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David Wolfe

POLITICAL CULTURE, ECONOMIC POLICY
AND THE GROWTH OF FOREIGN INVESTMENT IN CANADA,
1945-1957.

by

DAVID^{Alan} WOLFE

A thesis submitted to the Faculty of
Graduate Studies in partial fulfilment
of the requirements for the degree of
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ABSTRACT

This thesis attempts to study the economic goals and policies of Canada's post-war economic planners in the context of the country's traditional political culture and in light of the rapid growth of foreign investment in Canada in the post-war era. It examines the actions of the policy-makers and the framework of symbolic legitimation used to justify their actions in order to evaluate the charge that they were economic continentalists.

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INTRODUCTION

An Overview

The period since 1945 in Canadian history has in many respects witnessed the realization of the original dream of the Fathers of Confederation. It has seen the development of the vast North-West, begun in the early part of the century, completed. It has been marked by the final success of both a western agricultural economy and an eastern industrial one. And it has seen Canada assume an increasingly important role in international affairs as a leader of the 'middle powers'. Yet at the same time the dream has been flawed. A growing proportion of the flow of goods and services that was intended as an east-west transaction, has turned in a north-south direction. Similarly an unduly large percentage of the manufacturing base that has transformed Canada into an industrialized nation has been financed and controlled by foreign multinational corporations. Thus it is with somewhat mixed emotions that Canadian academics and intellectuals have turned to appraise the record of success in the past quarter century. As the inherently contradictory nature of that period has become increasingly apparent to those appraisers, they have reacted with alarm, anger and despair. The end result has been an unprecedented tide of Canadian nationalism groping to come to grips with an economic reality that seems to threaten its future existence. The gravity of the situation is such that the strident new nationalism

has at times reached completely ludicrous proportions. Although marked by a good deal of sound academic work to back up its assertions, the new nationalism has at times made some bold leaps in the dark. In the immediate search for a scapegoat, on which to blame the dilemma, they have turned with Pavlovian alacrity to the ruling Liberal government of the 1940's and 1950's as the great betrayer of the national dream. They accuse the Liberal administration of Mackenzie King and St. Laurent of having traded in the national goal of 'a mari usque ad mare' for the continental goal of 'e pluribus unum'. In particular the wrath of the nationalists has fallen on the head of Clarence Decatur Howe, Minister of Transport, Munitions and Supply, Reconstruction, Trade and Commerce, and Defense Productions from 1935 to 1957 as the American-born infiltrator who sold out the national heritage. The most interesting aspect of this condemnation is that the scorn has been heaped equally on the continentalists by both left and right. Donald Creighton, the dean of conservative historians, has charged that since 1940 Canada has been exposed to the irresistible penetrative power of American economic and military imperialism. "Under the benevolent supervision of C.D. Howe, the economic continentalist who was King's perfect associate, American ownership of Canadian industry grew apace."¹ Similarly economist Kari Levitt, a rising voice among left-wing nationalists has placed the blame on the post-war Liberals. "The continentalist tide has been running

1. Donald Creighton, "The Decline and Fall of the Empire of the St. Lawrence" in Towards The Discovery of Canada: Selected Essays, Macmillan of Canada, Toronto, 1972, p. 169.

strong. It has been permissively assisted by successive Liberal administrations who opened the floodgates to massive American direct investment in the post-war period."²

The rising tide of Canadian nationalism and the wave of rhetorical accusations that has accompanied it have raised several serious questions, yet to be answered in an objective and historical manner. To answer those questions and evaluate the truth of the accusations is the purpose of this study. The key focus is on the validity of calling the post-war Liberals continentalists who destroyed the hard work of previous Canadian nationalists. Were in fact the economic policies followed by the post-war Liberals significantly different from those of previous Canadian governments? Were the goals they set for the national economy significantly different from Canada's historic economic goals? If in fact the Liberals were economic continentalists, were they consciously so? What needs to be examined is the economic setting of post-war Canada, the developments and changes in the economy that circumscribe the context for policy-making. This raises the following questions of what were the exact policies employed by the government and to what end. In other words, what was the intentionality of the political actors who functioned as key economic policy-makers? Finally, and this the crucial question, how did the policy-makers justify their course of action to the Canadian population? What was the ideological or symbolic framework within which they attempted to legitimate their policies? Was this legitimational framework

2. Kari Levitt, Silent Surrender, Macmillan of Canada, Toronto, 1970, p. 56.

in keeping with that traditionally employed in the sphere of Canadian politics? In Lipset's definition, was the legitimacy of the post-war political system maintained by the continuity of its 'secular political culture' with that traditionally associated with the Canadian political system?³

The outline of the study has been structured in the following manner. Chapter I will deal with the methodology used to examine the preceding questions. The method itself is based on the historicist tradition in social science of Marx and Weber, that tradition which attempts to apply sociological generalizations, drawn from cross-national and transhistorical studies, to the investigation of a particular set of events in a given time and place. Chapter I will also outline the concept of political legitimacy as it is to be used in the thesis. It explains the purpose of studying the actions of political decision-makers within the economic context of their environment and of studying the process of legitimizing those decisions within the political context. Chapter II will deal with a perspective on Canadian economic history that focuses on two main themes. The two main themes, the goal of national economic integration and the co-operative efforts of public and private enterprise in achieving that goal, are seen as crucial to an understanding of the historical background of economic policy-making in the post-war period. These two themes also provide the criterion against which to evaluate post-war policy-making and legitimation. This will serve to affirm or refute

3. Seymour Martin Lipset, Political Man: The Social Bases of Politics, Anchor Books, New York, 1963, p. 68.

the charge of the nationalists that the post-war period represents a significant break with the Canadian political tradition in terms of national (economic) goals and the political culture legitimating those goals.

Chapter III provides a quantitative description of the development of the economy in the post-war period. In other words, it is an analysis of the growth and changes in the economic environment of Canadian society. The changes in the economy between 1945 and 1957 constitute a major period of growth and qualitative change in terms of the size and structure of the Canadian economy. This qualitative discontinuity is not primarily a response to fundamentally different economic goals, policies or political elite, but rather is the result of the successful implementation of the same goals, policies and economic plan that have formed the basis of Canadian politics since the formulation of the National Policy. Chapter IV presents the proof of the pudding. It deals with a specific analysis of the goals of key government policy-makers, particularly Howe and those centred around him, the policies they chose to implement those goals and the symbols of economic growth and welfare that were used to legitimate those goals in the political sphere. In essence what this chapter tries to show is that the discontinuity of the structure and size of the post-war economy is, if anything, a product of the continuity, not lack of it, in policy-making. The legitimations used were different from those of previous political decision-makers, not in that they

exchanged the symbolism of nationalism for that of continentalism, but in that they couched their traditional goals of national economic expansion and integration in the language of Keynesian welfare economics.

The simple conclusion is that the basic assumption underlying post-war economic policy is no different than that underlying the National Policy,

the conviction that foreign capital and business enterprises should be Canadianized, that is, that they should be put to work inside Canada on Canadian resources and thereby produce the maximum benefit for the Canadian people and the Canadian nation.⁴

Chapter V presents in conclusion an evaluation of the results of almost one hundred years of this kind of national policy. It attempts to point out some of the long-run costs and benefits of an economic plan which stressed continued economic growth through private capital investment regardless of the source. The conclusion it reaches is that the traditional national economic policy has resulted in a pattern of economic growth and development which in the long-run has relatively high social costs for the nation as a whole despite the fact that it has undoubtedly endowed some short-run economic benefits in the private sphere. This outcome has been the result of the same national economic policy followed since Confederation rather than the specific result of a policy of economic continentalism followed by the post-war Liberal Government, as the economic nationalists have claimed.

4. Michael Bliss, "Canadianizing American Business: The Roots of the Branch Plant", in Ian Lumsden, ed., Close the 49th Parallel, etc.: The Americanization of Canada, University of Toronto Press, Toronto, 1970, p. 34.

CHAPTER I

An Outline of the Method

The problem of a methodology has plagued the social sciences with increasing frequency in the last decade. To a growing extent social scientists have been responding to this dilemma by turning to the methods and techniques of the natural and physical sciences. We have witnessed a massive attempt to understand, analyze and transfer the methods of theory construction and research design (including the same criteria for objectivity and proof) to the social sciences. Foremost in the field of the positivist philosophers of science who have been referred to as legitimators of this process are Popper¹, Nagel² and Hempel³. They have been followed by a host of methodologists attempting to apply, criticize and refine the methods as they are utilized in the social sciences. Economics, long castigated as the 'dismal science', has rapidly become the darling of sociology and political science because of its higher degree of 'rigour' in applying 'scientific methods' in its studies. What we have witnessed in the past two decades is an upsurge in survey research oriented work in sociology and political science in an attempt to imitate the objectivity and experimental technique of scientific methods. They have measured everything

1. Karl Popper, The Logic of Scientific Discovery, Harper Torchbacks, New York, 1964.
2. Ernst Nagel, The Structure of Science, Harcourt, Broce and World, Inc., New York, 1961.
3. Carl Hempel, Aspects of Scientific Explanation, The Free Press, New York, 1965.

from voting behaviour to socialization and status inconsistency. As the number of studies has grown, the research designs, instruments of survey analysis and statistical techniques have progressively been refined and become more sophisticated. Some social scientists would claim their disciplines are rapidly approaching the threshold of achieving 'scientific' status.

Yet at the same time a backlash has been mounting among those concerned that the dominant preoccupation with big 'M' methodology has merely been a cloak to mask graver shortcomings -- a preoccupation with normative or status quo oriented considerations, an inability on the part of the researcher to explicitly state his value biases, and a failure to recognize that certain theoretical constructs or research designs may inherently bias the outcome of the study. Within political science, McCoy and Playford have compiled a series of readings which attempt to confront the positivist assumptions and normative biases of contemporary 'behaviouralism' head on.⁴ Within the discipline of sociology, C. Wright Mills has long occupied the position of chief critic. He led the attack on the positivist philosophy which has preoccupied itself with 'The Scientific Method'. His critique of positivist methodology centered on the fact that, "The style of social research I have called abstracted empiricism often seems to consist of efforts to restate and adopt philosophies of natural science in such a way as to form a programme and a canon for work in social science".⁵ In opposition to a scientific method

4. Charles A. McCoy and John Playford, (eds.) Apolitical Politics, Thomas Y. Crowell, Inc., New York, 1967.

5. C. Wright Mills, The Sociological Imagination, Penguin Books, Middlesex, England, 1970, p. 68.

based on the philosophies of natural science, Mills argued for a social scientific method based on an understanding of history and social structure. What he proposed was a study of social science based on biography, the varieties of human experience, on history, and the problems of their intersection within social structure.⁶ This call for a return to history or rather, the social scientific study of history is a call for the return of man not only as the centre of the object of study, but also as the centre of the method of study. A critique of positivist methodology has as its inevitable outcome a humanist methodology.

The anti-positivist movement in the philosophy of science and the philosophy of social science insists first and foremost upon a recognition of the role of the knower and his values in the process of knowing. Among the leading philosophers of science who have recognized this fact has been Michael Polanyi. Polanyi is notable as an anti-positivist more for the fact that his philosophical position is derived from his studies in the history of science rather than from any specific intellectual tradition.⁷ Polanyi has called for a greater recognition of the role of the tacit component in human knowledge. "The participation of the knower in his knowledge ... is now recognized as the true guide and master of our cognitive powers".⁸ Polanyi's call for a recognition

6. Ibid., p. 149.

7. Michael Polanyi, Personal Knowledge, Harper Torchbacks, New York, 1964.

8. Michael Polanyi, The Study of Man, University of Chicago Press, Chicago, 1959, p. 26.

of the tacit component of knowledge has been heeded by several theorists in the social sciences. Sheldon Wolin has recognized the need for a restoration of the importance of contextual understanding in political science. He has adopted Polanyi's terminology and argued for the presence of a 'tacit political knowledge' within the discipline, "... the life of inquiry preeminently demands reflectiveness, that is, an indwelling or rumination in which the mind draws on the complex framework of sensibilities built up unpremeditatedly and calls upon the diverse resources of civilized knowledge".⁹ This concern with the tacit element has been much evidenced among the sociologists of knowledge as well. Kurt Wolff has asserted the crucial role of the sociology of knowledge as the reflective aspect of that discipline, endowed with the responsibility for studying the relation between scientific and existential truth in sociological theory. He claims that one of the great potentialities for the sociology of knowledge "... is the injection of more self-conscious humanness and historicity, and thus greater scientific relevance into contemporary sociology".¹⁰

One of the major methodological premises of this study is that it is based upon the insights of the anti-positivist tradition. It recognizes with Mills the importance of history, human biography, and social structure in the study of sociological problems. It

9. Sheldon Wolin, "Political Theory as a Vocation", American Political Science Review, Vol. LXIII, 1969, p. 1071.

10. Kurt H. Wolff, "The Sociology of Knowledge and Sociological Theory", in Llewellyn Gross, Symposium on Sociological Theory, Row, Peterson and Co., Evanston, Ill., 1959, pp. 591-592.

recognizes with Polanyi the role of the tacit component in the formulation of the topic and the question being asked -- namely the very fact that we have chosen to view the topic under consideration as a problematic question. Finally it recognizes that the tacit component has also had a substantial impact on the methodology chosen to carry out the investigation. In this respect one of the underlying principles of our methodology is a critical self-consciousness. Thus our methodology is born not out of the philosophical tradition that stresses positivism, the tradition of Auguste Comte, but out of that which stresses reason and the critical spirit, the tradition of G. W. F. Hegel. As such our methodology lies at the intersection of the two great schools of thought derived from Hegel -- materialism and phenomenology. This methodology has been called by many names -- Phenomenological Marxism, progressive-regressive method, and critical Sociology¹¹ -- but the essence of each is the same, an attempt to study the subjectivity and intentionality of human action within the sociological context of the actor's economic and cultural environment. It follows closely Mill's goal for an imaginative sociology, "to understand the larger historical scene in terms of its meaning for the inner life and the eternal career of a variety of individuals".¹²

11. Paul Piccone, "Phenomonological Marxism", in Newsletter on Comparative Studies of Communism, Vol. V, No. 2, Feb., 1972, Jean Paul Sartre, Search for a Method, transl. by Hazel E. Barnes, Vintage Books, New York, 1968, Trent Schroyer, "Toward a Critical Theory for Advanced Industrial Society", in Hans Dreitzel, ed., Recent Sociology, No. 2, Macmillan Co., New York, 1970. For an interesting overview of the subject see Henry Green, "Phenomonology and Critical Sociology", Carleton University, 1972, (Mimeo).

12. C. Wright Mills, op. cit., p. 11.

For this study we have chosen to rely primarily on Jean Paul Sartre's 'progressive-regressive method' in attempting to apply this approach. Sartre's method is based on a return to the methodological premises originally stated by Karl Marx, "Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past."¹³ Sartre's search for a method has led him back to the methodological position which characterized the anthropological naturalism of the early Marx. This was the point at which Marx engaged in his critique of Hegel using the materialist advances of Ludwig Feuerbach, a critique which emphasized that men are the producers of their own ideas and their social environments, real active men as they engage in the social production of the external world, the totalization of objective reality.¹⁴ Sartre's method reemphasizes the role of man the actor, his goals and his ideas, i.e. the intentionality of the actor, within a Marxian framework of historical materialism. This is no more or less than what some sociologists now claim was Max Weber's intention in much of his writing. "... it could be said that Weber's critique of Marxism, as regards the role of ideas in history, in fact came close to restating, in vast detail, certain elements of the original Marxian

13. Karl Marx, The Eighteenth Brumaire of Louis Bonaparte, International Publishers, New York, 1963, p. 15.

14. Karl Marx and Frederick Engels, The German Ideology, R. Pascal, ed., International Publishers, New York, 1963, p. 14.

conception".¹⁵ Both phenomenology and Weberian sociology place strong emphasis on the intentionality of human action.

In 'action is included all human behaviour when and in so far as the acting individual attaches a subjective meaning to it... Action is social in so far as, by virtue of the subjective meaning attached to it by the acting individual, it takes account of the behaviour of others and is thereby oriented in its course.¹⁶

Sartre's method has been chosen for this very reason, because it is felt that he has articulated the most useful methodological approach for studying the interaction of the Marxian elements (structural) and the Weberian or phenomenological elements (ideational) of human action and historical change.

What Sartre attempts to do is integrate his phenomenological insights with the materialist perspective provided by the French Marxist, Henri Lefebvre.¹⁷ Lefebvre undertakes the study of a given social situation in terms of its horizontal complexity, the given set of productive techniques and social structure characteristic of the group under study, and its vertical complexity, the given historical context of the particular social setting. The proper object of study is the manner in which these two complexities react upon each other. In order to study this interaction Lefebvre proposes a three step process: the first is a description of the given social situation guided by experience and a general theory, the second is the analysis of the described reality within its historical and

15. Anthony Giddens, "Marx, Weber and the Development of Capitalism", Sociology, Vol. 4, 1970, p. 304.

16. Max Weber, The Theory of Social and Economic Organization, ed. by Talcott Parsons, The Free Press, New York, 1964, p. 88.

17. Jean Paul Sartre, op. cit., pp. 51-52, fn.

socio-structural context, and the third is the attempt to rediscover the present elucidated by the projections from the given context towards the real or planned future. This three step approach forms the basis of Sartre's method.

Sartre has termed his method the progressive-regressive method. Starting from Marx's statement in The Eighteenth Brumaire, he has reemphasized the dialectical interaction between man and history, "... men make their history on the basis of real, prior conditions, ... but it is the men who make it and not the prior conditions".¹⁸ The basis of the progressive-regressive method is that it insists upon the understanding of human behaviour both in relation to the real and present factors which condition it and in relation to the object of its action, that which it is trying to bring into being, called the project.¹⁹ Within this framework the structural context is the given. The structures of a society, which were themselves initially the product of human action, define for each man an objective situation as a starting point. Thus the material conditions of a man's social situation also circumscribes the field of his future possibilities. It is by adopting a course of action towards the field of possibilities and by realizing one possibility from among all the others that the individual contributes to the making of history. The future exists, then, for each man, as a series of open possibilities and simultaneously the future defines the individual within his present reality.²⁰ The regressive

18. Ibid., p. 87.

19. Ibid., p. 91.

20. Ibid., pp. 93-94.

method begins with history and biography to reconstitute the historical conditions of the social structure for the action or period of action under consideration. The sum total of the regressive procedure reveals the profundity of the lived experience -- the human complexity of existing conditions. It is at this point that the progressive method is employed, the study of the project. The project has a meaning -- by it the individual aims at his goal or the future orientation of his action. Thus Sartre defines the progressive-regressive method in the following terms, "It is at the same time an enriching cross-reference between the object (which contains the whole period as hierarchized significations) and the period (which contains the object in its totalization)."²¹ From this method Sartre defines the process of comprehension in simple terms: "... knowing is simply the dialectical movement which explains the act by its terminal signification in terms of its starting conditions."²² He concludes by asserting that the goal of this method is to restore the quality of humanness to the study of man,

When one is studying man, what can be more exact or more rigorous than to recognize human properties in him? The simple inspection of the social field ought to have lead to the discovery that the relation to ends is a permanent structure of human enterprises and that it is on the basis of this relation that real men evaluate actions, institutions or economic constructions.²³

21. Ibid., p. 148.

22. Ibid., p. 153.

23. Ibid., p. 157.

Needless to say Sartre's philosophy and methodology are much more complex than they appear here. However, for the purposes of this study we will emphasize two key variables derived from the above discussion. The first variable is dichotomous, consisting of environmental (social structural) factors and cultural (ideational) factors, and thus constitutes the regressive aspect of Sartre's method or the analytico-regressive step in Lefebvre's terminology. Our concept of social structure is based on that outlined by Hans Gerth and C. Wright Mills in their work on social psychology, employed by Mills in his classic study of American society, and in a somewhat modified form by John Porter in his study of Canadian society.²⁴ Gerth and Mills' conception of social structure is based on their notion of institutional orders. An institutional order consists of all those institutions within a social structure which have similar consequences and ends and which serve similar objective functions. Any social structure is made up of a certain pattern or combination of such institutional orders.²⁵ Within each separate institutional order of the society, those individuals who exercise power by co-ordinating and directing the activities of the order, constitute the elite.²⁶ Of the various institutional orders the most important for our purposes are the economic and the political. Gerth and

24. Hans Gerth and C. Wright Mills, Character and Social Structure, Routledge and Kegan Paul, London, 1970, Chapter II, C. Wright Mills, The Power Elite, Oxford University Press, New York, 1968 and John Porter, The Vertical Mosaic, University of Toronto Press, Toronto, 1965. Throughout this study we will implicitly rely on Professor Porter's study for our image of Canadian society.

25. Gerth and Mills, op. cit., pp. 25-26.

26. Porter, op. cit., pp. 207-208.

Mills define the economic order as those establishments by which men organize labour, resources and technical implements in order to produce and distribute goods and services.²⁷ This is similar to Karl Polanyi's definition of the economy as an instituted process of interaction between man and his environment, which results in a continuous supply of want-satisfying material means. The instituting of the economic process is that aspect which vests it with unity and stability by producing a structure with a definite function in society.²⁸ Gerth and Mills define the political order as those institutions within which men acquire, wield or influence the distribution of power and authority within social structures.²⁹ Porter takes this one step further and says that the political order is the one through which the society as a group can achieve its major goals and values.³⁰ In this study we shall be concerned with the interaction of these two institutional orders as part of the environment, and in particular with the role of the political elite within this context in projecting goals and establishing policy directions for the economic order (see Chapter IV).

The other half of our dichotomous variable, culture, is much more difficult to define accurately. The concept of culture is properly an anthropological one as opposed to a sociological one.

27. Gerth and Mills, op. cit., p. 26.

28. Karl Polanyi, "The Economy as Instituted Process", in Karl Polanyi, Conrad Arensburg, and Harry Pearson, ed., Trade and Market in the Early Empires, The Free Press, Glencoe, Ill., 1957, pp. 248-250.

29. Gerth and Mills, op. cit., p. 26.

30. Porter, op. cit., p. 367.

It was defined by the anthropologist Tylor as "that complex whole which includes knowledge, art, beliefs, morals, law, custom and any other capabilities acquired by man as a member of society".³¹ This is not identical, but somewhat similar, to the sense in which Max Weber spoke of the values of rationalism as a product of Ascetic Protestantism and a strong influence on the development of the Spirit of Capitalism. The emphasis here was on the cultural influences conducive to the development of capitalism.³² We will be content with a more general definition that includes elements of both the sociological and anthropological, "By culture we mean the ideational aspects of social life, as distinct from the actual relations and forms of relationship between individuals ..."³³ The question of which factor is the primary determinant of social change, the structural or cultural, is far beyond the scope of this study. They are both taken as part of the dichotomous variable of environment, or the regressive aspect of Sartre's method.

The other concept we will use is Sartre's progressive aspect, the project, or in Weberian or phenomenological terms the intentionality of the actor, the subjective meaning which he attaches to his action. We are thus interested in looking at a series of specific actions, that is particular decisions, made under a given set of prior conditions, both environmental and

31. John Rex, Key Problems of Sociological Theory, Routledge and Kegan Paul, London, 1961, pp. 47-48.
32. Max Weber, The Protestant Ethic and the Spirit of Capitalism, Charles Scribner's Sons, New York, 1958, Chapter V.
33. T. B. Bottomore, Sociology: A Guide to Problems and Literature, Unwin University Books, London, 1962, p. 125.

cultural, and intended, on the part of the actor, toward a specific goal or set of goals, out of a particular set of possible alternatives. In this process among the things that are of concern are the impact of both environmental or cultural factors on decision-making and especially the degree of continuity between the cultural heritage and the goals chosen by the decision-maker. We are also concerned with the goals of the actor as they are related to the environmental context in which they are formulated.

This basic approach to the study of Canadian economic history is not entirely novel. It has been applied previously, although in a somewhat different manner than is intended here, by Gilles Paquet.³⁴ Paquet attempted to use a model of the French economist, Francois Perroux³⁵ as an analytical framework for the development of the Canadian economy. Perroux's model was based on the concept of abstract economic space or structured space, consisting of three dimensions, the polarized space, the plan space and the homogeneous space.³⁶ In essence the polarized space is similar to our concept of environment, the plan space to the goal aspect of the actor's intentions and the homogeneous space to a snapshot of the dialectical interaction between the two. Thus what is being undertaken in this

34. Gilles Paquet, "Some Views on the Pattern of Canadian Economic Development", in T. N. Brewis, ed., Growth and the Canadian Economy, McClelland and Stewart, Ltd., Toronto, 1968.

35. The fact that Perroux is essentially a product of the same intellectual tradition as Sartre undoubtedly accounts for the strong similarity in the two methodologies. See George Lichtheim, Marxism in Modern France, Columbia University Press, New York, 1968, p. 104, fn.

36. Gilles Paquet, op. cit., pp. 39-43.

study is an attempt to apply a methodology that has previously been employed in the general interpretation of Canadian economic history to the analysis of a particular period of that history.

Within the overall context of policy-making we are primarily interested in looking at the particular aspect of the process of social interaction that links the intentionality and goals of key political actors to the cultural element of their environment. That link is the process of legitimation. Max Weber has defined legitimate authority as the social relation which justifies the domination of a social group of men by a smaller group, supported by the accepted monopoly over use of the means of coercive force in the social group.³⁷ Legitimate authority can be viewed as an aspect of culture in general and political culture in particular to the extent that the values which justify the exercise of authority are elements of a cultural heritage accepted as common by members of the social group. To the degree to which this 'common' cultural heritage serves to legitimate the authority of those in power roles within the various institutional orders, especially the political, this serves to strengthen the 'hegemony' of those elites within the social structure. The concept of hegemony as used by Antonio Gramsci implies

an order in which a certain way of life and thought is dominant, in which one concept of reality is diffused throughout society in all its institutional and private manifestations, informing with its spirit all taste, morality, customs, religious and political principles and all social relations, particularly in their intellectual and moral connotations.³⁸

37. Max Weber, The Theory of Social and Economic Organization, pp. 130-132.

38. G. A. Williams, "Gramsci's Concept of Egeмония", Journal of the History of Ideas, Vol. XXI, No. 4, 1960, p. 587, quoted in Ralph Miliband, The State in Capitalist Society, Weidenfeld and Nicolson, London, 1972, p. 180. fn.

The function of preserving ideological hegemony is the function ascribed to legitimating values in our conceptual framework. Legitimating values perform the essential function of ensuring adherence to and acceptance of the given institutional order by the individual. Institutional stability depends to a large extent on the degree to which people accept these legitimating values as their own. It is a widespread commitment to or at least acceptance of these values that confers legitimacy and thus stability on the institutional order.³⁹ The legitimating values of the political cultural are those values and norms that relate specifically to the exercise of power in political institutions. The values relating to political institutions contain normative descriptions about participation in political institutions as well as the exercise of political power within that institutional order. The legitimating political values serve to make the exercise of power within political institutions acceptable to the individual.⁴⁰

The link between the external values of the culture and the subjective meaning they have for individuals, are symbols. Symbols constitute the essential element of language. In essence language is a series of significant symbols which convey a similar meaning to both speaker and listener. Symbols as the medium of language

39. Michael Mann, "The Social Cohesion of Liberal Democracy", American Sociological Review, Vol. XXV, No. 3, June, 1970, p. 424.

40. Edward W. Lehman, "On the Concept of Political Culture: A Theoretical Reassessment", Social Forces, Vol. 50, No. 3, March, 1972, p. 365.

derive their power from their capacity to organize, formulate and express social realities.⁴¹ It is through language and symbols that the intersubjective meanings of legitimating values are communicated and comprehended by members of a social group. Thus the process of legitimation in social groups is based upon the symbols of language and uses them as its principle mode of communication.⁴²

The political symbols of a culture convey the specific meanings and emotions attached to the legitimating political values of a set of social and political institutions. The symbols which justify a social structure or institutional order are called symbols of legitimation. When internalized they form categories to channel and delimit social behaviour. Those in authority within institutions and social structures attempt to justify their rule by linking it to the symbols of legitimation which are widely believed and deeply internalized.⁴³ These symbols of legitimation constitute a part of the symbolic universe of a society which is the matrix of all socially objectivated and subjectively real meanings. The symbolic universe provides a comprehensive framework of the integration of all institutional processes. Within this framework the entire social order makes sense. Particular institutions and roles are legitimated by locating them within

41. Clifford Geertz, "Ideology as a Cultural System" in David Apter, ed., Ideology and Discontent, The Free Press, New York, 1964, p. 60.

42. Peter Berger and Thomas Luckmann, The Social Construction of Reality, Doubleday Anchor Books, Garden City, New York, 1967, p. 64.

43. Gerth and Mills, op. cit., pp. 276-277.

the comprehensively meaningful totality of the universe.⁴⁴ The symbolic universe provides the means through which social groups not in a position to analyse a complex situation rationally may adjust themselves to it through stereotyping, oversimplification and reassurance. It provides the level of meaning through which objectivated social reality, the functioning of social and political institutions, is mediated to the individual.

Political symbols provide the key by which members of large social groups, especially the mass industrial societies of today, can comprehend the political process, although they do not have direct contact with its actual operation. They also provide the means through which elites in political institutions can legitimate their policies to mass publics. This ability of political elites to legitimate their exercise of power to their mass publics within the context of the symbolic universe constitutes what has been termed 'themobilization of bias' within the political order, somewhat similar to Gramsci's concept of hegemony. The mobililization of bias consists of the set of predominant values, beliefs, rituals and institutionalized procedures that operate systematically and consistently to the benefit of those who are associated with leadership and authòrity roles in the political institutions. Challenges to the interests and values of those in positions of political authority can be thwarted by the invocation of the dominant bias of the political institutions through an appeal to

44. Peter Berger and Thomas Luckmann, op. cit., p. 103.

the appropriate legitimating symbols and values, whether it be norm, precedent, rule or procedure.⁴⁵ Or in Miliband's words,

... the state and other institutions are able to make use of a panoply of ideas and symbols of proven appeal Thus the collective memory of past struggles and the constant celebration of past sacrifices and heroic deeds, irrespective of the occasion or cause, are not generally calculated to foster a particularly critical view of the social order ...⁴⁶

Thus, in the process of legitimation as we view it, the legitimating values and symbols of the political culture constitute one aspect of the environmental context in which the goals and policies of the political order are articulated and implemented. The essential function of political culture within this context is to provide the overarching universe of symbolic meanings within which these goals and policies acquire a significant degree of acceptance and legitimacy for the individual member of the society. This latent appeal of key political symbols provides the mobilization of bias through which the elite of the political order can appeal for support of their policies.

The theoretical framework outlined above thus provides us with the necessary concepts to deal with the two key questions which were raised in the introduction. Using the regressive aspect of Sartre's method, we examine the environmental and cultural context of Canadian economic development before 1945. This, in an effort to determine the specific set of conditions under which post-war economic policies were established. The application of the regressive

45. Peter Bachrach and Morton S. Baratz, Power and Poverty: Theory and Practice, Oxford University Press, New York, 1970, pp. 43-45.

46. Ralph Miliband, op. cit., p. 210.

method attempts to provide us with a picture of the situation in 1945 in its vertical and horizontal complexity, a view of the social structural and historical depth that sets the background against which we can judge the post-war period. The progressive aspect of Sartre's method provides us with the phenomenological insights into the goals and intentions of the elites in the political order who played the key roles in establishing and implementing the economic policies of the post-war period. This provides us with the humanized and historical aspect of the process of economic development under investigation. The second concept, legitimation, provides the theoretical framework within which we can judge the appeals used by post-war policy-makers, to justify their decisions to the Canadian public. It is important to determine whether they did so within a framework of legitimating symbols that was in keeping with traditional Canadian political culture or whether the symbols which they used to appeal for popular support were discontinuous with political tradition. To begin this, we turn in Chapter II to an examination of the relation between economic development and political culture in Canadian history.

CHAPTER II

Selected Aspects of the Historical Context:

Environment and Culture

This chapter will explore some aspects of the historical context of post-war policy-making, i.e. the regressive step of the method outlined in Chapter I. This involves a selective look at the historical development of the Canadian economy in terms of its interaction with the political order. This is followed by an examination of the development of a secular political culture in Canada, in particular, as it has affected the development of the economy and the political order. The result provides a background picture of the impact which elites in the political and economic order have had on the development of the economy and reciprocally of the way in which the economy has influenced the development of political institutions, particularly political parties and political culture. The analysis reveals the role that economic policy-makers have played historically and how their policies have been legitimated in terms of the prevailing symbols of the political culture and thus, provides us with the criterion against which to judge the actions of post-war policy-makers and evaluate the charges that have been levelled against them.

The starting point for such an investigation is the main trend in Canadian economic development. Canadian economic historians have characterized the prime impetus in the development of the country as a constant westward drive to exploit the unused resource

potential of the North American hinterland and funnel it through the natural trade route provided by the Great Lakes and the St. Lawrence River transportation system. The basic resource staple has changed from beaver to wheat to natural gas and the transportation system from canoes to railroads to pipelines, but the underlying direction of east-west expansion and the exploitation and settlement of the great north-west has been the prime focus in Canadian economic development. In many respects this process of development has been viewed as a constant need to defend the Canadian hinterland against American encroachment. Much of the east-west economic expansion has been interpreted as an attempt to focus the exploitation of the North American hinterland on the Canadian metropoli of Montreal and Toronto rather than the American centres of the industrial north-east.¹ What this has amounted to is a

1. The conceptual importance of the St. Lawrence River system as a transportation network stems from the work of Donald Creighton, The Empire of the St. Lawrence, Macmillan Co. of Canada Ltd., Toronto, 1956, *passim*.

For a more recent perspective on this concept of Canadian economic development, see Donald Creighton, "The Decline and Fall of the Empire of the St. Lawrence", in Towards the Discovery of Canada: Selected Essays, Macmillan of Canada, Toronto, 1972. The initial elaboration of the importance of staple oriented growth in Canadian economic development stems from the work of Harold Innis, especially his Fur Trade in Canada, University of Toronto Press, Toronto, 1956. For a more recent elaboration of the staple theory see Melville H. Watkins, "A Staple Theory of Economic Growth" in W.T. Easterbrook and M.H. Watkins, ed., Approaches to Canadian Economic History, McClelland and Stewart Ltd., Toronto, 1967. For a general overview and an attempt to integrate these two plus other concepts of Canadian economic development, see Gilles Paquet, "Some Views on the Pattern of Canadian Economic Development" in T. N. Brewis Growth and the Canadian Economy, McClelland and Stewart Ltd., Toronto, 1968. For an explanation of the metropolis-hinterland model of economic development and its application to the Canadian experience, see Peter Warrian, "Staples, Structures and the State", in David Black, ed., Getting on With It, C.U.S. Paper, #22-18-295, (Mimeo).

constant competition with American entrepreneurs to direct the flow of resource staples from the north-west along the Great Lakes and St. Lawrence water system through the commercial centres of Toronto and Montreal. Thus the type of expansion underlying Canadian economic development was primarily of a commercial nature whose growth potential was viewed not so much in terms of production as trade.

The problems posed by the geography of the northern hinterland, the emphasis on trade in resource staples and the constant competition with American entrepreneurs to the south have all had an impact on the evolution of the economic order in Canada that resulted in forms of economic organization, particular to this environment. W. T. Easterbrook has commented that the key feature which has characterized the Canadian economic environment has been the level of uncertainty which has marked economic enterprise. He defines uncertainty as the lack of knowledge of the future outcome of an economic decision by an entrepreneur in a given environment. A major goal of entrepreneurial strategy is usually aimed at reducing uncertainty. He makes a further distinction between the 'specific uncertainties' crucial to the security of the entrepreneur and the 'primary uncertainties' which threaten the stability of the larger political, social and economic setting.² Easterbrook suggests that it is the second case of 'primary uncertainty' which has characterized the growth of the Canadian economy. "This

2. W. T. Easterbrook, "Uncertainty and Economic Change", Journal of Economic History, Vol. XIX, No. 4, 1954, pp. 348-350.

'primary uncertainty' ... has been decisive in its influence on the organization and policies of Canadian enterprise in the nineteenth and twentieth centuries. To have and hold a transcontinental economy ... called for measures in which the state played a central role by default."³ The conditions of primary uncertainty not only had an impact on the role of the political order in aiding economic development, but also on the forms of economic organization which have evolved to participate in that growth. The fact that economic growth depended on large scale trade in resource staples such as timber, furs, etc., required for their exploitation large accumulations of capital and a large measure of monopolistic control in promoting the enterprise. The ultimate guarantee of stability for these mercantile ventures lay with the political order.⁴

In his analysis of Canadian economic development, H. G. J. Aitkin agrees substantively with Easterbrook's interpretation. However, he places greater emphasis for the uncertainty of the Canadian environment on the need to defend the resource hinterland of the north-west against American encroachment. The result is the same -- adequate protection for such an east-west axis for trade in staples depended on assurances of stability of both economic and political factors that could only come from the political order.⁵ The necessity created by this constant defense

3. Ibid., p. 357.

4. S. D. Clark, The Developing Canadian Community, University of Toronto Press, Toronto, 1968, p. 245.

5. H. G. J. Aitken, "Defensive Expansionism: The State and Economic Growth in Canada", in W. T. Easterbrook and M. H. Watkins, op. cit., p. 184.

of the Canadian hinterland against American expansion and the relative inadequacy of key economic resources in Canada, such as capital and labour, in contrast to the U.S., placed a great deal of the burden for directing economic growth on the national government. The government has been compelled to accept the responsibility for directing a national economy. This has resulted in a process whereby the political leaders have continuously had to define and revise a strategy for national economic survival sufficiently viable to compete with the constant alternative of absorption into the larger and more prosperous American economy.⁶

Ultimately the role of the state in Canadian development has been to facilitate the production and export of staple products. This has involved planning and financing the improvement of critical internal transportation systems. By and large economic expansion in Canada has been an induced rather than an autonomous phenomena and has been primarily dependent on state action for the integration of widely scattered economic regions through the construction of crucial transportation facilities. At each of the major stages of economic expansion outlined above, the problem posed by the development and promotion of the key staple product has led to the close involvement of government with business interests. The government has played this key supportive role by lending the authority and financial resources of the state to certain private

6. H. G. J. Aitken, "Government and Business in Canada: An Interpretation", in J. J. Deutsch, B. G. Kierstead, K. Levitt, and R. M. Will, ed. , The Canadian Economy: Selected Readings, Macmillan Co. of Canada Ltd., Toronto, 1965, p. 497.

business corporations which have thus become the chosen instruments of national policy. The construction and maintenance of a national economy based on staple exports has necessitated support from the government on the supply and transportation side of the production process in order to guarantee adequate economic backing for those corporate interests which had undertaken the expansion.⁷

It must not be assumed, however, that this pattern of economic development was the automatic result of a series of autonomous factors at work in the larger environment. Rather the specific pattern of development at each stage of its growth was the result of a project or vision of potential growth shared by the entrepreneurs in the economic order and the elites in the political order of Canadian society. It is this aspect of economic development and social change that Sartre refers to as the project and Perroux as the plan space. The project of the economic planners, the elites in the economic and political orders, has been crucial at each stage in Canadian economic development in influencing the future direction of that development. And in each case it has primarily been the political leaders who have put the resources of the state to work to implement the goal of the economic entrepreneurs. This process can be traced through the pattern of growth at each important stage of development going all the way back to the economy of New France and working through the post-Confederation economy.

7. Ibid., p. 511.

The general pattern of Canadian economic growth can easily be looked at through an examination of the contribution of the planners or government to that pattern of growth. In New France Louis XIV's vision of North American society had a definite impact on the growth of the economy; in post 1763 Canada, the dreams of the St. Lawrence merchant clique of tapping the fur resources of the north-west had a strong influence; the extensive financial obligations undertaken by the Canadian governments between 1840 and 1867 reflected their conviction in the necessity of providing the transportation infrastructure for the colony. The concept of the plan as implemented through the agency of government reaches its culmination with the formulation of the National Policy. The National policy represents the height of the general strategy of defensive expansion to strengthen the east-west axis by linking the economy through the export of a new staple, wheat, along a new transcontinental transportation system, the railroad.

Both in tariff legislation and railroad construction the state after Confederation assumed an active role in promoting Canadian development. The responsibility for creating a national economy and the conditions in which it could survive lay with the state ... this responsibility embraced also the construction, in partnership with private enterprise, of the east-west transport system, the erection of tariff barriers behind which an industrial complex could develop; and the promotion of immigration and a flow of investment capital from Europe. The overall objective of the policy was to prevent absorption by the United States and to build a nation state that could guide its own economic destiny ...⁸

8. H. G. J. Aitken, "Defensive Expansionism: The State and Economic Growth in Canada" in W. T. Easterbrook and M. H. Watkins, op. cit., p. 209.

The most effective instrument for implementing this goal was the high tariff wall which formed the basic element of John A. Macdonald's 'National Policy'. The rationale par excellence for the program of high tariffs, espoused by Canadian governments over the last century, was the necessity of protecting the nascent industrial basis of the economy and providing an incentive to population growth. The 'National Policy', however, was not merely a product of Sir John A.'s creative imagination. It was in fact the response by the state, the central political authority, to the pressures of powerful industrial and commercial groups, the elite of the economic order, for a significant degree of state intervention to protect their nascent industrial enterprises. Sir John definitely was not failing in his role of helping to promote the entrepreneurs' goal when he responded, "Let each manufacturer tell us what he wants and we will try to give him what he needs."⁹ The 'National Policy' was in many respects the most sophisticated of the plans for Canada's economic development.

The so-called National Policy may be regarded as a plan-space of the economic power group in the system. The members of this group made use of the idea of nationalism to pursue some lines of activities which benefited themselves greatly while letting the Canadian population pay the cost of this kind of nationalism.¹⁰

It is the image of Canada's future development, contained in this plan, in which we are most interested. For this is the self-

9. William Kilbourn, The Elements Combined: A History of the Steel Company of Canada, Clarke, Irwin and Company, Ltd., Toronto, 1960, pp. 40-41.

10. Gilles Paquet, op. cit., p. 52.

image which has dominated the development of Canadian society, in particular, the economic and political orders, since Confederation. Furthermore, it is this image of the nation which has provided the key legitimation for the elites of the respective orders in promoting their goal of national economic expansion, and thus serves as the key link between the goals of the policy-planners and the values of the political culture. Indeed it is little wonder that Ralph Miliband has described nationalism as the 'most powerful of all secular religions of the twentieth century', and the supreme integrative and stabilizing force in society. Its strong appeal has rested primarily on its basic theme that "all citizens owe a supreme allegiance to a 'national interest' which requires that men should be ready to subdue all other interests, particularly class interests, for the sake of a larger, more comprehensive concern"¹¹

The symbol of the nation has played as crucial a role in Canadian political culture as in any other. The dominant Canadian preoccupation on the goals of economic expansion and growth has meant that the central focus of Canadian politics has been on national expansion and integration rather than on social goals of equality and justice. The values against which actions are judged are described at best in terms of economic adoption or mastery of the physical conditions of life. National goals and dominant values are expressed in geographic terms such as 'from sea to sea' rather than in social terms such as 'all men are created equal'.¹² The

11. Ralph Miliband, The State in Capitalist Society, Weidenfeld and Nicolson, London, 1972, pp. 206-207.

12. John Porter, The Vertical Mosaic, University of Toronto Press, Toronto, 1965, pp. 366-367.

result of this national preoccupation with the exigencies of economic existence has been to focus the goals of the political order on the needs of economic expansion, rather than on a more ideologically oriented set of political or social goals. This is in contrast to other western industrial countries such as the United States where the values of democracy, with its notion of equality of political, social and economic opportunity has played a more dominant role in the political culture.¹³ The evolution of a political culture in Canada has helped legitimate the goals or the projects of the elites in the economic and political order who viewed the nation primarily as a political means for achieving their economic ends.¹⁴ The legitimating values of the political culture have thus served to maintain the hegemony of the elites in the respective institutional orders of the society.

Miliband has further noted that in most advanced industrial societies, there is usually one political party which is preeminently the party of the dominant elites and commands the

13. Seymour Martin Lipset, The First New Nation, Doubleday Anchor Books, New York, 1967. Lipset traces the ascendancy of the democratic value in the U.S. in large part to the need to legitimate the goals of the American Revolution (p. 88). He contrasts this cultural tradition in broad terms with the conservative one in Canada based on the counterrevolutionary heritage of the Loyalists and the more rigid class structure (p. 98). We shall argue that this more conservative tradition is related to the ascendancy of nationalism as the principle legitimating value in the Canadian political culture. This argument finds support in the ideas of John Porter who maintains that the emphasis on nationalism and national unity in Canada has served as a barrier to the polarization of left-right focus in Canada concerned with the values of democracy and social equality, op. cit., p. 369.

14. S. D. Clark, op. cit., pp. 214-215.

greatest degree of support among them. In most cases this party is usually the largest and best implanted of all parties, the party of government par excellence. One of the key reasons for this is that it is easier for the economic elites to be able to rely on a major 'party of government' which shares their goals and their image of the society.¹⁵ In Canada this has obviously been the case. Whereas initially it was the Conservative Party under Sir John A. Macdonald which played this role, the situation changed after 1896. The relative position of both parties was in a state of flux until 1921 when the Liberal Party succeeded in establishing its hegemony. It governed almost uninterrupted until 1957. In fact the two parties alternated in office in relation to the degree to which they were able to present themselves as the party most closely identified with the dominant symbol of nationalism. As Miliband noted, the preoccupation of the political elite with the concerns of the economic order has had a strong impact on party politics. The total concentration on the problem of economic expansion and nation-building has almost completely precluded the emergence of a significant left-right dichotomy in Canadian politics. Because it was imperative for both major political parties to cooperate closely with business and corporate enterprise, the de facto focus of Canadian politics has been to the right, symbolized by the overriding concern for national integration.¹⁶ The relative

15. Ralph Miliband, op. cit., pp. 184-185.

16. John Porter, op. cit., p. 368.

electoral standing of the two traditional parties has depended largely on the extent to which they have been able to identify themselves with the concept of the Canadian nation. The failure of any of the minor parties to win large electoral successes can also partially be understood as an inability to present themselves as the carriers of that tradition.

Our two parties called themselves by the British names, Conservative and Liberal. But, in effect, they have alternated in office after 1867 in accordance with the success of one or the other in convincing the people that it was the nation-building party.¹⁷

The Liberal party, especially under the leadership of King consciously worked against the identification of the party with class or any other sectarian symbols. In order to cultivate this classless image, the party had to appeal to more broadly based symbols. It did this in large part by projecting its image as the party of all the people, the party of all interests -- the truly national party.¹⁸ The fact that throughout most of this period it was the party that had the majority of support from French-Canada lent a great deal of credence to its claim to represent the interests of every section of the country. The popular perception of the King Liberals as the party of strong national government was also greatly fostered by the image they presented of administrative expertise and efficiency in running the country. They quite successfully promoted the myth that the Liberals alone of all parties were

17. Frank H. Underhill, In Search of Canadian Liberalism, Macmillan Co., of Canada, Toronto, 1960, p. 234.

18. Gad Horowitz, "Conservatism, Liberalism and Socialism in Canada: An Interpretation" in H. G. Thorburn, ed., Party Politics in Canada, Prentice-Hall of Canada, Inc., Scarborough, Ont., 1967, p. 73.

capable of properly governing the country. It was in these general terms that the public's perception of the party was expressed.¹⁹ The Liberals, however, conveyed no more than this general impression of efficacy as the party image. Policy goals were simply expressed in terms of national expansion and integration. At best they were defined as a general level of economic stability and a respectable rate of economic growth. It was assumed that if these goals were achieved, all other national goals would follow automatically.²⁰ The almost permanent Liberal administration operated under the vague goal of onward and upward, and a philosophy of managerial pragmatism that has aptly been termed 'liberal practicality'.²¹

It was in this role as the efficient public managers of the private economy that the Liberals most clearly correspond to Miliband's concept of the party of government and the party of the economic elite. It was in this role as well that the Liberal government continued to perform the historic function of the political order in Canadian society, close involvement with and substantial backing for the private entrepreneurs of the economic elite in the development of the economy. This trend towards the increasing integration of the economic and political orders in the efficient management of the economy was accelerated rapidly under

19. S. Peter Regenstreif, The Liberal Party of Canada: A Political Analysis, Cornell University, Ph.D. Dissertation, University Microfilms, Inc., Ann Arbor, Mich., 1963, p. 92.

20. John Porter, op. cit., p. 417.

21. C. Wright Mills, The Sociological Imagination, Penguin Books, Middlesex, England, 1970. Mills coined the phrase to describe the philosophical ethos of liberal American social scientists, but it is just as applicable to the Canadian party. "... in the 'organic' metaphysics of liberal practicality, whatever tends to harmonious balance is likely to be stressed." (p. 98).

the demands of World War II and continued into the post-war period under the auspices of the Cold War (as we shall see in Chapter IV). It was this continued preoccupation of the Liberal government with the needs of private enterprise that has led liberal political scientists such as Frank Underhill to bewail the fact that:

In the middle of the twentieth century, conservatism means political leadership by big business It is the Liberals who boast their belief in private enterprise -- American enterprise if necessary. It is the Liberals who are clearly associated with big business and who are committed to a programme of economic expansion under the leadership of big business enterprise Their blanketing of the centre prevents our ever getting any clear sense of the direction in which we are moving or any clear sense of the alternatives between which we might choose.²²

In this chapter we have attempted to sketch the regressive aspect of the questions under investigation in order to present a view of the manner in which political culture and economic development have interacted historically in Canada. This provides the criterion against which to judge the actions of post-war policy-makers in terms of the continuity between post-war economic goals and the historic goal of national economic expansion, and between the symbolic legitimations used by Liberal policy-makers and the original formulators of the national policy. This sets the stage for the questions that will be investigated in Chapter IV. However, before this is undertaken, a closer look at the specific changes in the post-war economic environment is needed to provide the first half of the analysis. What were the main trends in the post-war economy is the question asked in Chapter III. Then we can examine the problem of how the post-war policy-makers reacted to these

22. Frank H. Underhill, op. cit., p. 253.

trends. What actions did they take? Were they in line with traditional national economic policy? How were these actions legitimated by the policy-makers? Were these policies in fact a betrayal of the 'national heritage' of Confederation? Finally, did the policy options chosen by the Liberal government involve a series of costs and benefits, both long and short-run? If so, did the options chosen maximize benefits and minimize costs? Consideration of these questions will be reserved for Chapter V.

CHAPTER III

The Canadian Economy: 1945-1957

I

In this chapter we shall take a closer look at the central element of the environment under study, the Canadian economy from 1945 to 1957. In Chapter I, the economy was defined as a given set of institutions established to organize the production and distribution of want-satisfying material means. In a crude sense the economy can be regarded as a large black box defining the physical and social technology, the mode of production and the relations of production, for transforming physical and human inputs into physical and human outputs. This crude sketch helps identify the important aspects of the economy, the inputs, the outputs and the character of the black box. It provides the basic approach for the following discussion of the economy.

The important changes which marked the Canadian economy during this period were its growth and development. Economic growth and development are analytical terms for describing the changes in the size and the structure of an economy. Economic growth is expansion in the economy without structural change and development is expansion in the economy with structural change. The size of an economy can be measured in several ways, 1) by the size of the flow of the inputs, 2) by the size of the flow of the outputs and 3) by the size of the stock of wealth, instruments, capital, etc. in existence.

The growth of an economy can be measured by the rate of change in either flows 1) or 2), or in the stock, 3). We shall attempt to measure the growth of the Canadian economy in the post-war years by examining its level of output and the rate of growth of output. This is the most generally accepted standard to analyze the modern economy. The output indicator is the most significant because it measures the performance of an economy in terms of its capacity to produce want-satisfying material needs.

The changing structure of an economy is a function of the differential rates of growth of the sectors of the economy. Economic development is therefore measured in terms of the relative growth of selected sectors of the economy or in terms of the varying rates of growth of the selected sectors. These structural changes in turn have a significant effect on the basic shape of the black box, i.e. on the economic environment in which inputs are transformed into outputs. Thus an understanding of the changing nature of the economy is essential for an investigation of the economic policy-making process, for it defines the changing structural parameters which delimit the range of policy-options open to the decision-maker. The changing economic environment constitutes the first half of the dialectic in the interface with the policy-making process of the political order.

In the Canadian economy between 1945 and 1957, the most significant feature is the growth in the size of the economy, in terms of the level of output and the speed with which the level

increases. The most generally accepted indicator of the overall level of economic output is the Gross National Product. The GNP figures for Canada from 1926 to 1957 are presented in Table I in both current and constant dollars. In addition the average annual rate of growth is an important indicator of the rate at which the GNP is changing.¹ The changes in the size of the economy from 1926 to 1945 are also included to provide a reference point for the post-war developments. From a pre-depression peak of \$7.5 billion (constant dollars) in 1926, the GNP rose to \$9.5 billion by 1939. This constitutes an average annual rate of growth of 3% as compared to an average annual rate of growth of 7% for the whole period from 1926 to 1957. Although the economy was growing again by 1939, the key factor in accelerating it out of the slump of the 1930's was the impetus provided by the Second World War. The primary result of the war was the relative growth of secondary industry. The war shut off a large flow of foreign imports in many varied product lines and necessitated the establishment of new domestic manufacturing facilities. Another causal factor underlying the growth of secondary manufacturing during the war was the demands generated in the economy for waging a total war.² As a result of this the GNP grew from \$9.5

1. We will derive the rate of growth from Table I using the simplest formula for such calculations, $r = \frac{Y_n - Y_0}{nY_0}$ where Y_0 is the GNP in the initial year of the time series, Y_n is the GNP in the final year of the time series and n is the number of years in the time series.
2. J.M. Smith, Canadian Economic Growth and Development from 1939 to 1955, Queen's Printer, Ottawa, 1957, p. 33. For a more detailed account of the impact of the war on the development of Canadian manufacturing capacity see Department of Reconstruction and Supply, Location and Effects of Wartime Industrial Expansion in Canada, 1939-1944, Ottawa, King's Printer, 1945.

TABLE I
GROSS NATIONAL PRODUCT AND EXPENDITURE: CANADA
(in millions \$)

	(1)	(2)
	G.N.P.	G.N.E.
	(at market prices)	(in constant 1949 \$)
1926	\$ 5,152	\$ 7,576
--	--	--
--	--	--
1939	5,636	9,536
1940	6,743	10,911
1941	8,328	12,486
1942	10,327	14,816
1943	11,088	15,357
1944	11,850	15,927
1945	11,835	15,552
1946	11,850	15,251
1947	13,165	15,446
1948	15,120	15,735
1949	16,343	16,343
1950	18,006	17,471
1951	21,170	18,547
1952	23,995	20,027
1953	25,020	20,794
1954	24,871	20,186
1955	27,132	21,920
1956	30,585	23,811
1957	31,909	24,117

SOURCES:

- (1) D.B.S., National Accounts, Income and Expenditure, 1926-56, Queen's Printer, Ottawa, 1962, Table 1, p. 32 and D.B.S., National Accounts, Income and Expenditure, 1960, Queen's Printer, Ottawa, 1961, Table 1, p. 22.
- (2) D.B.S., National Accounts, Income and Expenditure, 1926-56, Queen's Printer, Ottawa, 1962, Table 5, p. 36 and D.B.S., National Accounts, Income and Expenditure, 1960, Queen's Printer, Ottawa, 1961, Table 5, p. 24.

Reprinted in M.C. Urquhart & K.A.H. Buckley, Historical Statistics of Canada, Macmillan Co. of Canada, Ltd., Toronto, 1965;

(1) Series E 1-12, p. 130,

(2) Series E 28-45, p. 132.

billion in 1939 to \$15.5 billion in 1945, which constitutes an average annual rate of growth of 10%, the highest for any period from 1926 to 1957. Although this rate slowed somewhat in the post-war period, it continued to increase respectably at 5% per year. The GNP grew from \$15.5 billion in 1945 to \$24.1 billion in 1957.

The economy also evidenced a considerable degree of structural change during this period in terms of the relative rates of growth of different sectors. For the purpose of this study, two key sectors have been chosen, the mineral resource sector and the manufacturing industries sectors, because they have increasingly come to play central roles in the economy in terms of our criteria, the amount of human and physical resources employed, the overall stock of wealth and the amount of output produced. The growth of the levels of output for these two sectors are presented in Table II (at current prices).³ In the manufacturing sector, output increased from \$1.2 billion in 1939 to \$2.9 billion in 1945, an average annual rate of growth of 23% during the war years. On the other hand, output in the mineral resource sector actually decreased during the period from \$335 million in 1939 to \$325 million in 1945. Thus the war years were marked by sharply differential rates of growth in the two sectors. In the post-war period output in the manufacturing sector continued to climb at a steady rate, from \$2.9 billion in 1945 to \$7.9 billion in 1957, at a rate of increase of 14% per annum. However it was the mineral resource sector which showed the highest rate of increase

3. Although the current price figures include an inflation factor, if we assume this to be constant across both sectors, the figures will serve our purpose for a relative comparison of growth in each sector.

TABLE II
GROSS DOMESTIC PRODUCT AT FACTOR COSTS
BY SELECTED INDUSTRIES
(in millions current \$)

	MINING, QUARRYING & OIL WELLS	MANUFACTURING
1926	\$ 155	\$1,063
--	--	--
--	--	--
1939	335	1,260
1940	363	1,622
1941	391	2,220
1942	388	2,889
1943	362	3,198
1944	315	3,171
1945	325	2,960
1946	364	2,816
1947	446	3,310
1948	525	3,909
1949	547	4,303
1950	653	4,714
1951	794	5,474
1952	777	6,150
1953	782	6,453
1954	887	6,291
1955	1,071	6,779
1956	1,196	7,605
1957	1,222	7,904

SOURCES:

D.B.S., National Accounts, Income and Expenditure, 1926-56,
Table 21, p. 56 and D.B.S., National Accounts, Income
and Expenditure, 1960, Table 21, p. 34.

Reprinted in Urquhart and Buckley, Series E 46-65, p. 133.

during this period, following the discovery of large new deposits of oil and natural gas in Alberta in the late 1940's and the increased need for strategic resources created by the Korean War in the early 1950's. In this sector output increased from \$.3 billion in 1945 to \$1.2 billion in 1957, at a rate of 25% per year. Thus economic growth in the war and post-war years was marked in each period by differing degrees of development of two of the lead sectors of the economy, resulting in marked structural changes in the overall economy.

II

Economic theories of growth abound throughout the literature and have been a source of much debate. For our purposes we will rely on a capital stock adjustment theory, which views growth as a two-sided phenomenon, in terms of the supply of inputs into the black box and the demand for outputs from the black box. Many economic theorists have attempted to analyze economic growth in terms of one side or the other without paying adequate attention to the balance between the two. The most common supply growth model is the Cobb-Douglas production function which analyzes economic growth as a function of capital, labour and a residual factor, usually interpreted as increased output due to technological change, $O = f(K, L, t)$.⁴ This model has recently been applied

4. Charles P. Kindleberger, Economic Development, McGraw-Hill Book Co. Inc., New York, 1965, p. 49.

to Canada in a statistical study to determine the proportionate contribution of each factor to economic growth. The results of this study revealed that capital and labour each accounted for a quarter of the growth with the remainder accounted for by the residual factor.⁵

The problem with this model, however, is that it largely ignores the role of demand in promoting economic growth. Since the work of John Maynard Keynes in the 1930's, it has been agreed upon by most economists that inadequate demand may be as important a barrier to sustained economic growth as an inadequate supply of resources.⁶ One of the important aspects which marked Canadian economic growth throughout the post-war period was the strong domestic demand for consumer goods and the strong foreign demand for raw materials. Wartime restrictions and shortages led to a large accumulation of consumer shortages and a huge backlog in consumer demand, both of which contributed significantly to post-war economic growth. In addition, the discovery of large oil deposits in Alberta in 1947 and the outbreak of the Korean War in 1950 focused increased demand on Canada as a traditional supplier of raw materials and primary manufactures, to supply the needs of increased military and defense production.

5. Thomas A. Wilson and N. Harvey Lithwick, The Sources of Economic Growth: An Empirical Analysis of the Canadian Experience, Study No. 24, Royal Commission on Taxation, Queen's Printer, Ottawa, 1968.
6. Charles P. Kindleberger, op. cit., pp. 44-45. For a more detailed discussion of Keynes and his impact on Canadian economic thinking in particular, see Chapter IV.

The advantage of the capital stock adjustment theory is that it takes account of both sides of the equation, demand and supply, in explaining economic growth. The central proposition of the theory is that investment in the form of capital is both capacity-creating and income-generating.⁷ What the theory says is that it is possible to show that the growth of output is determined by the ratio of net investment to capacity output (V) and the reciprocal of the capital -- output ratio (k), $0 = \frac{V}{k}$. On the demand side of the equation, the growth of income is determined by

7. Henry J. Bruton, "Contemporary Theorizing on Economic Growth", in Bert F. Hoselitz, ed., Theories of Economic Growth, Free Press of Glencoe, Ill., 1960, pp. 244-245. The capital stock adjustment model can be summarised as follows:

SUPPLY SIDE

DEMAND SIDE

$$1) \quad 0_t = \frac{1}{k} K_t$$

$$4) \quad C = (1 - s) Y_t$$

$$2) \quad 0_t - 0_{t-1} = \frac{1}{k} (K_t - K_{t-1}) \\ = \frac{1}{k} I_{t-1}$$

$$5) \quad I_t = b (Y_t - Y_{t-1})$$

$$6) \quad Y_t = (1 - s) Y_t + b (Y_t - Y_{t-1})$$

$$3) \quad \frac{0_t - 0_{t-1}}{0_{t-1}} = \frac{\frac{1}{k} I_{t-1}}{0_{t-1}} = \frac{v}{k}$$

$$7) \quad \frac{Y_t - Y_{t-1}}{Y_{t-1}} = \frac{s}{b - s}$$

where 0_t is capacity rate of output during period t , K_t is the capital stock during period t , k is the relation between capital and output, a technological constant, I_{t-1} is investment during the period $t-1$, v is the ratio of new investment to capacity output, C_t is consumption during period t , Y_t is income during period t , s is average and marginal propensity to save of current income, and b is the function of investment to the change in income over the period.

the propensity to save (s) and the extent to which changes in income induce investment (b), $Y = \frac{s}{b - s}$. To have an equilibrium growth path, what is required is that capacity-creation and income-generation proceed at the same pace, i.e. $\frac{v}{k} = \frac{s}{b - s}$. The problem of equilibrium growth without inflation or unemployment is the problem which has plagued all western industrial countries, including Canada, in the post-war era. If income fails to grow at the required rate, excess capacity appears, $Y < 0$, and equilibrium is disrupted, resulting in a cutback in capacity and increased unemployment. On the other hand, if income grows at a faster rate than capacity, an excess appears, $Y > 0$, resulting in excess demand and inflation.⁸

Because of the crucial role which it plays on both sides of the equation, investment is the crucial factor in this model. Furthermore, investment is an important factor in policy analysis because it is highly responsive to government pressure via fiscal and monetary policies. Finally, Capital Formation is also of special importance in the Canadian case because of the tendency to rely on various foreign sources of capital during different periods of growth and the degree to which this has tended to affect the structure of development. In the period under discussion, annual Gross Private Capital Formation in Canada increased from \$1.0 billion in 1945 to \$7.3 billion in 1957 in current dollars (Table III) and from \$1.4 billion to \$5.1 billion in constant dollars (Table IV). The same trend appears in the two lead

8. Ibid., p. 246.

TABLE III

GROSS CAPITAL FORMATION: CANADA

(in millions current \$)

	B U S I N E S S				GOVERNMENT
	RESIDENTIAL CONSTRUCTION	NON-RESIDENTIAL CONSTRUCTION	MACHINERY & EQUIPMENT	TOTAL	GROSS FIXED CAPITAL FORMATION
1926	\$ 201	\$ 240	\$ 261	\$ 702	
--	--	--	--	--	
--	--	--	--	--	
1939	174	164	254	592	
1940	186	208	409	803	
1941	240	287	558	1,055	
1942	214	354	496	1,064	
1943	220	364	303	887	
1944	267	256	377	900	
1945	318	253	460	1,031	
1946	368	435	585	1,388	
1947	494	597	994	2,085	
1948	609	816	1,194	2,619	
1949	794	920	1,318	3,032	\$ 507
1950	883	1,042	1,423	3,348	588
1951	895	1,270	1,794	3,959	780
1952	933	1,566	1,952	4,451	1,040
1953	1,166	1,719	2,113	4,998	978
1954	1,227	1,671	1,881	4,779	942
1955	1,378	1,848	1,984	5,210	1,034
1956	1,526	2,589	2,659	6,774	1,260
1957	1,409	3,103	2,853	7,335	1,382

SOURCES:

D.B.S., National Accounts, Income and Expenditure, 1926-1956, Table 2, p. 32
and D.B.S., National Accounts, Income and Expenditure, 1960, Table 2,
p. 22.

Reprinted in Buckley and Urquhart, Series E 13-27, p. 131.

TABLE IV
GROSS CAPITAL FORMATION: CANADA
(in millions constant 1949 \$)

	B U S I N E S S				GOVERNMENT
	RESIDENTIAL CONSTRUCTION	NON-RESIDENTIAL CONSTRUCTION	MACHINERY & EQUIPMENT	TOTAL	GROSS CAPITAL FORMATION
1926	\$ 399	\$ 402	\$ 426	\$1,208	
--	--	--	--	--	
--	--	--	--	--	
1939	361	286	427	1,053	
1940	363	349	638	1,343	
1941	427	456	802	1,682	
1942	356	524	682	1,567	
1943	343	513	389	1,234	
1944	401	355	496	1,235	
1945	472	352	618	1,420	
1946	512	569	777	1,846	
1947	610	700	1,186	2,496	
1948	638	850	1,270	2,758	
1949	794	920	1,318	3,032	\$ 507
1950	833	988	1,346	3,167	562
1951	727	1,074	1,500	3,301	666
1952	737	1,235	1,616	3,588	846
1953	905	1,306	1,715	3,926	769
1954	946	1,272	1,505	3,723	737
1955	1,040	1,365	1,577	3,962	796
1956	1,110	1,816	1,965	4,891	925
1957	998	2,112	1,995	5,115	968

SOURCES:

D.B.S., National Accounts, Income and Expenditure, 1926-1956, Table 5, p. 36
and D.B.S., National Accounts, Income and Expenditure, 1960, Table 5,
p. 24.

Reprinted in Urquhart and Buckley, Series E 28-45, p. 132.

sectors of the economy. In manufacturing, annual capital investment increased from \$.28 billion in 1945 to \$1.5 billion in 1957, and in mineral resources it increased from \$16 million in 1945 to \$606 million in 1957 (Table V).

III

The role of capital investment in Canadian economic development can be approached in terms of its sources, domestic and foreign, and in terms of its nature, portfolio and direct. This section concentrates primarily on foreign investment because of the increasingly important role which it came to play in Canadian economic expansion during the post-war period. Furthermore since the vast majority of foreign investment during this period was of the direct type as opposed to portfolio, we shall deal almost exclusively with foreign direct investment. Direct investment, because of its embodiment of a complete institutional package has had further implications for economic development in Canada that warrants added attention. The long-run effects of foreign direct investment on the economy will be considered in Chapter V.

Historically in Canada, periods of rapid economic growth have been associated with high levels of export demand (which, as we have already noted, marked the 1950's boom) and large scale capital investments. A significant portion of Canada's requirements

TABLE V
GROSS CAPITAL FORMATION BY SELECTED
INDUSTRIES: CANADA
(in millions current \$)

	MINING, QUARRYING & OIL WELLS	MANUFACTURING
1926	\$ 17	\$ 129
--	--	--
--	--	--
1939	31	98
1940	29	274
1941	32	430
1942	32	446
1943	16	277
1944	17	211
1945	16	280
1946	27	337
1947	42	528
1948	70	573
1949	96	536
1950	114	502
1951	164	793
1952	205	973
1953	253	969
1954	278	822
1955	336	947
1956	542	1,394
1957	606	1,479

SOURCES:

D.B.S., National Accounts, Income and Expenditure, 1926-56,
Table 25, p. 58 and D.B.S., National Accounts, Income
and Expenditure, 1960, Table 25, p. 36.

Reprinted in Urquhart and Buckley, Series E 112-125, p. 137.

of capital during these high growth periods has come from abroad.⁹ The dominant source of foreign financing in Canada since 1926 has been the United States. Although the largest part of this financing has occurred in the post-war period, this was by no means a new trend. Rather it was the culmination of a trend towards greater U.S. investment in Canada started at the beginning of the century. It is also important to realize that once U.S. Corporations had achieved an important place in Canadian industry, the retained earnings stimulated by Canadian economic growth which were then reinvested, served to reinforce their position and raise the value of their investment.¹⁰

The key qualitative change which occurred in the economy during this period was the increasingly predominant role which came to be played by foreign direct investment in financing the investment boom. Tables VI and VII show the increasing use of foreign resources throughout this period to finance economic expansion in Canada. Canada was in fact a net exporter of capital in the immediate post-war years between 1946 and 1949 due to her large-scale participation in aid and recovery programs to Europe. However, this trend had so reversed by the years 1954 to 1957 that

9. Irving Brecher and S. S. Reisman, Canada - United States Economic Relations, Queen's Printer, Ottawa, 1957, p. 112.
10. Nancy Stunden, Steven Langdon and Ian Grant, American Imperialist Expansion in Canada: An Historical Perspective, Unpublished Paper, Carleton University, Feb. 1971, Chapter 7, p. 1, and Brecher and Reisman, op. cit., p. 120.

TABLE VI
GROSS CAPITAL FORMATION IN CANADA
NET USE OF FOREIGN AND DOMESTIC RESOURCES
(in billions of current dollars)

	GROSS CAPITAL FORMATION	NET USE OF DOMESTIC RESOURCES	NET USE OF FOREIGN RESOURCES
1946	\$ 2.0	\$ 2.2	\$- .2
1947	2.8	2.6	.2
1948	3.2	3.3	- .1
1949	3.6	3.5	.1
1950	4.5	3.8	.6
1951	5.7	4.8	.9
1952	6.0	5.6	.4
1953	6.6	5.4	1.2
1954	5.6	4.4	1.2
1955	6.6	4.9	1.7
1956	9.1	6.7	2.4
1957	8.9	6.4	2.5

SOURCES:

D.B.S., Canadian Balance of International Payments, 1963, 1964 and 1965 and International Investment Position, Queen's Printer, Ottawa, 1967, Statement 65, p. 76.

TABLE VII
FOREIGN FINANCING OF ALL
CANADIAN INVESTMENT
(in percentages)

MEASURE	1946-49	1950-53	1954-57
A. Use of foreign resources in:			
1) gross capital formation	-	14	26
2) net capital formation	-9	14	32
B. Direct foreign financing of:			
1) gross capital formation	19	23	31
2) net capital formation	24	29	43

SOURCE:

D.B.S., Canadian Balance of International Payments, 1963, 1964 and 1965 and International Investment Position, Statement 64, p. 75.

NOTE:

The relative statistical measures used are explained in About the figures -- on p. 50 of the 1960 edition of Canadian Balance of International Payments. The essential difference is that measure A includes Canadian direct investments abroad plus the current account deficit adjusted for retained earnings, whereas measure B includes direct investment in Canada adjusted for retained earnings plus new issues of Canadian securities sold to non-residents plus other long-term financing.

during this period Canada drew upon foreign capital to finance 31% of gross capital formation and 43% of net capital formation. What this means in fact is that 43% of net capital formation in Canada in the years 1954-57 was financed by foreign controlled sources. Table VIII shows that in reality between 1946 and 1960, only 42% of this 'foreign capital' actually originated outside the country. Consideration of the implications of this fact will be reserved until Chapter V.

American investment in Canada has largely been of the direct or equity type of investment as opposed to the alternative type of portfolio investment, which marked the earlier period of British financing of Canadian economic growth. The reasons for this trend away from portfolio to direct investment are many and complex. Primarily it is the result of longer run economic planning on the part of the foreign investor. Direct investment to the foreign entrepreneur represents a complete package, consisting of a saleable product, distinctive technology, management, markets and capital with a greater potential for long run profit maximization on the initial investment.¹¹ As such there is little wonder that it has greater attraction to the investor. Table IX shows that total non-resident investment has risen from \$7.1 billion in 1945 to \$17.5 billion in 1957, an increase of \$10.4 billion. On the other hand non-resident direct investment rose from \$2.7 billion in 1945 to \$10.1 billion in 1957, an increase of \$7.4. Over 70% of the net increase in foreign

11. Government of Canada, Foreign Direct Investment In Canada, Information Canada, 1972, pp. 32-35.

TABLE VIII
SOURCES OF EXPANSION FUNDS
FOR FOREIGN CONTROLLED ENTERPRISES

	1946 - 1960	
	\$ MILLIONS	%
1) Capital Inflows from Countries of Principle Owners	5,316	39.2
2) Portfolio Investments from Abroad	399	2.9
3) Retained Earnings	4,164	42.2
4) Canadian Capital	2,631	19.4
5) Other	1,045	7.7
TOTAL	13,555	100.0

INCLUDING ALLOWANCES

1) Total from above	13,555	59.6
2) Capital Consumption allowance	8,241	36.3
3) Depletion	929	4.1
TOTAL	22,725	100.0

SOURCE:

Government of Canada, Foreign Direct Investment in Canada, Queen's
Printer, Ottawa, 1972, p. 25.

TABLE IX
FOREIGN CAPITAL INVESTED IN CANADA
TOTAL NON-RESIDENT LONG-TERM INVESTMENT
(in millions of current dollars)

	DIRECT INVESTMENT	GOVERNMENT & MUNICIPAL BONDS	OTHER PORTFOLIO INVESTMENTS	MISCELLANEOUS INVESTMENTS	TOTAL
1926	\$ 1,782	\$ 1,434	\$ 2,527	\$ 260	\$ 6,003
--	--	--	--	--	--
--	--	--	--	--	--
1939	2,296	1,703	2,629	285	6,913
--	--	--	--	--	--
--	--	--	--	--	--
1945	2,713	1,662	2,433	284	7,092
1946	2,826	1,611	2,459	282	7,178
1947	2,986	1,528	2,384	290	7,188
1948	3,270	1,599	2,339	298	7,506
1949	3,586	1,755	2,317	302	7,960
1950	3,975	1,962	2,404	320	8,661
1951	4,520	2,103	2,526	328	9,477
1952	5,220	2,028	2,689	447	10,384
1953	6,003	2,087	2,904	467	11,461
1954	6,764	2,056	3,163	561	12,544
1955	7,732	1,868	3,235	641	13,476
1956	8,865	2,134	3,760	818	15,577
1957	10,120	2,324	4,159	879	17,482

SOURCES:

D.B.S., Canada's International Investment Position, 1926-1954, Queen's Printer, Ottawa, 1958, Table IV - A, p. 74 and D.B.S., Canadian Balance of International Payments, 1958, and International Investment Position, Queen's Printer, Ottawa, 1959, Table VIII - A, p. 56.

TABLE X
FOREIGN CAPITAL INVESTED IN CANADA
LONG-TERM INVESTMENTS OWNED BY RESIDENTS OF THE U.S.
(in millions of current dollars)

	DIRECT INVESTMENT	GOVERNMENT & MUNICIPAL BONDS	OTHER PORTFOLIO INVESTMENTS	MISCELLANEOUS INVESTMENTS	TOTAL
1926	\$1,403	\$ 909	\$ 799	\$ 85	\$ 3,196
--	--	--	--	--	--
--	--	--	--	--	--
1939	1,881	1,221	944	105	4,151
--	--	--	--	--	--
--	--	--	--	--	--
1945	2,304	1,450	1,106	130	4,990
1946	2,428	1,438	1,151	140	5,157
1947	2,548	1,387	1,110	155	5,200
1948	2,807	1,467	1,129	163	5,566
1959	3,095	1,534	1,106	170	5,905
1950	3,426	1,746	1,186	190	6,548
1951	3,896	1,898	1,269	195	7,258
1952	4,532	1,835	1,382	249	7,998
1953	5,206	1,870	1,535	257	8,868
1954	5,787	1,822	1,753	302	9,664
1955	6,516	1,639	1,756	367	10,278
1956	7,394	1,871	2,063	474	11,802
1957	8,476	2,059	2,255	489	13,279

SOURCES:

D.B.S., Canada's International Investment Position, 1926-1954, Queen's Printer, Ottawa, 1958, Table IV - B, p. 75, Canada's Balance of International Payments, 1958 and International Investment Position, Table VIII - B, p. 56.

long-term investment in Canada between 1945 and 1957 is accounted for by direct as opposed to alternative forms of long-term investment. When we look at Table X which has the figures for U.S. long-term investments this trend is again obvious. Total U.S. long-term investments rose from \$5.0 billion in 1945 to \$13.3 billion in 1957. U.S. direct investments rose from \$2.3 billion in 1945 to \$8.5 billion in 1957; direct investments thus accounting for 65% of the net increase in U.S. long-term investments in Canada.

As was mentioned above, the growth of foreign investment in Canada has been closely connected with the post-war economic boom. However, investment has taken place in the two key sectors of the economy, mineral resources and manufacturing industries for significantly different reasons. U.S. direct investment in Canadian mineral resource industries has occurred primarily in response to the needs of production in the U.S. It represents a movement of the factors of production to a location where productivity is higher in an attempt to overcome rising real costs of production in the home country. Because of its proximity to the U.S. market and relative abundance of industrial raw materials Canada has enjoyed an important comparative advantage as a supplier of U.S. industry.¹² Thus the rapid upsurge in foreign direct investment in the resource industries has occurred primarily as a response

12. Hugh G. J. Aitken, American Capital and Canadian Resources, Harvard University Press, Cambridge, 1961, p. 85.

to factors external to Canada, rather than as a result of any conscious planning internally. Besides the discovery of large scale oil reserves in Alberta and the intensification of the Cold War, another event which helped accelerate the rate of foreign investment in resource industries was the publication of the Report of the President's Materials Policy Commission in the U.S. in 1952. The essential fact which the Report noted was the increasing depletion of raw materials in the U.S. and the country's growing dependence on foreign sources of supply. The Report noted that of 29 key commodities in which the U.S. was potentially deficient, Canada could be considered as the probable major source of supply for 12: iron ore, nickel, tungsten, copper, lead, zinc, aluminum, cadmium, bismuth, titanium, fluorspar and asbestos.¹³

It is easy to observe a close pattern of correspondence between resource development in Canada since the war and the forecasts of the Paley Report (named after its chairman). The forward planning of U.S. corporations has resulted in the allocation of resource investments that corresponds closely to anticipated needs. From Table XI we can see that foreign long term investment in petroleum, mining and smelting rose from \$277 million in 1945 to \$3,596 million in 1957 (including petroleum refining and pipeline construction). The lion's share of this increase was accounted for by the U.S., whose long-term investments in

13. Paley Report, "The Crisis in Raw Materials", Fortune Magazine, Vol. 46, Aug., 1952, pp. 114-117 and H. G. J. Aitken, op. cit., pp. 83-84.

TABLE XI
FOREIGN DIRECT INVESTMENTS IN CANADA
TOTAL LONG-TERM DIRECT INVESTMENT
(in millions of current dollars)

	MANUFACTURING	MINING & SMELTING	UTILITIES	MERCHANDISING	FINANCIAL	OTHER	TOTAL
1926	\$ 944	\$ 169	\$ 275	\$ 134	\$ 209	\$ 51	\$ 1,782
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
1939	1,142	228	415	168	284	59	2,296
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
1945	1,453	277	376	208	339	60	2,713
1946	1,534	264	385	225	358	60	2,826
1947	1,680	272	367	247	356	64	2,986
1948	1,938	294	368	260	339	71	3,270
1949	2,146	349	397	281	336	77	3,586
1950	2,331	476	399	313	364	92	3,975
1951	2,619	627	412	372	378	112	4,520
1952	2,995	850	404	431	417	132	5,220
1953	3,320	1,129	440	471	506	141	6,003
1954	3,685	1,357	475	509	628	143	6,764
1955	4,120	1,722	463	548	698	164	7,732
*1956	3,906	3,052	291	607	814	195	8,865
*1957	4,383	3,596	283	619	1,024	215	10,120

SOURCES:

D.B.S., Canada's International Investment Position, 1926-1954, Table VI - A, p. 80 and D.B.S., Canadian Balance of International Payments, 1958 and International Investment Position, Table X - A, p. 59.

* Commencing in 1956, D.B.S. began to calculate foreign investment in the petroleum and natural gas industries (including refining and pipeline), separately -- for our purposes these figures have been included under Mining & Smelting.

petroleum, mining and smelting (Table XII) rose from \$255 million in 1945 to \$3,346 million in 1957.

The increase in U.S. direct investment in Canadian secondary manufacturing has constituted an altogether different process. In many respects it has occurred primarily as a response to specific initiatives by the policy-makers in Canada (as we shall see in Chapter IV). The Canadian tariff has traditionally been the principal inducement to foreign entrepreneurs to establish manufacturing enterprises in Canada. The tariff has encouraged the foreigner to manufacture or assemble his finished product in Canada as opposed to shipping it into Canada from a foreign country. This method of inducing foreign manufacturers to establish operations in Canada has also largely been responsible for the fact that most recent investment has been direct investment.¹⁴ This form of inducement has also resulted in the fact that U.S. firms are most heavily represented in the sectors of secondary manufacturing that have grown most rapidly since 1945. From Tables XI and XII, we can again observe the extent to which foreign investment in Canadian manufacturing has grown. Total foreign direct investment in manufacturing rose

14. Government of Canada, Foreign Direct Investment in Canada, pp. 36-37 and Brecher and Reisman, op. cit., p. 117. However, some economists have recently argued that the historical importance of the tariff has been overexaggerated, see John C. McManus, "The Theory of the International Firm", in Gilles Paquet, ed., The Multinational Firm and the Nation State, Macmillan of Canada, Toronto, 1972, p. 69.

TABLE XII
FOREIGN DIRECT INVESTMENTS IN CANADA
LONG-TERM DIRECT INVESTMENT OWNED BY RESIDENTS OF U.S.
(in millions of current dollars)

	MANUFACTURING	MINING & SMELTING	UTILITIES	MERCHANDISING	FINANCIAL	OTHER	TOTAL
1926	\$ 818	\$ 141	\$ 249	\$ 89	\$ 58	\$ 48	\$1,403
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---
1939	984	198	399	119	126	55	1,881
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---
1945	1,285	255	359	153	198	54	2,304
1946	1,366	245	306	165	232	54	2,428
1947	1,493	254	345	175	222	59	2,548
1948	1,729	275	347	183	208	65	2,807
1949	1,880	331	375	199	241	69	3,095
1950	2,024	453	379	219	267	84	3,426
1951	2,280	603	392	259	253	99	3,896
1952	2,662	825	382	306	289	108	4,532
1953	2,882	1,103	418	336	349	122	5,206
1954	3,138	1,324	454	357	427	118	5,315
1955	3,438	1,664	413	388	477	137	6,517
*1956	3,196	2,835	222	431	550	160	7,394
*1957	3,603	3,346	215	421	719	172	8,476

SOURCES:

D.B.S., Canada's International Investment Position, 1926-1954, Table VI - B, p. 80 and D.B.S., Canadian Balance of International Payments, 1958, and International Investment Position, Table X - B, p. 59.

* Same as for Table XI.

from \$1.5 billion in 1945 to \$4.4 billion (excluding refining) in 1957. In particular U.S. direct investment in Canadian manufacturing grew from \$1.3 billion in 1945 to \$3.6 billion in 1957.

IV

Most of the direct foreign investment of the post-war years has entered Canada in the institutional form of the multi-national corporation — a phenomenon unique to the second half of the twentieth century. A subsidiary of a multi-national firm is an organic part of a production and marketing organization whose major decisions are taken with respect to the viability, security, expansion and global profitability of the enterprise as a whole. The competitive strength of the modern multi-national corporation lies in the superiority of its marketing and business organization which enables it to create monopoly type venture profit by its expertise in product innovation and want creation.¹⁵

Concomitant with the increased role played by foreign investment in Canadian capital formation was the predominant role which large foreign corporations came to play in the primary and secondary industry sectors of the economy during this same period. Tables XIII and XIV indicate the increasing percentages of selected sectors of the Canadian economy owned and controlled by U.S. and other foreign corporations in the prewar and postwar periods. By

15. Kari Levitt, Silent Surrender, Macmillan Co. of Canada, Toronto, 1970, pp. 12, 24.

TABLE XIII
NON-RESIDENT OWNERSHIP AND CONTROL
(in percentages)

OWNERSHIP

	MANUFACTURING	PETROLEUM & NATURAL GAS	MINING & SMELTING	RAILWAYS	OTHER UTILITIES	TOTAL
1926	38%	--	37%	55%	32%	37%
--						
1939	42	--	40	57	27	38
--						
1948	42	--	39	45	20	32
--						
1951	44	--	51	40	18	32
1952	46	--	54	38	18	32
1953	47	--	56	37	17	32
1954	47	60	53	35	14	32
1955	47	63	53	33	13	32
1956	48	65	54	33	14	33
1957	50	63	56	30	14	34

CONTROL

1926	35	--	38	3	20	17
--						
1939	38	--	42	3	26	21
--						
1948	43	--	40	3	24	25
--						
1951	48	--	53	3	22	27
1952	51	--	56	2	12	27
1953	51	--	57	2	12	28
1954	51	69	51	2	11	28
1955	52	79	57	2	8	30
1956	52	80	58	2	6	31
1957	56	76	61	2	5	32

SOURCE:

D.B.S., Canadian Balance of International Payments, 1956 and International Investment Position, Tables XII and XIV, pp. 52-53 and D.B.S., Canadian Balance of International Payments, 1963, 1964 and 1965, and International Investment Position, Tables XIII and XIV, p. 127.

TABLE XIV
U.S. OWNERSHIP AND CONTROL OF
SELECTED CANADIAN INDUSTRIES
(in percentages)

OWNERSHIP						
	MANUFACTURING	PETROLEUM & NATURAL GAS	MINING & SMELTING	RAILWAYS	OTHER UTILITIES	TOTAL
1926	30%	--	28%	15%	23%	19%
--						
--						
1939	34	--	31	18	20	22
--						
--						
1948	35	--	32	21	16	23
--						
--						
1951	36	--	45	18	16	24
1952	38	--	49	17	16	25
1953	38	--	52	16	15	25
1954	37	57	47	15	12	25
1955	37	58	46	13	10	25
1956	38	50	46	12	11	26
1957	39	57	46	11	11	26
CONTROL						
1926	30	--	32	3	20	15
--						
--						
1939	32	--	38	3	26	19
--						
--						
1948	39	--	37	3	24	22
--						
--						
1951	41	--	51	2	21	24
1952	44	--	53	2	12	24
1953	44	--	55	2	11	24
1954	42	67	49	2	7	24
1955	42	73	55	2	6	26
1956	41	73	52	2	4	26
1957	43	70	52	2	4	27

SOURCE:

D.B.S., Canadian Balance of International Payments, 1956, and International Investment Position, Table XII and XIV, pp. 52-53,
and D.B.S., Canadian Balance of International Payments, 1963, 1964,
1965 and International Investment Position, Table XIII and XIV, p. 127.

1957, 56% of the manufacturing sector, 76% of petroleum and natural gas and 61% of mining and smelting were foreign controlled, with the U.S. once again controlling the lion's share. Appendices I and II provide a more precise description of the extent to which U.S. and other foreign corporations penetrated key sectors of the economy during this period. Appendix I (which is the more limited of the two in scope) provides a breakdown of all major U.S. manufacturing companies with branch plants and subsidiaries in Canada in 1946. While unfortunately the data is not presented in quantitative or comparative terms it complements the ownership and control percentages. Appendix II provides a more comparative picture in terms of a breakdown of the leading primary and secondary industry groups and the relative position of the top domestic and foreign corporations in each for 1954. Whereas Appendix I merely provided an idea of the number of foreign firms active in Canadian manufacturing for 1946, Appendix II provides a much more specific measure of the relative weight of foreign corporations in Canadian industry by 1954. What this analysis reveals is that to an increasing extent the two lead sectors of the economy were foreign controlled. The implications of this were, that to a significant degree the future growth and development pattern of the economy would be dependent on the investment decisions of foreign corporations. The results of this will be examined in Chapter V as well.

There was a similar impact on the organization of Canadian industry. The logical inference concerning the organization of industry would be to expect that the large degree of foreign control resulted in greater degrees of concentration in various oligopolistic industries. The facts, however, do not support this expectation. Foreign controlled corporations tended to be larger than their domestically controlled counterparts in the same industry and tended to be concentrated in industries with larger firm size. The evidence suggests that while there was a clear tendency for foreign capital to seek out the larger firms of each industry, there is no evidence of a tendency to seek out the more concentrated industries.¹⁶ Put more specifically, what this means is that U.S. investments by and large have been concentrated in firms of larger than average size in each particular branch of industry. These firms were usually more capital intensive and better equipped to take advantage of economies of scale.

If the impact of foreign direct investment was not in the direction of greater concentration and oligopoly, what then, was its principle effect on the organization of Canadian industry? What resulted from the influx of American firms into the Canadian economy was a fragmentation of the market because of too many

16. Gideon Rosenbluth, "The Relation Between Foreign Control and Concentration in Canadian Industry", Canadian Journal of Economics, Vol. III, No. 1, Feb., 1970, p. 19. Much of the basic data for this analysis can be found in A. E. Safarian, The Performance of Foreign Owned Firms, Canadian-American Committee, Montreal, 1969.

suppliers. There was a tendency, due to the large degree of protection afforded by the tariff, to establish a greater number of producers in Canadian industries than the market would normally allow. Subsidiary firms tended to be mere duplicates of their parents although they produced on a far less efficient scale. This process retarded the development of a specialized indigenous Canadian industry and also discouraged a dynamic application of the law of comparative advantage which would more likely have resulted in specialized low cost manufacturing.¹⁷ Eric Kierans as the acting Minister of Revenue for Quebec made this point explicitly in a letter to Henry Fowler, U.S. Secretary of the Treasury, noting that:

between 1950 and 1960, total assets invested in Canadian manufacturing more than doubled from \$9,104 billions to \$21,142 billions but profits after taxes declined from \$861 millions to \$837 millions. You can see that much of the investment during the 1950's, and 45% of American funds went into manufacturing, was unprofitable and the losses of your branches and subsidiaries were charged back to the parent company and to Washington year after year. Canadian entrepreneurs, of course, cannot compete with American firms who can charge their losses to the parent company and a kindly Uncle Sam. Of the 17,021 companies engaged in manufacturing in 1960 in Canada, 31.2% operated at a loss, clear evidence that there is excess capacity and misallocation of investment funds.¹⁸

17. Ian Macdonald, "Foreign Ownership: Villain or Scapegoat", in P. Russel, ed., Nationalism in Canada, McGraw-Hill, Toronto, 1966, pp. 187-188.
18. Letter from Eric Kierans, Acting Minister of Revenue, Quebec, to Henry Fowler, U.S. Secretary of the Treasury, Montreal, Jan. 4, 1966, p. 5. Quoted in D. W. Patterson, Canadian Nationalism and the Question of American Direct Investment in Canada, unpublished M.A. Thesis, Carleton University, pp. 51-52.

The role played by foreign capital in Canadian post-war economic development is in many ways a product of the interface between the economic environment and the project of the policy-makers. The fear of a post-war depression led to policies which increasingly emphasized investment goals in order to maintain a steady rate of growth. These policies in turn were easily rationalized in terms of the traditional goals of the economic and political elite of national economic expansion. In other words, the emphasis was increasingly placed on the process of growth rather than the process of development, on the criteria of size rather than of structure. Even as it became increasingly evident in the late 1940's that the problem of excess capacity would not appear and that the maintenance of full employment levels was being achieved, the policy-makers proved unable to turn to considerations of the qualitative questions of development. Indeed, when an attack was made on the growing problem of inflation in 1947, it was done in a way that betrayed a continuing preoccupation with considerations of size, or the cult of the GNP (as we shall see in Chapter IV). The result of this fact is that the inability to take into consideration the long-run problems of the structural development of the Canadian economy and the impact of the internationalization of industrial organization reveal a policy-making myopia characteristic of the frame of mind termed 'liberal practicality' in Chapter II. It is an inherent bias of our analysis that the process of economic growth and development which took

place in Canada between 1945 and 1957 contained certain long-run costs and benefits for the future growth and development of the economy, of which the policy-makers failed to take notice. After presenting a detailed account of economic policy-making between 1945 and 1957 in terms of the plan or project of the policy-makers, its congruity with the traditional goals of the economic and political elite and the method in which it was legitimated by the policy-makers, we shall turn in Chapter V to an evaluation of the long-run costs and benefits of the pattern of economic development which actually took place.

CHAPTER IV

Economic Policy-Making: 1945-1957

I

This chapter deals with the process of policy-making in the post-war years and an examination of some of the specific decisions made and the policies implemented. For economic policy the relevant decision-makers are defined as a small group of senior civil servants and economic advisors centred around the Ministers of Finance and Trade and Commerce. It has been noted of this period that,

... there seems to have been a tendency for the Liberal party ... to leave much of the formulating of policy to the leaders who could utilize the skill and knowledge of the civil service. Much of what had been called Liberal policies or the Liberal programme was actually the product of the intimate co-operation of leading civil servants and their ministers.¹

Because our analysis deals principally with economic policy, to a large extent, C.D. Howe, Minister of Reconstruction and Supply, Trade and Commerce, and Defence Production, will be used as a

1. John Meisel, "The Formulation of Liberal and Conservative Programmes in the 1957 Canadian General Election", Canadian Journal of Economics and Political Science, Vol. XXVI, No. 4, Nov., 1960, p. 565. For a more detailed analysis of the influence of the federal bureaucracy on policy-making during this period, see John Porter, The Vertical Mosaic, University of Toronto Press, Toronto, 1965, Chapter XIV. There also exists a rather specialized literature on the subject. See J.E. Hodgetts, "The Liberal and the Bureaucrat", Queen's Quarterly, LXII, No. 2, J.E. Hodgetts, "The Civil Service and Policy Formulation", Canadian Journal of Economics and Political Science, Vol. XXIII, No. 4, Nov., 1957, Austin F. Cross, "Oligarchs at Ottawa", Public Affairs Quarterly, Autumn, 1951 and Mitchell Sharp, "The Bureaucratic Elite and Policy Formation" in W.D.K. Kernaghan, ed., Bureaucracy in Canadian Government, Methuen, Toronto, 1969.

Weberian ideal type in presenting the goals, images and legitimations of the policy-making group.² In addition to Howe, however, reference will also be made to several important figures, including W.C. Clark, Deputy Minister of Finance, W.A. Mackintosh, economic advisor to Howe, W.F. Bull, Deputy Minister of Trade and Commerce and others.

In terms of research materials, primary reliance has been placed upon secondary sources in studying the essential economic policies of the period. Where it was deemed useful they have been supplemented with various government documents, such as budget speeches and specific documents published by the Department of Trade and Commerce. Great reliance has also been placed on the background research carried out under the auspices of several Royal Commissions, especially the Royal Commission on Canada's Economic Prospects and the Royal Commission on Taxation. For legitimating statements by policy-makers we have relied primarily on the speeches and writings of C.D. Howe as being the most representative, most influential and most accessible member of this group. Throughout this chapter we have concentrated on the economic policies which had an important impact on the nature of U.S. investment in Canada. However, it has not always been possible to clearly isolate these policies. The high degree of U.S. investment in the Canadian

2. The use of Howe's speeches and writings in this context can be compared to Max Weber's use of Benjamin Franklin's writings in presenting the reationalist essence of the capitalist spirit in The Protestant Ethic and the Spirit of Capitalism, Charles Scribner's Sons, Inc., New York, 1958, Chapter II.

economy has meant in fact that economic policies designed for the economy at large have had varying effects on the level and direction of foreign investment. Special reference shall also be made throughout the period to principles of fiscal budgeting espoused and employed by the government.

The post-war era can be subdivided into three periods for the sake of analysis. For each period we shall identify the key economic problem faced by the policy-makers and the policies adopted to deal with it. In the first period from 1945 to 1949, the key issue was the problem posed by reconversion of the economy from a wartime footing to a peacetime footing without disrupting the equilibrium between income-generation and capacity-creation. Preoccupied with the fear of mass unemployment the policy-makers were unprepared for what turned out to be the major problem, spiralling inflation. Some of the key policies adopted to deal with these, were the sale and reconversion of wartime manufacturing plants, the public works program, accelerated depreciation rates to promote conversion to peacetime production and import controls to counteract the inflationary loss of exchange reserves to the U.S.

In the second period, from 1950 to 1953, the most pressing issue was the mobilization of the economy to a Cold War footing and the expansion of resource production and exports to supply the increased domestic and foreign requirements for defence production. The policies adopted in response to these needs consisted of the Capital Cost Allowance scheme in the new Income Tax Act of 1949,

the various programs of the Industrial Development Branch to maintain balanced structural growth in the economy, and a three year budget of \$5.0 billion to boost defence production.

In the third period, from 1954 to 1957, the central issues involved a reaction to the pattern of growth since 1945. The initial problem was posed by the post-Korea recession in 1954. This problem developed into a broader concern with the overall degree of dependence of the Canadian economy on the U.S. This concern was highlighted by the national debate on the Trans-Canada Pipeline in 1956. In 1954 the government relied on a series of expansionary measures to boost the level of economic activity. The last few years were not exceptional for economic legislation, with the major exception of the Pipeline.

Each of the specific policies just mentioned will be examined in relation to its importance in the overall plan of the policy-makers. The economic plan is composed of a set of coherent ideas about the present and future state of the economy, the institutional nature of the economic order (capitalist, socialist, etc.), the specific goals desired as the outcome and the set of actions necessary to achieve them.³ This analysis of specific policy actions as components of a larger economic plan provides the data for a comparison of the general direction of post-war policies with the traditional direction of Canadian economic policy. What we are interested in is the policy-maker's perception of the given

3. Gilles Paquet, "The Economic Council as Phoenix" in Trevor Lloyd and Jack McLeod, ed., Agenda 1970: Proposals for a Creative Politics, University of Toronto Press, Toronto, 1968, p. 140.

economic problem and his plan for its solution as compared to the traditional economic goals of the political elite in Canada. What is also of interest is the degree of continuity between the language of the policy-maker, the overarching framework of symbolic legitimations that justify the policies and those traditionally relied upon in Canadian political culture.

The hypothesis is that there will be a significant degree of continuity in the plan or project of the policy-makers, but a certain discontinuity in the language or symbolic legitimations used to justify the policies. The essential economic goal throughout the period remained the same as it had been since the introduction of the National Policy. Basically the political leaders continued to pursue a goal of increased output, a maximization of the size of the economy.⁴ The optimal policy for achieving this goal was deemed to be an increased emphasis on investment expenditures in terms of our model in Chapter III. This involved continued reliance on the performance of private entrepreneurs, public support for private enterprise, to bring about the desired outcome and a relative lack of discrimination about the sources of investment, whether domestic or foreign. The important discontinuity, however, was evidenced in the shift in symbolic legitimations. Whereas formerly the goals of increased output and economic expansion were directly espoused, in the post-war era they were justified in the name of some loftier ideals of social welfare, such as the maintenance of full employment

4. Clarence L. Barber, "Canadian Tariff Policy", Canadian Journal of Economics and Political Science, Vol. XXI, No. 4, Nov., 1955, passim.

levels and sufficient levels of aggregate demand.

Although we shall reserve a more complete evaluation of the results of these policies for Chapter V, we need at least keep in mind a basic framework of the alternatives within which the policies were framed. The framework for policy direction that constitutes the project of the post-war planners can be organized as a series of dichotomous variables. The essential economic considerations can be evaluated in terms of short-run versus long-run costs and benefits, questions of increased size versus structural change, the distribution of economic output in favour of business or consumers, the exercise of fiscal policy to increase capacity or increase demand, reliance on domestic sources of capital to finance expansion, as opposed to foreign sources, and the allowance for the foreseen in contrast to the unforeseen consequences of policies. These constitute the basic criterion against which the plan of the policy-makers can be evaluated.

II

In Chapter III it was noted that not only did the industrial effort undertaken during World War II successfully pull Canada out of the recessionary backwater of the Great Depression but it also launched the country on a boom of economic expansion that carried through with minor interruptions until the end of 1957. The economic rate of growth for the country during the six war years stood at a previously unprecedented and consequently unparalleled 10%. Yet the

general mood of the country conveyed the expectation of a completely opposite outcome. In the late years of the war, it was the government alone that was hopefully expectant of the new boom of prosperity which the post-war years would bring. As early as 1943 the government had appointed special committees of the House and advisory committees of outside advisors to examine the problems posed by reconstruction after the war. The man most optimistic about the country's economic prospects was C.D. Howe, Minister of Munitions and Supply. Howe, surrounded by the top-notch corps of business executives he had recruited to government to run the nation's industrial war effort, was fairly confident that the expanded industrial capacity of the economy plus the deferred demand and savings of the country during the war would carry the country over into post-war prosperity. The problems of reorganizing the country's war production for peacetime purposes did not seem to him a major obstacle. In several speeches around the country in late 1943 Howe emphasized the fact that post-war employment would not return to pre-war levels, "... there need be no fear of unemployment of those willing and able to work ... a surprising number of (war plants) can be converted without difficulty. Many new types of production that have been organized for the war will continue in peace."⁵

He emphasized the fact that the key to successful post-war conversion was the continuance of the close partnership between government and manufacturing that had developed during the war. A

5. Toronto Globe and Mail, November 19, 1943.

comprehensive government plan involving a tax structure suitable for peace, the financing of industrial conversion through self-liquidating loans and the expansion of research facilities, backed up by a public works program to take up the slack where necessary, guaranteed a smooth transition to peacetime in Howe's opinion.⁶

Howe's unmitigated optimism was not shared by the country at large. This fact is more than abundantly reflected in the derisive scorn with which the editors of the country's leading newspapers greeted his pronouncements. The Montreal Gazette greeted Howe's remarks with an editorial entitled "Let's Not Fool Ourselves":

... we fear that Mr. Howe's formula for solving the vexed problems to be unsnarled after the war is too disarmingly simple. It is futile to talk of wading into the immense and complicated problems of the post-war period concentrating solely or mainly on a goal of expanding peacetime production ... this ignores such critical problems as markets, distribution, consumption, procurement and allotment of raw materials⁷

These sentiments were closely echoed in a similar editorial in the Toronto Globe and Mail:

We can believe as Mr. Howe asserts that fullest employment and greatest expansion of production can come by reform and private industry, by producer and worker cooperating together, but by what and with whom does Mr. Howe expect to carry conviction. He is of that government under whose leadership people walked the streets jobless and hungry. Is it unreasonable then for those who were jobless, for those who knew the need of reform to ask what are the plans by which this great transformation from war to peacetime production is to be achieved?⁸

6. Toronto Globe and Mail, November 29, 1943.

7. Montreal Gazette, November 20, 1943.

8. Toronto Globe and Mail, December 15, 1943.

Lest it be misunderstood that the nation's newspapers stood alone as prophets of doom, it should be noted that the Turgeon Committee of the House of Commons, the James Committee of Businessmen and various other respectable organizations had made similar pronouncements on the inevitability of a post-war depression.

The overriding pessimism of the majority of the country was largely the result of the Great Depression which had witnessed the complete collapse of the National Policy in Canada. The National Policy had called for vigorous government action through high tariffs to support increased manufacturing; a vigorous immigration policy to populate the vast expanses of the country; a continental transportation system to integrate the national economy; and wheat as the new staple upon which to base a vigorous export trade. The preoccupation throughout this policy lay with an increased capacity on the supply side or a greater total physical output of goods. This policy was also closely linked to the desire for a vigorous rate of national expansion. The national hunger after higher population and GNP growth rates was a product of capacity oriented thinking. The pressure for a big Canada exerted by politicians, big business and a large segment of the population, reflected in traditional high tariffs and vigorous immigration policies, largely reflected a wish for bigness for its own sake.⁹ This policy reached its ultimate peak with the wheat boom between 1900 and 1930, during which Canada's population doubled and the value of annual

9. John H. Dales, The Protective Tariff in Canada's Economic Development, University of Toronto Press, Toronto, 1966, p. 166.

wheat exports increased from \$10 million to \$495 million.¹⁰ With the total collapse of the system during the years of the Depression, it is little wonder that Canadians were not optimistic about post-war prospects. The enigma of the Depression was partially solved by the British economist John Maynard Keynes who helped explain some of the problems by knocking the bottom out of certain theoretical assumptions in traditional economics. Keynes revealed the inherent contradiction of looking to the long-run equilibrium of production and consumption, by explaining that wasteful loss of resources occurred through unemployment. He stressed the importance of seeing that potential savings were not lost through unemployment, by emphasizing that all investible resources must be put to use in the present economy. He pointed out the need to maximize present consumption and stimulate demand rather than rely on the metaphysical notion of maximizing some future capacity through eternal saving. If in the immediate short run vital factors of production are allowed to waste away, their potential to contribute to a maximized long-run capacity is negated.¹¹

In Canada where the impact of the Depression had been especially severe, Keynesian thinking was seen as the answer to the economic problems which had plagued the country during the 30's and to the problems that would be posed by post-war conversion and

10. Vernon C. Fowke, "The National Policy -- Old and New", in W.T. Easterbrook and M.H. Watkins, Approaches to Canadian Economic History, McClelland and Stewart Ltd., Toronto, 1967, p. 246.

11. Joan Robinson, Economic Philosophy, Penguin Books, Middlesex, England, 1962, pp. 80-81.

reconstruction. In the period during the war certain economic policy-makers, especially W.A. Mackintosh, the noted economist from Queens and economic advisor to C.D. Howe, were responsible for introducing Keynesian principles into government thinking. The single most coherent statement of this new type of economic thinking was the Government's White Paper on Employment and Incomes, tabled in the House of Commons in April, 1945. The purpose of the White Paper was to provide a single coherent statement for the average citizen of what had been and what could be expected from the Government in respect to post-war reconstruction. As W.A. Mackintosh noted, he was finally able to convince Howe, then Minister of the newly created Department of Reconstruction, that an official statement of the government's intentions was both necessary and useful.¹² There was nothing shockingly new in the White Paper that had not been discussed before the war; what it did do was put the government officially on record as supporting the principle of countercyclical budgeting and the idea that it should pursue policies to safeguard the economy from recurrent inflation and deflation. In Mackintosh's words, "The White Paper did not invent a policy; it simply recognized that the responsibility for employment policy which the dominion had rejected in 1937-38, it could not avoid in 1945 ..."¹³

12. W.A. Mackintosh, "The White Paper on Employment and Income in its 1945 Setting", in S.F. Kaliski, ed., Canadian Economic Policy Since the War, Canadian Trade Committee, 1965, pp. 15-16.

13. Ibid., p. 21.

The White Paper began by stating that ...

The central task of reconstruction must be to accomplish a smooth orderly transition from the economic conditions of war to those of peace and to maintain a high and stable level of employment and income. The government adopts this as a primary object of policy.¹⁴

The White Paper outlined the important sectors of the economy that must be encouraged in order to contribute to this policy -- export trade, private investment in capital stock, consumption expenditures and public investment -- and went on to outline means the government would adopt if necessary to maintain a high level of activity in all these sectors. These means included strong negotiating for international trade agreements to promote freer flow of goods; reduced taxation to promote higher rates of private investment in the economy; measures to combat inflation in order to maintain high levels of private expenditure on consumption; and finally a regulated program of government expenditures to supplement private demand where it was required. The White Paper's final proposal was a strong statement in favour of the adoption of discretionary fiscal policy.

The government will be prepared in periods when unemployment threatens, to incur the deficits and increases in the national debt resulting from its employment and income policy, whether that policy in the circumstances is best applied through increased expenditures or reduced taxation. In periods of buoyant employment and income, budget plans will call for surpluses.¹⁵

14. Dept. of Reconstruction, Employment and Income with Special Reference to the Initial Period of Reconstruction, King's Printer, Ottawa, 1945, p. 1.

15. Ibid., p. 21.

The government's White Paper represents the perfect starting point, both chronologically and analytically, for an examination of Canadian economic policy in the post-war period from 1945 to 1957 because it raises some of the crucial questions. It provides the perfect starting point to test our hypothesis. Within the framework for evaluation outlined above, the type of Keynesian thinking embodied in the White Paper stressed a particular set of policy alternatives. These included a concentration on the short-run considerations, a greater concern for increasing consumption expenditures, and a belief that the crucial factor in maintaining equilibrium growth was the generation of sufficient levels of aggregate demand. Traditional Canadian economic thinking as embodied in the National Policy had always concentrated on long-run considerations, the maximum increase in the overall size of the economy, a belief that the crucial factor in maintaining balanced growth was increased output through capacity-creation and a reliance on investment expenditures by business interests to achieve this regardless of the source of nationality of that investment. The crucial question is which set of policy options did the post-war planners follow.

III

It is not entirely surprising that C.D. Howe was optimistic about Canada's post-war future. The White Paper drawn up by his economic advisors provided a comprehensive set of economic tools

with which to approach post-war problems and the newly created Department of Reconstruction provided the principles and techniques developed during the war with which to transform the policies of wartime production into solid peacetime economic growth. In fact in the first post-war period, from 1945 to 1949, so successful were the government's expansionary policies and so severely underestimated was the country's stock of deferred consumer saving that the critical problem turned out to be uncontrolled inflation. The first problem that Howe's department was faced with was a crucial one -- the disposal and reconversion of \$200 million worth of war production plants that had been constructed and operated by the government during the war. This process was carried out with amazing dispatch by the Crown Assets Allocation Committee and the War Assets Corporation set up under Howe's authority. By 1947, \$107 million worth of these plants had been sold or leased to private industry, generally at one third the price of their original construction cost, on the sole condition that they continue operation at current levels of employment for a minimum of five years.¹⁶ The most notable or notorious of these transactions were the sale of the Victory Aircraft plant at Malton to A.V. Roe of Britain and the Canadair plant at Montreal to General Dynamics of the U.S. at bargain rates of 35 cents on the dollar. The government's official publication lauded these expeditious sales in language that clearly echoed the tones of the White Paper.

16. Dept. of Reconstruction and Supply, Disposal and Peacetime Use of Crown Plant Buildings, Queen's Printer, Ottawa, 1948, p. 17.

As a result of being able to adopt these Crown plant facilities for peacetime use the industries concerned were placed in position to contribute to the maintenance of high levels of employment and expand or commence production of a variety of commodities, many of which were new for Canada.¹⁷

Howe, when attacked by the Press and the Opposition for selling expensive government assets at bargain basement rates used the same argument. His primary concern was to promote conversion to peacetime production without letting wartime employment levels fall.¹⁸ Little did it matter to whom the plants were sold nor at what price. Here we see the first indication of what was to become an overriding concern throughout this period -- increased domestic production at almost any price. And the legitimating symbol of paramount importance was also emerging -- "to maintain a high and stable level of employment and income". In much the same way as Sir John A. called for a readjustment of the tariff in 1878 to benefit mining manufacturing and other interests for 'national considerations ... prestige, national status, national dominion' the post-war Liberals were willing to give away government assets at one third cost to maintain a 'high and stable level of employment and income'.

17. Ibid., p. 10. This document as well as a host of others prepared for the Dept. of Reconstruction and Supply and Trade and Commerce was compiled by the Economics Research Branch headed by Dr. O.J. Firestone. Besides providing the government with a continuous flow of facts and figures on Canada's economic expansion, Firestone also wrote about 75 speeches for Howe, by his own record, throughout this period.

18. Leslie Roberts, C.D.: The Life and Times of Clarence Decatur Howe, Clarke Irwin and Co. Ltd., Toronto, 1957, p. 160.

Another essential element of the Government's post-war policy was the public works program. Its chief component was a shelf of public works projects to be readied for use in combating a recessionary period. Immediately after the war such a shelf was prepared with \$150 million worth of projects. In the words of another Queen's economist, M.C. Urquhart, one of the project's chief designers, a public works program would be ...

varied in amount to contribute to the stability of employment and income within the economy. Expenditures would be small when economic activity is high and would increase whenever the level of prosperity is lower A public investment program to maintain employment and income can play an important part in stabilizing total investment and hence in contributing to a total employment program.¹⁹

By 1947, however, it was patently clear that the post-war problem was inflationary, not recessionary and the shelf was cut to \$54 million. Certain advisors to the cabinet were beginning to perceive that what was needed was in fact more public direction for private investment. This never materialized as anything more than a vague groping for alternative orientations.²⁰ By 1949 it was recognized that the public works shelf would be totally inadequate in the event of an economic downturn and the project was officially abandoned.

19. M.C. Urquhart, "Public Investment in Canada", Canadian Journal of Economics and Political Science, Vol. XI, No. 4, Nov. 1945, pp. 546-552.

20. In a memo to C.D. Howe dated Feb. 15, 1948, J.R. Baldwin of the Privy Council Office noted that the initial post-war concern for a public investment program had passed and government attention should turn to the key area of industrial development. Two areas of particular concern should be the greater processing of Canadian raw materials in Canada and the development of new types of products suitable for export markets. Deputy-Minister Files, Department of Reconstruction and Supply, Public Records, National Archives of Canada.

Howe, on the other hand, was not nearly so concerned with remedial measures such as the public works shelf, as he was with avoiding their necessity altogether by maintaining a vigorous rate of economic expansion. It was Howe, above all, who during the post-war years best reflected the traditional Canadian preoccupation with growth. His basic aim was to expand Canada by giving business every inducement to expand on its own. During the war, in addition to the \$900 million worth of crown corporations established and the total of \$15 billion spent on the war effort by his Department of Munitions and Supply, Howe had also engineered the development of a new effective fiscal tool, the fast tax write-off through accelerated depreciation rates, to promote industrial expansion. The most exemplary use of this device was the accelerated write-off his department authorized for the Aluminum Co. of Canada Ltd. on the Shipshaw dam power project which constituted a saving of \$164 million for the company.²¹ Although the tax measures were presented to Parliament by the Finance Minister, they were in large part authorized by Howe's department. In November, 1944, this technique was incorporated into law through the provisions for special depreciation in order to foster reconversion. The special depreciation rates went to companies that needed to modernize or expand so they could provide employment, goods for export or material for national development. The taxation provision was available to all companies making capital expenditures for reconversion, modernization or the expansion of plant facilities

21. "C.D. Howe of Canada", Fortune Magazine, Aug. 1, 1952, pp. 145-146.

in the period between November 1944 and March 1949. It was specifically designed to reduce the amount of taxes payable by companies making investments in the transition period. Altogether the accelerated depreciation rates were applied to capital investments worth \$1.4 billion undertaken by 4,212 companies during the five year period. This constituted four fifths of all manufacturing investment at the time.²² The special provisions for projects completed during this time period allowed entrepreneurs the option of a range of depreciation rates varying between one half and double the ordinary rates, up to 80% of the cost of their new investment. The value of this accelerated allowance was that it permitted companies to postpone taxation on a portion of their profits at a time when profits and taxes were both unusually high.²³ In the words of the government's own evaluation of the measures

The application of these principles to special depreciation procedures was designed to stimulate the development of essential industries, promote a better intra- and inter-industry integration of productive capacity to meet domestic needs or take advantage of promising foreign markets, encourage geographic decentralization where this was economically feasible and influence in some measure the type of investment projects in the transition period.²⁴

The special depreciation rates did not stand alone, but were accompanied by a host of other incentives designed by the government

22. Department of Reconstruction and Supply, Encouragement to Industrial Expansion in Canada: Operation of Special Depreciation Provisions, Nov. 10, 1944 - March 31, 1949, King's Printer, Ottawa, 1948, p. 9. This document was also prepared by the Economics Research Branch under Dr. O.J. Firestone.

23. Ibid., p. 22.

24. Ibid., p. 25.

to spur economic expansion. These included write-offs of current expenditures for research and development, averaging the enterprise's profit basis over several years for taxation purposes, writing off portions of the Excess Profits Tax for use in capital expansion, exempting new companies from the full taxation load of the Excess Profits Tax and concessions to encourage exploration and drilling for oil and minerals.²⁵ Together these policies constituted the most comprehensive industrial development program employed in this country to that time. At the same time the size and nature of government assistance to private entrepreneurs bore a close resemblance to many traditional Canadian economic policies.

Howe was obviously pleased with both the response to the incentives and the overall success of the program. At a press conference early in 1946, when the nature of post-war economic conditions was still in doubt, he cited the overwhelming early response by industry to the investment incentives as an indication of the continued economic expansion.²⁶ In an article published late in 1948, when the program was winding down and its results were obvious, Howe lauded it as part of a continuing government policy

... because we consider further industrialization of the Canadian economy as one of the important factors contributing to a high level of employment and income, with which a rising standard of living for the Canadian people is intimately associated.²⁷

25. Ibid., p. 17.

26. C.D. Howe Papers, File 89 - 2, Vol. 133A, Manuscript Group, National Archives of Canada.

27. C.D. Howe, "Industrial Development in Canada", Public Affairs Quarterly, Dec. 1948, p. 213.

In the same article Howe went on to describe Canada as a free enterprise economy in which the initiative for industrial expansion rests with private individuals and firms. The role of the government was to provide a climate in which private initiative thrives and industrial expansion is encouraged. The government, however, would not hesitate, where 'the national interest' demands, to take positive action if industrial expansion faltered through lack of initiative.²⁸ The post-war Liberal government's industrial incentives package can be viewed as the most comprehensive stage of integration achieved in the traditional Canadian enterprise of public and private cooperation to promote national economic expansion. The incentive programs were worth literally millions of dollars in tax money. The goal was rapid economic growth, but the legitimations were slightly modernized. Although public encouragement to private enterprise was justified in terms of the national interest, it was not purely a matter of national status. Once again Howe legitimated his government's economic policies in terms of a high level of employment and income. The government, relied primarily on the language of the White Paper to legitimate its policies.

As things turned out, the Government's post-war reconstruction policy proved to be more than adequately successful. The net result of rapid economic expansion created by the deferred consumer demand during the war and the Government's post-war efforts to combat any recessionary tendencies was the inflation crisis of 1947-1948. In

28. Toronto Daily Star, January 10, 1949.

addition to the sophisticated program of investment incentives outlined above, the government had also used a host of other economic tools to increase the rate of expansion. These included the appreciation of the Canadian dollar to parity with the American dollar in July, 1946, significant cuts in the high wartime income tax rates and a constant policy of low interest rates. Furthermore, the Government's extensive program of financial aid to European recovery under the United Kingdom Financial Agreement and the Export Credits Insurance Act differed little from direct government subsidization of Canadian industry, to the tune of \$1.5 billion between 1946 and 1949. The combined effect of these policies with the natural reservoir of consumer savings from the war was a national consumer buying binge resulting in a rapid inflationary increase of the wholesale price index by more than 50% during the first three post-war years. The post-war inflation was marked by a peculiar twist. The high levels of demand for consumer goods as well as the parity of the Canadian and American dollars were responsible for massive inflows into Canada of imported American consumer goods and a corresponding decline in Canada's foreign exchange reserves of \$1100 million in the first year following the appreciation.²⁹ By late 1947, it was obvious to the Government that immediate and decisive action was necessary to combat inflation and the loss of exchange reserves. Although the Government was faced with a broad range of alternative policies, they chose to rely primarily on a restrictive fiscal policy of temporary import controls.

29. J. Douglas Gibson, "Post-War Economic Development and Policy in Canada" Canadian Journal of Economics and Political Science, Vol. XX, Nov. 1954, pp. 446-447.

The purpose of the import controls was aimed at reducing the level of U.S. dollar purchases being made in Canada and to achieve a more favourable balance of transactions in the dealings of U.S. subsidiaries in Canada.³⁰ The Emergency Exchange Conservation Act was instituted by the Government in November, 1947. It involved the placing of prohibitions and quotas on imports of consumer goods and the licensing of imports of capital goods. The act itself consisted of three schedules of import quotas to be implemented on a progressive basis.³¹ The act did help to a certain extent in offsetting the foreign exchange deficit in that the reserves recovered by \$496 million in 1948. However, this was also due to increased U.S. export purchases from Canada.

To this point we have looked at economic policy during the immediate post-war years but have not mentioned its impact on foreign investment. In dealing with foreign investment the distinction must be maintained between manufacturing and resource

30. The 1947 import controls were the source of an extensive debate in Canadian academic literature on the relative merit of fiscal versus monetary controls to achieve the goals of stabilization policy. For the purpose of brevity the whole post-war debate on the use of monetary policy has been omitted from this paper, however the debate was dealt with extensively in the following articles, John J. Deutsch, "The Canadian Treasury and Monetary Policy", Papers and Proceedings of the American Economics Ass'n., Vol. XLVII, No. 2, May, 1957, H.C. Eastman, "Recent Canadian Economic Policy: Some Alternatives", Canadian Journal of Economics and Political Science, Vol. XVIII, No. 2, May, 1952, Clarence L. Barber, "Canada's Post-War Monetary Policy, 1945-1954", Canadian Journal of Economics and Political Science, Vol. XXIII, No. 3, Aug. 1957, R.C. McIver and J.H. Panabaker, "Canadian Post-War Monetary Policy, 1946-1952", Canadian Journal of Economics and Political Science, Vol. XX, No. 2, May, 1954.

31. H.C. Eastman, op. cit., p. 135.

industries. As we saw in Chapter III, the war years and the late '40's saw the major part of economic expansion take place in the manufacturing industries. Capital investment in Canadian manufacturing industries increased by almost \$3.5 billion between 1939 and 1949 and foreign direct investments constituted nearly one third of this total during the same period. As we have already seen two key government policies were instrumental in stimulating this growth of industrial investment. The selling off of wartime production facilities at one third cost and the greatly accelerated depreciation allowances were both strong incentives to invest. In addition both policies encouraged a high degree of participation by foreign investors with a large number of government plants being sold to foreign enterprises. At the same time, the accelerated depreciation allowances in operation between 1944 and 1947 provided one of the fastest rates of tax write-offs in the western world and must obviously be seen as a strong incentive to foreign investors. The import control policy, however, instituted in 1947, represents the most direct attempt by the government to induce foreign manufacturers to locate in Canada. The primary goal of the policy in the minds of government planners was the concept of 'import substitution'. The Emergency Exchange Conservation Act was in fact designed to encourage the substitution for imported consumer goods of domestically manufactured products, often by the foreign manufacturer. There can be little doubt that the primary concern of the economic policy-makers, especially Howe, was with capacity-

creation not fiscal stabilization. In a memo to D.C. Abbott, Minister of Finance, dated October 23, 1947, Howe argued against a proposed 10% excise tax on imported capital goods to correct the exchange reserves situation. This would be tantamount in effect to a depreciation of the Canadian dollar and would both "... tend to discourage investment that may be highly desirable as an instrument in saving or obtaining U.S. dollars", as well as "... penalize effort directed toward replacing imports by Canadian production."³² The actual result of the government's policy was to increase investment in a period of already high investment because of the high returns guaranteed by the import quotas to industries producing for the domestic market. 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.³³ This was not an isolated government policy which vanished with the removal of the import quotas, as we shall see when we return to an examination of tariff policy and the role of the Industrial Development Branch in the 1950's.

There can be little doubt that this was the Government's explicit goal and that it was more than adequately pleased with the results. When the Emergency Exchange Conservation Act was introduced in November, 1947, C.D. Howe told a news conference that more jobs

32. C.D. Howe Papers, File S-48-10, Manuscript Group, National Archives of Canada.

33. H.C. Eastman, op. cit., p. 139.

would be available to Canadians than ever before as a result of the Government's action to curtail U.S. imports. He thought the efforts to stimulate production would be consistent with the Government's overall policy to create new industry in Canada and the development of the country's natural resources.³⁴ In March, 1949 after the import controls had been in operation over a year, Howe, in a speech to the House of Commons reiterated the Government's policy.

The end we pursue may be put very simply. It is to maintain a high level of employment and income as the most practical means of assuring economic welfare and security to the people of Canada The joint effect of our trade development and of our domestic investment and industrial development has been to provide a greater degree of economic welfare and of economic security for the average individual In the last two years there has been a striking increase in the number of branch plants, both British and American, that have been set up in Canada. By supplying our expanding domestic market these plants have helped correct our dollar balance.³⁵

Two important conclusions are obvious from this statement. The economic planners still placed primary legitimational value on the employment and income concept. The goal of government policy was to provide "a greater degree of economic welfare and economic security for the average individual". The way to achieve this was primarily through the increase of the country's productive capacity and it was obvious that the Government was pleased with the results of its import quota's policy. In 1949 the import controls were partially removed and the dollar was devalued by 9%

34. Ottawa Citizen, November 18, 1947.

35. C.D. Howe Papers, File 89-2, Vol. 142, Manuscript Group, National Archives of Canada.

in an effort to improve the international competitive position of Canada's exports. Howe was even more solicitous of foreign investors in a speech made in October.

Total U.S. investments in Canada were \$5.0 billion paying a bigger cash return to American investors than all other American investments abroad put together Some 2,000 American companies and branches are now established in this country of which more than 1,000 are engaged in manufacturing. We hope that more American companies will avail themselves of the favourable conditions for investment in Canada that follows the recent exchange devaluation.³⁶

Thus we see that throughout the early post-war period the emphasis was strongly placed on industrial expansion and although the Government continued to legitimate its policies in terms of a vague symbolic concept of economic welfare, its policies were in fact largely oriented towards stimulating increased capacity through increased business investment.

The policies of the first post-war period, although launched under the auspices of the White Paper, seem on the whole to evidence the same preoccupations as traditional economic thinking in Canada. They were based on the policy-makers' goal of developing the long-run industrial capacity of the country to as great an extent as possible. Although the importance of investment was stressed, it was more in terms of capacity-creation, the supply side, than income-generation, the demand side. The methods adopted by the government to achieve this goal followed traditional lines as well. The policies they chose relied primarily on stimulating the investment decisions of private entrepreneurs, thus employing the

36. Montreal Gazette, October 31, 1949.

accepted set of economic institutions. This accent on promoting industrial investment revealed a complete disinterest in the source of that investment. Foreign capital was as welcome as domestic. The significant shift, however, was in the language used to legitimate these policies, which, as we have seen, incorporated the language of the White Paper to a large extent and thus represents an important change in the symbolic framework of the political culture.

A further illustration of this general point can be gained from a summary look at the principles of fiscal policy employed in the annual budgets of the first post-war period. There exist two fairly comprehensive studies of the Government's post-war budget policies and the extent to which they employed the Keynesian concept of countercyclical budgeting as espoused in the White Paper of 1945.³⁷ The evaluations of these two studies are presented in summary form in Table XV. Although the two studies differ somewhat in their conclusions, the dominant tone of the evaluation of the budgets for the immediate post-war years, 1945-1949, is critical. Gordon condemns the budgets for each of these years as inadequate and attributes it to a number of causes -- a preoccupation with reducing the wartime burden of taxation on the part of Finance Minister, J.L. Illsey in the first two budgets and a Gladstonian

37. H. Scott Gordon, "A Twenty Year Perspective: Some Reflections on the Keynesian Revolution in Canada", in S.F. Kaliski, ed., op. cit., and R.M. Will, Canadian Fiscal Policy, 1945-1963, Royal Commission on Taxation, Study No. 17, Queen's Printer, Ottawa, 1967, p. 8.

TABLE XV

ADEQUACY OF DISCRETIONARY FISCAL POLICY
1945-1957

YEAR	UNEMPLOYMENT RATE %	CHANGE IN CONSUMER PRICES %	EVALUATION			
			WILL STUDY		GORDON STUDY	
			POLICY Desired	Adopted	POLICY Desired	Adopted
1945	1.6	0.5	restrictive	restrictive	restrictive	expansionary
1946	3.4	3.3	?	expansionary	restrictive	expansionary
1947	2.2	9.4	restrictive	expansionary	restrictive	expansionary
1948	2.3	14.4	restrictive	neutral	neutral	expansionary
1949	2.8	3.1	expansionary	expansionary	restrictive	expansionary
1950	3.6	2.9	restrictive	neutral	restrictive	expansionary
1951	2.4	10.5	restrictive	expansionary	restrictive	expansionary
1952	2.9	2.5	neutral	neutral	neutral	expansionary
1953	3.0	-0.9	expansionary	neutral	expansionary	expansionary
1954	4.6	0.6	expansionary	restrictive	expansionary	restrictive
1955	4.4	0.3	?	expansionary	expansionary	expansionary
1956	3.4	3.0	restrictive	neutral	restrictive	restrictive
1957	4.6	2.2	expansionary	expansionary	expansionary	expansionary

SOURCES: R.M. Will, Canadian Fiscal Policy, 1945-1963, Royal Commission on Taxation, Study No. 17, Queen's Printer, Ottawa, 1967.
H. Scott Gordon, "A Twenty Year Perspective: Some Reflections on the Keynesian Revolution in Canada" in S.F. Kaliski, ed., Canadian Economic Policy Since the War, Canadian Trade Committee, 1965.
Compiled by W.I. Gillespie, Carleton University, Ottawa.

preoccupation with the balanced budget in the next three, on the part of the new Minister D.C. Abbott. All of these were brought down at a time when strong inflationary pressures called for substantial budget surplus' to offset private spending.³⁸ Will is not nearly so critical in his conclusions, yet feels that discretionary fiscal policy was by and large inadequate in the first post-war years. He attributes this in part to a constant belief on the part of the Finance Ministers that buoyant demand was a shortlived phenomenon and that recessionary pressures would soon follow. He also points out that fear of the political repercussion for running a large budgetary surplus was also an inhibiting factor. However, he also condemns the Government's concern with reducing the national debt as an inflationary influence; the use of cash surplus' to redeem the debt held by chartered banks and the general public added to the total size of the money supply in the private sector and thus to the inflationary forces.³⁹ At worst, the budgeting principles employed in the first post-war period can be condemned for the same overriding concern with rapid economic expansion that marked the Government's other economic policies and thus failed to take sufficient notice of the inflationary impact of these policies on an economy that was already expanding. It appears that during this period the goals of rapid economic growth and a stable level of prices and employment were somewhat contradictory, Mr. Howe's convictions notwithstanding.

38. H. Scott Gordon, op. cit., pp. 36-37.

39. R.M. Will, op. cit., pp. 20-22.

Despite the principles of fiscal stabilization expressed in the White Paper it is quite apparent in the writings of the Deputy Minister of Finance that the Government's preoccupation in the post-war budgets was somewhat different:

... first was the recognition that the very high wartime tax rates tended to weaken initiative, blunt incentives and thus impair productivity at a time when ~~maximum~~ efficient effort was essential to economic health and progress By the beginning of 1949 the Minister was confident that post-war inflation had subsided In his new budget ... he attempted to complete the process of tax reduction to levels that might be expected to persist in peacetime and aimed at little better than a balance in the accounts.⁴⁰

When the Government's budget policies are juxtaposed with its general economic policy for the years 1945-1949, the same overall pattern is evident. The post-war Liberals adopted a somewhat partial view of Keynes that was strongly biased in favour of the expansionary aspects of his policies. This reflects the continuity of traditional economic goals in the plan of the post-war political leaders, employing the same social technology of relying on private investment to stimulate economic expansion.⁴¹ Out of the old economic orthodoxy they created a new one, which could use the symbolic concepts of economic welfare as a new legitimation for the same old goals. This conclusion is reinforced when we turn to an examination of the next post-war period, 1950-1953.

40. W.C. Clark, "Canada's Post-War Finance", Canadian Tax Journal, Vol. I, No. 1, Jan. - Feb., 1953, p. 12.

41. David Lewis, Louder Voices: The Corporate Welfare Bums, James Lewis and Samuel, Toronto, 1972, p. 2.

IV

In 1949 the Government introduced a new Income Tax Act in Parliament which, besides containing the income tax reductions, mentioned by the Deputy Minister of Finance in the paragraph above, also contained several provisions with crucial significance for economic policy in the 1950's. The most crucial of these provisions was the new Capital Cost Allowance scheme, which incorporated into the Tax Act many of the features of C.D. Howe's accelerated depreciation rates of 1944. The new Capital Cost Allowance scheme required that one method of depreciation, the diminishing balance method be used in almost all instances. The diminishing balance method set new rates of depreciation for most assets at double the rates formerly allowed on the straight-line basis.⁴² The governing principle of the new Capital Cost Allowance scheme was the amortization of costs of depreciable assets. By amortization of costs the government meant that the total proven cost of an asset to a taxpayer could be deducted over a period of years in the computation of his income, allowing for factors such as obsolescence and excessive use.⁴³ The essential advantage of the new system was the difference to the taxpayer between the accelerated depreciation rate recorded for tax purposes and the actual depreciation rate recorded for accounting purposes which resulted in temporary tax savings recorded in the taxpayers accounts

42. Robert W. Davis, Capital Cost Allowance, Royal Commission on Taxation, Study No. 21, Queen's Printer, Ottawa, 1966, p. 5.

43. Ibid., p. 51.

as a deferred income tax liability. Although theoretically this should only have been true for the first few years of life of a depreciable asset, with tax liability increasing in later years, in practice it proved otherwise.

Although it is true that for a particular asset, the decreasing capital cost allowance will result in a higher effective tax rate, the continuous addition of new assets and the higher initial deductions allowable thereon defer the total reversal of the tax saving indefinitely.⁴⁴

The ultimate logic of this scheme becomes apparent when the depreciable property of the taxpayer is being acquired at a geometric rate of growth. In this case the total tax saving continues to grow.

The greater the difference between the capital cost allowance rate and the rate of depreciation used on the books, and the faster the rate of acquisition of depreciable property by the taxpayer, the greater the amount of tax saving and the faster the rate of increase in tax saving will be.⁴⁵

The Royal Commission on Taxation conducted a survey of nearly one hundred Canadian corporations for the years 1955 (when corporations first began the separate accounting procedures) and 1962. For the years surveyed, the capital cost allowances claimed exceeded the depreciation recorded in the corporations accounts by \$700 million. The author of the study concluded that since the corporations surveyed represented 25% to 30% of capital expenditures in Canada during these years, then the accumulated tax deferment for

44. Ibid., p. 74.

45. Ibid., p. 75.

all industry could be estimated at \$1,000 to \$2,000 million to the end of 1962.⁴⁶ Accountant John R. Ferguson in an analysis of the Davis Study, says this figure is inaccurate. If the corporations surveyed represented 25% to 30% of all capital expenditures between 1955 and 1962, then the total tax deferment for all corporations would be in the order of \$2,400 to \$2,800 million and the estimate for the total period from 1949 to 1967 would run anywhere from \$4,000 to \$6,000 million. Using an alternative method for testing this figure, based on the National Accounts and using the Davis figure that deferred taxes came to 14.1% of all capital cost allowances, Ferguson concludes that accumulated deferred taxes would account for \$5,700 million of the total capital cost allowances of \$40,100 million between 1949 and 1967.⁴⁷ What is obvious, regardless of which set of figures one accepts, is the fact that during the period under investigation, accelerated depreciation rates and the new capital cost allowance system represented strong incentives to invest in the Canadian economy both for domestic and foreign investors. We can only guess at what percentage of these tax savings accrued to foreign corporations in Canada. A study for the Royal Commission on Canada's Economic Prospects concluded that this feature of the Tax Act was probably the strongest inducement to foreign investment in Canada.

46. Ibid., p. 11.

47. John R. Ferguson, "Deferred Corporation Taxes and the Government's Cash Position", Ottawa, Jan. 1968, (Mimeo).

The rapidity with which capital expenditures may be written off by way of depreciation allowances is perhaps one of the most important factors influencing investment in corporations The Canadian depreciation rates are much more generous than the rates in either the United States or the United Kingdom The principle factor of corporate income tax likely to affect the foreign investor is the rapidity with which capital investment may be written off The Canadian system provides a substantial incentive to the United States investor in this respect⁴⁸

The capital cost allowance was not the only feature of the Canadian tax laws that related to this problem. The mere fact that the Canadian corporate tax rate was set at 49% as compared to 52% in the U.S. was at least a mild inducement to investment. Although the withholding tax of 15% on dividends paid to non-residents was designed to repatriate a certain degree of profits leaving the country, the following exceptions proved to be more common than the rule: (i) when dividends were paid by a non-resident owned investment corporation; (ii) when dividends were paid by a resident subsidiary to a non-resident parent, the 15% tax was reduced to 5% if the subsidiary was wholly owned by the parent; (iii) if no dividends were declared and profits reinvested by the resident subsidiary or branch, no withholding tax was payable.⁴⁹ In the case of U.S. parent corporations, it is worth noting that they generally suffered no loss through the Canadian withholding tax in

48. J. Grant Glassco, Certain Aspects of Taxation Relating to Investment in Canada by Non-Residents, Royal Commission on Canada's Economic Prospects, Queen's Printer, Ottawa, 1956, pp. 13, 15.

49. Jean Boyer de la Giroday, Canadian Taxation and Foreign Investment, Canadian Tax Foundation, Paper No. 19, Toronto, 1955, p. 36.

view of the fact that all such payments were deductible from U.S. corporate income taxes. A further aspect of the Income Tax Act that was beneficial to foreign investors was the provision relating to investment companies. Dividends from Canadian corporations were not taxable when received by another Canadian corporation. In addition dividends received by Canadian corporations from a foreign corporation of which more than 25% of the voting shares were held by the recipient were not taxable. This provision definitely had a large influence on the formation of Canadian investment trust companies owned by residents of the U.S. for purposes of investing in diversified Canadian equities, for which it was specifically designed.⁵⁰ Thus the new Income Tax Act as a whole neatly fits into the large pattern of Canadian economic policy over this period. In addition to containing in a more refined form, Howe's most innovative incentive to spur capital investment, it also contained a series of additional minor provisions which served to make Canada more attractive to foreign investment. The same emphasis on expansion of productive capacity through increased capital investment witnessed in early policies is present in this one as well.

Another major area of economic policy during the second post-war period is that relating to tariffs and trade. This area has traditionally been of crucial importance in Canadian economic policy due to the 'openness' of the Canadian economy, i.e. the extent to which Canada has relied upon massive exports of primary

50. J. Grant Glassco, op. cit., pp. 18-19, Jean Boyer de la Giroday, op. cit., pp. 44-45.

resources to offset and pay for large imports of manufactured goods. A keystone of the Liberal's economic policy in the 1950's involved the maintenance of Canada's traditional high level of exports while attempting to reduce the massive inflow of U.S. manufactured goods -- which had been a partial cause of the foreign exchange crisis of 1947. The Emergency Exchange Conservation Act of 1947 had been a first step in that direction. Most of the import quota's had been withdrawn by 1950 and thereafter the Government resorted to less obvious methods. They relied primarily on three economic tools to influence trade and development policy, all of which had a distinct impact on the economy in terms of the growth of foreign control. The most prominent policy in this area was the General Agreement on Tariffs and Trade concluded under U.N. auspices between 1947 and 1949. On the surface the GATT appeared to involve serious tariff reductions for duties on manufactured goods (on the part of all concerned). For Canada, however, the tariff reductions had more the substance of window dressing than of significant concessions, and in the case of the U.S., the Congress delayed implementing most of the negotiated reductions throughout the 1950's.⁵¹ A close examination of the work of the Canadian negotiators reveals that they had in fact followed the historical Canadian policy of promoting Canada's staple exports in exchange for (what appeared to be) concessions on foreign manufactured goods

51. J. Douglas Gibson, "The Changing Influence of the U.S. on the Canadian Economy", Canadian Journal of Economics and Political Science, Vol. XIX, No. 3, Aug. 1953, p. 425; W.A. Mackintosh, "The Canadian Economy and Its Competitors", Foreign Affairs, Vol. 134, No. 1, Oct. 1955, p. 122.

entering Canada. This emphasis by the government on maintaining favourable treatment for traditional export industries reflected the conventional wisdom that this was the area in which Canada enjoyed a significant international competitive advantage.⁵²

C.D. Howe, although pleased with the benefits gained for Canada's resource industries as a result of GATT, was nonetheless perturbed at the American failure to allow Canadian manufactured goods to compete in the U.S. market. Howe recognized the important role that Canada's primary exports played in the overall economy. For this reason he welcomed the rapid expansion of Canada's resource industries which took place in the 1950's (as we shall see below) and approved of the tariff concessions for staple exports gained under GATT. At the same time, however, he was fully aware of the greater employment potential of manufacturing industries. This was in keeping with his understanding of the economic theory of the White Paper, to promote greater employment through increased physical productive capacity. Yet the expansion of Canada's manufacturing capacity was limited to a large extent by the size of the domestic market. There was only a limited amount of uneconomic expansion that could be induced through incentives such as the capital cost allowances. Thus in repeated speeches to American audiences and in negotiations with American officials, Howe hammered away at the same theme, typified in his speech to the National Foreign Trade Convention in New York in 1952,

52. Clarence L. Barber, "Canadian Tariff Policy", p. 528.

I would be even happier about the present state of trade between our two countries if you in the United States were as ready to admit manufactured goods and agricultural products as you are to admit our metals and other raw materials. I venture to hope that you deplore these continuing obstacles as much as I do.⁵³

It was mentioned above that Canadian tariff concessions granted under GATT had been largely window dressings. In fact the Liberal Government throughout the 1950's employed the tariff as a traditional tool of trade policy in much the same manner as that set by Macdonald's original National Policy. The tariff rate was manipulated by the Government in such a manner as to present artificially high barriers to the importation of finished manufactured goods into Canada, yet encourage the importation of components and parts for assembly plant operations. This was the second technique employed by the government to implement its trade policy. This device of granting reductions on end-use items consisted of introducing new tariff items granting reductions in duties on various materials when imported for the manufacture of particular products. What this device did was to raise the effective level of protection over the apparent rate of protection on the finished product. This meant that on some products where the intermediate tariff levied on imported parts or components, was 20% it could provide an effective protection rate on the end product of 35% or 40%.⁵⁴ John H. Young, in a study of this policy carried out for the Royal Commission on Canada's Economic Prospects, commented that

53. Toronto Daily Star, November 18, 1952.

54. Clarence L. Barber, "Canadian Tariff Policy", pp. 524-525.

... such a reduction, by relieving the manufacturer of the final product from the payment of some duties on his inputs, in effect raises his protection without at the same time bringing about an effective reduction in the protection afforded other industries.⁵⁵

Table XVI presents a survey of the end-use tariff item changes contained in the annual financial statements presented by the Minister of Finance to the House of Commons from 1945 to 1957. While the list is by no means comprehensive due to the fact that it does not contain the many changes made during the course of the year through Orders-in-Council, it is, however, indicative of the extent to which the government relied on this device to implement its industrial development policies. The indebtedness of manufacturers to the tariff policies was clearly acknowledged by the Canadian electronics industry in 1956 (which at that time was foreign controlled) when they said that the Canadian protective tariff had resulted in a steady flow of U.S. and other foreign capital to Canada in the form of branch plants. They affirmed that tariffs had been the greatest single factor inducing foreign manufacturers to establish branch plants in Canada.⁵⁶

The use of the tariff to promote the expansion of Canada's secondary manufacturing was coordinated by the Industrial Development Branch of C.D. Howe's Department of Trade and Commerce, the third aspect of the Government's trade and industrial development policy.

55. John H. Young, Canadian Commercial Policy, Royal Commission on Canada's Economic Prospects, Queen's Printer, Ottawa, 1957, p. 103.

56. Submission by the Canadian Electrical Manufacturers Association to the Royal Commission on Canada's Economic Prospects, Vol. 98, Exhibit 161, Records Group, National Archives of Canada.

TABLE XVI
END-USE TARIFF ITEM CHANGES
ANNUAL BUDGET, 1945-1957

YEAR	ITEM NUMBERS
1945	none
1946, June 27	#192f, 197d, 272c, 326e, 326k, 434c, 438b, 438c, 438i, 442, 469d, 826a, 847.
1947	none
1948, May 18	#186, 192g, 198c, 199g, 208i, 216d, 216e, 216f, 246c, 263c, 296e, 309a, 386d, 386p, 403a, 412, 412e, 413, 438b, 438c, 438d, 442d, 445o, 654a, 657.
1949	none
1950, March 28	#216g, 453a
1951, April 10	#296e, 386, 403, 553g.
1952, April 8	#197f, 220d, 427j, 442d, 443c, 445o, 447c, 522e, 563, 657, 660.
1953, Feb. 19	#272b, 412a, 442, 442d, 443d, 478.
1954, April 6	#206, 418, 418a, 437a, 442, 446k, 535e, 569d, 848.
1955, April 5	#219h, 326c, 418, 438b, 438c, 440p, 440q, 440r, 443c, 443f, 447, 523f.
1956, March 20	#288b, 409t, 409v, 442.
1957, March 14	#409t, 682a.

SOURCES: compiled from House of Commons Debates, Queen's Printer, Ottawa, 1945-1957.

The Industrial Development Branch grew in large part out of the Import Control Division of Trade and Commerce mentioned above, in connection with the Emergency Exchange Conservation Act. The function of the Industrial Development Branch was primarily to promote the manufacture in Canada of goods previously imported. The first step in this process was to approach Canadian manufacturers in a similar area and ask them to manufacture the imported product in Canada. More often than not this failed and the second step was resorted to. This consisted of approaching the foreign manufacturer and attempting to persuade him to establish a subsidiary in Canada to assemble his finished product.⁵⁷ The Branch used several methods to persuade the foreign manufacturer to locate in Canada, including end-use item tariff reductions on his imported components. In addition there were other incentives such as the accelerated capital cost allowances available in Canada. The I.D.B. also attempted to approach provincial governments on behalf of foreign manufacturers in order to gain further provincial and municipal tax concessions. In the late 1940's the Branch set up an operation to further coordinate the work of the federal I.D.B. with that carried on by each of the provincial governments. This included holding annual conferences on the subject with the provinces and periodically

57. Financial Post, November 8 and December 13, 1958. This topic presented the most serious research problems for the author. An in-depth study of the operations of the I.D.B. was attempted using the Branch's files in the National Archives. The Department of Trade and Commerce allows only limited access to these files under the thirty-year limitations rule and refused the request for access.

referring the names of prospective manufacturers to the provincial departments.⁵⁸ Taken as a whole the work of the I.D.B. in promoting the expansion of secondary manufacturing and providing end-use item tariff reductions played a significant role in encouraging the expansion of foreign direct investment in Canada.

Canadian Governments have often been accused of lacking an industrial development strategy. It is becoming apparent, however, that this was not true of Howe and his Department of Trade and Commerce. In addition to the strong emphasis on investment expansion contained in the fiscal policies examined above, the Government also stressed the importance of trade and industrial development policies. Together they constitute a rather comprehensive package. These policies clearly reflected the thinking among Government leaders and senior civil servants that these were the policies best suited to achieve the stable level of employment and income goals of the White Paper. In a private interview, W.F. Bull, former Deputy Minister of the Department of Trade and Commerce under C.D. Howe said that the Government operated primarily on the assumption that it was better for Canadians to consume foreign goods manufactured in Canada than to resort to importing them. The Government felt that foreign investment of this type was beneficial to Canada because it contributed to increased employment.⁵⁹ This view was echoed by another senior

58. Industrial Development Branch Files, Department of Trade and Commerce, Public Records, National Archives of Canada.

59. Private interview with W.F. Bull in Ottawa by Pat Oxley and Stan Howe on April 24, 1972.

official in the Department of Trade and Commerce who said that the Department's industrial thinking in the post-war period was governed by the White Paper's goal of a high employment level. The key to achieving this goal in the Department's view was simply the number of smoke stacks in Canada, the more there were and the bigger they were, the better off the economy was -- nationality of origin was an irrelevant consideration at that time.⁶⁰

Undoubtedly the event with the greatest significance for Canadian economic development in the post-war years was the outbreak of the Korean War in June, 1950. The outbreak of the war sparked a spree of consumer spending and capital investment in resource and defense industries. It launched the economy on a boom that lasted through to 1954 and was marked throughout by strong inflationary pressures. More significant, it gave C.D. Howe the chance of returning to the management of a near wartime economy at which he had excelled so well during World War II. The Defense Production Bill introduced by the Government in September, 1950 created the new Department of Defense Production and gave Howe far reaching powers over Canadian industry, similar to the ones he had enjoyed as Minister of Munitions and Supply during World War II. The defense appropriations for 1950 and the following two years were hiked to \$5 billion dollars giving Howe the ability to provide strong incentives to selected Canadian industries, most notable the aircraft industry, the electronics industry, and the steel industry, through defense contracts. In addition Howe was given

60. Private interview held by the author in July, 1972.

the power to set accelerated depreciation rates of 30% on projects deemed essential for the defense effort, defer depreciation in nonessential industries, and build or subsidize the construction of necessary plants. The accelerated depreciation rates were Howe's favourites. Just as he had applied them during the war and post-war years to promote the growth of huge industrial projects such as the Alcan operation at Arvida, so they were reapplied in the 1950's to promote the development of such huge projects as the Alcan plant at Kitimat, B.C., the new Stelco plant at Hamilton, the expansion of General Dynamics' aircraft production at Montreal and the initial undertaking of the Iron Ore Company of Canada's operations in the Ungava peninsula.⁶¹

Howe's use of these tax incentives to promote the expansion of Canadian industry was clearly spelled out in this statement by the President of the Algoma Steel Corporation in 1966,

... in my opinion the common denominator of the prosperity of the Canadian steel industry was the Right Honourable C.D. Howe. In 1950, the industry was floundering in relative insecurity, with deficient cash flows, and lack of decision with respect to expansion on a broad basis. Mr. Howe in 1951, with the Korean War facing the country was instrumental in obtaining special accelerated depreciation applied to basic steel expansion which enabled all three of the Ontario producers to expand and modernize at a rapid rate while at the same time not endangering their capital structure with too much debt.⁶²

The company which undoubtedly benefited the most from the defense spending binge of the 1950's was A.V. Roe Ltd. Under the stimulus

61. Fortune Magazine, op. cit., p. 146.

62. Quoted by John R. Ferguson, op. cit., p. 6.

of millions of dollars awarded to it in defense contracts Avro spread across Canada like a collossus owning or controlling 45 companies by the end of the 1950's. A further indication of the extent to which the Government took a personal interest in Avro was the removal by Howe of the company's top management and its replacement by one of his own deputies, Crawford Gordon, in the early fifties. The role played by the Government in the early 1950's in promoting the industrialization of Canada through defense spending and in particular, the case of A.V. Roe presents ample evidence for the hypothesis that in promoting economic expansion, the Government relied on the traditional social technology of stimulating private investment. It is another classic example of the theme of government and business cooperation which runs so persistently through Canadian history.⁶³

The investment boom of the early '50's both public and private is clearly illustrative of the type of economic growth which Howe and the Liberal government envisaged -- large industrial plants manufacturing both for defense requirements and to meet growing consumer demands. In many respects, the war years from 1939 to 1945 can be seen as the epitome of this type of growth, for there was indeed no unemployment in Canada. Similarly unemployment from 1950 to 1953 stayed consistently below the full employment level of 3%. It was inevitable, however, that this type of economic

63. For a more specific documentation of the expansion of A.V. Roe Ltd. and an analysis of the integral role played by the government in this process see John Porter, op. cit., pp. 259-263 and pp. 550-552.

policy would involve large degrees of foreign participation. Alcan, Iron Ore Co., General Dynamics and Avro were all largely foreign financed enterprises. From 1950 to 1953 capital investment in manufacturing industries amounted to \$3.25 billion (Table V, Chapter III), of which over \$1.0 billion was foreign direct investment (Table XI, Chapter III). This provides support for another of the hypotheses stated at the beginning of this chapter. Because of the overwhelming importance which the Government attached to economic expansion through increased capital investment, it is not surprising to find that they were relatively indiscriminating about the sources of that capital investment. In a speech given in Boston in 1954, Howe commented approvingly on this phenomenon of increasing foreign participation in Canadian industrial expansion,

... While in the immediate post-war period most of Canada's industrial and resources expansion was financed from Canadian savings, in the more recent period we have had a substantial inflow of foreign capital, mainly American Canada has welcomed the participation of American and other foreign capital in its industrial expansion. In Canada foreign investors are treated the same as domestic investors.⁶⁴

As important a role as the expansion of secondary manufacturing played in the economic boom of the 1950's, it did not, however, play the most important one. That role was reserved for Canada's resource industries and exports of raw materials. Both the causes and the quantitative dimensions of the resource boom enjoyed by Canada during this period have already been outlined in Chapter III. It is worth reiterating one point that was previously made. In

64. C.D. Howe Papers, File 89-2, Vol. 146, Manuscript Group, National Archives of Canada.

analyzing the character of Canada's post-war economic growth, the distinction must be maintained between growth in the manufacturing sector and growth in the resource sector. This chapter has dealt thus far almost exclusively with policies aimed at fostering the growth of manufacturing industries, tax incentives, export credits, import controls, tariff manipulation, balanced budgets, etc. Very little mention, however, has been made of policies of the Liberal Government that had a specific impact on the growth of the resource industries and the degree of foreign control of them. This is so because this phenomenon can only be understood as a response to economic factors external to Canada. Some recent authors have attempted to argue that the centrality of resource industries in the overall balance of the Canadian economy is the unavoidable result of Government tax policies.⁶⁵ Table XVII, illustrates the point that as generous as the Canadian tax allowances were to the resource industries, they still did not compare to the generosity of the American government. Similar arguments were made by the Canadian Petroleum Association in their submission to the Gordon Commission.⁶⁶ It appears, in fact, that the largely foreign financed growth of Canada's resource industries in the post-war

65. Eric Kierans, "Contribution of the Tax System to Canada's Unemployment and Ownership Problems", Address to Annual Meetings, Canadian Economics Association, June 3 - 5, 1971, Memorial University, St. John's, Newfoundland, (Mimeo).

66. Submission by the Canadian Petroleum Association to the Royal Commission on Canada's Economic Prospects, Vol. 92, Exhibit 61A, Records Group, National Archives of Canada.

TABLE XVII
A COMPARISON OF THE NET COST OF IDENTICAL EXPLORATION
PROGRAMS CONDUCTED BY DIFFERENT
CLASSES OF TAXPAYERS

	<u>U.S. PRODUCERS</u>	<u>CANADIAN PRODUCERS</u>
Taxable income before deducting exploration costs or depletion	\$3,000,000	\$3,000,000
Deduct: Exploration costs	<u>1,000,000</u>	<u>1,000,000</u>
	2,000,000	2,000,000
Deduct: Depletion allowance	<u>1,500,000</u>	<u>666,667</u>
Taxable Income	\$ 500,000	\$1,333,333
Income Tax @ 52% (U.S.) & 47% (Can.)	<u>260,000</u>	<u>626,667</u>
Net Profit	\$1,740,000	\$1,373,333
Net Cost of Identical Exploration Programs	480,000	686,667
Net after-tax cost per exploration dollar	48¢	68.7¢

SOURCE: Submission by Imperial Oil Ltd. to Royal Commission on Canada's Economic Prospects, Vol. 96, Exhibit 125, Records Group, National Archives of Canada, p. 51.

years was primarily the result of efforts of American corporations to assure themselves of adequate future supplies of basic raw materials rather than the result of any specific tax policies of the Canadian government. As was noted in Chapter III, the investment planning by U.S. corporations in Canada's resource industries closely paralleled the future resource needs of the U.S. anticipated in the Paley Report.

It should not be assumed, however, that merely because the growth of Canada's resource industries during the 1950's did not directly result from specific government policies, it was the less welcome for it. On the contrary, as was observed in the case of the GATT tariff reductions, Canadian negotiators concentrated on gaining easier access for Canadian raw materials to foreign markets. Howe and the Government tended to view the resource industries as the lead sector of the Canadian economy that would provide the stimulus for the expansion of industry in the manufacturing and service sectors. Furthermore, they viewed the continued high levels of Canada's raw material exports as crucial to offsetting the still numerous imports of manufactured goods and thus maintaining an equilibrium in the balance of payments. On this basis, the Government could even rationalize the largely foreign induced growth of the resource sector in terms of the legitimating symbols of the White Paper. In a statement to the House of Commons in November, 1953, on economic development during the years of Korea, Howe recognized the stimulus that the strategic resource needs of the war had provided for Canada. This had resulted in a rate of economic expansion that would have taken place more gradually

otherwise. Expansion in this sector of the economy had also resulted in the expansion of secondary and service facilities which were necessary for a full and rounded development of the economy.⁶⁷ For Howe, export led and resource based economic growth were clearly compatible with his goal of a rapidly industrialized Canada and easily justifiable in terms of the White Paper's symbols of a high and stable level of employment and income.

An evaluation of policy-making in the second post-war period reveals an added dimension that was not present in the first. This is the significant degree of participation by foreign capital in Canada's investment boom. Although the capital had been just as welcome in the first period, it had not been as readily forthcoming due to the large amount of capital invested in European aid and recovery programs. By 1950, when the situation in Europe had stabilized, foreign capital, especially American began to look to Canada as an attractive site for investment (Chapter III). This was matched on the policy-making side by the continued efforts of the Canadian Government to provide an economic environment conducive to large-scale capital investment. Faced with a rapid surge in the growth of resource based industries, the Government made a distinct effort to maintain balanced structural growth by promoting continued investment in the manufacturing industries through measures such as the Capital Cost Allowance scheme and end-use item tariff concessions. As they did in the first post-war period, the policy-makers continued to rely on the language and symbols of the White Paper to legitimate their policies.

67. C.D. Howe Papers, File 89-2, Vol. 147, Manuscript Group, National Archives of Canada.

This emphasis on the expansionary aspects of the White Paper is illustrated once again by a look at the budgeting principles employed in setting fiscal policy during this period. The results are not remarkably dissimilar from 1945-1949. The rapid rise in exports of Canadian raw materials to the U.S. during the Korean War caused a rapid inflationary rise in prices by adding to the demand placed on the economy's productive capacity through a higher level of spending, both public and private. The government responded to the increased expenditures caused by defense demands and inflation through increased taxes in the 1950 and 1951 budgets. Taxes were cut slightly in 1952 in light of the forecast of a small surplus. The guiding motivation of the Government during these years was that increased defense expenditures must be financed on the pay-as-you-go basis of a balanced budget. The government further believed that this basis of balanced budgets would get to the root of the inflation problem. It was in fact inhibited from raising taxes to a significant anti-inflationary level out of fear of what the higher taxes would do to incentive. The Government again failed in its application of Keynesian principles by not realizing that a sizeable budget surplus was required during these years to offset the inflationary effect of increased spending on defense.⁶⁸

Once again, as in the 1945-1949 budgets it is obvious that the Government's commitment to the principles of Keynesian budgeting was somewhat limited. If the Government's real goal was rapid

68. H. Scott Gordon, op. cit., p. 37 and Robert M. Will, op. cit., p. 35.

economic and industrial expansion, it would follow logically (as in fact the case both in the 1945-1949 and 1950-1953 periods) that its interest in Keynes would be restricted principally to anti-recessionary tendencies. As long as a significant rate of expansion was maintained, the Government could easily find the costs of inflation more tolerable. This is exactly the thinking that is reflected in W.C. Clark's analysis of the budgets during these years. The Government sought to achieve a balanced budget by tax increases and to counteract inflation through the particular distribution of the tax increases.

... Nearly half of the increased revenue yield was designed to come from increased sales and excise taxes, because the Minister believed that while such commodity taxes would, in the first instance raise prices, it was fundamentally more anti-inflationary to restrain consumption and encourage saving by such taxes on spending than still further to increase taxes on income, which are, in effect, taxes on producing.⁶⁹

It is not surprising to find that a cursory analysis of the 1950-1953 budgets confirms the earlier conclusion that the Liberals' interpretation of Keynes was limited to the expansionary aspects of his policies, in keeping with the traditional goals of Canadian economic thinking.

V

The hypothesis that the Liberals were interested in expansion first and Keynes, only so far as he served that end, is confirmed again when we look at the economic policies of the post-Korea

69. W.C. Clark, op. cit., pp. 102-103.

period, 1954-1957. The end of the Korean War in 1953 was followed by a brief recession, a contraction of the economy after a three year spending binge. The recession was primarily the result of a return to normal demand conditions with the easing of international tensions. While the Government did not adopt any sweeping measures to deal with the recession, there were several fiscal measures adopted that had an expansionary impact. The 1953 budget contained both corporate and personal income tax cuts, as much because it was an election year as for any other reason. The tax cuts did have the effect, however, of contributing to the buoyancy of consumer spending throughout the brief recession.⁷⁰ Aside from this the government did not take any other significant action.

What is significant about the brief recession of 1953-1954 was the rapidity with which Howe returned to the language of the White Paper to explain and legitimate the Government's actions. In a speech to the Canadian Club of Toronto in April, 1954, Howe said that the present basis of the Government's policies was the same as those contained in the White Paper of 1945. He said that the Government still operated on the principle that it should regulate its capital expenditures so that they would contribute the maximum to the improvement and stabilization of employment and income. This consisted of a policy of budgeting for surplus, fighting unemployment and a public works program.⁷¹ The fascinating aspect of this statement is that the chief spokesman for the Government's economic

70. Robert M. Will, op. cit., p. 46.

71. Toronto Globe and Mail, April 6, 1954.

policies should return to an explicit statement of this philosophy after having ignored its anti-inflationary aspects for the previous three years. This fact serves to confirm the point that the chief value of Keynesian thinking and the White Paper for the post-war Liberals was on the symbolic and legitimational level where it served to justify their expansionary and growth of capacity oriented policies. It also confirms the point that they really were only interested in the anti-recessionary and not in the anti-inflationary implications of the White Paper.

The final years of the post-war period, 1955 to 1957, do not consist of any significant innovations on the plane of economic policy or economic development. There were no radical innovations in policy by the Liberals during the last three years of their twenty-two year rule. The economy easily pulled out of the recession in late 1954 and continued on in a buoyant state. Capital investment, physical output and foreign control all continued to expand rapidly during these years as the figures of Chapter III showed. Unemployment remained slightly over 3% and inflation was a persistent feature of the economy but not a severe problem. This period does represent a break with the 1945 to 1955 years on another plane, in the sphere of what can broadly be termed public consciousness. It was during these years that public awareness and public questioning of the role of foreign capital in the Canadian economy became a growing political issue. This fact in turn forced the Government to deal more specifically with the issue (in theory, at least) than it had at any previous time in the post-war years.

The emergence of foreign control as an important economic and political issue in Canada has many origins. Some would attribute it to the persistent efforts of a small group of Canadian nationalists to preserve the country's identity and integrity. Others would attribute it to the growing awareness of the entrepreneurial class of the extent to which this fact threatened their very existence. The question of the relation between social development and consciousness is at best problematic in sociological theory and we will not try to answer it here. Suffice it to say that this new awareness was the recognition of a fact of Canadian life that had been present at least since the 1920's, but grew at an accelerated rate in the post-war years. The result was that by 1955 the role of foreign control in the Canadian economy had assumed such monumental proportions that it could no longer easily be ignored in the political sphere of Canadian public life. The key event which forced the issue into the forum of public debate was the open hearings held by the Royal Commission on Canada's Economic Prospects across the country during 1955 and 1956. The Royal Commission itself had been the product of a growing difference in the Liberal party on economic thinking between the old guard represented by Howe, and the younger members of the Cabinet such as the new Finance Minister, Walter Harris. Walter Gordon, the scion of one of Canada's leading entrepreneurial families had written an article for International Affairs in 1955 on the problem of Canada's economic future, and of foreign control. The article sufficiently

impressed officials in the Finance Ministry that they recommended to Prime Minister St. Laurent that Gordon be appointed head of a Royal Commission on the topic. St. Laurent agreed, much to the chagrin of Howe, who for the past fifteen years had been almost undisputed master of economic policy.⁷²

The Royal Commission on Canada's Economic Prospects began its hearings in the fall of 1955 and continued across the country throughout the winter and spring of 1956. At hearing after hearing across the country Canadian manufacturers testified on the extent and control of Canada's resource and manufacturing industries by foreign corporations. In the midst of this process, March, 1956, the Dominion Bureau of Statistics released the first comprehensive set of figures on the extent and nature of foreign direct investment in Canada. The mounting level of criticism grew so strongly that the American Ambassador to Canada was prompted to undertake a public defense of the role of American capital in Canadian development in April, 1956. Howe, in a speech a few days later, elaborated, on behalf of the Government, the defense put forward by the American Ambassador. He noted that the inflow of American capital to Canada was accompanied by new technical skills, without which the rapid expansion of Canada's primary and secondary industry would hardly have been possible. He denied, however, that this meant that U.S. capital had assumed a dominant position in the

72. Dave Godfrey and Melville Watkins, ed. Gordon to Watkins to You, New Press, Toronto, 1970, p. 15, and a personal interview by the author with Walter Gordon, November 16, 1972.

Canadian economy. The key point of the argument was that without the aid of such capital the development would not have been possible and that Canada had in fact acted no differently than any other modern nation during the early period of its economic development. In one of his broadest defenses ever of the Government's industrial development strategy, Howe went on to say

... Canadians have not generated enough savings to supply all the capital required for Canadian development in post-war years Had it not been for the enterprise and capital from the United States which has been so freely at our disposal in post-war years, our development would have been slower and some of the spectacular projects about which we are so proud ... would still be far in the future The provincial governments of Canada ... have made efforts to persuade American companies to establish within their borders They recognize that the admixture of external capital and enterprise with Canadian capital and enterprise in contributing to industrial diversification, and hence to the strength and stability of the whole economy.⁷³

Although the words are different, the intent is the same as that which he had used throughout the period. The only thing missing is an explicit reference to a stable level of employment and income. The justification and the legitimation for a continuing policy of strong inducements to capital investment, the bellweather of economic health, is a strong and stable economy. It would follow automatically in Howe's thinking that this was what had guaranteed a high and stable level of employment and income in the years since the war.

The debate was still only beginning at this point, for in May, the issue of the Trans-Canada Pipeline burst onto the national scene. The debate in the House of Commons raised the argument over

73. C.D. Howe Papers, File 89-2, Vol. 152, Manuscript Group, National Archives of Canada.

the role of foreign investment to fever pitch. It degenerated from the refined business arguments heard before the Gordon Commission to the black and whites of Canadian good versus foreign evil. One was either in favour of continued economic growth (the proponents of the pipeline) or in favour of preserving national independence (its opponents). There was little middle ground. Throughout the debate Howe defended the project as crucial to the continued development of Canada's energy resources, and the Government's participation in the project as the only reasonable way to realize it.⁷⁴ This line of argument, in fact, the whole manner in which Howe, on behalf of the Government, sponsored the undertaking of the pipeline, was perfectly in keeping with the entire thrust of his economic policies from World War II on. The Pipeline from Western Canada to the East was crucial in order to guarantee the development of Alberta's oil and natural gas resources. In Howe's definition of what was important for national independence, western oil and gas should be used to supply eastern needs. If foreign financing of the project and Government guarantees of the undertaking were required, it was perfectly legitimate, for the goal was the development of Canada's primary resources. The strategy for economic

74. The question of the Trans-Canada Pipeline touches all of the crucial questions dealt with in this paper, the rate of economic growth, the role of resource development, the use of foreign capital and the cooperation of government and business to guarantee economic development. The full scope of the national debate, however, lies outside this paper. For a detailed account of the development of the pipeline see William Kilbourn, Pipeline, Clarke, Irwin and Co., Ltd., Toronto, 1970.

development adopted in the case of Trans-Canada was no different than that which had been followed previously in the case of Alcan and the Shipshaw Dam during World War II and A.V. Roe Ltd. during the Korean War.

The Pipeline was passed through Parliament in June, 1956, with the use of closure. This tactic only served to feed the fires of discontent among the opposition and the public at large. In July, George Drew, the Leader of the Opposition, attempted to reignite the debate in Parliament by moving a resolution calling for the adoption of an official natural resource policy. To this, Howe replied that the Government had been following since 1940 a development policy that had resulted in the balanced growth of the Canadian economy, financed primarily by domestic savings, but assisted where necessary by foreign capital and technical skills.⁷⁵ By now, the Government had been forced at least to rework its position to recognize some of the major criticisms. In two major speeches in October, one in Chicago and the other in Milwaukee, Howe finally acknowledged the problems of ownership. He said that in the light of rising nationalism in Canada, American corporations would in future have to pay more attention to the demands of Canadians. This would include such concessions as allowing Canadian branch plants to handle a larger share of the export business and providing

75. Frank A. Knox, "United States Capital Investments in Canada", Papers and Proceedings of the American Economics Association, Vol. XLVII, No. 2, May, 1957, pp. 597-599.

greater opportunities for Canadians to participate as shareholders in foreign subsidiaries.⁷⁶

These speeches represent a major turning point both for the Liberal government and economic policy. No longer would it be possible for Canadian policy-makers to blandly justify the complete openness of the economy to foreign investment in the name of prosperity and growth. Forthwith it had to be recognized that along with its benefits, foreign investment brought certain economic and social costs. This by no means represented a major turnabout in actual policy — fifteen years later the Canadian government is still struggling to come to grips with the issue. What it did represent was a significant shift in the key area which has been under examination -- the symbolic and legitimational. The foreign investment debate of 1956 signifies a major shift in the public consciousness of Canadians. The growth at any price mentality of the Depression and post-war years had given way in the light of more prosperous economic conditions to a new concern with the qualitative nature of economic life in Canada. The tried and true symbol of a buoyant GNP had lost some of its impact. National integrity could not simply be equated in the public mind with a prosperous economy. The closing curtain on the post-war era, the general election of 1957, signifies this shift more dramatically than any other event. In 1957, John Diefenbaker struck a responsive note in Canadians with the propagation of his 'vision of the North'.

76. Toronto Globe and Mail, October 16 and 17, 1956.

The theme of national development was no different from any previous one in Canadian history, not even significantly different from that of Howe and the Liberals. The difference was that the imagery and the symbolism of the Liberals had been discredited, by the Gordon Commission, by the Pipeline, and by closure in Parliament.

Diefenbaker was as yet untainted. Thus, though he presented nothing substantially different, the image and the manner in which this basic theme was delivered appeared at the time was more faithful to the tradition of Canadian nationalism. The defeat of the Liberals in 1957 brought to an end both the policies and the symbols of the post-war era.

Once again the overall trend witnessed during the period is reflected to a certain degree in the budgeting policies from 1955 to 1957. Both Gordon and Will are slightly more positive in their assessment of this period than of the previous two. Gordon notes that the 1955 budget speech presented the clearest statement of economic budgeting principles followed by a fairly close application of them.⁷⁷ Will is not quite as enthusiastic but notes that the 1955 to 1957 budgets did display some attempt to apply discretionary fiscal policy both in encouraging expansion in 1955 and then in limiting government expenditures during the period of inflation in 1956 and 1957.⁷⁸ Thus during the last post-war period at least, the Government's budgeting policies did exhibit a slightly more balanced approach to fiscal stabilization.

77. H. Scott Gordon, op. cit., p. 38.

78. R.M. Will, op. cit., p. 53.

VI

Viewed in the perspective of the general trend of Canadian economic growth and development and the plan or project of the economic and political elites in promoting that process, post-war policy-making fits neatly into the pattern. As we have seen, the vast majority of the policy actions undertaken during this period reveal a rather traditional plan for economic growth in terms of the emphasis on considerations of long-run growth potential, on size and the increase of productive capacity and physical output, a reliance on achieving this through increased capital investments by private enterprise and a relative lack of discrimination in terms of the sources of investment, domestic or foreign. Nowhere is the rationale for this plan of development better summarized than in C.D. Howe's speech at the Convocation of McGill University late in the 1957 election campaign,

True, it was largely the initiative and capital of U.S. corporations that developed the gas and oil fields of the west and the iron mines of Quebec-Labrador. As Canadians we would have preferred that our fellow citizens take a more important part in these particular enterprises. But as Canadians, would we have preferred to remain dependent on imported fuels and iron ore rather than to have them produced in Canada, albeit with the aid of capital and know-how from the U.S.? ... I have given priority to maintenance of a rapid rate of economic development. I do so because it is my profound conviction that Canada should endeavour to grow up as quickly as possible.⁷⁹

The overall goal of this plan of economic development does not differ significantly from that espoused by Sir John A. Macdonald in the 'National Policy' of 1879, an important consideration to keep in

79. Montreal Star, May 29, 1957.

mind when we evaluate the charges of the economic nationalists in the Conclusion. This is not to say, however, that Howe's conviction that 'Canada should endeavour to grow up as quickly as possible' did not have a definite impact on the development of the economy with long-run costs and benefits. As was noted in Chapter III, the sources and nature of capital investment in Canada's economic expansion between 1945 and 1957, did carry a set of long-run effects on the development of the country. In Chapter V we turn to a consideration of these.

The important discontinuity of which we found evidence in the post-war period was in the political culture, in the language and symbols of legitimation. Although the major preoccupation of the period was with economic expansion, it was increasingly couched in the language of the White Paper, a language of economic and social welfarism.⁸⁰ This change represents a major shift in what we have termed the symbolic framework of the political culture or the master symbols of legitimation. The end of World War II presaged a new era of government responsibility for economic and social welfare. The earlier legitimating symbols of a strong nation and an expanding national economy now had to be couched in a more sophisticated language. This shift on the cultural and symbolic

80. It must be admitted that the social welfare legislation introduced by the Government in 1944 is evidence that this was not all talk. However, this welfare concern was not the predominant one of the Government but was viewed as part of a two step process to increase aggregate demand thereby reducing unemployment and thus maximizing output in the economy and increasing the rate of economic expansion, Irving J. Goffman, Some Fiscal Aspects of Public Welfare in Canada, Canadian Tax Foundation, Toronto, 1965, pp. 24-28.

level of Canadian politics is far different from the one which the economic nationalists have claimed characterized the post-war Government, namely economic continentalism. The evidence which has been presented in this chapter would seem to indicate that such a claim reveals a very unsophisticated understanding of the economic plan of the post-war policy-makers and of the symbolic legitimations used to justify it to the Canadian public.

CHAPTER V

An Excursus on Costs and Benefits

I

We began our study by looking at the pattern of economic development that has predominated throughout Canadian history, the plan of the economic and political elites in Canada which had directed that development, the political culture which had developed in Canada to legitimate such a pattern and the reciprocal effect which this process had on the development of political institutions in Canada, particularly the role of political parties. Next we dealt with the specific process of growth which characterized the Canadian economy from 1945 to 1957 and some of the long-run implications of that growth process in terms of effects on the structure of economic development and the nature of industrial organization. Then we took an in-depth look at economic policy-making by key leaders in the political elite during the same period, attempting to match basic developments in the economy with the perceptions, goals, and actions of the economic policy-makers as the two halves of a dialectical interaction. The conclusion which was reached was that the traditional concerns which had marked Canadian economic development, long-run considerations of capacity-creation and the maximization of physical output, characterized the post-war period as well, only dressed in the new language of economic welfarism that grew out of the experience of the Great Depression.

In this chapter, we shall attempt an evaluation of some of the long-run implications for the Canadian economy of the economic developments and the policy actions of the post-war period. The hypothesis is that the emphasis on increased capital investment by private enterprise to maximize physical output and the concomitant failure to distinguish between the sources of that investment reveals a notable lack of foresight on the part of the policy-planners, especially in terms of the long-run consequences of increasing American participation and of the new form of economic organization which arose in the post-war era, the multinational corporation. The overriding concern for maximizing economic growth precluded a more careful consideration of what some of the long-run implications of the structure of that development might be. At best this can be castigated as a sin of omission.

This chapter has been titled 'an excursus' for the reason that an in-depth study on costs and benefits is far beyond its scope. Recent economic literature is full of attempts to develop more precise methods of analyzing the trade off between costs and benefits. The essential problem lies with developing adequate measures for both the qualitative and the quantitative aspects of such a trade-off. A further problem lies with operationalizing the analytical concepts of economic and social welfare in order to gain a more precise idea of what is a cost and what is a benefit. Here as always the question of value judgements assumes a paramount

importance. As a result any attempt to develop a notion of costs and benefits will be at best a crude one. The noted welfare economist E.J. Mishan has been among those who recently raised the general question of the costs of economic growth. Many of these are what he has termed "social costs" or the unmeasurable consequences of economic growth, such as increasing noise, air and water pollution, the problems of technological obsolescence, etc.¹ This chapter does not deal so much with the costs of economic growth per se, but rather with the specific type of growth experienced in the Canadian economy during the post-war years. The Watkins Report which attempted to analyze the role of foreign investment for the Canadian Government in 1968 came to the conclusion that such measurements may not even be possible:

For a country to gain the most from foreign investment the benefits should exceed the costs by as much as possible. Put this way and considering the qualitative nature of many of the benefits and costs, it is clear that no precise measure of net economic benefit is possible.²

In looking at Canada's post-war pattern of economic development one may identify a number of dimensions along which costs and benefits should be broken down. One may sort out costs and benefits in terms of private as opposed to collective. An automobile imposes private costs on the individual using it, but at the same time it

1. E.J. Mishan, The Costs of Economic Growth, Staples Press, London, 1967 and Growth: the price we pay, Staples Press, London, 1969.
2. M.H. Watkins, et al., Foreign Ownership and the Structure of Canadian Industry, Privy Council Office, Ottawa, 1968, p. 109.

creates a collective cost for those who have to breathe the air it pollutes. One may also distinguish social versus economic costs and benefits. Economic questions are those that deal principally with matters originating in the economic order of the society, the inputs into the economy, the process of production and the outputs. Social concerns, on the other hand, attempt to place these questions in the wider context of their interaction with the other institutional orders of the society, i.e. how questions of economic growth affect matters of income distribution, mobility within the social structure, the changing occupational structure of the society, social benefits of public policy, education, health care, etc. and even something as distant as political stability.

II

The question of assessing the benefits to Canada of post-war levels of foreign investment borders on being trite. The data presented in Chapter III indicates the large role which foreign capital played in promoting Canadian economic growth. The benefit is obvious. Without the participation of foreign capital our rate of growth would have been that much slower and total output in GNP figures would have been that much lower as would per capita income. Foreign investment thus played a crucial role in the post-war years in raising the general standards of living of Canadians.³ Attempts

3. It has been pointed out by some economists that a high growth rate has been instrumental in maintaining high levels of employment, greater price stability and a more viable balance of payments, Thomas A. Wilson and N. Harvey Lithwick, The Sources of Economic Growth: An Empirical Analysis of the Canadian Experience, Royal Commission on Taxation, Study No. 24, Queen's Printer, Ottawa, 1968.

at estimating 'how much' it contributed to the general rise in living standards are speculative to say the least. We can present these figures as little more than a crude estimate. R.G. Penner undertook one of the first attempts to measure the purely economic benefit for Canada of foreign investment flows.⁴ His study was developed and extended in a background paper for the Privy Council Task Force on Foreign Ownership and the Structure of Canadian Industry. The conclusions of the Watkins' Report were that between 1950 and 1956 net foreign investment raised per capita real income by 1.4%. Since per capita real income grew by 17% in this period, the portion attributable to foreign investment is 8%. However, when calculations are made to include the contributions of technological improvements, net foreign investment increased per capita real income by 3.25%. This figure constitutes 20% of the total growth of per capita income.⁵ As was mentioned these figures only contain an estimate of the net contribution of technology and managerial skills, which form a part of the comprehensive package of direct investment, to the overall benefits from foreign investment.

A. E. Safarian points out that the conclusions of a staff study for the Royal Commission on Canada's Economic Prospects done in 1957 were that the adverse effects resulting from foreign investment were small compared with the benefits accruing in terms of capital, technology, skills and markets, all of which Canada has

4. Rudolph G. Penner, "The Benefits of Foreign Investment in Canada, 1950-1956", Canadian Journal of Economics and Political Science, Vol. XXXII, No. 2, May 1966, passim.

5. M.H. Watkins, op. cit., pp. 59-60.

been able to generate less efficiently or more slowly. He quotes the results of two other studies as well, one undertaken by the Canadian-American Committee in 1960, the other by the U.S. Department of Commerce in 1960, both of which indicated that there are large net gains from foreign investment and that adverse effects are few and scattered in nature.⁶

One of the Canadian economists who has been in the forefront of the argument for the benefits of American investment is Harry G. Johnson. Johnson's argument for the benefits is based largely on international trade theory. This theory posits that a country should concentrate its productive efforts in that area in which it enjoys a significant comparative advantage. It can thus trade these products to other areas of the world to acquire those products which it is less efficient at producing. According to Johnson this process is at the root of Canada's post-war development. Resource exports to the United States have been the mainspring of Canada's rapid post-war growth and imports of manufactures, capital, technique and enterprise from that country have been the factors which have permitted growth to be so rapid. In Johnson's analysis, restrictions on either of these flows would have significantly slowed the rate of economic development and involved significant economic costs in the form of a reduced standard of living. In

6. A.E. Safarian, "Foreign Ownership and Control of Canadian Industry" in A. Rotstein, The Prospects for Change, McGraw-Hill, Toronto, 1965, pp. 231-235. For a more detailed account, see A.E. Safarian, "Some Myths About Foreign Business Investments in Canada", Journal of Canadian Studies, Vol. VI, No. 3, August, 1971.

Johnson's evaluation this process of growth has generated both private and collective benefits. Canada's profitable foreign trade with the U.S. has allowed it to grow far richer than it would have otherwise and growing wealth provides both an increasing capacity for individual self-fulfillment and the resources necessary for the achievement of national objectives.⁷

It is even more difficult to develop a measure of these benefits in social terms. Generally speaking, it has resulted in a higher standard of living and per capita income, greater expansion of the range of Canadian industry, greater occupational opportunity as a result of expanded industry with a certain degree of concomitant increase in occupational mobility, an increase in government revenue resulting from corporate taxation and consequently greater benefits derived from government spending in the social policy fields, particularly welfare legislation and education. By and large, however, the arguments for foreign investment have referred to the benefits accruing along the private and economic dimensions of our scale for evaluation, as opposed to the collective and social benefits.

III

American capital, entrepreneurship and technology have not only helped to accelerate the rate of development in the post-war Canadian economy, they have also given that development a particular

7. Harry G. Johnson, The Canadian Quandry: Economic Problems and Policies, McGraw-Hill Company of Canada, Ltd., Toronto, 1963, pp. 101-102.

direction and quality. The influence of the U.S. on the character of Canadian development has been in the direction of promoting its traditional function of a staple producing economy. This effect is felt in the dominant importance of the U.S. as a market for Canadian exports and in the prominent role played in the Canadian economy by U.S. controlled firms.⁸ In the production of resources, the markets to be served and the relevant innovations in technology have been American in the last two decades. Thus it was almost inevitable that a large-scale participation in the development of new resources by American corporations would occur. The economies of scale in resource development gave a comparative advantage to the U.S. where large pools of venture capital were available and entrepreneurial groups were organized to mobilize facilities and direct strategy.⁹ Consequently, there have been two complementary forces at work, the market demand of the U.S. for Canadian resources and the availability and eagerness of U.S. corporate capital to help meet that demand.

The massive inflows of American capital into Canadian resource industries has only been one aspect of the process that has marked Canada as a staple producing economy. This trend has strongly been reinforced by the developing trade patterns between the two economies. What exists is apparently a strong tendency for patterns of trade to correlate highly with flows of direct

8. H.G.J. Aitken, et al., The American Economic Impact on Canada, Duke University Press, Durham, N.C., 1959, p. 9.

9. H.G.J. Aitken, American Capital and Canadian Resources, Harvard University Press, Cambridge, 1961, p.103.

investment. Just as in the Canadian case, the investment flows did not develop in a vacuum, but were actively encouraged by the government, similarly the structure of the U.S. Tariff reflects and reinforces the pressure already exerted by the nature of American demand for unmanufactured and semi-manufactured products from Canada. Canada's external trade is among the highest of any country in the world. Exports are responsible for 15% of Gross National Product. This dependence on export sales in external markets has introduced a degree of instability into the country's economic life.

The problem is exacerbated by the fact that 3/4 of the external trade is concentrated with two countries, the U.K. and the U.S. More specifically, 60% of foreign trade is with the U.S. alone -- primarily in forest products and nonferrous metals. Table XVIII illustrates the composition of Canada's export trade with the U.S. in 1958. It can be seen from the table that the overwhelming bulk of Canada's exports to the U.S. is composed of raw materials for U.S. industry. The export industries are the same ones that have been most favoured by American post-war investment. To reiterate the main point, this dependence on U.S. markets for Canadian exports, imposes limitations on the flexibility of Canadian policy-makers in adjusting to U.S. tariff and fiscal policies. The implication is that sudden and drastic changes in U.S. trade policy can cause massive dislocation in Canadian industry and throw thousands of labourers onto the unemployment

TABLE XVIII

CANADA: DOMESTIC EXPORTS TO THE UNITED STATES, 1958

Group	Value (\$ thousands)	Percent of total exports to the United States
Wood, wood products, and paper	1,163,180	41.1
Nonferrous metals	600,294	21.2
Nonmetallic minerals	188,968	6.7
Iron ore	77,749	2.7
Subtotals	2,030,191	71.7
Agricultural and vegetable products	79,542	2.8
Animals and animal products	290,517	10.3
Subtotals	2,400,250	84.8
All other commodities	432,012	15.2
Totals	2,832,262	100.0

SOURCE:

H.G.J. Aitken, American Capital and Canadian Resources, p. 74.

market. As the rate of technological innovation in resource industries becomes more sophisticated and production less labour intensive, Canada runs the risk of becoming a country with a high level of built-in unemployment. The Gray Report substantially agrees with this point. Trade in manufactures is increasing more rapidly than trade in resources and the terms of trade are progressively turning against resources. If Canada does not develop greater distinctive capacities as a basis for greater exports of manufactures, the country's share of world trade will progressively decline and increase the problem of maintaining high living standards.¹⁰

Another consequence of foreign investment, this time in the manufacturing industries, is largely attributable to the role of the tariff in encouraging excess capacity and inefficient production in Canadian industry (as was noted in Chapter III). The Canadian tariffs have induced and permitted the establishment of production units of inefficiently small capacity in Canada which in turn has promoted foreign ownership of Canadian manufacturing. This is so because an overcrowded market with the most profitable plants of sub-optimal size is most attractive to a large multiplant firm which can take advantage of economies of scale by reproducing the full product line of the parent corporation in the subsidiary firm.¹¹

10. Government of Canada, Foreign Direct Investment in Canada, Queen's Printer, Ottawa, 1972, p. 179.

11. H.C. Eastman and S. Stykolt, The Tariff and Competition in Canada, St. Martin's Press, New York, 1967, pp. 7-10.

Although subsidiary firms imitate their parents in range of production, their units costs of production exceed those of their parents. A comparative breakdown of production factor costs shows a higher percentage of the costs are absorbed by the purchase of raw materials and intermediate goods. These higher costs seem to be related to the problem of shorter production runs in Canadian manufacturing. The overall record shows that foreign subsidiaries in Canada tend to perform at levels equal to their Canadian counterparts rather than at the higher levels of efficiency of their American parent corporations (differentials in labour productivity of up to 1/5 exist between Canada and the U.S.). This suggests that many of the benefits of foreign investment have been emasculated through tariff and competition policies, while many of the costs remain.¹² Moreover high levels of foreign investment have resulted in inefficient production and higher costs for manufactured goods through what has been termed the 'miniature replica effect'.¹³

It is also important now that we take a look at the institutional form in which the majority of this investment has entered Canada, and investigate the effect which this process had had on Canadian development. One of the principle benefits

12. These points are made quite strongly by both the O.E.C.D., Review of National Science Policy: Canada, Paris, 1969, pp. 228-229 and by Stephen Hymer, "The Efficiency (Contradictions) of Multinational Corporations", in Gilles Paquet, ed., The Multinational Firm and the Nation State, Collier-Macmillan, Toronto, 1972, p. 59.

13. H.E. English, Industrial Structure in Canada's International Competitive Position, Canadian Trade Committee, Montreal, 1964, p. 46.

of the multi-national form of corporate organization is that the vertical integration of the primary and secondary aspects of manufacturing which it can achieve enables it, through this rationalization of the production process, to enjoy lower prices and greater output. However, in cases where the two levels of manufacturing are located within separate national boundaries, the multi-national enterprise has the ability to determine within which national environment the profits of the enterprise as a whole will accrue. Large volumes of intra-company trade across national boundaries permit multi-national corporations to exercise a high degree of pricing flexibility so as to achieve their global profit objectives. This pricing power can undermine the stability of tax and customs revenues, the employment base and the balance of payments of individual host countries. The Gray Report has attempted a rough calculation of what the specific effects of this problem can be. The taxable profits of a Canadian firm can be made to vary dramatically by means of ostensibly minor changes in transfer prices. Tax revenues resulting from foreign investment constitute an important part of the benefits enjoyed by the host country. However, an increase of 5% in the transfer price charged to the subsidiary by the parent corporation reduces by 50% the taxable income of the company in Canada, which can represent a significant material loss to the collective welfare of Canadians.¹⁴

14. Government of Canada, op. cit., pp. 229-235. The same point is made by I.A. Litvak and C.J. Maule, "The Multinational Firm: Some Perspectives", in Gilles Paquet, ed., op. cit., pp. 24-25. See also I.A. Litvak, C.J. Maule and R.D. Robinson, Dual Loyalty: Canada-U.S. Business Arrangements, McGraw-Hill Toronto, 1971, p. vii.

Another serious range of problems arising from the present degree of penetration of direct foreign investment and multi-national corporations in the Canadian economy is the future development of manpower resources in terms of entrepreneurial ability and highly skilled scientific and technical qualifications. This range of problems includes a whole series of potential costs to future social development, such as structural rigidity and lack of occupational mobility, innovative capacity and technological adaptability. These costs can be measured on two different levels. The impact of foreign investment on manpower development and occupational mobility has far reaching consequences in terms of the degree of structural adaptability which the society displays. It has a determining effect on the ability of the society to provide opportunities for the creative development and employment of its manpower potential. Furthermore, unnecessary degrees of social rigidity, that is a failure to provide opportunities for those who feel they deserve them, tends to result in widespread feelings of relative deprivation and subsequently increased degrees of social instability as the values and operation of the system are called into question. For instance the costs of foreign investment have been high in the development of indigenous entrepreneurial talents. Most of the Canadian subsidiaries of American corporations enjoy a

high degree of controlled autonomy, in the sense that the officers of the subsidiary hold a certain amount of operational responsibility and usually initiate certain changes in policy. However, there are clear limits to the degree to which decentralization in decision-making can be effected. The owners of capital demand at the very minimum some sort of an accounting concerning the use of their assets. Some studies of Canadian subsidiaries of American corporations indicate that more often than not the scope for entrepreneurship enjoyed by Canadian managements tends to be limited by the grants of authority delegated to the subsidiaries by their parent corporations. This dependence by many Canadian executives on their parent corporations can have a debilitating effect on their entrepreneurial initiative and thus on the development and utilization of Canadian professional manpower.¹⁵ This underdevelopment of the Canadian technical and managerial class has adverse social and cultural effects in that the spillover benefits resulting from the interaction of entrepreneurial brains and talent takes place abroad, not in Canada. The Gray Report notes this situation with alarm and further observes that the truncation of entrepreneurial ability tends to engender a mentality of the second best with horizons and vision constantly centred on headquarters abroad -- it represents a continuation of the traditional colonial mentality:

15. A.E. Safarian, The Performance of Foreign-Owned Firms, pp. 17-19 and I.A. Litvak and C.J. Maule, "The International Corporation and Canadian Entrepreneurship", unpublished paper, Carleton University, p. 4, 1971.

... the fact that Canadian society is quite elitist and that social mobility is more circumscribed in Canada means that Canadian society is not developing entrepreneurs at the same rate as occurs elsewhere. Social rigidity induces the expectation and mentality of working for others.¹⁶

It is indeed a two way street. Existing degrees of social rigidity and historical reliance on external aid for national development (witness the history of the construction of the Canadian transportation and communications infrastructure) condition social values of reliance. However, these values do not persist in a society unaided. Strong limitations on the scope of Canadian entrepreneurial and managerial opportunities resulting from high levels of foreign investment further reinforce both the mentality of dependence and the structural conditions of social rigidity. Where there is little scope for creative initiative within the national economic environment, there can be little expectation of an abundance of opportunities for mobility.

In the rapidly emerging post-industrial society, one of the key indicators of the society's adaptive capacity is its ability to generate highly skilled manpower. Daniel Bell has speculated that the leadership of the new society will rest not with businessmen or corporations as we know them, but with the research corporation, the industrial laboratory, the experimental station and the university. "Every society lives by innovation and growth, and theoretical knowledge has become the matrix of innovation."¹⁷

16. Government of Canada, op. cit., pp. 296-297.

17. Daniel Bell, "Notes on the Post-Industrial Society (I)", The Public Interest, Winter, 1967, pp. 27-28.

One of the most reliable measures of the value which a society allocates to theoretical and scientific knowledge is the level and sophistication of academic and especially industrial research and development. It is also a crucial indicator of the degree to which a society will direct its resources into the training of highly skilled manpower and the employment opportunities it can afford them. Because of the implications of educational opportunity for mobility, scientific research policies are also of importance in this area. In Canada as in other leading industrial countries research and development activities are highly concentrated in three leading industries, aeronautics and space, electrics and electronic products, and chemicals and pharmaceuticals. These three industries together accounted for 58% of the intramural research and development expenditures in Canada in 1966. At the end of 1963 foreign control of non-automobile transportation was 78%, of electrical products, 77%, and of chemicals, 78%.¹⁸ Thus it appears obvious that research and development activities in Canada are by and large carried out in foreign controlled industries. In one study carried out of research and development activities in 100 of the largest firms, it was found that those under non-Canadian control spend more on research and development than those under Canadian control. Thus it seems that rather than having a case of foreign investment paralyzing research and development in Canadian industry, the Canadian economy actually relies to a very considerable extent on foreign initiative to carry the risks not only of investment, but

18. Organization for Economic Co-operation and Development, op. cit., p. 233 and A.E. Safarian, The Performance of Foreign-Owned Firms, p. 46.

also of research and development.¹⁹

We have yet to draw out the consequences of the present state of scientific and industrial research in Canada for the future development of highly skilled manpower. The Research Sub-committee of the Committee of Presidents of the Universities of Ontario, in its brief to the Ontario Government's Commission on the Future of Post-Secondary Education, observed that,

It is possible that in the interpenetrating world of the future the most positive means of preserving national identities will be the continued expansion of educational opportunity because of the crucial role of knowledge in innovative capacity, a quality essential to foster in order to make distinctive national contributions to post-industrialism and so to maintain a national saliency, that is, to appear in the world as a society that does something particularly well.²⁰

In this regard the extent to which Canada fails to comply with the requirement for the indigenous generation of scientific and technical knowledge has already been pointed out. The prospects for the continued development of highly skilled manpower appear to be similar. Traditionally, Canada has relied to a great extent on the importation of manpower in the form of highly skilled, technical, scientific and professional immigrants. Thus Canada has attempted to reap the benefits as much as possible of some other country's investment in education and training. The sudden rush by all levels of government in Canada in the 1960's to develop as rapidly as possible all types of technical and vocational education and training may have resulted primarily from the threat of full

19. O.E.C.D., op. cit., p. 251.

20. John Porter, Bernard Blishen, et al., Towards 2000: The Future of Post-Secondary Education in Ontario, McClelland and Stewart Ltd., Toronto, 1971, p. 9.

employment in overseas countries and consequently from the drying up of a pool of high level manpower from which the immigrants would normally be drawn.²¹

The effort to produce more skilled people in the 1960's was matched by a rapidly expanding market in Canadian industry for their talents. The picture changed dramatically in the 1970's. Table XIX reprinted from the Department of Manpower and Immigration's calculations on the supply and demand of new university graduates for 1971 indicates that the industrial demand for scientists and engineers declined from 6% to 43% at the various academic levels between 1969 and 1970 and from 18% to 55% at the various levels between 1970 and 1971. In other words, it seems that just as the educational institutions of Canada began to produce an indigenous supply of scientific and technical manpower, the demand fell off rapidly. The Science Council of Canada has offered an explanation for this surprising phenomenon. Throughout the 1960's most new employment in manufacturing was concentrated in the medium to high technology industries, producing transportation equipment, electrical and electronic goods and specialized machinery (almost the same industries, it should be noted, in which we found high levels of research and development and foreign control). In 1968 the growth in these industries began to falter and has remained static since. The council also notes a coincident falling off, beginning in 1970 in industrial research in firms specializing in

21. Bruce A. McFarlane, "Education and Manpower: Some Sociological Aspects of Growth", in T.N. Brewis, ed., op. cit., p. 80.

TABLE XIX

CHANGES IN HIRING OF NEW GRADUATES BETWEEN 1969 AND 1970 AND
BETWEEN 1970 AND 1971, AS REPORTED BY EMPLOYERS
SURVEYED IN APRIL 1970 AND APRIL 1971

FACULTY OR SCHOOL	HIRINGS REPORTED IN APRIL 1970			HIRINGS REPORTED IN APRIL 1971		
	Hirings of Graduates in 1969	Hirings of Graduates in 1970	Per- centage Change	Hirings of Graduates in 1970	Hirings of Graduates in 1971	Per- centage Change
ARTS						
Pass Bachelor's	836	587	-30	1020	664	-35
Honours Bachelor's	273	190	-30	330	188	-43
Master's	215	147	-32	116	85	-27
Doctorates	43	37	-14	70	51	-27
SCIENCE						
Pass Bachelor's	509	385	-24	415	232	-44
Honours Bachelor's	333	282	-15	278	186	-33
Master's	124	74	-40	91	75	-18
Doctorates	97	76	-22	64	44	-31
ENGINEERING						
Bachelor's	1180	1321	12	1140	901	-21
Master's	127	119	-6	99	45	-55
Doctorates	35	20	-43	36	26	-28
COMMERCE						
Bachelor's	789	1052	33	1035	894	-14
Master's	173	170	-2	190	132	-31
Doctorates	---	---	-2	5	---	---
EDUCATION						
Bachelor's	2374	3092	30	1172	889	-24
Master's	189	314	66	70	143	104
Doctorates	---	---	--	7	3	--
OTHERS						
Bachelor's	491	363	-26	702	520	-26
Master's	131	133	-2	206	232	13
Doctorates	8	4	--	21	16	-24
TOTALS						
Pass Bachelor's	1345	972	-29	1435	896	-38
Honours Bachelor's	606	472	-22	608	374	-38
Other Bachelor's	4834	5828	21	4049	3204	-21
Master's	939	957	2	772	712	-8
Doctorates	183	137	-25	203	140	-31

SOURCE: Dept. of Manpower and Immigration, Supply and Demand of New University Graduates 1971, p. 13.

high intensive technology, largely foreign controlled.²² Thus a falling off in the growth of the technologically intensive industries (largely foreign controlled) matched by a cutback in research and development in these same industries and foreign corporations correlates highly with a sharp decline in the demand for highly skilled manpower. Although there is no conclusive evidence that a Canadian owned technologically intensive industry would have responded differently to the same market circumstances, a full employment policy for highly trained manpower (a crucial component of a Canadian Science Policy) is made doubly difficult due to the fact that the technologically intensive industries are foreign based. This fact forces the Canadian Government to adopt taxation incentives for research and development which are at least competitive with the generosity of foreign countries.

One final area of impact of direct foreign investment on Canadian society that should be discussed is the degree to which American control of Canadian industry has affected regional development. This section will rely totally on the work of the economic geographer, Michael Ray, for the simple reason that his exclusive study of the problem is the most comprehensive and incisive study that exists. He relies primarily on a theoretical model employing the centre-periphery or metropolis hinterland model to explain the impact of foreign investment on regional development. The economic centre of a national territory tends to become the

22. Science Council of Canada, Innovation in a Cold Climate: The Dilemma of Canadian Manufacturing, Report No. 15, Ottawa, October, 1971, pp. 10, 19.

centre for finance, education, research, planning and other services which provide it with national leadership in technology and productivity. The centre becomes the headquarters for giant business corporations and the home of the companies' key decision-makers. The cumulative advantages which accrue to the centre tend to perpetuate the centre periphery dichotomy. The centre attracts further investment in market oriented industries and services and directs the development of the peripheral areas to suit its resource and development requirements.²³ Table XX shows the extent to which Ontario and Quebec form the central core area of the Canadian economy. These two provinces with 63% of the population of Canada have 81% of the total manufacturing employment in Canada -- 77% of the Canadian controlled and 89% of the American controlled. The table also reveals quite clearly the even greater extent to which American controlled manufacturing employment is concentrated in Ontario. Ray has also developed the economic shadow concept to account for the large degree to which American controlled manufacturing centres around Toronto. The economic shadow concept maintains that the number of subsidiaries and the amount of manufacturing employment in a Canadian city that are controlled within a U.S. metropolitan area are directly proportional to the market accessible from the Canadian city and the number of head offices in the U.S. metropolitan area and are inversely proportional to the distance of the Canadian city from the metropolitan area. All the elements of the economic

23. D. Michael Ray, Regional Aspects of Foreign Ownership of Manufacturing in Canada, Queen's Printer, Ottawa, 1968, pp. 20-21.

TABLE XX

THE PERCENTAGE OF CANADIAN AND FOREIGN CONTROLLED MANUFACTURING
EMPLOYMENT IN EACH PROVINCE

PROVINCE	PROVINCIAL PERCENTAGE OF TOTAL EMPLOYMENT		PROVINCIAL PERCENTAGE OF TOTAL EMPLOYMENT	
	Canadian controlled	United States controlled	Total foreign controlled	
Atlantic Provinces	4.84	5.35	1.30	3.50
Newfoundland	0.78	*	*	.54
Prince Edward Island	0.14	*	*	.01
Nova Scotia	2.14	2.09	*	*
New Brunswick	1.78	2.19	*	*
Quebec	33.63	35.90	25.12	27.43
Ontario	47.08	41.25	64.15	59.99
Prairie Provinces	7.37	8.53	4.46	4.41
Manitoba	3.32	3.86	1.77	1.92
Saskatchewan	1.00	1.16	.66	.58
Alberta	3.06	3.50	2.03	1.91
British Columbia	7.77	8.98	4.96	4.68
Canada	100.00	100.00	100.00	100.00

The Table should be read by columns.

An asterisk (*) indicates that the figure is not revealed to avoid disclosure.

SOURCE: Michael Ray, Regional Aspects of Foreign Ownership of Manufacturing in Canada, p. 51.

shadow concept contribute to the attractiveness of the Toronto Metropolitan area and the sixteen counties of south-west Ontario. As a result, 1132 American branch plants (1961) or 67% of the Canadian total are located in this area.²⁴ Table XXI shows the extent to which manufacturing in Canada and particularly American controlled manufacturing are concentrated in concentric bands going outwards from Toronto. To be exact, 70% of all Canadian controlled manufacturing employment is concentrated within a 400-mile radius around Toronto, whereas 83.5% of all American controlled manufacturing employment is concentrated within the same radius. Ray notes that if U.S. manufacturing employment had the same national distribution as does Canadian, it would add 12,000 more jobs each to the Atlantic region, the Prairie Provinces and B.C. and 30,000 more jobs to Quebec.²⁵ The concentrated growth of American manufacturing in and around the central core area of Toronto has accelerated the economic growth of this region in contrast with the rest of Canada, giving it a distinctive set of socio-economic characteristics. Furthermore, this concentrated growth has had a serious detrimental effect on the development of the rest of the country, contributing substantially to many of the problems of regional disparities now being faced. As Ray points out, the cumulative advantages which accrue to the centre means that there is every indication that the present trend will

24. Ibid., pp. 81, 96.

25. Ibid., p. 57.

TABLE XXI
 PERCENTAGE OF MANUFACTURING EMPLOYMENT BY COUNTRY OF CONTROL
 IN HUNDRED MILE DISTANCE BANDS FROM TORONTO

Distance from Toronto in miles	Domestic controlled employment	United States controlled employment	All foreign controlled employment	All manufacturing employment
0-100	31.31	44.70	41.90	34.66
100-200	4.99	7.79	7.43	5.76
200-300	4.50	11.85	10.99	6.49
300-400	29.03	19.14	20.95	27.18
400-500	5.12	1.98	2.39	4.20
500-600	1.65	2.91	2.38	1.74
600-700	1.53	.69	.60	1.26
700-800	2.11	.75	1.22	1.85
800-900	1.22	.51	1.45	1.28
900-1000	3.78	1.41	2.57	3.49
1000-1100	.16	.05	.04	.27
1100-1200	.31	*	.66	.71
1200-1300	.80	.20	.22	.59
1300-1400	.86	.38	.31	.70
1400-1500	.16	.15	.11	.15
1500-1600	.20	.15	.12	.17
1600-1700	.39	.09	.07	.30
1700-1800	2.77	1.59	1.57	2.42
1800-1900	.95	.36	.34	.77
1900-2000	*	*	*	.28
2000-2100	.70	.09	.07	.32
2100-2200	6.32	3.41	3.40	5.50
2200-2300	.27	*	.26	.27
2300-2400	.17	*	.72	.33
Canada	100.00	100.00	100.00	100.00

Note: Table should be read by columns.

An asterisk (*) indicates that the figure is not revealed to avoid disclosure

SOURCE: Michael Ray, Regional Aspects of Foreign Ownership of Manufacturing in Canada,
 p. 75.

continue, despite piecemeal efforts by the federal government to rectify the situation.

IV

The costs and benefits of the specific type of Canadian economic growth which have just been surveyed are not unrelated to the actions of the policy-makers in the post-war period. The overall growth and expansion of the economy, including the development in the two key sectors and the consequent rise in real per capita income are in good part results of the policy-maker's emphasis on expansionary economic policies. This is also true of the continued reliance in Canada's export trade on raw materials, the excess capacity and inefficient production in Canadian manufacturing, the preeminent position of large foreign multinational corporations in the Canadian economy, the truncation of indigenous entrepreneurial and managerial skills, the dependence on foreign corporations to finance industrial research and development and the consequent diminution of domestic innovative capacity, the limitations on the development of and opportunities for highly skilled scientific and technical manpower and some distorting effect on regional industrial development. Because of the highly qualitative nature of many of these effects, a decision as to which outweighs which, costs or benefits would be almost a pure value judgement.²⁶

26. The central problem in ascertaining the net opportunity cost of foreign capital investment is to define the relevant alternatives which were effectively open to Canada in the post-war period. These alternatives may in turn depend on individual views as to the available latitudes for a small economy like Canada.

What we can do, however, is make some sort of judgement on costs and benefits in terms of the dimensions of evaluation listed at the beginning. An application of these criteria would seem to result in the conclusion that the benefits of the pattern of Canada's post-war economic growth have tended to fall on the private and economic side of the scale, whereas the costs have tended to fall on the collective and social side. The benefits have primarily been monetary and economic and enjoyed by private concerns; the costs have primarily been collective and affected things such as social mobility and national development. This conclusion about costs and benefits is not a surprising one to reach in light of the evidence that we have seen of the post-war policy-makers continued reliance on the traditional social technology of the economic institutions of private enterprise, i.e. the traditional Canadian case of government and business cooperation in promoting national expansion for the mutual benefit of the elites in the respective institutional orders. The result of such a social technology was that many of the costs on the social and collective level were either ignored or unanticipated by the post-war policy-makers. What we may in fact have in this experience is another classic example of the old Canadian story of private enterprise at public expense (private versus collective) or an instance of the social cost of business (economic versus social).

CONCLUSION

In Hindsight

It might be fair to say that the planners in the economic and political elites of the Canadian nation after 1867 were faced with three rational policy alternatives in promoting the economic development of the country. The first alternative would have involved the establishment of a free trade area in North America resulting in an uninhibited flow of goods and services. Many argue that such a plan would have produced the most rapid rate of development for Canada and the highest standard of living. It was adopted briefly in 1854 and toyed with again in 1911 but was generally rejected because of the fierce nationalism and anti-Americanism of British North America. The second alternative involved the erection of high tariff barriers and the development of a national transportation and communications infrastructure to promote indigenous industrial development and an east-west flow of goods and services. This was in fact the 'National Policy' which was adopted in 1879 and which has been analyzed through much of this thesis. There was, however, a third alternative as well. It would have involved the adoption of essentially the same goals as the 'National Policy', but rather than relying on stimulating the institutions of private enterprise, it would have called for greater direct participation by the public sector, the Government, in the implementation of the plan and the achievement

of the goals. Needless to say, such an alternative was precluded from serious consideration in 1879 because of the cultural hegemony of the values of free-enterprise and laissez-faire in the late nineteenth century. It is, however, this third alternative which seemed to be adopted by the Liberal Government in its 1944 social welfare legislation and 1945 proposals for economic policy, policy proposals which called for greater government intervention in the economy to promote the achievement of national economic and social goals. As we have seen throughout this study, it was primarily a change in form rather than in substance. The real economic plan remained unaltered as did the hegemony of the same economic institutions and economic values which had dominated the economic development of the nation since Confederation. This has been the main thesis of the study. The main consequence of the continued predominance of traditional economic institutions and economic values was a bias in the perception of possible solutions that precluded consideration of the third alternative as a viable one. This is where the real opportunity cost has been involved in the pattern of Canada's post-war economic growth and development.

APPENDIX I
SELECTED CANADIAN MANUFACTURING
COMPANIES CONTROLLED IN THE UNITED
STATES, END OF 1946

<u>Type of Operation</u>	<u>United States Controlling Interests</u>		<u>Number of Manufacturing Establishments</u>
<u>Vegetable Products</u>			
Fruit and vegetable preparations	H. J. Heinz Co.	Pittsburg, Pa.	2
	Libby, McNeill and Libby	Chicago, Ill.	2
	Campbell Soup. Co.	Camden, N.J.	1
	General Foods Corp.	New York, N.Y.	1
Flour and cereals	Quaker Oats Co.	Chicago, Ill.	6
	International Milling Co.	Wilmington, Del.	4
	National Biscuit Co.	New York, N.Y.	2
	Kellogg Co.	Battle Creek, Mich.	2
	Ralston Purina Co.	St. Louis, Mo.	2
Biscuits, confec- tionery, cocoa, etc.	National Biscuit Co.	New York, N.Y.	4
	Wm. Wrigley Co.	Chicago, Ill.	1
	American Chiclet Co.	Long Island City, N.Y.	1
Carbonated beverages	Pepsi-Cola Co.	Long Island City, N.Y.	3
	Canada Dry Ginger Ale Inc.	New York, N.Y.	4
	Coca-Cola Co.	Wilmington, Del.	22
Rubber products	U. S. Rubber Co.	New York, N.Y.	8
	Goodyear Tire & Rubber Co.	Akron, Ohio	3
	Firestone Tire & Rubber Co.	Akron, Ohio	1
	B. F. Goodrich Co.	Akron, Ohio	1
Miscellaneous vegetable products	Mead, Johnson & Co.	Evansville, Ind.	1
	Joe Lowe Corporation	New York, N.Y.	2
	Standard Brands, Inc.	New York, N.Y.	3
	Corn Products Refining Co.	New York, N.Y.	1
	Universal Leaf Tobacco Inc.	Richmond, Va.	1

<u>Type of Operation</u>	<u>United States Controlling Interests</u>		<u>Number of Manufacturing Establishments</u>
<u>Animal Products</u>			
Dairy Products	Kraft Foods Co.	Chicago, Ill.	8
	Borden Co.	New York, N.Y.	23
	Carnation Co.	Milwaukee, Wisc.	3
Miscellaneous animal products	Swift & Co.	Chicago, Ill.	26
	New England Fish Co.	Portland, Me.	2
	A. Hollander & Son Inc.	Newark, N.J.	1
<u>Textiles</u>			
	La France Industries	La France, S.C.	1
	F.C. Huyck & Sons	Albany, N.Y.	1
	United Merchants & Mfrs. Inc.	New York, N.Y.	1
	Julius Kayser & Co.	New York, N.Y.	2
	Cluett, Peabody & Co. Inc.	Tory, N.Y.	1
	Plymouth Cordage Co.	Plymouth, Mass.	1
<u>Wood and Paper Products</u>			
Pulp and paper	Brown Company	Berlin, N.H.	3
	Kimberley-Clark Corp.	Neenah, Wisc.	2
	International Paper Co.	New York, N.Y.	10
	Minnesota & Ontario Paper Co.	Minneapolis, Minn.	2
	Marathon Corp.	Rothschild, Wisc.	1
	Chicago Tribune	Chicago, Ill.	7
	Hinde and Dauch Paper Co.	Sandusky, Ohio	4
	Crown Zellerbach Corp.	San Francisco, Cal.	3
Miscellaneous paper products	St. Regis Paper Co.	New York, N.Y.	3
	Robert Gair Co. Inc.	New York, N.Y.	13
	Allied Chemical & Dye Corp.	New York, N.Y.	9
	American Bank Note Co.	New York, N.Y.	1
	International Cellu- cotton Products Co.	Chicago, Ill.	1
Miscellaneous wood products	Kroehler Mfg. Co.	Naperville, Ill	2
	Brunswick-Balke- Collender Co.	Muskegon, Mich.	1
	United States Share- holders of Bloedel, Stewart & Welch Ltd.	Vancouver, B.C.	4

<u>Type of Operation</u>	<u>United States Controlling Interests</u>	<u>Number of Manufacturing Establishments</u>
<u>Iron and Its Products</u>		
Castings	Columbus McKinnon Chain Corp. Tonawanda, N.Y.	1
	Crane Co. Chicago, Ill.	4
	American Radiator & Standard Sanitary Corp. New York, N.Y.	2
	E. M. Dart Mfg. Co. Providence, R.I.	1
	Grinnell Corp. Providence, R.I.	2
Industrial machinery	Ingersoll Rand Co. New York, N.Y.	1
	Chicago Pneumatic Tool Co. New York, N.Y.	1
	United Show Machinery Corp. Boston, Mass.	2
	Otis Elevator Co. New York, N.Y.	1
	American Laundry Machine Co. Cincinnati, Ohio	1
	Link-Belt Co. Chicago Ill.	2
	Superheater Co. E. Chicago, Ind.	1
	Singer Manufacturing Co. Elizabethport, N.J.	3
	National Cash Register Dayton, Ohio	1
Office and household machinery	International Business Machines Corp. New York, N.Y.	2
	Remington Rand Inc. Buffalo, N.Y.	2
	Underwood Corporation New York, N.Y.	1
	U.S. Shareholders of Montreal, Quebec	1
	Canadian Fairbanks Morse Co. Ltd.	
	Crysler Corp. Detroit, Mich.	1
	General Motors Corp. Detroit, Mich.	2
Automobiles, trucks, etc.	U.S. Shareholders of Windsor, Ontario	2
	Ford Motor Co. of Canada Ltd.	
	Kelsey-Hayes Wheel Corp. Detroit, Mich.	1
	Motor-Products Corp. Detroit, Mich.	1
Automobile supplies	Champion Spark Plug Co. Toledo, Ohio	1
	General Motors Corp. Detroit, Mich.	1
	Thompson Products, Inc. Euclid, Ohio	1
	American Chain & Cable Co. Inc. Bridgeport, Conn.	1

<u>Type of Operation</u>	<u>United States Controlling Interests</u>	<u>Number of Manufacturing Establishments</u>
<u>Iron and Its Products (Cont'd)</u>		
Sheet metal products	Continental Can. Co. Inc.	New York, N.Y. 3
	Crown Cork Inter- national Corp.	Jersey City, N.J. 1
	American Can Co.	New York, N.Y. 6
	American Rolling Mill Co.	Middleton, Ohio 5
	Anchor Hocking Glass Corp.	Lancaster, Ohio 1
	Standard Railway Equip- ment Manufacturing Co.	Chicago, Ill. 1
	Simonds Saw & Steel Co.	Fitchburg, Mass. 1
Hardware, tools and cutlery	Gillette Safety Razor Co.	Boston, Mass. 1
	Union Twist Drill Co.	Athol, Mass. 1
	Torrington Co.	Torrington, Conn. 1
	Nicholson File Co.	Providence, R.I. 1
	American Fork & Hoe Co.	Cleveland, Ohio 6
Miscellaneous iron and steel products	De Laval Separator Co.	New York, N.Y. 1
	International Harvester Co.	Chicago, Ill. 3
	American Locomotive Co.	New York, N.Y. 1
	L.A. Young Spring & Wire Corp.	Detroit, Mich. 2
	Associated Spring Corp.	Bristol, Conn. 1
	Electro-Metallurgical Sales Corp.	New York, N.Y. 1
	(list incomplete)	
<u>Non-Ferrous Metals</u>		
Brass and copper products	Jenkins Bros.	Bridgeport, Conn. 2
	American Brass Co.	Waterbury, Conn. 1
	Automatic Electric Co.	Chicago, Ill. 2
Electrical apparatus	American Telephone & Telegraph Co.	New York, N.Y. 2
	General Electric Co.	Schenectady, N.Y. 13
	Westinghouse Electric Corp.	Pittsburg, Pa. 1
	National Carbon Co. Inc.	New York, N.Y. 2
	Electric Storage Battery Co.	Philadelphia, P.A. 1
	Electric Auto-Lite Co.	Toledo, Ohio 2
	Nash-Kelvinator Corp.	Detroit, Mich. 1
	General Motors Corp.	Detroit, Mich. 1
	Lincoln Electric Co.	Cleveland, Ohio 1
	Radio Corp. of America	New York, N.Y. 1

<u>Type of Operation</u>	<u>United States Controlling Interests</u>	<u>Number of Manufacturing Establishments</u>
<u>Non-Ferrous Metals (Cont'd)</u>		
Miscellaneous non-ferrous metals	National Lead Co.	New York, N.Y. 8
	Coleman Company Inc.	Wichita, Kansas 1
	Oneida Ltd.	Oneida, N.Y. 1
	General Time Instruments Corp.	New York, N.Y. 1
	International Silver Co.	Meriden, Conn. 2
	(list incomplete)	
<u>Non-Metallic Minerals</u>		
Petroleum refining	Texas Company	New York, N.Y. 2
	Standard Oil Co. of New Jersey	New York, N.Y. 7
	Standard Oil Co. of California	San Francisco, Cal. 1
Miscellaneous non-metallic minerals	Raybestos Manhattan, Inc.	Passaic, N.J. 1
	United States Gypsum Co.	Chicago, Ill. 4
	Carborundum Co.	Niagara Falls, N.Y. 2
	Durex Corporation	Jersey City, N.J. 1
	Ohio Brass Co.	Mansfield, Ohio 1
	Flintkote Co.	New York, N.Y. 2
<u>Chemicals and Allied Products</u>		
Medicinal and pharmaceutical preparations	Johnson and Johnson	New Brunswick, N.J. 1
	Merck & Co. Inc.	Rahway, N.J. 1

SOURCE:

Department of Trade & Commerce, Dominion Bureau of Statistics, United States Direct Investments in Canada, King's Printer, Ottawa, 1949, Table 4.

APPENDIX II

CONCENTRATION AND CONTROL IN LEADING CANADIAN
MANUFACTURING AND RESOURCE INDUSTRIES, 1954

PETROLEUM

(a) CRUDE PRODUCTION

Net value added
\$ millions %

Industry	240.9	100
Six largest firms	163.6	68

COMPANY

CONTROL

Imperial Oil Limited	U.S.
Canadian Gulf Oil Company (now B.A.)	U.S.
Texaco Exploration Company	U.S.
California Standard Company	U.S.
Hudson's Bay Oil and Gas Company Limited	U.S.
Western Leaseholds (now Petrofina)	Canada (now Belgium)

(b) REFINING

Net value added
\$ millions %

Industry	301.1	100
Six largest firms	281.9	93

COMPANY

CONTROL

Imperial Oil Limited	U.S.
British American Oil Co. Ltd.	Canada (now U.S.)
Shell Oil Co. of Canada Ltd.	U.K. - Netherlands
McColl-Frontenac Oil Company Ltd.	U.S.
Canadian Oil Refineries Ltd.	Canada
Standard Oil Company of British Columbia Ltd.	U.S.

MINING, SMELTING AND REFINING

(a) NICKEL-COPPER

Net value added
\$ millions %

Industry	244.6	100
Six largest firms	245.3	100

COMPANY	CONTROL	
International Nickel Co. of Canada Ltd.	U.S.	
Falconbridge Nickel Mines Ltd.	U.S.	
Sherritt Gordon Mines Ltd.	U.S.	
Nickel Offsets Ltd.	Canada	
Nickel Rim Mines Ltd.	Canada	
Milnet Mines Ltd. (not now producing)	Canada	

(b) LEAD-ZINC	Net value added \$ millions	%
Industry	89.2	100
Six largest firms	77.8	86

COMPANY	CONTROL	
Consolidated Mining and Smelting Co. of Canada Ltd.	Canada	
Buchan's Mining Co. Ltd.	U.S.	
Barvue Mines Ltd.	Canada	
United Keno Hill Mines Ltd.	Canada	
Golden Manitou Mines Ltd.	Canada	
Canadian Exploration Limited	U.K.	

(c) COPPER-GOLD	Net value added \$ millions	%
Industry	114.3	100
Six largest firms	100.3	88

COMPANY	CONTROL	
Hudson Bay Mining and Smelting Co. Ltd.	U.S.	
Noranda Mines Ltd.	Canada	
Queмонт Mining Corporation Ltd.	Canada	
Britannia Mining and Smelting Co. Ltd.	U.S.	
Waite Amulet Mines Ltd.	Canada	
Opemiska Copper Mines Ltd.	Canada	

(d) IRON ORE	Net value added \$ millions	%
Industry	35.0	100
Six largest firms	35.5	100

COMPANY	CONTROL	
Iron Ore Co. of Canada	U.S.	
Steep Rock Iron Mines Ltd.	U.S.	
Dominion Wabana Ore Ltd.	Canada	
Algoma Ore Properties Ltd.	Canada	
Texada Mines Ltd.	Canada	
Argonaut Mining Co. (now Utah Co. of the Americas)	U.S.	

(e) ALUMINUM

COMPANY	CONTROL
Aluminum Co. of Canada Ltd. (one company only)	U.S.

(f) ASBESTOS

	Net value added \$ millions	%
Industry	72.3	100
Six largest firms	68.2	94

COMPANY	CONTROL
Canadian Johns-Manville Co. Ltd.	U.S.
Asbestos Corporation Ltd.	Canada
Johnson's Company Ltd.	Canada
Johnson's Asbestos Co.	Canada
Bell Asbestos Mines Ltd.	U.K.
Quebec Asbestos Corporation Ltd.	U.S.

(g) GYPSUM

	Net value added \$ millions	%
Industry	4.9	100
Six largest firms	4.8	97

COMPANY	CONTROL
Canadian Gypsum Co. Ltd.	U.S.
National Gypsum (Canada) Ltd.	U.S.
Gypsum, Lime and Alabastine Canada Ltd.	Canada
Western Gypsum Products Ltd.	U.K.
Atlantic Gypsum Ltd.	Canada
Columbia Gypsum Co. Ltd.	U.S.

MANUFACTURING

(a) PULP AND PAPER

	Net value added \$ millions	%
Industry	641.4	100
Six largest firms	296.5	46

COMPANY	CONTROL
Canadian International Paper Co. Ltd.	U.S.
Consolidated Paper Corporation Ltd.	Canada
Abitibi Power and Paper Co. Ltd.	Canada
Bowater's Newfoundland Pulp and Paper Mills Ltd.	U.K.
Brice Bros. and Co. Ltd.	Canada
Powell River Co. Ltd.	Canada

(b) CHEMICALS

(1) Fertilizers

	Net value added \$ millions	%
Industry	39.6	100
Six largest firms	36.5	92

COMPANY

CONTROL

Consolidated Mining and Smelting Co. of Canada Ltd.	Canada
North American Cyanamid Ltd. (Canada)	U.S.
Canadian Industries Ltd.	U.K.
Canada Packers Ltd.	Canada
International Fertilizers Ltd.	U.S.
Agricultural Chemicals Ltd. (Canada)	

(2) Acids, Alkalies and Salts

	Net value added \$ millions	%
Industry	79.3	100
Six largest firms	49.8	63

COMPANY

CONTROL

Canadian Industries Ltd.	U.K.
North American Cyanamid Ltd. (Canada)	U.S.
Shawinigan Chemicals Ltd.	Canada
Electric Reduction Co. of Canada Ltd.	U.K.
Aluminum Co. of Canada Ltd.	U.S.
Canadian Chemical Co. Ltd.	U.S.

(c) ELECTRICAL APPARATUS AND SUPPLIES

	Net value added \$ millions	%
Industry	462.9	100
Six largest firms	241.2	52

COMPANY

CONTROL

Canadian General Electric Co. Ltd.	U.S.
Canadian Westinghouse Co. Ltd.	U.S.
Northern Electric Co. Ltd.	Canada
Canada Wire and Cable Co. Ltd.	Canada
RCA Victor Company Ltd. (Canada)	U.S.
Frigidaire Products of Canada Ltd. (General Motors)	U.S.

(d) PRIMARY IRON AND STEEL		Net value added \$ millions	%
Industry		217.4	100
Six largest firms		182.2	84
COMPANY	CONTROL		
Steel Company of Canada Ltd.	Canada		
Algoma Steel Corporation Ltd.	Canada		
Dominion Steel and Coal Corp. Ltd.	Canada		
Dominion Foundries and Steel Ltd.	Canada		
Atlas Steels Ltd.	Canada		
Electro Metallurgical Co.	U.S.		
(e) AUTOMOBILES		Net value added \$ millions	%
Industry		176.4	100
Six largest firms		171.1	97
COMPANY	CONTROL		
General Motors of Canada Ltd.	U.S.		
Ford Motor Company of Canada Ltd.	U.S.		
Chrysler Corporation of Canada Ltd.	U.S.		
Studebaker Corporation of Canada Ltd.	U.S.		
International Harvester Company of Canada Ltd.	U.S.		
Nash Motors of Canada Ltd. (now American Motors)	U.S.		
(f) RUBBER GOODS		Net value added \$ millions	%
Industry		149.0	100
Six largest firms		114.3	77
COMPANY	CONTROL		
Dominion Rubber Co. Ltd. (Canada)	U.S.		
The Goodyear Tire and Rubber Co. of Canada Ltd.	U.S.		
Firestone Tire and Rubber Co. of Canada Ltd.	U.S.		
B.F. Goodrich Canada Ltd.	U.S.		
Dunlop Canada Ltd.	U.K.		
The Miner Rubber Co. Ltd.	Canada		
(g) RAILWAY ROLLING STOCK		Net value added \$ millions	%
Industry		116.7	100
Six largest firms		97.7	84

COMPANY	CONTROL
National Steel Car Corp. Ltd.	Canada
Canadian Car and Foundry Co. Ltd. (now A.V. Roe Canada Ltd.)	Canada (now U.K.)
General Motors Diesel Ltd.	U.S.
Canadian Locomotive Co. Ltd.	U.S.
Montreal Locomotive Works Ltd.	U.S.
Canadian Pacific Railway Co.	Canada

(h) PRIMARY TEXTILES

(1) Synthetic Fibres	Net value added \$ millions	%
Industry	47.4	100
Four producers only in 1954	47.4	100

COMPANY	CONTROL
Du Pont Company of Canada Ltd.	U.S.
Canadian Celanese Ltd.	U.S.
Courtaulds (Canada) Ltd.	U.K.
Canadian Chemical Col Ltd.	U.S.
Canadian Industries Ltd. (in production since 1954)	U.K.

(2) Primary Textiles (Excluding Synthetic Fibres and Knitted Goods)	Net value added \$ millions	%
Industry	70.3	100
Six largest firms	63.4	90

COMPANY	CONTROL
Dominion Textile Co. Ltd.	Canada
Canadian Cottons Ltd.	Canada
Wabasso Cotton Co. Ltd.	Canada
Woods Manufacturing Co. Ltd.	Canada
Dominion Woollens and Worsteds Ltd.	Canada
Domil Ltd.	Canada

(i) AGRICULTURAL IMPLEMENTS	Net value added \$ millions	%
Industry	49.2	100
Six largest firms	44.9	91

COMPANY

CONTROL

Massey-Harris-Ferguson Ltd.	Canada
International Harvester Company of Canada Ltd.	U.S.
Cockshutt Farm Equipment Ltd.	Canada
John Deere Plow Co. Ltd.	U.S.
Inland Steel and Forgings Ltd.	
Waterloo Manufacturing Co. Ltd.	

SOURCE:

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