownership of the firms involved; the creation of job opportunities for Canadians in research, engineering, new supplier industries and consulting services; increased exports and the greater use of Canadian suppliers of goods and services. As well, FIRA is cited as leading to applicants establishing export targets, to Canadian subsidiaries being assigned exclusive rights to export either all their products to certain countries or certain products worldwide. However, the common belief about these changes was that, though "the burden of proof has forced companies to reshuffle and rearrange

boardrooms, executive committees and shareholders' stakes to show that control is in Canadian hands... ownership still remains largely outside Canada... [with] enough management positions... offered to Canadians to satisfy FIRA's officials."(45)

From this examination of FIRA it is concluded that the demands of the mobilising group of the nationalist movement, and the ones that were satisfied, can best be understood as calling for an end to the further deterioration, and if possible increase, in Canadian participation in the economy though without upsetting the actual status quo. FIRA both acted to increase protection for Canadian secondary industry, and force insertion of Canadians into the ownership and management of American enterprises in Canada though without substantially interfering with the free operation of the market. It is therefore concluded that the nationalists did not require a fundamental change in the compromise but the rearrangement of the existing relationship in their favour. It is not surprising, then, that the changing material conditions which formed the basis of the dissent were not addressed by the addition of FIRA to the policy machinery.

We have identified the growth of multinational corporations as integral to the penetration of American investment in Canada. Canadian industry's problem of efficiency and productivity, and the inability of the national government to manipulate the environment in which individual business

decisions are made. The encouragement of multinational penetration, it was argued, was a function of the economic strategy itself manifest in the tariff, various tax policies, an ineffective combines policy, regional development policy, research and development and export promotion policies. These areas were not addressed by the FIRA policy response. In fact, without changes in policy in these areas, FIRA may actually have acted to lessen competition and efficiency. (46)

FIRA essentially addressed some of the short term effects of foreign direct investment. The long term costs of uncontrolled foreign direct investment were not addressed. FIRA does not address the problem of the status quo- the problem of rationalizing Canadian industry or the development of specialization in order to serve the domestic market better and to penetrate foreign markets more effectively. FIRA does nothing fundamental about creating a viable Canadian industrial establishment or bringing the Canadian economy under Canadian control, or at least within the bounds of manipulation by the government, to ensure the fulfillment of its mandate. Maintenance of long term economic growth and standard of living were still beyond the national government.

With the creation of FIRA, the state was able to incorporate the challenge represented in the nationalist movement into the consensus around the existing set of compromises. However, FIRA must necessarily be understood as only a short term solution since the conditions which formed

the basis for the mobilisation of the movement have not themselves been addressed.

CHAPTER FIVE: CONCLUSION

Eleven years after its creation, and closely following the majority Conservative victory, the Foreign Investment Review Agency was back on the public agenda. The comparatively quiet public debate sparked by the Conservative attempt to fulfill one of its election promises culminated on July 1, 1985 with the repeal of the Foreign Investment Review Act and its replacement with the Investment Canada Act. Given the recent dissolution of the Agency, an examination of the conditions under which FIRA was instituted and the role it was created to fulfill takes on added interest.

The Foreign Investment Review Agency is commonly understood to have been created in response to popular pressure in the form of a "nationalist" movement. However, in viewing the creation of the Agency in such a fashion, a number of problems immediately become apparent. The first concerns the timing of the appearance of the movement. Though the stated rallying point of the movement was Canadian independence, the process of American penetration of the Canadian economy through direct investment dated back to the National Policy. Furthermore, following the heavy inflow of investment witnessed in the immediate post Second World War period, the rate of entry of American capital levelled off, and, by the time of the nationalist mobilisation, had actually begun to decline. Why then did the nationalist movement appear when it did?

Secondly, though many of the specific demands of the

movement were not met with the creation of FIRA, the movement did not continue to pressure for their implementation and in fact largely disappeared. The movement had lobbied for the screening of foreign investment and the expansion of Canadian ownership (both public and private) consistent with the available capital being generated in the Canadian economy. Integral to the demand for screening was the creation of an industrial strategy. The creation of FIRA as a dependent, subordinate agency with no decision making power of its own and without the context of an industrial strategy, marked the meeting of only a fraction of the movement's demands. However, the movement essentially disintegrated with the agency's creation.

It is argued that the appearance and disappearance of the movement are understandable if we posit two characteristics of the environment in which social groups are formed and public policy is made: that there exists in society a system of commonly shared ideas and values within which individuals perceive events and interests and decide upon appropriate action; and, that the organization of these values both reflects and forms the basis for a social distribution of power. This understanding is operationalized into a framework for policy analysis through the use of Gramsci's notion of ideology and hegemony.

In this framework, the nationalist movement is understood to represent a mobilisation of dissent to aspects of the

hegemonic articulation of ideas. The rise of the movement is understood to be a symptom of the early stages of a developing economic and political crisis. That is to say, the dissent was provoked by the decline in the ability of the articulation to explain the changing material conditions and, itself, ensure the conditions within which individuals could achieve a minimum of their goals. In the conditions of this decline, the way was open for making what was implicit in the hegemonic articulation of ideas explicit and thus a matter for questioning and debate.

It was the continental orientation of the economy which was the overt principle around which the challenge mobilised. This orientation was not, in its origins, a strategy intentionally pursued by policy makers. Instead, the continental orientation of the economy was a consequence of the interaction of the configuration of assumptions, theories and values inherent in the hegemonic articulation and evident in the major components of the economic strategy with the particular international economic conditions in the postwar period.

Consistent with a fundamentally liberal world view, the postwar plan for reconstruction embodied a more interventionist role for the state to the purpose of maintaining a minimum level of employment and welfare while essentially continuing to rely on the free operation of the market to generate this growth and determine its nature. Within this general compromise, exploitation of resource exports, Canada's area of

comparative advantage as determined by the international market, was understood to be the motor of economic development and growth. In this scheme, the importation of foreign capital was to finance the process and, therefore, was encouraged. It was dominance of the United States economy in the postwar international settings, in combination with the Canadian desire for foreign investment to finance its economic growth and belief in the efficacy of the free market to determine the nature and distribution of this growth, which laid the basis for the American penetration of the Canadian economy.

The two contradictions inherent in the economic strategy in combination with the decline of the United States in the international economy formed the basis for the economic problems which began to be experienced in the late 1950s and were intensified by events in the 1960s. Importantly, while foreign investment was not the "cause" of such problems, by virtue of its connection with the operation of the economic strategy, it was associated with these problems. It was the existence of these problems, and the state's inability to address them which formed the basis for the nationalist dissent.

The inability of the state to address the problems is rooted, in part, in the increasingly apparent contradiction embodied in the Keynesian compromise. At the time of the postwar compromise, the state can be understood to have taken upon itself a twofold task: to maintain the conditions for

capitalist accumulation since it is dependent on this process to generate growth, while directing the accumulation to national goals. With the general global trend towards the internationalization of capital, of which American penetration was a symptom in the Canadian economy, it was multinational firms upon which the state was reliant to generate growth. However, in that the operations of these multinationals were highly bound up with the economic problems, the state's ability to affect the actions of these corporations and direct them towards national goals became even more important. The success of the traditional techniques of macro-level demand management with ultimate reliance on the private sector to determine the nature of production and level of employment proved increasingly inadequate in manipulating the actions of these corporations. In this light, the nationalist movement can be understood as part of a larger process of the adaptation of the prevailing economic paradigm or assumptions on which policy is based to new material conditions.

In exposing the system of ideas and processes underlying continentalism, several characteristics of any nationalist type dissent in this context become apparent. For instance, to the extent that the strategy's emphasis on free enterprise is linked to foreign control and continentalism, nationalism is necessarily a challenge to the assumptions and tenets of an economic strategy which brought continentalism about.

Secondly, such a movement has a potentially broad base of

support in that the economic problems which formed the basis of the dissent were associated with investment which flowed into Canada by virtue of the reliance of the economic strategy on the free operation of the market. Criticism of the operation of the strategy was available to be mobilised as a nationalist critique. Though in the early postwar period economic problems were experienced as individual problems with industries resulting from the operation and not the logic of the strategy, it is argued that this early dissent can be viewed as the root of the later nationalist critique.

Finally, by exposing the underlying system of ideas and processes, the seriousness of the potential challenge posed to the state by such a nationalist mobilisation in these conditions becomes apparent. The problem posed to the state by such a mobilisation is to respond to the problems which were at the root of the dissent from within the bounds of the existing compromise between state intervention and the free operation of the market.

More specifically, the movement was a challenge to the prevailing consensus in that it questioned the efficacy of continentalism in terms of asserting the existence of a Canadian national interest separate from the continental system. The nationalist movement challenged the consensus around the hegemonic articulation of ideas on two main points: adequacy of assumptions concerning the market economy, which formed the basis of the economic strategy, to the prevailing

material circumstances; and, the success and possible success of the economic strategy dependent as it was on the export of resources for national prosperity and development, and the role of foreign capital in this process.

Though it is argued that the nationalist movement posed a challenge to the state which could not be addressed within the existing set of compromises, an examination of FIRPA leads to the conclusion that the state was able to incorporate the challenge represented in the nationalist movement into the consensus around the existing set of compromises without substantially changing the structure of hegemony.

FIRPA was created as a dependent, subordinate agency with no decision making power. The institutional weakness of the agency vis-a-vis the state apparatus handicapped the process of foreign investment review and minimized the effect of the ideas and values inherent in the process of the articulation. FIRPA was formally located outside the institutional complex of the central government and its access point was an unsympathetic one in terms of the Agency infusing new values into the system. Located outside of the state structure, it had very little effect on the overall economic strategy being pursued. Furthermore, the scope of its coverage and the vagueness of its mandate combined with Cabinet control did not even allow the Agency to define a position within the state from which opposing values and interests could be put forward.

How was it, then, that this challenge was incorporated

back into the consensus without significantly altering the compromise? The explanation of this apparent paradox lies in the distinction between the challenge implied by the nationalist movement to the consensus and the actual challenge presented by the movement. Important to this distinction is the application of the understanding of hegemony to the structure of the movement itself.

The discussion of the challenge as itself a hegemonic system lays the basis for the assertion that the only interests which are of concern to neutralising the movement are the core concerns of the mobilising group. In this regard, it was the contradictory position of the mobilising group which limited the effective challenge. The group which was successful in mobilising the dissatisfaction embodied in the nationalist movement to its own interests was the manufacturing segment of capital. Though influenced by other groups, it was this group which set the limits to the debate, defined the issue and attempted to interpret the new conditions.

The contradictions embodied in this group, it is argued, is the very contradiction which prevented the state from adequately addressing the material conditions which provoked the dissent. The mobilising group believed the problems of stagnation and international competitiveness in the manufacturing sector to require increased state intervention to resolve, but this state intervention was necessarily not to seriously alter the capitalist character of the economy which

was at the basis of the hegemonic position of capital in regards to labour. Furthermore, in order to maintain the movement intact, the state intervention must have been such that it addressed, as well, the concerns of the allied groups such as inflation, unemployment and regional disparity. The fact that the movement was unable to define a specific industrial strategy, though it was a key element of its program, would indicate that the mobilising group was unable to strike a new balance between state intervention and the free operation of the market which would accomplish these objectives.

The nationalists' notion of an industrial strategy was fraught with the very contradictions which prevented the state from creating an industrial strategy itself. Not only did the existence of such contradictions prevent the movement from continuing to pressure for such a strategy, but upon closer examination of the nationalists' understanding in this regard, the screening agency would appear to address the intent of their demands. Furthermore, though it has been argued that the very parameters within which the agency was created accounted for its weakness, nationalists did not envisage the screening function to be performed much differently.

On this basis it is concluded that the demands of the mobilising group, and the ones that were satisfied, were essentially to stop Canadian participation in the economy from further deterioration and increase it, where possible, without

significantly unsettling the status quo. In this regard, FIRA could claim a measure of success in increasing protection for Canadian secondary industry, and forced insertion of Canadians into the ownership and management of American enterprises in Canada.

It was argued above that the nationalist movement is properly viewed as part of a larger process of the adaptation of the prevailing economic paradigm or assumptions on which policy is based to new material conditions necessitated by the increasing inability of the strategy to simultaneously maintain full employment and the conditions for capitalist growth. We can now put this attempt on the part of nationalists in a broader perspective. The challenge represents an effort on the part of a segment of capital to address the weaknesses in the strategy though without fundamentally altering the distribution of social power on which the strategy was based, or in other words, the capitalist character of the economy. 7

That the nationalist movement can be judged unsuccessful in this regard is apparent in the nature of the FIRA policy response. FIRA did nothing to address the structural problems which provoked the nationalists' dissent. As a corollary, FIRA did not substantially contribute to bringing the Canadian economy under Canadian control or at least within the bounds of manipulation by the government to ensure the fulfillment of its mandate. Maintenance of long term economic growth and standard of living were still beyond the manipulative ability of the

national government. The conditions which formed the basis for the mobilisation of the movement, itself, were not addressed.

End Notes

Chapter one

1. Between 1960 and 1967 there was a clear drop in the percentage of those rating Canada's development as a nation as sound with a drop again by 1969 to 4-in-10 rating it as such. The most frequent mention for the unsound condition in each year is "American domination of Canada", however, even in 1969, those mentioning American domination made up only 11%. There was also a steady decline in opinion in the Sixties and especially the early Seventies on whether U.S. financing of Canadian development has been a good thing and general happiness with U.S. influence as a whole. Beginning in 1961, there was a steady increase in the percentage of the population feeling that the Canadian way of life, in general, was being influenced too much by the United States, to the point where in 1974 close to 6-in-10 (compared to 42-in-10 in 1957) felt that the United States had too much influence.

Opinion on whether there is enough U.S. capital invested in Canada or not is more difficult to interpret. While there appears to have been an increase in the percentage of those who thought Canada had enough U.S. investment, jumping in the late Sixties and decreasing in the late Seventies and early Eighties, it can not necessarily be interpreted as foreign investment viewed in a negative way. For instance, in 1963, 40% of the population responded that they believed that the country was dominated by the U.S. more than it was a decade ago. However when asked if U.S. domination was good or bad for the country, more thought it augurs well for Canada (48%) than claimed it was a bad development (44%).

Do you think the Canadian way of life is, or is not being influenced too much by the United States?

	Too much	Not too much	No
	Too much	Not too much	0010100
1957	36	49	17
1958	27	43	30
1961	38	40	22
1966	53	36	11
1974	53	35	12

Generally speaking, do you think Canada's development as a nation is as sound as you think it might be or is there some way in which it isn't sound?

Progress Not sound as
is sound it might be Undecided

1951	53	28	19
1960	56	25	19
1967	48	32	20
1969	41	37	22

Now thinking about U.S. capital invested in Canada- Do you think there is enough now or would you like to see more U.S. capital invested in this country?

	Enough now	Like to see more	Don't know
1961	53	32	15
1964	46	33	21
1967	60	24	16
1970	62	25	13
1972	67	22	11
1975	71	16	13
1977	69	20	12
1978	69	23	9
1980	64	20	17
1981	67	21	12
1982	56	36	8
1983	57	35	8

As you may know a lot of Canada's development has been financed by United States money. Do you think this has been a good thing for Canada, or not a good thing?

	A good thing	Not a good thing	Don't know
1956	68	17	15
1959	62	19	19
1963	55	22	16
1967	57	28	15
1976	41	41	18

Source: Canadian Institute of Public Opinion

2. Michael Bliss, "Canadianizing American business", in I. Lumsden, ed., Close the 49th parallel etc., p. 31.

3. Ibid., p. 31.

4. Balbus describes "subjective interest" as follows

On the subjective meaning of the term, "interest" is equivalent to "interesting"; if a person is said to have an interest in something, it is because he finds it interesting or likes it. "Interest" in this sense is purely subjective because it refers to a psychological state in the mind of the person who is said to have the interest.

See "The Concept of Interest in Pluralist and Marxian Analysis", p. 152.

5. The discussion of the pluralist approach is largely based on that of Isaac Balbus "The Concept of Interest in Pluralist and Marxian Analysis".
6. Ibid., p. 161.
7. Bachrach, Power and Poverty, p. 15.
8. Ibid., p. 44.
9. quoted in Gordon, Theories of Poverty and Underemployment, p. 17.
10. Manzer, "Public Policies in Canada", p. 35.
11. Ibid., p. 1.
12. Bachrach, Power and Poverty, p. 43.
13. Ibid., p. 2.
14. Ibid., p. 43.
15. Alford and Friedland, "Political Participation and Public Policy", p. 400.
16. Ibid., p. 448.
17. Ibid., p. 473.
18. Ibid., p. 445.
19. Ibid., p. 445.
20. quoted in Balbus, "The Concept of Interest in Pluralist and Marxian Analysis", p. 165.
21. examples given in Ibid., p. 152. though the argument made is not his.
22. Levy, "Neo-Conservatism and the Organic Crisis in Britain", p. 46.
23. Puci-Glucksmann, Gramsci and the State, p. 74.
24. Balbus, "The Concept of Interest in Pluralist and Marxian Analysis", p. 173.
25. Mouffe, "Hegemony and Ideology in Gramsci", p. 121.
26. Laclau, "Fascism and Ideology", p. 108.

27. Marx quoted in Ruci-Glucksmann, Gramsci and the State, p. 73.
28. Laclau, "Fascism and Ideology", p. 108.
29. Przeworski, "The Process of Class Formation", pp. 372-73.
30. Ibid., pp. 386-87.
31. Przeworski, "Material Bases of Consent: Economics and Politics in a Hegemonic System", p. 19.
32. Ibid., p. 4.
33. Jessop, The Capitalist State, p. 149.
34. Leys, "Neo-Conservatism and the Organic Crisis in Britain", p. 47.
35. For discussion of calculation of this level see Przeworski, "Material Bases of Consent".
36. Leys, "Neo-Conservatism and the Organic Crisis in Britain", p. 48.
37. Lovell, "The Social Relations of Cultural Production", p. 246.
38. Ibid., p. 246.
39. Ibid., p. 248.
40. Mahon, Chapter two: Sectoral Politics and the Policy Process, p. 60.
41. Ibid., p. 56.

Chapter two

1. Wolfe, "The delicate balance", p. 285.
2. Ibid., p. 285.
3. Whitaker, The Government Party, p. 147.
4. Wolfe, The delicate balance, p. 286.
5. Ibid., p. 241.
6. The demands of labour were also met through concessions such as recognition of collective bargaining rights. It is argued, however, that this is not an important element of the consensus in terms of understanding the appearance of the nationalist movement.
7. See George Martelli, "What can I do right now?", in I. Lumsden,

~~Close the 49th parallel etc~~, p. 225.

8. Quoted in Williams, ~~Not for Export~~, p. 34.
9. Discussion based on Williams, ~~Not for Export~~, pp. 131-32.
10. ~~Ibid.~~, p. 132.
11. See C. Gonick, "Foreign ownership and political decay", in I. Lumsden, ~~Close the 49th parallel etc~~, p. 54.
12. See Wolfe, "The delicate balance", p. 323.
13. See Gold, "The Rise and Decline of the Keynesian Coalition", p. 134.
14. See Jessop, "The Transformation of the State in Post-war Britain", p. 29.
15. See Martin re his discussion of the fact that this point "is essentially what marks Keynes's break with what he referred to as the 'classical' position." "The heart of the argument underlying the proposition concerns the behaviour of investment. It is that investment decisions in a capitalist economy have an inherent tendency to produce fluctuations in economic activity and with it recurrent unemployment." In other words, "left to itself, capitalism cannot be counted on to provide full employment." in "The Dynamics of Change in a Keynesian Political Economy", p. 99.
16. Newman, ~~Repeal the Power~~, p. 203.
17. ~~Ibid.~~, p. 203.
18. ~~Ibid.~~, p. 203.
19. See Philip Resnick, "Canadian defence policy and the American empire", in I. Lumsden, ~~Close the 49th parallel etc~~, p. 102.
20. Newman, ~~Repeal the Power~~, pp. 203-204.
21. ~~Ibid.~~, p. 204.
22. Granatstein, ~~The Ottawa Men~~, p. 140.
23. ~~Policies Administered by the Department of Trade and Commerce, Their Economic Impact, Criticisms of Policies and Reply to Criticism~~, p. 12. Public Archives of Canada Louis S. St. Laurent Papers, Vol. 231.
24. ~~Ibid.~~, p. 13.

25. Granatstein, The Ottawa Men, p. 275.
26. Laxer, The Liberal Idea of Canada, p. 59.
27. Policies Administered by the Department of Trade and Commerce, p. 12.
28. Ibid., p. 12.
29. Quoted in Resnick, The Land of Cain, p. 73.
30. See Philip Resnick, "Canadian Defence policy and the American Empire", p. 102.
31. See Granatstein, The Ottawa Men, pp. 245-50.
32. Ibid., p. 275.
33. See Smith, Gentle Giant, p. 32.
34. Ibid., p. 32.
35. Brodie and Jenson, Crisis, Challenge and Change, p. 219.
36. Between 1952 and 1969, U.S. direct investment rose by \$6,017 million to total \$10,542 million and U.S. portfolio investment increased by \$2,703 million to total \$6,169 million.
See Clement, The Canadian Corporate Elite, p. 102.
37. Brodie and Jenson, Crisis, Challenge and Change, p. 219.
38. Mahon, Chapter 3 The Textile Case, p. 3.
39. Quoting Porter, Clement, The Canadian Corporate Elite, p. 90.
40. Ibid., p. 112.
41. John Porter, in his book The Vertical Mosaic documents the concentration of economic power in the Canadian economy in this period: "a process by which a large part of a nation's economy comes into the hands of a relatively few large firms which become linked together and to the main financial institutions- the banks and insurance and trust companies- through interlocking directorships." p. 22.
42. The consolidation, merger and takeover process began during the two great merger periods in Canadian industry, 1900-12 and 1925-37.
43. See Porter, The Vertical Mosaic, pp. 241-43.
44. Clement, The Canadian Corporate Elite, p. 117.

45. Resnick, "Canadian defence policy and the American empire", p. 102.
46. Clement, The Canadian Corporate Elite, p. 89.
47. Wolfe, "The delicate balance", p. 439.
48. Laxer, The Liberal Idea of Canada, pp. 31-33.
49. By 1962, the investments made by foreign investors in Canada were earning dividends and interest of nearly three quarters of a billion dollars a year. See Newman, Renegades in Power, p. 204.
50. Laxer, The Liberal Idea of Canada, pp. 31-33.
51. The high birth rate of the war and immediate postwar period saw increased numbers of youth entering the job market by the late 1950s. As well, the period witnessed an influx of women into the job market, many for the first time and some who had left agricultural employment. See Newman, Renegades in Power, p. 215.
52. Ibid., pp. 214-15.
53. Ibid., p. 202.
54. Brodie, Crisis, Challenge and Change, p. 223.
55. Wolfe, "The delicate balance", p. 250.
56. See Mahon, "Canadian public policy: the unequal structure of representation", pp. 172-80.
57. Gordon, Political Memoirs, p. 63.
58. Wolfe, "The delicate balance", p. 411.
59. Financial Post, Dec. 3 1955 p. 13 "Canadian Oil Companies Penalized?"
60. Financial Post, Feb. 4 1956 p. 22 "Laws Robbing Incentive Here?"
61. Policies Administered by the Department of Trade and Commerce, p. 6.
62. Ibid., p. 5.
63. Quoted in Resnick, The Land of Cain, p. 112.
64. Policies Administered by the Department of Trade and Commerce, p. 6.
65. Ibid., pp. 8-9.

66. Mr. Fleming Estimates Debate 1955 quoted in Policies Administered by the Department of Trade and Commerce, p. 5.

67. Financial Post, Feb. 11, 1954 p. 30 "Help U.K. Earn Dollars and Buy More From Canada"

68. Mr. C. G. Lewis March 5, 1954 quoted in Policies Administered by the Department of Trade and Commerce, p. 6.

69. Policies Administered by the Department of Trade and Commerce, p. 6.

70. Ibid., p. 10.

71. Financial Post, Apr. 24, 1954 p. 17 "Setting Up a National Policy"

72. Financial Post, Apr. 28, 1954 p. 10.

73. Mr. Drew July 2, 1954 quoted in Policies Administered by the Department of Trade and Commerce, p. 10.

74. Financial Post, Feb. 11, 1954 p. 25 "Now Chemical Sees Tariff Need in New Products"

75. Financial Post, Feb. 11, 1954 p. 25 "Pioneer Association Urges Foreign Trade Policy Study"

76. Hanson, Chapter 4 The Textile Case, p. 7.

77. Rosenstreich, The Dieffenbaker Interlude, p. 75.

78. See Newman, Renegade in Power, p. 261.

79. See Ibid., p. 187.

80. See Ibid., pp. 187-191.

81. See Ibid., p. 190.

82. See Hanson, "The Development of Policy Organizations in the Executive Branch", p. 45; Rosenstreich, The Dieffenbaker Interlude, pp. 32-33, 145; Frontiers and Tension, Crisis, Challenge and Change, p. 247.

83. For discussion of the concept of "primitive Keynesianism" see Gold, "The Rise and Decline of the Keynesian Coalition", p. 135.

84. "...Dieffenbaker seemed to believe that free enterprise makes the welfare state necessary. That is, since private industry can concern itself only in a limited way with the social costs of its drive toward competitive efficiency, the individual's best interest is the politician willing to underpin the private sector with large shafts of social capital, made necessary because of the

unique influences of Canadian geography and climate on employment opportunities." Newman, Benegade in Power, p. 195.

85. See Newman, Benegade in Power, p. 212 on the Diefenbaker administration's "anti-planning" attitude.
86. Ibid., p. 205.
87. Martin, "The Dynamics of Change in a Keynesian Political Economy" p. 99.
88. Gallup interviewing in 1960 indicated that the employment situation in particular and economic questions generally had contributed substantially to the reversal in support. See Regenstreif, The Diefenbaker Interlude, p. 34.
89. Regenstreif argues that this was an important factor particularly for business. "With the economy in trouble and with the apparent indecision in high places, it was not difficult to charge the Conservatives with mismanagement". The six budgetary deficits "proved" that, particularly for the business community. This was a record that contrasted sharply with the experience under the Liberals, who until 1956 had run up a string of budget surpluses and whose spokesmen in the early fifties had availed themselves of every opportunity to express their intense pride that theirs was 'the only post-war government that has paid its expenses out of revenues.'" The Diefenbaker Interlude, p. 53.

Chapter three

1. The following discussion is based on Laxer, The Liberal Idea of Canada, pp. 37-42.
2. Ibid., pp. 41-42.
3. The political and economic dominance of the United States in the postwar period had been reflected in the cultural realm as well. According to George Grant, continentalism had two main appeals. First, was the "greater democracy of the Republic". The French and British traditions in Canada were both seen to be less democratic, in the sense of social equality, contractual human relations, and the openness of society to men of all races, creeds or class, than the social assumptions of the United States. "The United States appeared to be the best society the world had ever produced for the ordinary citizen."* American political, economic and cultural supremacy was reflected in Canada with the assertion that Canadian society should possess these same attributes. With the prosperity experienced in the postwar period where there appeared to be goods enough for all, Canadian society appeared to have accomplished this feat. Canada had become, in the eyes of

many, a society of unlimited opportunity- one in which "all are relatively equal in their possessions, in the amount of money they earn, and in the opportunities which they and their children have to get on in the world." With the absence of formal aristocracy and aristocratic institutions, Canada was seen to have a society in which equalitarian values had asserted themselves over authoritarian values."**

* Grant, Law for a Nation, p. 21.

** Porter, The Vertical Mosaic, p. 3.

See also Gallup Polls:

March 25 1965, "Respect for the U.S. has decreased in the past four years."

October 12 1965, "Is the U.S. a 'Sick Society?' Yes, say nearly 4-in-10 people."

April 5 1972, "10% report new anti-U.S. feeling over past year."

August 26 1972, "Majority now say dependence on U.S. is bad for Canada."

4. See French for fuller discussion, How Ottawa Decides, p. 25.
5. For examples see Caplan and Laxer, in Lumsden, Close the 49th Parallel etc.
See also Godfrey, Gordon to Watkins to You, pp. 11-13.
6. See French, How Ottawa Decides, p. 25.
7. Ibid., p. 25.
8. Discussion based on Laxer, The Liberal Idea of Canada, pp. 33-34.
9. Ibid., p. 20.
10. Mahon, Chapter 4, p. 25.
11. Walter Gordon in Godfrey, Gordon to Watkins to You, p. 120.
12. An indication of the dominant role which these corporations have come to play in national economies is the growing share of the gross fixed capital formation of countries accounted for by these corporations. "In 1970, U.S. affiliates held one third of this formation in Canada, one fifth in the United Kingdom, and ranged from 12 to 13 per cent in the Federal Republic of Germany, Belgium and Luxembourg."* These figures understate the role of multinational capital given that the concentration of control over capital formation is much higher in some sectors of the economy, largely the high growth ones. "The high technology sectors and basic manufacturing industries are the most likely targets of multinational corporate expansion and they exhibit the highest levels of MNC

omination."*

* Layton, "Canada and the Capital of State", p. 78.
** Ibid., p. 86.

13. Franck, Canada's Foreign Investment Control, p. 17.

14. Potstein, Political Economy, p. 17.

15. Although it has been argued that the representative role of any group is not determined by the mass membership of the group, but by the group's actions, it is still of interest to note some of the titles and participants: co-chairmen were McGee and Toronto Post publisher and future vice-president of the Liberal Party's most influential newspaper, Peter Newman (editor-in-chief of the Toronto Daily Star which was instrumental in publishing the activities of nationalistic groups and subsequently editor of Maclean's). Another Potstein (a member of the Atlantic Institute, professor of political economy at the University of Toronto and editor of the Canadian Forum in London). That it was a non-partisan movement with members from all three major parties and many who were not affiliated with a party is illustrated by the fact that McGee and Pyne became the first co-chairmen, followed by Eddie Goodman, a Conservative, and Maclean, a left-wing Liberal. Pyne was succeeded by Robert Dyer, a professor at Queen's University and a Conservative. Dyer in turn was succeeded by Dave Treleaven and Bruce Wilson. Dorothy Bennett, Flora Macdonald and Barbara Shapiro were among the early executive directors.

16. Watkins in Godfrey, Gordon to Watkins to You, p. 17.

17. Ibid., p. 17.

18. Schultz, The Cabinet as a Regulatory Body, p. 17.

19. "From Ottawa", Canadian Business, January 1960, p. 24.

20. In fact, it had not been the Government's intention to release the Gray Report since it did not represent the consensus in the Cabinet. See Franck, "Canada's Foreign Investment Control Experiment", p. 17.

21. Hon. J.S. Monteith PC, House of Commons Debates May 1962 quoted in Godfrey, Gordon to Watkins to You, p. 176 though he goes on to list costs in next paragraph. See also Eric Kierans, President of the Montreal Stock Exchange, in a public letter to Walter Gordon condemning the spirit and letter of the budget June 18 1963 quoted in Godfrey, Gordon to Watkins to You, p. 20.

60. See Godfrey, *The National as a Regulatory Body*, p. 11.
61. Godfrey, *Gordon to Watkins to You*, p. 205.
62. Godfrey in Godfrey (ed.), *Gallie's Bill*, p. 26.
63. Ibid., p. 26.
64. Murray, *Canada: The Unknown Neighbour*, p. 31.
65. See pages 27-28.
66. Godfrey, *Gordon to Watkins to You*, p. 205.
67. Ibid., p. 26.
68. Ibid., p. 26.
69. Ibid., p. 26.
70. Godfrey, *Gordon to Watkins to You*, p. 205.
71. Ibid., p. 26.
72. Ibid., p. 26.
73. Ibid., p. 26.
74. Ibid., p. 26.
75. Ibid., p. 26.
76. Ibid., p. 26.
77. Ibid., p. 26.
78. Murray, *Canada: The Unknown Neighbour*, p. 31.
79. Ibid., p. 26.
80. Ibid., p. 26.
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95. Ibid., p. 26.
96. Ibid., p. 26.
97. Ibid., p. 26.
98. Ibid., p. 26.
99. Ibid., p. 26.
100. Ibid., p. 26.

40. "Wafflers", Canadian Business, Jan. 1977, p. 17.
41. Quoted from Canadian Business Nov. 1963 by Gendreau at 101122-12 101122-12-100, p. 107.
42. Williams, 101122-12001, pp. 144-45.
43. Williams, 101122-12001, pp. 144-45.
44. Williams, 101122-12001, pp. 144-45.
45. Williams, 101122-12001, pp. 144-45.
46. Williams, 101122-12001, pp. 144-45.
47. Williams, 101122-12001, pp. 144-45.
48. Williams, 101122-12001, pp. 144-45.
49. Williams, 101122-12001, pp. 144-45.
50. Williams, 101122-12001, pp. 144-45.
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62. Williams, 101122-12001, pp. 144-45.
63. Williams, 101122-12001, pp. 144-45.
64. Williams, 101122-12001, pp. 144-45.
65. Brodie, Crisis, Challenge and Change, p. 271.
66. Resnick, The Land of Gain, p. 24.
67. Research and policy staff in Rotstein (ed.), Getting it Back, p. 153.
68. Ibid., p. 156.
69. The Ontario NDP leadership gave the Wafflers a choice of ceasing to function as a separate organizational unit or leaving the party. The Waffle defeat resulted in 65 per cent of the Wafflers voting to set up a new group, Movement for an

 

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See Mazon, "Canadian Policies for the Policy Process", "Regulatory agencies: captive agents or hegemonic apparatuses", "Canadian social policy".

The key role the Department plays within the state structure has been articulated by Mahon to three factors: its internal superiority vis-à-vis other departments; its connection with other important points in the state system such as provincial governments and the co-ordinating institutions of the international system; and its relationship to social forces. See Mahon, "Canadian public policy," p. 175.

Mahon, "Sectoral Politics and the Policy Process", pp. 74-5.

French, How Ottawa Decides, p. 112.

The Department of Industry was created because it was thought that the creation of a separate department "would permit the articulation of the development philosophy of the secondary sector in government policy formation" which was not possible "[g]iven the import substituting character

of the Canadian manufacturing sector... in a department committed to the 'free-trade' policies that were the logical extension of its concern with export promotion."* In the creation of the Department of Industry, Walter Gordon, Maurice Lamontagne and Tom Kent, three of Pearson's closest economic advisors, who promoted the ideas envisaged an active role for the public sector in ensuring the health of Canadian industry.** That this new department did not assert a distinctive set of values is evident in the fact that its one major policy output was the Auto Pact, a policy geared to a continental system of manufacturing.***

* See Mahon, "Canadian public policy", pp. 180-81 and French, How Illawa Decides, p. 130.

** French, How Illawa Decides, p. 130.

*** Mahon, "Canadian public policy", p. 181.

1. Mahon, "Canadian public policy", p. 180.
2. Quoted in McMillan, "After the Gray Report: The Fortunate Evolution of Foreign Investment Policy", p. 211.
3. See Illawa Annual Review, 1987, p. 336.
4. See Schultz, The Cabinet as a Regulatory Body, pp. 18-19.
5. Ibid., p. 57.
6. Ibid., pp. 57-58.
7. See Ibid., pp. 112-124.
8. A FIRA survey has shown that in over 27 per cent of resolved cases the final decision to allow or disallow a particular transaction was in agreement with the opinion expressed by the province or provinces consulted. The agreement rate may even be higher due to the fact that of the 3 per cent of cases where there was disagreement, in almost one-third of them, more than one province was consulted and the opinions offered were not in agreement with each other. There is also evidence that pressures from provincial governments have even been able to reverse previous decisions to disallow an investment. See Schultz, The Cabinet as a Regulatory Body, pp. 18-19. See also Calvet and Grenier, "Foreign Business Control", p. 422.
9. See Schultz, The Cabinet as a Regulatory Body, pp. 112-13.
10. Quoted in Ibid., p. 125.
11. Franck, "Canada's Foreign Investment Control Experiment", pp. 92-3.
12. Abdel-Malek, "An Analysis of the Effects of Phase II Guidelines

on the Foreign Investment Review Act", p.42.

22. Ibid., p. 46.

23. Ibid., p. 46.

24. "Firm and Loathing on the Side", Canadian Business Sept 1991, p. 15

25. Calvet and Grenner, "Foreign Business Control", p. 432.

26. Ibid., p. 436.

27. They conclude that "In the long run, the behaviour of foreign companies in the presence of controls will vary in relation to firm-specific factors, such as their particular motivation for expanding abroad and their internal organizational structure." They note the decline in the relative attractiveness of Canada. "Executives of foreign-controlled companies blame increasing labour costs (high minimum wage), low productivity, labour unrest and political uncertainty as the main deterrents to new foreign investments, together with the sluggishness of the world economy as a whole."** They also note the drop in acquisition activity in the United States as a cause of the decreased flow of foreign investment in Canada.

acquisition activity in the United States and foreign acquisition activity in Canada had borne a close relationship over time they both reached a peak in the late 1960s and have steadily declined ever since. Since acquisition operations represent the predominant way-both in absolute numbers and in dollar volumes-for foreign firms to enter and/or expand in Canada, any drop in acquisition activity would be reflected in a substantial reduction of FDI."***

That FIPA has not had a substantial effect on the role of foreign investment in the economy is further supported by a study carried out for FIPA by the Department of Industry, Trade and Commerce which found that capital outlays of foreign-controlled firms were growing at a faster rate than those of Canadian-controlled companies and that the capital used to finance this growth was largely from retained earnings and local borrowings.****

* Calvet and Grenner, "Foreign Business Control", p. 415.

** Ibid., p. 436.

*** Quoted in Rotstein, Getting it Back, pp. 5-6.

**** Calvet and Grenner, "Foreign Business Control", p. 434.

28. Schultz, The Cabinet as a Regulatory Body, p. 61.

29. Quoted in Ibid., p. 16.

30. Quoted in Rotstein, Citizens Guide to the Gray Report, pp. 5-6.

31. Rotstein, Citizens Guide to the Gray Report, p. 5.

32. Citizens Guide to the Gray Report, p. 12.

33. Ibid., p. 122.

34. Two examples from the Gray Report are the following:

The screening process would permit Canada to build into its industrial and general economic policies a recognition of the fact that a growing proportion of industry has a world-wide focus and multi-national corporate links. The industrial policy of most governments has tended to lag behind this development. A screening process would enable Canada to accept the MNE as an efficient structure for some industries and seek to use its existence as a channel to bargain for more activity in Canada. In those industries or cases where foreign direct investment or the expansion of the MNE in Canada simply represents the extension of market power, the screening agency would be in a position to block it. *

Foreign direct investment, and in particular the multinational enterprise, involves a replacement of the international market place by decisions of international firms as a technique for allocating world resources. Public policies based on the assumption of a free international market are thus not likely to have as effective an impact on international trade and other forms of exchange as they have in the past. ** Citizens Guide to the Gray Report, p. 134; ** Ibid., p. 122.

35. For one example see "FIPA and Loathing on the Rideau", Canadian Business, Sept. 1981; and "Message to U.S.", Financial Post, March 6, 1982.

36. See Ibid. See also "Fipa's hottest moment over takeovers yet to come", Financial Post, May 24, 1975; "the economy", Canadian Business, June 1972.

37. See Schultz, The Cabinet as a Regulatory Body, p. 11.

38. See Ibid., p. 12.

39. See Schultz, The Cabinet as a Regulatory Body, pp. 117-24.

40. "Fipa and Loathing on the Rideau", Canadian Business Sept. 1981, pp. 45-47.

42. Franck, "Canada's Foreign Investment Control Experiment", footnote 10, p. 103.

43. Quoted in "From Ottawa", Canadian Business Jan. 1990, p. 124.

44. See Royston, Cellulose Back, p. 31.

45. For benefits see latest of address of Herb Gray, "Gray makes the case for FIRA", Financial Post Sept. 20 1990, p. 9. For interpretation see Calver and Grenner, "Foreign Business Control", p. 431.

46. Calver and Grenner argue the following:
If the relative market access value of Canada declined, and if controls were carried through, new foreign direct investment would tend to dry up. In such an eventuality, existing interests would be perpetuated in certain sectors for lack of new firms entering. The tariff shelter would compound the protection from competition and tend to increase the oligopolistic structure of the Canadian industry. Sectors where mature technology is predominant would be the most serious candidates to the lessening of competitive forces and overall efficiency. (p. 430)

Abdel-Malek and Sarkar argue that the coverage of the screening process and the flexibility of the guidelines used for screening investment may also in fact act to reduce competition in the economy.

...adopting a highly flexible approach to Phase II guidelines would amount to practising discrimination ... against potential foreign investor newcomers who do not have any activities in Canada at present, and in favour of those with established businesses here. While the majority of the latter would be able to continue expanding and going into new businesses with little or no effective screening, the former would have no alternative but to submit to the test of 'significant benefits' if they wish to set up business in this country.... no purpose would be served by discriminating against prospective newcomers except to provide established n.e.p.'s with more protection on the domestic market against greater competition that would result from new entries. (p. 46)

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