CANADIAN NATIONALISM AND THE QUESTION OF AMERICAN DIRECT INVESTMENT IN CANADA

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A thesis submitted to Carleton University in partial fulfillment of the requirements for the degree of Master of Arts in Political Science

ABSTRACT

This paper deals with Canadian nationalism and the question of American direct investment in Canada. By examining the various definitions of nation and nationalism this thesis contends that Canada cannot be categorized as a nation and yet there exists nationalism, both in positive and negative forms. A major facet of this nationalism is that of anti-Americanism as embodied in the concrete form of economic nationalism. The paper then centers upon the general historical development of investment, as well as those policies which enhanced capital importation. A cost benefit examination points to the economic and political ramifications of investment as implemented through the operations of the multinational corporation. The final area deals with the perspectives of national will and the priorities of economics and politics.

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Chapter I

Canadian Nationalism

Definitions

> Owing to the facts of North American civilization, Canadians who set store by material development- and most do- must inevitably be nationalists of a qualified type. [1]

To judge by the material written on the subject, Canadian nationalism may seem to be little more than group emotionalism, unanalytical in scope and expressed in a mass of cliches, assumptions and predjudices which are substituted for factual content. [2]

There is danger that scholars, confronted by this mass of trivia, will mistake the medium for the message and dismiss Canadian nationalism as nonsense, unworthy of serious consideration. To do so, however, would be to ignore one of the most potent elements in Canadian politics.

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1 A. Brady, "Nationalism and Democracy in the British Commonwealth: Some General Trends," in American Political Science Review. Vol. 47. December, 1953. p. 1030.

2 See J. Barber, Good Fences Make Good Neighbours. New York, 1958.

Let us first of all examine the spectrum of current definitions of nationalism and then attempt to narrow and to situate this concept within a Canadian context.

Nationalism may be regarded in a societal context as the feeling of being part of an extended family, as a source of psychological security, [1] as an historical formulation process, [2] or as a consistent behaviour pattern which tends to structuralize shared group values and to foster individual internalization of those group values through national symbols and identitive models. [3] Nationalism may, in fact, be no more than an orientation to common goals through particularized institutions and processess. Hence, "a nation may exist where its component atoms believe it to be a nation. Where they are willing to live and die for a mystical and metaphysical entity,

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I Cf. the prerequisites given by K. W. Deutsch in "Nation and World," address to the National Convention of the American Political Science Association, Sept. 9, 1966 pp. II-13.

2 E. Barker, National Character and the Factors in Its Formation. London, 1927. intro.

3 "Through identification, the individual comes to incorporate the attributes of the other individual or group and to display similar behaviour..." D. Krech et al. Individual In Society. Toronto, 1962. pp. 134-135.

whose life transcends that of their own." [1] Canadian nationalism would then involve a perceptual image, internal and external, of differentiation vis-a-vis other groups.

For our purposes, image and culture will be considered as interrelated concepts. The image must be distinct and clear for the sense of national identity to have efficacy. Culture refers to the arts, skills, instruments, objects, and institutions of a group or society which distinguish it from another group or society. [2] Image has been defined as "an artificial imitation or representation of the external form of any object." [3] An understanding of the relationship of image and culture on the national level might well lead to a better comprehension of the nature of national identity. A commonly accepted and envisioned (or perhaps enshrined) illusion can take on aspects of reality because actions based upon illusions are nevertheless themselves real actions. The perception of images, along with the actions and attitudes which are the consequences of such perception, helps to define identity.

I Anwar Sayed, The Political Philosophy of Walter Lippmann. Philadelphia, 1967. p. 34.

2 J. P. Adams, "Culture and Society," in Social Behaviour. ed. L. F. Malpass. Toronto, 1967. pp. 3-12.

3 D. J. Boorstin, The Image. New York, 1962. p. 197.

In the nation state there is an essential need to create a sense of unity for continuance, even in the creation of myths, or as this study will attempt to demonstrate- negations.

Nationalities of Canada

At first, one might be tempted to agree with Andre Siegfried who states:

> That there should be a country called Canada distinct from the United States is a mere accident of history, in fact a political paradox. Nature has not conferred upon Canada any particular personality of her own. There is no geographical difference to separate her from her great neighbour to the South. It is a problem to determine wherein lie's Canada's centre of gravity; politically it is in England, and geographically it is in the United States - in either case outside of her own boundaries. Her very existence is connected with this problem....[1]

Furthermore, one might easily feel that a recurrent fault in writings on Canadian nationalism has been the assumption that there is a Canadian nation. This feeling would be based upon the observation that the most basic prerequisites of nationhood - - the consciousness by a recognizable community of its own identity and the

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I A. Siegfried, Canada: An International Power. New York, 1947. p. 23.

persistent conscious effort to embody this consciousness within a sovereign state - - have been largely lacking in Canada. To amplify, Deutsch, in his article "Nation and World", defines both nation and peoples as coterminus. He adds that:

> ... a nation is a perceptual possession of a state. A people, in turn, is a large general-purpose communication net of human beings. It is a collection of individuals who can communicate with each other effectively over a wide range of localities and of diverse topics and situations. [1]

In these terms, it would be difficult to characterize Canada as effectively a nation.

Moreover, it is hard to find a strong perceptual identity among Canadian citizens, that is those "beliefs, attitudes, norms and perceptions which support participation and the mobilization process on all levels, psychological, social, political, etc. (and) the inculcation of a value framework via the rituals, national sense of mission and national pecularities, (which) allow citizens to identify themselves emotionally with the fate of the national group." [2]

I K. Deutsch, op. cit. pp. 2-3.

2 Crane Brinton, The Shaping of Modern Thought. New York, 1961. p. 146.

This situation is only in part a result of French Canadian alienation and frustrated ego strength. [1] Even in so-called English Canada there does not appear to be an effectively homogeneous national identity. [2, 3] There is a tendency which is seemingly increasing rather than diminishing for Canadians to identify with ethnic groups rather than with Canada. The Ukranian example [4] demonstrates an alienation from the "British" image which the Anglo-Saxon minority has sought to perpetuate in Canada. Although functionally, "English" nationalism has mobilized segments of the Canadian state, it has also served to stifle the growth of a Canadian nation by moulding an identity pattern unacceptable to non-Wasp groups. It is further reasonable to assume that the attempt at artifically creating a dichotomy of two nationalities,

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I Michael Brunet, "The French Canadians" Search for a Fatherland," in R. Russell (ed.) Nationalism in Canada. Toronto, 1966. pp. 47-60.

2 Indeed, Gad Horowitz, in Canadian Dimension. Vol. II, No. 5 July-August, 1965, pleads for the creation of a specifically English Canadian nationalism.

3 Cf. K. McNaught, "The National Outlook of English Speaking Canadians," R. Russell, op. cit., pp. 61-71.

4 Elizabeth Wagenheim, "The Ukranians," in Russell, ibid., pp. 72-91.

French and English, will increase the ethnic identitive process among non-French and non-English elements of the population. We may see that "in a society with a heterogeneous population ... different social groups will likely define the nation's problems and their solutions in different ways." [1] Should the cleavage aspects outweigh the consensual aspects of identity, the creation of a distinctly Canadian people would appear remote. [2]

That the ties with Britain and British culture constitute a double-edged sword for many aspects of Canadian national identity is a fact which appears elusive to many culture transmittors, notably Canadian

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I M. A. Schwartz, Public Opinion and Canadian Identity. Ann Arbor, 1967. p. 16.

2 Deutsch states: "Social mobilization makes people potentially more nationalistic and more likely to assert their differences from other peoples, and it does so at the rate of roughly three quarters of one percent per year. In theory, this could be balanced by processes of linguistic and cultural assimilation.... Assimilation, however, usually is a much slower process. Most often it seems to occur at rates of one-tenth or one-fifth of one percent per year. Social mobilization in other words often is about five times as fast as linguistic assimilation. This means that for every five persons mobilized, only one becomes assimilated by the predominant national or international language or culture, while four become potential supporters or potential recruits for some self-assertive nationalist movement of some mobilized but unassimilated language group." op. cit., pp.11-12.

historians. For example, W. L. Morton claims that:

> The moral care of Canadian nationhood is found in the fact that Canada is a monarchy and in the nature of monarchical allegiance. As America is united at bottom by the covenant (of the Declaration of Independence), Canada is united at the top by allegiance. Because Canada is a nation founded on allegiance and not on compact, there is no process in becoming a Canadian akin to conversion.... Anyone, French, Irish, Ukranian, or Eskimo, can be a subject of the Queen and a citizen of Canada without in any way changing or ceasing to be himself.[1]

Other historians, notably Donald Creighton, seek to perpetuate an identity and symbolism which are, at heart, inimical to the perceptual identity of the majority of Canadian citizens. Much of the literature of Canadian nationalism has as a major premise that the "British North American" nation was, is, and will be the model for Canadian identity.[2] Given the large and diverse cultural groups which remain largely unassimilated, acceptance of the British North American model for Canadian nationalism seems illogical - - unless one accepts the hypothesis that there are and

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I W. L. Morton, The Canadian Identity. Toronto, 1961. pp. 84-85.

should be in Canada, citizens of varying degrees of Canadianism. In such case, though, there would be no such thing as "a Canadian" - - except in a legal sense.

Fragmentations

Attempts at portraying the Canadian mosaic as a distinctive, contributing feature of a national identity are rationalizations of a multi-nationality fragmentation. Wagenheim argues:

> Most ethnic groups seem concerned to teach the language and folk arts of their own group. Even those organizations which are not by policy "closed" to outsiders do not make special efforts to attract outsiders and make them welcome. Most ethnic groups provide an active cultural life for their members .... However, each of these sets of activities is separated from the others by an opaque curtain partially but not wholly caused by language problems.... Members of each ethnic group display little interest in any but their own groups. This is one instance where everyone is interested in giving and no one in receiving. Surely no mosaic can present an identifiably picture or image if the stones of various colours are not significantly related to one another. [I]

On the same theme, Gad Horowitz asserts that fragmentation occurs through a lack of national identity and not vice-versa. He notes that the United States is less

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I Wagenheim, op. cit., pp. 84-85.

of a melting pot than some Canadians, anxious to discover major attitudinal differences between the two countries, would like to assume. Hence, Jews in America are able to maintain fuller ethnic identity than in Canada, while simultaneously "they have powerful feelings of commitment to and participation in the American national community." [1] In Canada, on the other hand, the Jewish and other immigrant groups:

> remain in their ghettos; at the same time they assimilate: English becomes their language, the ways of the English-speaking become their ways. But they do not acquire a strong identification with the Canadian nation, because there is none, except in the political sense. The whole ideology of the mosaic came into being not so much to justify cultural diversity as to justify the absence of a national community embracing that diversity. We have only the pluribus, not the unum. The mosaic ideology is not needed to preserve the diversity; it is a weak and ofen insincere apology for the absence of unity. What differentiates us from the Americans is not our cultural diversity - - they have it too - - but our failure to develop a national community. [2]

I Gad Horowitz, "Mosaics and Identity," Canadian Dimension. Vol. III, No. 2. p. 18.

2 Ibid.

Important as the above implications of Canada's lack of a national identity may be, they in no way render the subject meaningless. Paradoxically, it can be argued that nationalism may exist where there is no nation. In contrast to the specificity customarily attached to the term 'nation', the term 'nationalism' has acquired a broad meaning through usage. Hence, in Canada it is possible that nationalism be considered as the expression of a pan-Canada ideal, as opposed to regional or provincial sentiments. Alternately, nationalism might be seen as a by-product of shared communications.[I]

In the context of this paper, however, the brand of Canadian nationalism which is involved in the interaction of the Canadian political entity with

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I 'Communications' is here regarded as the totality of experiences linking human beings with one another and their technological environment. In this sense, the Canadian Broadcasting Corporation, Canada Council, the Canadian Pacific Railway, newspaper chains and Trans-Canada pipelines are all aspects of communication. For further discusion of this concept and its relevance for nationalism, see M. McLuhan, Understanding Media. New York, 1964; K. W. Deutsch, Nationalism and Social Communication. New York, 1953; and M. Watkins, "technology and Nationalism," in Russell, op. cit., pp. 284-301. The all-pervasive nature of technology makes contact with it inescapable and makes it present in any consideration of nationalism. Nevertheless, consideration of the nationalist phenomenon from an exclusively technological viewpoint is a distinctly different approach from one merely evaluating technology as one of many environmental factors.

other members of the international community, concerns specifically the United States.

Anti-Americanism - a Defense Response

First of all, a superficial appraisal of this form of Canadian nationalism may result in its simple equation with anti-Americanism, and much of the public debate on the topic seems to assume this identification. Yet, although hostility to America and the American dream may be a factor of nationalism, it would be a gross oversimplification to regard Canadian manifestations of nationalism in relations with the United States as mere anti-Americanism directed against what some scholars have seen as a natural evolution towards political, economic and social amalgamation.[I]

However, if Canadian nationalism does have a more substantial basis, the lack of national identity makes the need for concrete expressions of nationalism all the more necessary. This lack also, perhaps, at least partially accounts for the seemingly irrational and emotional response, recurrent in Canadian politics, to American slights, real or imagined. In terms of her need to rebel against her dominant neighbour, Canadians may well be reflecting the position of a country at war with itself.

Although Canadian nationalism is much more than simply a reaction of the Canadian political community with

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I For example see K. W. Deutsch, et al., Political Community and the North Atlantic Area. Princeton, 1956.

other communities, one should not underestimate the importance of this factor. This reaction has both positive and negative elements in regard to relations with the United States. Positively, the product of similar cultural, economic, geographic and social conditions renders essential a very close relationship which increasingly approaches a qualified interdependence. The qualification, would necessarily involve the functions of size, power (both economic and military), and the coincidence of the benefits of mutuality.

While common interests have led to pluralistic integration at certain levels, manifested in a variety of forms (as in defence agreements, and in trade arrangements such as the Auto Pact), the negative side of the interaction has served to thwart, or at least hinder, tendencies toward fuller integration levels. Continentalism remains functional rather than political.

Some elaboration of this concept is necessary. First of all, that North America is in some respects an integrated community is readily demonstrated. In aspects of communications - - including cultural activity, mass media, social organization, technological and scientific research, and advertising - - the difficulty of identifying the political boundary is evident. There is a reciprocity

of immigration and travel between the United States and Canada which has little parallel. Both countries are guided by a Judaeo-Christian materialism ethic, giving rise to the same side-effects, if in varying degrees. Both countries face similar problems in economic and social spheres.

At the same time, political pluralism continues to be maintained by what may be described, according to our earlier definition, as Canadian nationalism. The self-assertion natural to any political community faced with the prospect of absorption within a larger unit can be explained in terms of conservatism - - the desire to maintain the institutional status quo. Essentially, elements within the country have, in terms both of status, and of economic, social, military and political interest, a strong regard to ensure the viability of their respective positions vis-a-vis arrangements within a larger unit. It would be important to differentiate between legitimate safeguarding of the sum total of the country's future and a static reaction against change through interaction which is both desirable and necessary between communities. It is evident that such conservatism cannot exist unsupported in the face of strong amalgamistic pressures. The roots of national interest must be discovered within the ground soil

of Canadian identity.

The absence of a Canadian national identity might preclude the explanation that conservative attachment to separate existence is upheld by the assertion of a healthy national ethos. Nevertheless, this does not preclude the contributions of identitive factors, at various levels. Absence of a clear-cut and distinct pattern of a Canadian nation as a total image does not preclude the possibility that certain factors may be discovered which present formative spheres upon which some image may build. That is, there are elements which may combine, perhaps in the future, to create a viable identity. For example, the national identities of the two largest groups within Canada, the French Canadians and the Anglo-Saxons (especially as regards to their important elite functions), may serve as bulwarks against incorporation into the United States.

Reactive Elements

It would be overly simplistic to conceive of integration as comprising merely the smooth transfer of interactive variables (such as economic and political decision-making) without regard to the efficacy of boundaries. Certainly, at some point, the interaction

of such variables may effectively transform boundaries to negative rather than positive transfers, with respect to the maintenance of a separate Canadian political entity. But that point is partly identitive and partly definitional. For purposes of clarity, it should be noted that Canadian nationalism can and does have positive identitive factors which are concrete and tangible (such as a symbolic flag) while at the same time nationalism has a subjective identification which may be based upon realities or simply a matter of will. To expand the latter point, one can use the example of an English Canadian businessman's high co-incidence of identity on cultural, economic and social levels with his American counterpart and yet at the political level there may be considerable rejection of transfers. Here, the boundary is definitional, as a matter of will, rather than identitive. One might explain, then, the irritation of some Canadians who find themselves identified by others as citizens of the United States. If one defines Canadian nationalism in terms of subjective or objective self-evaluation, then he might describe himself as being Canadian without feeling a need to define what Canadianism is.

Even with such a fragmented identity, with cleavages (i.e., regional) and conflicts (the WASP image) of varying,

perhaps even increasing degree, subjective factors may nevertheless contribute to nationalism. For example, a dynamic and significant factor is that of psychological repulsion. Whether explained in terms of an inferiority complex, ego assertion, or repressed Oedipus complex, Canadian society does seem to display a neurotic strain. It is at the root of the excessive seriousness with which Canadians consider themselves and their problems as well as the image of constant uncertainty which Canada presents to the world. In addition to being a lavish birthday treat, the Centennial celebrations of 1967 might be regarded as expensive and necessary therapy.

On another level, the basis of Canadian conservatism in the face of amalgamistic pressures can in part be explained by the simple rejection of Americanism. America is more than a geographical area. It is also an idea, which finds expression as an ideological concept, with its philosophy enshrined in the Declaration of Independence and the Constitution. Although interpretations of "the American dream" may vary, the fact that it is an ideology gives it a character likely to provoke both favourable and unfavourable responses. Therefore Canadian non-acceptance of the essential rituals and symbolism of Americanism serves as a factor of nationalism in Canada.

At this point in time, the factor of active anti-Americanism is very close to the surface. When it erupts it may be largely a product of the negative side of the previous factors. Yet, it is something more. Despite the remarkable harmony, (remarkable by European and Latin-American standards), that has characterized Canadian-American relations, there is, nonetheless, a certain legacy of bitterness north of the boundary. The theme of sacrifice of Canadian interests 'upon the alter of Anglo-American relations' centers upon such issues as the Alaskan boundary settlement, the Fenian raids, American annexationist threats, the War of 1812, etc.

Political Culture

Another major factor which divides Canada from the United States is that of political culture - - which includes both institutional and non-institutional aspects. Canada is a constitutional monarchy; America is a republic. Canada has a parliamentary system of cabinet government; the United States has a congressional-presidential form of government. Of more interest and importance, however, is the tolerant nature of Canadian politics which allows ideological or quasi-ideological parties to organize effectively and compete for power. More important than the tolerance of an active Communist party is the existence of the New

Democratic Party.[I] As an avowedly socialist party without immediate prospect of power, the New Democratic Party makes a strong appeal for anti-American nationalism. The extent to which the party's support is a result of anti-Americanism or to which the party's anti-Americanism stems from socialist dislike for American capitalism would merit further study. Indeed the whole phenomenon of socialism in Canada as contrasted with the situation in the United States is difficult to explain, given the degree of integration of the two societies in socio-economic levels. A case in point might be the active support of organized labour in Canada for the New Democratic Party--organized labour which is in large part composed of international unions based in the United States! Possibly the answer is in the early introduction of limited state ownership in Canada and the example of a labour party in the United Kingdom. Whatever the reason, left-wing antipathy towards American political doctrines is a strand in Canadian nationalism. There is a distinguishable political culture which has this major factor of nationalism as part of its credo.

I Gad Horowitz, "Conservatism, Liberalism, and Socialism in Canada: An interpretation," Canadian Journal of Economics and Political Science, XXXII (May, 1966) pp. 143-171.

The "Bogey" of Economic Domination

In the arena of partisan politics, nationalism based on anti-Americanism is by no means the exclusive prerogative of the New Democratic Party. Both the Liberal Party and the Progressive Conservative Party have, at opportune times, raised the spectre of American control as a means to attract votes. James Eayers sums up the 1957 General Election campaign thusly:

> If the Liberal government is re-elected, Mr. Diefenbaker declared early in 1957, 'Canada will become a virtual forty-ninth state in the American Union.' The Liberal government was not re-elected; fear that had the Liberals been returned to power they would have been less than properly concerned to protect the country's resources from the 'depredations of Texas buccaneers' played a large part in their defeat.[1]

Echos of this continued in Mr. Diefenbaker's later allegations that the United States Government gave the Liberals financial assistance and organizational advice during the 1963 General Election which resulted in the defeat of the Progressive Conservative Government. Also, with the growing impact of the New Democratic Party in Federal politics, it is quite possible that future general

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I James Eayers, "Sharing a Continent: The Hard Issues," in J. S. Dickey (ed), The United States And Canada. Englewood Cliffs, 1964. p. 75.

elections will see each of the three major parties clamouring to appear more Canadian than the others.

Rationalization of the anti-American politicking has within the last fifteen or twenty years centered in the concept of economic nationalism, viz., concern over the growing role of American investment in the Canadian economy. Despite the dangers inherent in presenting a primarily irrational, or at least subconscious, motivation such as nationalism in concrete economic terms, the proponents of economic nationalism -- principally Mr. Walter Gordon and sections of the New Democratic Party -- have succeded in arousing considerable public apprehension over the American economic presence. Opinion sampling indicates that some sixty percent of Canadians feel concern over the extent of American investment in Canadian industry.[1] Much of this fear might be held to stem from lack of information on the effects of American investment. The unknown devil is always more fearsome. Unfortunately, no comprehensive overview of the subject has been taken, with the partial exceptions of Safarian's Foreign Ownership of Canadian Industry and the

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1 Canadian Institute of Public Opinion: Gallup Poll findings, November, 1966.

Report of the Task Force on the Structure of Canadian Industry, headed by Melville Watkins.

In many areas, the part which direct investment plays in such matters as combines activity, the media culture, education, social stratification, marketing structures and facilities, the tariff, pricing policies, rates of urbanization, foreign policy, monetary and fiscal objectives, etc., has hardly been investigated. As long as the precise effects are unknown, however, vague imprecations of 'dollar imperialism' and 'economic colonialism' are likely to evoke an emotional response, without a solid base of support. Further, formulation of realistic policies, in both the economic and political sense, may be retarded or shelved in reaction to such emotionalism.

Moreover, the economic theme has built-in dangers in that much the same arguments can be used to promote sectional cleavages which have plagued Canada since its inception as a country. Western Canada in particular is conscious that the economic ties with the United States are more important for that region than those with Eastern Canada and that the most obvious threat of 'economic imperialism' has traditionally come from Ontario. Hence, Canada's precarious unity is at once an incentive to and a restraint on the encouragement of governmental activities of the economic nationalism variety.

CHAPTER II

American Direct Investment

Historical Development

Historically, Canadians have never provided enough capital of their own to finance desired levels of economic growth and, in each of the periods of rapid economic growth, Canada has depended on heavy inflows of capital from abroad, to the extent, perhaps, that it can be said that Canada escaped the shackles of colonial influence only to fall prey to United States economic tutelage.

Prior to the turn of the century and up until World War 1, foreign investment in Canada was used mainly to finance the construction of an adequate transportation system, and to improve agricultural and mining development. This investment, however, coming almost exclusively from Britain, was in the form of Government borrowing,[1] that is, fixed, interest-bearing debt, and not in the form of equities in the new

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1 "Between 1903-1913 net borrowing rose from 5% to 23% of the Canadian level of national income, and from 30% to 80% of the total investment. During this period also, 2,605 million dollars of foreign capital entered Canada for a cumulative total of 3,837 million dollars, Britain accounting for 2,778 million dollars and the United States for only 881 million dollars." J. A. Stovel, Canada in the World Economy. Princeton, 1959, p. 122.

productive assets that were being developed. Therefore, at this time the non-resident investor was not getting an equity in these resources.

The whole increase in foreign investment during the war can be attributed to the United States, as British investment was being repatriated on account of the war effort. As a result by the end of 1918, out of a total foreign investment of $4,536 million, $2,729 million was owned in Britain and $1,630 in the United States. After the war, New York replaced London as the financial center of the world and this led, during the twenties, to a trend away from lending and toward direct investment. This was the period, moreover, when Canadian subsidiaries of American companies began to be established in Canada on an increasing scale. Further, investment itself began to center itself in manufacturing and extractive industry areas, away from the agricultural and public utilities sectors.[1] By the end of 1926 foreign capital was $6,003 million; $3,196 million was American, of which $1,400 was in the form of direct investment.[2]

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1 See Appendix A. Table 1.

2 Direct investment amounted to $1.8 billion out of total foreign long-term capital in Canada of $6 billion. Safarian, Foreign Ownership and Control Of Canadian Subsidiaries. Toronto, 1966. p. 5.

Hence, the significance of this period of development is that many of the industries and resources which we take for granted as constituting an integral part of the economy, viz., manufacturing, petroleum and natural gas, and mining and smelting were increasingly becoming foreign owned and controlled.

The late 1920's accelerated the inflow of capital for industrial expansion, expansion which again saw the increasing predominance of the American component. By 1930, for example, United States investment was $4,660 million.

The Great Depression saw a temporary decline of both American and British investment but, as the figure $4,151 million for American investment indicates, not substantially.

During the Second World War, financial requirements in besieged Britain caused the official repatriation of many British holdings in railways and other utilities. This was the virtual demise of British investment, which totalled only $1,750 million at the end of 1945. The pace of American investment did not fall but rather recorded a healthy $840 million climb to $4,990 million.[1]

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1 See I. Brecher and S. S. Reisman, Canada-United States Economic Relations," Royal Commission on Canada's Economic Prospects. Ottawa, 1957. p. 87.

In the postwar years, with the emergence of close bilateral arrangements with the United States, American investment increased by another $940 million, $600 million of which went into manufacturing. By the end of 1959, foreign investment reached $20,800 million, of which $15,779 million was owned by Americans. In 1963, the total of foreign investment in Canada had reached $26.2 billion.

In putting the aforementioned data into historical perspective, three broad trends may be discerned. First, the United States supplanted Britain as the major source of external capital. Until World War 1 British investment in Canada was about three-quarters of all foreign investment, increasing somewhat in the twenties, but then fading during the depression and prewar years, so that by 1954 it accounted for less than one-fifth of all foreign capital. In contrast, however, American investment soared in all periods except during the depression, and surpassed that of Britain during the early twenties.

Second, the periods of the most rapid influx of capital have coincided with periods of peacetime growth, i.e.,1900-1914, the twenties, and especially since 1948.

Third, direct investment has constituted a significant portion of the long term investment in Canada, to the extent that its share in total foreign investment has increased from 23 per cent of the total in 1913 to 59 per cent of the $26.2 billion in 1963. This increase in direct investment, moreover, has provided more than three-quarters of the increase in foreign long term investment in Canada during the postwar period.[1] The American share of this increase in direct investment as a percentage of this total has been from 22 per cent in 1913 to 78 per cent in 1963, the rise being accounted for not only by the acquistion or establishment of subsidiaries in Canada, but also by the expansion of the existing ones.[2] the latter being the dominant factor accounting for growth.

In short, the extent and the scope of non-resident ownership, increasing with the development of Canadian industry, has reached the point at which it is generally conceded that no other highly industrialized country in the world has such a large percentage of its industry owned and legally controlled by non-residents.

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1 Brecher and Reisman, op. cit., p. 90.

2 Ibid., pp. 90-91.

It might now be advantageous to take a closer look at the data for perspective.

Scope of Investment

At the end of 1963, the book value [1] of long term investment owned by non-residents was $26.2 billion [2] of which well over $10 billion represented portfolio investment (which does not carry with it control of the enterprises) and the remaining $16 billion was in the form of direct investment (when the voting stock is at least legally controlled by non-residents). And, of this direct investment, about four-fifths was represented by American interests, whose direct investment constitutes about 60% of all foreign long term investment in Canada in 1963, as compared with 40% in 1945.

Considering all non-resident ownership and control as a percentage of capital invested in selected Canadian industries, in selected years, 1926-63, it can be shown that taken as a group, the total proportion of non-resident owned industries has remained at or just below 35% for the last decade or so, an actual drop of 2% from 1926 when non-resident ownership was

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1 The book value shows the relative positions of Canadian and foreign investment in Canadian industry and Commerce.

2 A. E. Safarian, op. cit., intro. p. vii.

proportionally greater than in 1963. However, at the same time, the share of American investment rose from 19% in 1926 to 28% in 1963. Foreign ownership of manufacturing has risen from 38% in 1926 to 54% in 1961, and has remained at that level, while in mining and smelting, the non-resident owned proportion grew from 37% in 1926 to 63% in 1963. Non-resident ownership in the petroleum and natural gas industry climbed to 64% in 1963. On the other hand, since the mid-twenties there has been a declining role of foreign capital in railways and this is reflected in a reduction by twenty-two per cent between 1926 and 1963. Non-resident ownership of utilities and merchandising and construction has been a relatively constant low.

Similar tendencies are evident in foreign control of these various sectors. In the whole group of industries for which estimates are possible, the proportions controlled by residents of all foreign countries have edged up from 17% in 1926 to 34% in 1963. In manufacturing, control has risen from 35% in 1926 to 60% in 1963. But, in petroleum and natural gas, foreign control decreased from 76% in 1957 to 69% in 1961, then jumped back to 74% in 1962.

Thus, generally speaking, the long term increase of the foreign ownership and control ratios has reflected almost uninterrupted growth in three of the six industrial groups, manufacturing, petroleum, and natural gas, and mining and smelting, while in the remaining industrial groups ownership and control has dropped. The actual 2% decrease overall from 37% to 35% should not obscure the fact that foreign financing has been in those sectors which are the more lucrative and dynamic sectors.

Now, as the predominant investor has been the United States, it might be profitable to look at the American representation in ownership and control.

Since 1926, American ownership has risen from 19% of the total capital invested to 28%, while ownership by other non-residents has fallen relatively from 18% to 7%. Moreover, American control of the industrial group has risen from 15% to 27% while control by residents of other countries has risen from 2% to only 7%.

In addition, when reviewing this data, it should be noted that American investment and control was selectively developed

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along lines closely parallel to the general pattern of foreign investment and control as a whole. Not only has there been a long term rise in U.S. ownership and control ratios, but U.S. capital has also tended to concentrate in the more lucrative and dynamic sectors. There has been relative stability in the overall ownership and control ratios in the most recent period.[1]

In Appendix 2, foreign ownership and control has been classified as a percentage of the total investment in the three main industries, manufacturing, petroleum and natural gas, and mining. Within the manufacturing sector, foreign ownership and control has not been uniform.[2] For instance, in this area an extreme case is the automobile and parts industry, which in 1963 was 91% foreign owned but 97% controlled by non-residents. Also, in the rubber industry, there is 87% foreign ownership, but 97% control. Ownership and control are extremely high in other industries also. For example, in the chemical industry foreign ownership and control is 63% and 78% respectively, while in the electrical apparatus industry, ownership and control is 59% and 78% respectively.

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1 Safarian, op. cit., p. 15.

2 Dominion Bureau Statistics Canada's International Investment Position. 1963, 1964, and 1965, p 78ff.

At the other extreme, ratios are much lower in the beverage industry- 26% and 17%; iron and steel 20% and 14% respectively, and textiles, 20% and 20%.

Taking these three industrial groups together as a whole, foreign ownership has risen from 51% in 1954 to 59% in 1963, while control has risen by nine per cent from 55% to 64%.

In conclusion, therefore, it can be seen that while non-residents own almost 60% of Canadian manufacturing, petroleum and natural gas, and mining and smelting industries (that is, the more dynamic and profitable industries), they control about two-thirds of these same industries. The historical evidence suggests that there is built in upward drift to increased ownership and control barring depression or war.

One might now ask:how did this situation come about-- was it geographical proximity, rationalization of continental markets, the effect of the tariff, investment policies of the two governments or simple business advantage? For purposes of analysis the following section will deal only with those general policies of government which may or may not have encouraged the investment of private capital in Canada to any measurable extent.

Some Arguments Concerning Investment

Before we make a sketch of the general policies which both the American and Canadian governments have taken towards investment, it might be useful to establish a perspective concerning the general arguments which private direct investment can marshall:1) it is efficient due to the basic motivation of profit; 2) it is accompanied by technical knowledge and managerial skills which the host economy might not otherwise martial; 3) in general, it aids the balance of payments position of the recipient nation by stimulating export production and production which is substitutable for imports; 4) it provides amounts of public funds for use of the host country through taxation of the enterprises; and 5) it tends to stimulate internal investment in the capital-importing country by depressing interest rates.[1]

On the other hand, there are certain difficulties which such investment may aggravate. First of all, "in terms of opportunity costs, the costs are generally greater in an industry that is not as productive as one which would have arisen with foreign capital and domestic initiatives."[2] There is

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1 Alec Rozenethal, "International Finance Corporation and Private Foreign Investments," Economic and Cultural Change. Vol. 5. April, 1957.

2 See H. W. Singer, "The Distribution of Gains Between Investing and Borrowing Countries," American Economic Review--Papers and Proceedings. V. 40, May, 1950.

another argument, whose general line of reasoning may be as follows: 1) the foreign investor is assumed to be the innovating pioneer who has the financial capital of an industrialized nation upon which to draw; 2) the elastic supply of capital does not exist for the local firms who desire to enter the industry; 3) the supply of firms is also limited; 4) the interest rate available to the local firms is higher than that available to the innovator; 5) the marginal productivity of the latter is also higher, as his size permits him to benefit from economies of scale; 6) size i also a factor which inhibits the local firms' ability to survive the seasonal and cyclical fluctuations; and 7) the situations, consequently, resolves at best to one of oligopolistic competion and, at worst, to pure monopoly. In either case, the foreign investor comes out best. [1]

American Policy

With regard then, to American policy, it is possible to say (first of all,) that there has been greater direct foreign investment in relation to portfolio [2] because of differentiated

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1 See Nural Islam, Foreign Capital and Economic Development: Japan, India and Canada. Tokyo, 1960.

2 Direct investment here refers to transfers of capital (real or financial) that involve control of the interprise in which the investment is made. Portfolio may be equity investment, divested of its characteristic of control, but more often is investment in securities (government or corporate) for the sake of yield.

treatment, with legislation stimulating investment through credits and tax policies. Secondly, since 1947, direct investment from the United States has, overall, shown a propensity to concentrate in the primary products industries,[1] and to concentrate more in the Western Hemisphere. Third, direct investment has increasingly come from retained earnings rather than from an actual movement of capital from the United States. Fourth, the number of firms engaged in direct investment is small, and the bulk is done by a relatively small number of corporations.[2] Finally, these firms are typically large in terms of the United States economy and the Canadian economy.

One of the major tax provisions for foreign investment by Americans is the Western Hemisphere Trade Corporation classification, a special corporate status providing for an income tax rate of 34% (as compared to the regular corporate rate of 48%) on any enterprise fulfilling the stipulated conditions. The conditions that must be met to qualify for concessions are: 1) the taxpayer must be a domestic corporation; 2) all business of the corporation must be conducted in the Western Hemisphere; 3) at least 95% of

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1 United STates Department of Commerce. U.S. Business Investments in Foreign Countries. Washington, 1960. Table I, also Dominion Bureau of Statistics. Canadian Balance of International Payments, 1963, 1964, and 1965, August, 1967, p. 128.

2 E. R. Barlow and I. T. Wender, Foreign Investment and Taxation. Englewood Cliffs, 1955, p. 40, Exhibit 12.

the gross income of the corporation must result from operations outside the limits of the United States, and 4) at least 90% of the corporation's gross income must result from the active conduct of trade or business.[1] The tax incentive provisions under the Less Developed Country Corporation, designated by Executive Order 11071, December 27, 1962, do not apply to the investment picture in Canada.[2]

The other major form of concession to private foreign investment is the tax credit. Basically, the credit is designed to eliminate double taxation of foreign earned income, i.e., to equalize the effective rate of taxation between foreign and domestic earnings. Essentially, the provision is that a corporation may credit the foreign income tax paid by its branches against its total United States income tax liability. A further item provides that a parent organization is permitted to deduct the losses of its foreign branches (but not its foreign subsidiaries) when computing its taxable U.S. income. In addition, an enterprise is allowed a credit on the dividends of a foreign subsidiary when such dividends are remitted to the parent corporation. That type of income is exempt from taxation until

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1 U.S. Corporations Doing Business Abroad. July, 1967. pp. 21-22.

2 Ibid., Appendix 1, p. 33.

it is formally remitted.[1] One major restriction regarding tax credits is the 'per country limitation'. This provides that a parent corporation cannot credit any foreign income taxes paid in excess of the sum of U.S. taxes on foreign income for each country against the tax liability.[2]

The final area which will be sketched is the use of the bilateral and multilateral treaties.

As A. Fatouros says, "The conclusion of bilateral treaties for the protection and encouragement of American private investment abroad has consistently been a major objective of American foreign economic policy."[3] In a sense, the treaties adjust the climate for investment and provide the framework for corporate activity. Provisions most directly concerned with private foreign investment include the type of treatment accorded to the investor's business activities--whether 'national treatment' or most-favoured nation treatment'[4] -- the legal

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1 See A. K. Beggs, J. K. Allen and G. Gilligan, U.S. Tax Incentives for Private Foreign Investment. Washington, 1954.

2 U.S. Corporations Doing Business Abroad. op. cit., pp. 15-16.

3 A. A. Fatouros, Government Guarantees to Foreign Investors. (New York, 1962). p. 94.

4 The most-favoured nation standard means that a nation is given treatment equivalent to any other nation with whom the Americans sign a treaty containing the same provisions. The other standard, 'national treatment' indicates that the nationals of a signatory nation are accorded the same rights and privileges as citizens of the United States with respect to the specific provisions of the treaty.

restrictions regarding the employment of aliens within the foreign-owned firm; provision for compensation for nationalization or expropriation; the provisions regarding the importation of capital; and the exchange restrictions. An interesting authority granted to the American President in the Foreign Assistance Act of 1962 is his right (at his discretion) to abrogate a bilateral treaty with any country which nationalizes without compensation in a convertable currency. It is interesting, not so much in terms of its economic impact upon Canada, but more as an expression of the de facto modification of sovereignty exercised by one nation upon another through economic leverage.

Another example of the impact of policies designed primarily to service the needs of American policy objectives would be the ramifications of the internal activity of two agencies--the Federal Reserve Board and the Department of the Treasury. Beginning in 1959, attempts were made to reduce short term portfolio investment in the government debts of industrialized nations and speculative investment in the currencies of economically unstable foreign countries, by maintaining artificially high interest rates to keep local capital from going abroad. Such a policy incurs the probability that the capital

market for the recipient nations will be lessened unless those countries raise the interest rates themselves.[1]

Finally since approximately 1961, the attitude of American administrations has been characterized by an increasingly negative attitude towards short term private foreign investment. The Kennedy Administration and the Johnson Administration both expressed concern at the effect that capital flows out of the United States were having on the country's increasingly chronic balance of payments difficulties. This was expressed in the 1963 Interest Equalization Tax, the 1965 application to Canada of voluntary guidelines upon subsidiary operations outside of the United States and, finally, President Johnson's 1968 attempt at mandatory restrictions upon capital investment. It will be sufficient to say here that they were unsuccessful attempts, but of greater importance was a reaffirmation of the American government's premise that it is fully within the rights and responsibilities of administration to operate on the market mechanism affecting private foreign investment.

Canadian Policy

There are a number of policies and activities initiated by the Canadian government which promote and stimulate the importation of

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1 See "Capital Flows and International Payments," Federal Reserve Bulletin. March, 1962.

capital flows into Canada. First of all there are the Federal Tax Incentives. The federal Income Tax Act provides for the deduction of both current and capital expenditures on scientific research in the year incurred, provided that research is related to the taxpayer's business and that the work is carried out in Canada. There was a system of additional deductions of 50% for the years 1962 to 1966 on the aggregate of current and capital expenditures on research. This sysytem has been changed to the present cash grant from the Industrial Reasearch and Development Incentives Act, which provides that up to 25% of the aggregate of capital expenditures on research and development plus eligible current expenditures in excess of the average incurred in the five preceding years may be charged.

Also, under the jurisdictions of the Departments of Industry and National Defense, specific scientific research and development projects are aided.

Aid to projects is given under,

1) The Defense Development Sharing Program
2) The Defense Industrial Research Program
3) The Industrial Research Assistance Program
4) The Program for the Advancement of Industrial Technology.[1]

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1 Condensed from Information Guide for Doing Business in Canada. Boston, 1967. pp. 10-11.

In 1963 the Canadian government introduced legislation through the Income Tax Act which provided ownership requirements designed to extend control or participation on the part of Canadians in direct investment corporations.

The conditions for Canadian ownership are:

1) The corporation must be resident in Canada.
2) At least 25% of its directors must be resident in Canada.
3) At least 25% of its voting shares and at least 25% of its paid-up equity capital must be owned by individuals resident in Canada or by corporations controlled in Canada....[1]

Those firms having the required degree of Canadian ownership are eligible for a reduced withholding tax of 10 per cent as opposed to 15 per cent, as well as a capital cost allowance up to 50 per cent as opposed to the normal 20 per cent rate.

Another investment aid is the incentives for new manufacturing in designated areas with provisions for accelerated capital cost allowances as well as a thirty-six month exemption from income tax. Coupled with this is the 1965 Area Development Incentives Act which gives tax exempt grants for establishment or expansion of manufacturing and processing businesses.[2] It is interesting to note that with respect to these incentives corporation are not subject to ownership stipulations.

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1 Ibid. p. 12.

2 Ibid. p. 15.

Now let us turn to the general attitude of the Canadian government towards investment in broad historical terms. Hence, we may see that from the turn of the century until the second World War, Canadian policy was largely protectionist. Then from the last year of the war there emerged a pattern of freer trade. More recent policies indicate that Canada is returning to its traditional approach. It would be of interest to note not only the mechanical application of policies which affect the investment position of non-residents, but also the rationale of various policies; therefore, of prime interest is the general Canadian policy upon tariffs.

Gilles Paquet notes:

> The effects of such protectionism are obvious: we have a mix of industries more or less able to compete, more or less flexible, more or less efficient, protected by a tariff wall, this to the detriment of the whole population. Professor Dales has estimated to 6% of GNP the cost of tariff to Canadians. The loss cost of the tariff had been estimated to some 3% of GNP by Professor Young in 1955 .... Basically, it might be as Breton proposed in his paper on the economics of nationalism that this is only a way to redistribute income from the general public to some group of inefficient producers. [1]

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1 Gilles Paquet, "A Note on the Pattern of Canadian Economic Development," Growth and the Canadian Economy. Ottawa, 1965. 111-7 - 111-8.

One might further note that:

> "... in the early 1950's net foreign investment from 1950 to 1956 had added about 3¼% to the Canadian GNP .... Without foreign investment the growth in per capita income from 1950 to 1956 would have been about 20 per cent less than it was during this period." [1]

The argument of John H. Dales adds to an indictment of the tariff with an interesting comment that:

> The tariff argument that it has served Ontario's interest has also given the other provinces (a claim) on the grounds of equity, for special compensation. The result is an appalling collection of crutches designed to compensate the alleged losers .... Federal politics in Canada often seems to be a confused game of regional blackmail in which the victims believe they should bribe others to participate in a game in which they, as well as everybody else, are losers. [2]

Further, policies which depreciate per capita income also depreciate those culture links upon which nationalism rests.

Paquet argues that direct investment and the tariff policy is a problem not of independence but rather one of economic nationalism--rooted in basic non-acceptance of the smallness of

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1 Grant Reuber, "Benefits and Costs of Foreign Investment in Canada," 10th Annual Seminar on Canadian-American Relations. Windsor, 1968. p. 1.

2 John H. Dales, "Tariffs and Trade-Bi-lateral Canadian-American Approaches," 6th Annual Seminar on Canadian-American Relations. Windsor, 1964. p. 299.

Canada and the willingness to achieve a certain degree of industrialization at any cost."[1]

Another factor which seems to have induced large scale direct investment in Canada has been the comparative level of corporate tax rates for each country. "In 1950 and in each subsequent year, the United States corporate income tax rate has been substantially higher than the Canadian rate."[2] In the opinion of the Royal Commission on Canada's Economic Prospects, "The second major factor seems to be the writing off of capital expenditures through depreciation allowances which have been substantially greater than such incentives in either the United States or the United Kingdom."[3] In the area of extractive industries, the depletion allowances of up to 33 per cent on the aggregate of the profits, minus the aggregate of the losses attributable to production, in combination with the very large long term capital requirements of the industry, seem to give a comparative advantage to American investors over domestic investors.

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1 Paquet, op. cit., pp. 111-39.

2 J. Grant Glassco, Certain Aspects of Taxation Relating to Investment in Canada by Non-Residents, Royal Commission on Canada's Economic Prospects, Ottawa, 1956. p. 12.

3 Ibid., p. 13.

The specific investment inducement for the Canadian investor is, as in the United States, the tax credit not exceeding those taxes otherwise payable on such income and calculated separately for each country. What this means is that the company pays taxes not for the total corporate operations but only for those of the resident operations. "The Corporation or legal entity resident in Canada is, ... entitled to the statutory allowances for income taxes paid to the central governments of other countries." [1]

Another fact which might account for the large capital flows into Canada from the United States might be that of the tariff. Kaliski notes that:

> It is clear that these differential rates of duty and prohibitions must have an effect on economic relations between the two countries. Thus, Canadian exports to the the United States may consist so largely of raw materials, not only because of the nature of the two countries' resources, but also because manufactured goods often face a prohibitive tariff. [2]

It would seem then, that comparative tariff rates between the United States and Canada are not only a cause in setting up subsidiary operations within Canada, but also for factors

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1 Doing Business in Canada: A Guide to the Incorporation of Companies in Canada and Canadian Taxes. Tor., 1966 p. 31.

2 F. Kaliski, "United States Trade with Canada," Current History. August, 1962, Vol. 43. No. 252.

of trade. Part of the charge of 'export reluctance' on the part of subsidiaries may thus be due to protective policies on the part of both countries. And if one recalls that Americans sell only about 5 per cent of their gross national product abroad, whereas Canadians sell about 20 per cent of theirs, one begins to understand why Canadian American trade is a much livelier issue in Canada than in the United States.[1]

1 Ibid., p. 71.

CHAPTER III

The Reality

Political and Economic Costs and Benefits of Direct Investment

In the preceding chapters we have discussed components of nationalism, the general historical background of American investment in Canada, and some of those policies which both governments have pursued in bringing about the present investment picture in Canada. In this chapter there will be a very general attempt to indicate, from the limited data which is available, a balanced picture of the dimensions of the direct investment picture in Canada.

The first point which might be made on the question of investment, aside from the control which it brings, will be the economic cost of direct investment. Walter Gordon notes that it can be assumed that an average equity investment in Canada earns at least 9 percent a year, whereas a debt investment by foreigners has yielded about 5½ percent.[1] Another cost of considerable importance is the fact that there are now large capital outflows from Canada to the United States in the form of dividend payments. Between 1960 and 1965

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1 W. Gordon, A Choice for Canada - Independence or Colonial Status. Toronto, 1966, p. 70.

gross investment by Americans was 14 billion dollars, of which 6 billion dollars was financed in Canada from affiliate profits, 4.3 billion dollars from depreciation and depletion allowances, and 1.8 billion dollars from borrowings on the Canadian market. Hence, only approximately 2 billion dollars was derived from the capital resources of the parent firms while, at the same time, 3 billion dollars flowed out of Canada in the form of dividends. Further, as the Report of the Task force on the Structure of Canadian Industry indicates:

> The servicing of the debt, and its repayment or repatriation, requires the capital importing country to forego consumption or investment and to adjust its balance of payments to effect the transfer of funds. To the extent that these adjustments are made with difficulty--because of a foreign exchange constraint--foreign investment imposes an additional burden .... [1]

But as Levitt notes the cost of servicing borrowing declined from 3 per cent of the Gross National Product and 6 per cent in the 1920's and 1930's to 2 per cent in the 1957 to 1964 period. Further as a percentage of export earnings interest and dividend payments abroad declined from 16 per cent in the Twenties and 25 per cent in the Thirties to 9 per cent in the current period. [2] These declines do not however indicate the

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1 Report of the Task Force on Canada's Industrial Structure. op. cit., p. 23.

2. Kari Levitt Canada: Economic Dependence and Political Disintegration, Montreal, 1968 p. 19.

real costs of direct investment but rather that the capital invested has perhaps become increasingly shifted into increased retained earnings. Also on this point C. Blyth and E. Carty describe the multiplier effect which large scale financing by American firms has in perpetuating Canada's present industrial structure. "Very large parts of Canadian corporate earnings are not available for extending Canadian ownership and control, since they are at the disposal of non-residents either for withdrawal as dividends or for further investment on their account in Canada."[1] Given the very real factor of economies of scale, the location of ownership and control in the industrial sector of the Canadian economy might conceivably bring about extensive inroads into other sectors--as the cumulative financial, marketing, and research advantages of American subsidiaries are exploited.

Now the discussion will deal with the multinational corporation as direct investment's vehicle for entry into Canada. First of all, there do seem to be some side effects of the operations of subsidiary corporations which, though not intentional, do inevitably arise from the conflict of

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1 C. D. Blyth and E. B. Carty, "Non-Resident Ownership of Canadian Industry." The Canadian Journal of Economics and Political Science. XXII, 4 November, 1956, p. 476.

interest which is a result of differences in perspective. Glen Frederick, at the Sixth Annual Seminar on Canadian-American Relations at the University of Windsor, notes: ".. businessmen do not think in such grandiose altruistic terms as balance of payments and Canadian economic welfare, they think of profits and stockholders's welfare, risk, management control and communications, capital formation and the like ...." [1]

It must be recognized that the Canadian subsidiary is part of a larger organization; that is, the global multinational corporation, of which corporate headquarters is the peak authority. Yet, the Canadian subsidiary is also a small unit of a larger society, of which the Canadian government is the supreme authority. And, when either of these two authorities exerts its sovereignty, this is recognized and accepted by the subsidiary.

> There is no reason in the world why the philosophy, interests, and objectives of the American corporation should be identical with those of the Canadian government. These two authorities have basically different purposes and functions. But, the subsidiary unit must respond to both. It must view itself as an integral part of the two distinct systems. [2]

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1 Glen D. Frederick, "Sovereignty and other Aspects of Canadian-American Economic Interdependence," Sixth Annual Seminar on Canadian-American Relations. Windsor, 1964. p. 2.

2 Neil W. Chamberlain "The Relation of Economic Sovereignty in Relation to Business," Labour Gazette. Vol. 65, October, 1965. p. 900.

Many observers of the ills of foreign investment have indeed cited the structure of the multinational corporation and its dual sovereignty as a cause for both economic and political problems.

One might now generalize concerning the economic disadvantages of the multinational corporation operations.

One of the most effective arguments which economic nationalists use to protest against the large number of subsidiary firms in Canada is that there is a resultant inefficiency within the domestic economy. [1]

In a letter to Henry Fowler, Secretary of the Treasury (United States), from the acting Minister of Revenue (Quebec), Mr. Eric Kierans notes 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% 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

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1. H. Edward English suggests that in most industrial areas, one optimal firm is feasible. See his Industrial Structure in Canada's International Competitive Position; A Study of the Factors Affecting Economies of Scale and Specialization In Canadian Manufacturing. Montreal, The Canadian Trade Committee of the Private Planning Association of Canada, June 1964.

> parent company and a kindly Uncle Sam. Of the 17,012 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. [1]

"Also, during this decade, the percentage of loss companies rose from 26 per cent to 31 per cent (while) the ratio of profit after tax fell from 9.5 per cent to 4 per cent." [2] These facts led the Task Force Report to note that the benefits of performance that might be hoped would come from foreign direct investment are not generally evident. [3] Perhaps this argument is factual but most certainly misleading, for the very proliferation of American corporations within the domestic market is partly resultant upon the high tariffs and protectionist policies of the Canadian government. [4] It may be perhaps that another incentive for the establishment of subsidiary companies comes about as a result of the desire of parent firms to stabilize and control the sources of raw

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1 Letter from Eric Kierans, Acting Minister of Revenue Quebec to Henry Fowler, Secretary of the Treasury. Montreal January 4, 1966. p. 5 .

2 Kari Levitt, op. cit., p. 37.

3 Report of the Task Force on Foreign Ownership op. cit., p. 83.

4 S. Kaliski says: " Geographic proximity, complementarity of resources, and cultural similarities will not, by themselves, cause flows of trade, information, people and capital between two countries, unless these governments permit such flows. It is, indeed, this permissive aspect of government policy which has probably been most important in the relations between the two countries. op. cit., p. 73.

materials which the total operations of the company demand.[1] In this the Watkins report concurs:

> ... in the primary resource industries, a guaranteed long-term market in the parent for at least some of the subsidiary's output has often been the critical factor in the decision to exploit the resource, sometimes much more important than the supply of capital or of technology.[2]

Arising as a result of the proliferation of firms is the charge that "the Canadian market has been glutted with high-cost, high-priced and often inferior American products.[3] The point, in fact, is that the prices, quality, and so on of the domestic products are not noticeably better. It is difficult to lower prices when the optimum number of firms for any given product is augmented by firms of American origin who enter the market to overcome the effects of high tariffs. Given the subsidiary advantages of research, technology, management skills, easier credit and financing

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1 Jacob Viner, "American Capital and the Canadian Economy" Economics: Canada. Toronto, 1963, p. 191.

2 Report of the Task Force on Foreign Ownership. op. cit. p. 76.

3 Roger Dehem, "The Tariff, Foreign Investment and Stunted Growth," Economics: Canada. op. cit., p. 203.

arrangements, international marketing operations, and other benefits of parent affiliation, the comparatively lower profits within the market will then be offset by the overall operations' assurance of materials and control.[1]

The second major criticism of subsidiary operations is export reluctance in the manufacturing sector. Now, according to a study performed by the U. S. Department of Commerce concerning the value of exports for all American owned firms in Canada in 1957, overall sales of these subsidiaries were 10.7 billion dollars. Twenty percent of these sales were for exportation, that is 1.4 billion dollars to the United States and 0.7 billion dollars to other countries. Exports from Canada originating with these direct investment companies accounted for about 50 percent of the total Canadian exports of manufacturing in 1957, while for petroleum and other minerals combined the proportion was over 85 per cent. The statistics do not however consider the potential range of exports. For example, it is possible that the cold war, Canada's close ties with the United States and a fear of alienating her as well as the operation of the Trading with the Enemy

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1 H. E. English says:"....given the protective tariff foreign ownership probably increases the number of firms in most industries, since each of a large number of American producers is able to set up a plant in Canada and to cover its costs." "Growth-The Implications of Institutional Factors," Growth and the Canadian Economy. Ottawa, 1965, vii-25.

Act inhibits not only those within the subsidiary firms but also Canadian businessmen from trading with communist countries and to merchandise their goods. Further the statistics do indicate that of the 1.4 billion dollars in exports, 1 billion dollars of these export sales consisted of metals, minerals, pulp and paper--a very high percentage of raw as opposed to processed exports. It should be abundantly clear that the valuation of staple goods is far less than the valuation attained for processed goods and that the reliance upon non specialized products induced to an extent by American market lines, will leave Canada in a very unfavourable position in the future of international trade. Finished goods such as computors and electronic equipment generate far greater profit ratios than do substitutable raw components.

In a study of 13 industrialized countries of the Western world it was found that end-products accounted for 60 percent of exports. For Canada the comparable ratio is 19 percent. Although there was an increase of 12 percent in the share of highly manufactured goods in Canada's exports in the last decade, the increase for other relatively small industrialized countries over the same period was 37 percent.[1]

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1 Levitt, op. cit., p. 70.

On the other hand, athough it would, obviously, be more desirable to export a larger proportion of finished products abroad, it does seem clear that the parent-subsidiary relationship does have an overall propensity to gain substantial markets for Canada which might not be otherwise available-that is, there is in effect a ready made market in the United States.

It would also be of note to credit the parent-affiliate relationship with the positive aspect of expanding the actual ability of the subsidiary firms to export--that is, to provide for the cost of agencies, trade exhibits, and supplies of information technology which otherwise might be a prohibitive factor in the export market penetration of the subsidiaries. [1]

The next major criticism of the multinational corporation is the propensity on the part of the subsidiary to import parts and components from the parent company to the detriment of the position of the host

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1 "United States direct investment companies in Canada exported 50 per cent of the Canadian manufactures in 1957...." United States Department of Commerce, U. S. Investments in Foreign Countries. Supplement to the Survey of Current Business, Washington, 1960. p. 68.

country's secondary manufacturing sector, and also to the detriment of the balance of payments of the host. This charge is one which perhaps deserves some attention.

Testifying before the Committee on Ways and Means, 87th Congress, J. D. Marrow, Chairman of the Finance Committee of Joy Manufacturing Company said in part:

> The surprising volume of exports to our foreign subsidiaries results first from the sale from parents factories of critical components of machines made abroad and, second, from Joy International's constant pressure on each subsidiary to import new Joy products brought out by the parent company. [1]

It has been suggested by some observers of the international investment picture that the higher costs of the subsidiary are passed on to the consumer in order to subsidize the overhead costs of the parent. As to the actual pricing policies of the subsidiary operations, it is difficult to determine whether prices reflect true value, the cost of industry inefficiency, the cost of the tariff upon operations, or simply a balance sheet transfer of profits. Considering first that the operations of many subsidiaries are not open either to the public or to legal inspection under the Corporations Act (Canada) and second

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1 As quoted in Eric Kierans, Challenge Of Confidence: Kierans on Canada. Toronto, 1967. pp. 84-85.

that valuation of goods is in this case between companies and not between company and individual where demand will generally determine price, it is certainly possible that prices are not equitable.

Where the wage bill is small in relation to the capital invested, as is the case in most resource industries, the tax yield on the profits of the subsidiary may be the most important gain which accrues to the host country.[1] Hence if the valuation of components is but a book entry then there is a very difficult task in assessing true value for tax purposes.[2] In many areas of the resources sector the terms of sale are controlled by American and foreign subsidiaries. There is also a distinct possibility that those industries in which foreign ownership dominates are also sectors which exhibit oligopolistic tendencies, in which price fixing and collusion are not unknown. Perhaps the only indication of an 'added' cost are the findings of the National Industrial Conference Board. In comparing Canadian and American industry, the authors noted that imported

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1 Levitt, op. cit., p. 68.

2 Stephen Hymer suggests that the value of raw materials will be a fixed cost in the combined operations of a corporation See his article "Direct Foreign Investment and the National Economic Interest" Nationalism in Canada op. cit., p. 196.

components represented 35 per cent of material expenditures in Canada and only 23 per cent in the United States. They cited the close parent-affiliate relationship as the principle contributing factor in the price differential.[1] It may be of note in this connection that the very area in which Canada suffers a perennial and serious balance of payments problem is with the United States in the manufactured goods area!

Of further note is the cumulative effect that the presence of subsidiary operations generate. According to the National Industrial Conference Board:

> less obvious and more difficult to quantify were receipts from so-called indirect exports, i.e. exports which were the result of U.S. 'presence abroad. Typical of these would be exports of products or equipment by other companies in response to a more U.S. oriented foreign demand and additional exports (the full line) by the U.S. parent that could be traced to the development of more efficiently organized foreign marketing facilities. Given the formidable selling establishment created in the course of productive activities on the large scale achieved by U.S. investors the concept of indirect exports, if pressed far enough, might include the majority of exports through private channels.[2]

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1 Levitt, op. cit., p. 74.

2 As quoted in Levitt, ibid., p.75.

Since in the 1960's 54 per cent of the exports to Canada were finished goods and 34 per cent consumer goods, one might further research the comparative cost of the relatively imbalanced composition of United States Canadian trade.

Another criticism of the operations of the multinational corporation is in the area of research. Again, one is presented with a difficult task of balance, for there are both matters of concern and matters of benefit. On the positive side it can be assumed that there are new product and new technology infusions into the Canadian market, brought about by the parent affiliate relationship, which contribute to the Canadian economy both domestically and in the exports area. Advances through research, in improving the product machinery and the overall technological base of subsidiaries, collectively constitute a definite plus. "In terms of concrete economic benefit, the parent-subsidiary relationship allows for continuing access by the recipient subsidiary to the knowledge of the parent, as embodied in a variety of technical skills, research development and products." [1] And, the importance of this, as

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1 See Safarian, op. cit., pp. 168-200.

distinct from the fact that it enhances the profit of the invested capital, is that this knowledge generally becomes widely dispersed throughout the industry, thereby increasing competition, improving the quality of the service or product, and perhaps lowering prices. The argument that the corporations could perhaps more evenly distribute their research activities in order to give Canadian science access to facilities, training and opportunities has some rationale. It is true, however, that when the corporations are intent upon the development of world products the location of research facilities will be dominated in their view by the requirements of global operations.

On the negative side:

> ... it must be appreciated that there are ... certain inherent disadvantages in relying too heavily upon imported technology .... Any industry which is dependent upon licensed or imitated designs will always lag behind ... by at least one generation and is at quite obvious disadvantage in the export market, quite apart from the problem of competing directly with the licensor. [1]

H. J. MacDonald notes that "... the existence of American firms as the principal component of secondary

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1 H. E. English, "Growth-The Implications of Institutional Factors," Growth and the Canadian Economy. Ottawa, 1965. VII-34.

manufacturing has resulted in products similar to those of the parent firm; this has retarded the development of an indigeneous Canadian economy."[1] It must also be admitted that there is some relationship between the ability of the advertising agencies of the international corporations to set standards of taste and the very high similarity in which consumer demand in the United States and Canada correlate. For example, the actual need for forty different brands of some consumer product within the market is probably as much a function of advertising as it is of consumer choice. The need for concern would be if it were demonstrable that the viability of uniquely Canadian products is restricted heavily by the unequal position of research benefits and advertising spillover. "Internally .... the sales campaigns and methods of distribution of the Canadian branches or subsidiaries will usually be modelled on those of the parent company and may

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1. H.J. MacDonald, "Problems for Canada in the World Economy," Economics: Canada. ed. M.H. Watkins & D.F. Foster Toronto, 1963. p. 175

have penetrating influences upon fashions in Canadian consumption.[1] Thus, the apparently growing Canadian taste for goods of American design can be traced to the important place which American-controlled producers of American designed goods have in many industries in Canada, notably in the durable goods industries.[2]

As the Task Force Commission notes;

> One of the advantages which the foreign firm has is the trade marks and brand names of its parent ... some part of what is often seen as the technical superiority of the foreign firm is probably attributable to this marketing advantage. Indeed technical progress proper and production innovation to create a differentiated product for marketing advantage are often inextricably intertwined.[3]

At the national level, consumer attachment to foreign brands may inhibit the growth of domestic firms with domestic brands; the absence of national brands and distinctive national products may adversely affect national media and export prospects.[4]

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1 Blyth and Carty, op. cit., p. 477.

2 Ibid., pp. 481-2.

3 Report of the Task Force on Foreign Ownership, op. cit., p. 74.

4 Ibid., p. 75.

One might reasonably suggest that some model might be constructed which would measure consumption patterns as a result of the massive market advertising of American television and radio stations which daily reach the homes of a considerable proportion of Canadians.

In the area of research and development, Canada in 1961, spent 0.7 per cent of the gross national product in non-defense research, while both the United States and the United Kingdom spent 1.5 per cent of their respective gross national products for this purpose.[1] Further, in the period 1957-61, 95 per cent of all patents taken out in Canada were by foreign applicants and 69 per cent of these were taken out by United States applicants, "... indicating the flux of new research within the Canadian economy is done by non-residents principally, American citizens."[2]

Dr. Steacie, President of the National Research Council notes that;

> Because of the financial arrangement between Canadian and American firms, most Canadian plants are essentially branch plants and

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1 Report of the Task Force on Canada's Industrial Structure. op. cit., p. 93.

2 Ibid., p. 94.

> research is normally done by the parent organization outside the country. As a result Canadian industry has been largely dependent on research done in the U.S. and Britain. [1]

What makes these figures even more ominous in their import to the industrial structure of domestic firms is the concentration of federal funds in particular areas. The most recent survey conducted by the Dominion Bureau of Statistics reported a total of 264 million dollars spent on industrial research and development. Thirteen firms accounted for half of these expenditures and they were heavily concentrated in the electrical,aircraft and chemical industries. Electrical and aircraft industries alone accounted for 47% of total research and development expenditure and these same industries received 83% of federal funds granted to industry for research. Four companies alone received 55% of total federal support. [2] Another advantage which subsidiary firms enjoy is credit benefits which independent Canadian firms do not enjoy. The Royal Commission on Banking and Finance, 1964, noted

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1 Dr. Steacie as quoted in Levitt op. cit., p.72.

2 Ibid., p. 72; see also D.B.S., Industrial Research-Development Expenditures in Canada, 1959, Tables 1, 4, 5 and 9.

that ' resident firms have more difficulty at all times in obtaining long term finance than do those which are subsidiaries of large and well financed Canadian or American corporations.' [1]

Typically American subsidiary corporations generate large proportions of their own investment capital and this trend has been increasing [2] perhaps as a result of balance of payments and Interest Equalization Tax prods from the American government. Aside from the unaccessability of this very substantial proportion of monies for investment use by domestic firms is the competitive advantage enjoyed by American subsidiaries for those institutional resources external to their operations.

> The need for capital in certain areas of Canadian development is unusually large in relation to the population for the reason that our resources are so great and sometimes require expensive ancillary investments such as railways and other utilities to bring them to fruition. And when the pace of development is added to this primary need the current requirements for capital invested by non-resident companies cannot than be traced entirely to a natural conservatism in the Canadian character. It is the size of the job to be done and the peculiar opportunities open to

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1 Levitt, op. cit., p. 75.

2 See Appendix A Table 7.

> non-resident capital that have contributed to some of the results we have been examining today.[1]

It would seem then a matter of the relative financial strength of the subsidiary vis-a-vis the domestic corporation. It is clear that a decision of a multinational corporation of which the subsidiary is but one part of the total operations may find resource needs on a long term basis the primary cause for investment. Hence, while the domestic corporations' need to produce high profit ratios may discourage their attempt to mobilize such venture capital, the multinational corporation may reallocate funds from other operations. Can one for example truly compare the combined operations of General Electric with those of any Canadian firm in the field of electrical equipment?

Further if one assumes that there is a creative dynamic to investment ratios, that is up to a certain point there are increments to the value added in capital investment to a firm's productivity, then access to capital sources becomes even more important to the domestic producer.

But ... whereas the average investment per establishment in the whole Canadian manufacturing industry a few years ago seems to have been approximately 1/4 million dollars, the

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1 Blyth and Carty, op. cit., p. 478.

average investment in all United States-controlled establishments in Canadian manufacturing was close to $2 million dollars. In the larger United States-controlled firms with investments of 1 million dollars or more the average value was some $4½ million dollars.[1] This group makes up some 90 per cent of the investment in all United States-controlled manufacturing concerns in Canada. It would appear then that in many sectors of manufacturing, in which large scale, long term reasearch brings about those technological innovations needed to secure better products and larger markets, that domestic firms lag behind.

Further,

> because non-resident investments are prominent in Canadian industry, a smaller portion of income from dividends accrues to Canadian investors, and therefore the amount of capital from Canadian sources available in Canada for investment in industry has been reduced. Consequently, the incomes of Canadian individuals, and, in turn, the margin of savings available to them for further investment in equity securities tend to be smaller.[2]

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1 Ibid., p. 473.

2 Ibid., p. 479.

It would seem that despite the arument that the Canadian capital market is limited in its capacity to finance many areas of the industrial sector of the Canadian economy, the figures available suggest that there is more capital than the dominance of American capital would seem to indicate.[1] "Of a total of some $6.6 billion direct foreign investment in the United States at the end of 1959, nearly $1.9 billion, or nearly 30 per cent, was owned by Canadians."[2] Over the same five year period, Canadians loaned abroad $1.9 billion. Of this, $1.4 billion or nearly three-quarters went to the United States. More than half of the $7.1 billion which Canadians had invested abroad at the end of 1960 was in the United States.[3] The Report of the Task Force on the Structure of Canadian Industry makes this clear in noting that "Canadian savings were adequate to finance 81 per cent of the net capital formation between 1962 and 1965, but because part of these savings were invested abroad or

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1 Foreign Ownership and the Structure of Canadian Industry. op. cit., pp. 276-287.

2 Kaliski, op. cit., p. 72

3 Ibid.

used to retire debts held abroad, Canadians relied on direct foreign financing for 40 per cent of this capital formation." [1] Furthermore, in 1964 Canadians invested $5.3 billion abroad, of which 60 per cent was in the United States and of this 39 per cent was made by American companies in Canada. Also,"... in the last few years, Canadian purchases of foreign equity securities have been substantial, averaging $27 million a year from 1961 to 1964, rising to $92 million in 1963 and $245 in 1966,..." [2] In response to arguments that capital inflows are largely responsible for a maximum growth rate, H. Clare Pentland succintly counters that " to import capital before exhausting our own savings potential rather than being beneficial, is a masochistic act of deliberately depressing our own employment and incomes in order not to achieve the savings for which foreign savings are allowed to substitute." [3] It would also be pointed out here that the very large internal capital generated by the subsidiaries seems to belie the assertion that the Canadian economy is incapable of generating large pools of growth capital. [4] Given the relative inefficiency

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1 Foreign Ownership and the Structure of Canadian Industry. M. Watkins. Ottawa, 1968. p. 9.

2 Ibid., p. 12-13.

3 H. Clare Pentland, "The Role Of Labour in Economic Planning for Canada," The Journal of Liberal Thought. Spring, 1966, p. 94.

4 Levitt, op. cit., p. 74.

of the economic structure in Canada, one might suppose that Canadians could very well provide a much more viable source of investment funds than is taken for granted. Add to this the fact that the majority of subsidiary firms do not offer equity shares in the Canadian operations, forcing Canadian investors to buy on the American exchanges, then one might well add an additional pool of capital to internal investment.[1]

Stephen Hymer theorizes that the cost of 'economic nationalism might be far lower than is usually thought.

> Suppose Canada compelled all American firms to divest themselves of their Canadian subsidiaries within a reasonable period of time. Clearly there would be a greatly increased demand for capital in Canada as American firms sought out Canadian buyers. But there would be created simultaneously an extra supply of exactly equal amount of capital in the United States as American sellers received the proceeds. In a perfectly functioning capital market, the result would be to lower interest rates in the United States and to raise interest rates in Canada, and to induce a flow of capital back into Canada. American investors would increase their holdings of Canadian bonds and of equity securities in

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1 The cases of I. B. M. and General Motors are cited by the Task Force on the Structure of Canadian Industry, op. cit., pp. 282-284. In 1966 Canadian mutual funds held $57 million in I. B. M. stock, while total pension fund holdings of I. B. M. shares are estimated to have been $25 million.

> in Canadian firms. The important point is that the form of holding changes.[1]

What is interesting about this speculation is not necessarily its economic validity but rather the assertion that there are possibilities of positive economic alternatives to the present trend of integration.

The next consideration of the relationship of subsidiary operations within the Canadian market is that of regionalism. D. Michael Ray, in a study at Waterloo University entitled Regional Aspects of Foreign Ownership of Manufacturing in Canada, notes that; "If United States controlled employment had the same distribution as the Canadian controlled, there would be 11,500 more jobs each: in the Atlantic Provinces, in the Prairie Provinces, and in British Columbia, and there would be 30,000 more jobs in Quebec."[2] First of all, it would be valuable to note that although the thesis seems correct, it might be more accurate to note the high concentration of American ownership in industries

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1 Hymer, op. cit., p. 199.

2 D. Michael Ray, Regional Aspects of Foreign Ownership of Manufacturing in Canada. Submission to the Watkins Commission. Waterloo University, 1968, p. 69.

such as the automotive industry, in which locational factors - market, materials, governmental activity, energy sources and other costing factors predominate. [1] Further, it would seem that industries locate regardless of political consequences unless governmental policies encourage a particular regional or area pattern through penalties or incentives sufficient to balance the cost of other factors. However, "planning in a foreign controlled economy with a federal system where a certain number of provinces are openly persuing what might be regarded as conflicting goals is no easy matter, especially when these provinces are themselves creating planning agencies with the sole function of enforcing certain ideas and promoting regional development at all cost." [2] The provinces do not regard the promotion of national unity as their concern but rather the function of the federal government. Hence, industry locates in areas of high density, marketing and facility opportunity, tending to reinforce regional imbalances. In the resource area especially, where provincial control is almost complete except for the export of electricity and natural gas and the sharing of boundary waters, the employment opportunities and a more diverse economic base in conjunction with the opportunity to share in

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1 See R. C. Estall & R. O. Buchanan, Industrial Activity and Economic Geography. 2nd rev. ed. London, 1966.

2 Paquet, op. cit., 111-40.

increased taxes and revenues breed an atmosphere in which investment opportunity thrives. "And there are substantial political advantages to be gained also, for the party in power and for individual politicans, in terms of prestige, a reputation for getting things done, and sometimes in more tangible forms.[1] This is merely to indicate that in Canadian society the long range intangibility of nationalism is superseded by the general preference for immediate prosperity and economic expansion. It is not to say that there is any doctrinaire opposition to alternative policies but that given a general preference, the population of Canada has opted for immediate benefits. This would explain why any determined effort to limit the flow of investment funds into Canada would provoke a crisis in federal provincial relations. Policies are,after all, a matter of political acceptability. In the final chapter of this study the matter of some overall policy alternatives will be suggested with this context in mind.

Conflicting Interests

The last area of consideration here will be in the area of conflict of interest between the multinational corporation and the Canadian government--due to the subsidiary's position

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1 H. J. J. Aitken, American Capital and Canadian Resources. Cambridge, 1961, p. 176.

as subject of dual sovereignty.

One of the alleged economic effects of many direct investment corporations in Canada is that they are simply northward extensions of the American market and that, as a result, opportunities for Canadians to secure senior management and supervisory positions or prominent voices on the directing boards are for all practical purposes non-existent, as key management positions are filled by imported executives. The accompanying fear is that such management, unaware of the conditions and requirements of the Canadian economy, will adversely affect such things as the development of research, the location of plants, the rate of expansion, marketing and purchasing policies, and the rate of resource development.

That this lack of Canadianization is a popular myth might seem to be suggested by the findings of John Porter in the Vertical Mosaic.[1] He found that only 256 of 1,613 directorships in the dominant corporations were held by American residents (only 16 per cent), that only 53 were held by British residents (3 per cent), and that only 117 (or 7 percent), although held by Canadians, were in Ameri-

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1 John Porter, The Vertical Mosaic. Toronto, 1965. p. 268.

can wholly owned subsidiaries.[1] Now, by adding the first group and the last group together we see that only 23 per cent of the directorships supposedly represent the influence of the American corporations on the directors' boards. This might then lead to a tentative conclusion that less than 25 per cent of the decision-making of dominant corporations takes place outside of Canada. Such an argument, however, would lack focus and perspective.

It is not the question of nationality per se that should be dealt with first but rather the nature of the multinational corporation itself. The suggestions of the first part of this chapter as to the adverse effects of multinational operations could find application in any country of Europe or any other part of the world which finds such heavy proportions of direct foreign investment. This should suggest that even were there a preponderance of Canadian personnel upon the directors' boards that the nationality of such personnel would not be a major factor in the basics of corporate decision. One might agree with Porter's hypothesis

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1 This finding suggests that even though there are Canadian directors on the boards, the very fact that the subsidiary is wholly owned by Americans diminishes the opportunity of national interest to play a major role in the policies of the subsidiary operations. That is as Leo Model notes: "the lines of corporation authority are such that no nationals are able to make final decisions on major matters." "The Politics of Investment," Foreign Affairs. Vol. 45. July, 1967, p. 646.

in that a corporation is governed by humans who act according to a special set of institutional norms, i.e., the ethics of corporate capitalism. In other words, they act according to a "rational" form of corporate behaviour which seeks the maximization of profits by the most efficient of calculable means, an objective which is necessarily in the best interest of the multinational firm, but which may not be in the best interest of the Canadian subsidiary, nor in the best interest of the Canadian economy. The reason for this is that for a multinational corporation to function, organizationally speaking, it must establish rules to guide the subsidiary, for no corporation of scale can function unless there is a chain of command and concomitant subordination to it. This is an aspect of the dual sovereignty subsidiaries enjoy. It demonstrates the fact that the goals of the Canadian subsidiary, which may be attempting to act as a good corporate citizen of the host country, may not also coincide with those of the parent firm, and when they do not, then the parent objectives will take precedence over those of the subsidiary, since the first duty of the subsidiary is to the parent. Moreover, even if they do in fact coincide, there is, as pointed out, no reason to consider that the objectives of parent and subsidiary will be based upon a concern for the Canadian national interest.

Consequently, nationalities have no place in the instrumental norms of capitalism, as capital allocation will not necessarily take cognizance of political boundaries because it responds instead to the international language of the bourse. It is therefore difficult to conceptualize how national citizenship would affect the governors of the economy. We are not suggesting of course that the managers of foreign owned subsidiaries are a caste of supervisors working for a set of external power wielders,[1] but that nationality is irrelevant to the logic of multinational corporate behaviour.

This theory suggests that the decision-making procedure is centralized and retained by the parent firm. This seems contrary to the findings of Safarian in his studies, when he concludes that "if one can speak of a trend factor ... it would be in terms of a reduction of the parent's involvement."[2] Yet, his other discoveries vitiate the impact of this conclusion and lend credibility to Porter's contention. For example, Safarian has found that involvement by the parent firm at any given time is largely a means to the profitable

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1 Porter, op. cit., p. 272.

2 Safarian, op. cit., p. 99.

operation of the subsidiary, and not typically an end in itself.[1] In other words, parent involvement will ebb and flow as circumstances change. For instance, he points out that a substantial and continuing financial loss can lead to more direct management and technical involvement, whether invited by the subsidiary's officers or not. In short, the subsidiary generally remains accountable and responsible to its foreign owners and controllers, at least in major policy.[2] He continues to observe that since the ownership of capital is involved, neither the owners nor their managers in the parent are likely to surrender the right of review of major decisions, even though they urge the local supervisors to initiate, plan, and participate in various proposals.[3] Thus, the desire to defend and protect their investment and to maximize its return to the parent firm place very severe restrictions of any trend towards decentralization, and this then leads Safarian to conclude that, "beyond certain limits the case for a maximum degree of decentralization of decision-

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1 Ibid., p. 100.

2 Safarian has also found that even the reduction in the degree of direct parent supervision will not end varying degrees of conformity on major policy in most cases. Ibid., p. 99.

3 Ibid., p. 102.

making at the national level becomes essentially a case against direct investment as such."[1] There is no suggestion in the Task Force Report that absentee owners, acting in their own economic self-interest, serve as instruments of American foreign policy. But, it is plausible to argue that the multinational firms, even though operating in response to a given institutional and economic setting, in an attempt to improve their economic positions and at the same time to abide by American laws, might disregard Canadian economic policy.

The concern is that even though American corporations may not consciously serve as agents of the American government, it has been, at the same time, possible for that government to extend American laws extra-territorily by means of the parent-subsidiary relationship, which when it occurs, is a serious threat to Canada's autonomy. In other words, American government laws can follow ownership and control across the Canadian border and even pre-

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1 Ibid.

determine the outcome of a conflict with Canadian interests.[1]

In the area of conflicts, one sore spot is the take-over of Canadian companies by foreigners, or by their subsidiaries.[2] This phenomenon suggests that there is a trend in the direction of monopolies or oligopolies in the industry structure, which as even Harry Johnson concedes,[3] can be economically disadvantageous.

However as E. Ernst notes :

> ... the takeover has a multiplier effect. The independent Canadian companies are replaced by Canadian subsidiaries of U. S. companies serving Canadian subsidiaries of U. S. companies.[4]

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1 Under section 6046 of the U. S. Internal Revenue Code, "shareholders (corporations, individual citizens and residents, partnerships, estates and trusts) that own a 5 per cent interest or more in a foreign corporation on January 1, 1963 are required to report numerous facts relating to that corporation .... Second U.S. shareholders, as well as officers and directors, are required to (report) ... acquisitions of stock or a reorganization." Reporting on Foreign Corporations and Trusts Under Sections 6038, 6046, and 6048, U.S. Internal Revenue Code. Washington, 1962, pp. 4-5 .

2 Walter Gordon, A Choice for Canada. Toronto, 1966, pp. 83-87.

3 Harry G. Johnson, The Canadian Quandary. Toronto, 1963 , p. xviii.

4 E.E. Ernst, "American Investment in Canada." Second Annual Seminar on Canadian-American Relations Windsor, 1960 , pp. 58-59. goes on to say: 'Our survey ... found that the purchasing of accounting services very often went almost automatically to U.S. or U.S. controlled firms."

What this indicates is that although American takeovers are generally vertical integrations what seems to occur is that the penetration of the market lines of the Canadian economy is reinforced, that is takeovers consolidate the levels of foreign ownership of sectors. In themselves takeovers are but an extension of corporate activity nor do they add any significant volume to the ratios of control and ownership. As the Minister of Finance in 1963 noted non-resident takeovers of established Canadian companies rarely confer any benefit on the Canadian economy.[1] One other consideration might be noted concerning the pattern of American takeovers. The greater tendency towards vertical integration is but a logical step in the corporate demands of control, viability and long range considerations. With vertical integration, the stages of production are combined into the world wide operations of firms. Competition is reduced to transfers of intra company fixed costs. Hymer indicates that overall this process of integration seems to lead to efficiency and lowered costs but it is perhaps premature for such a judgment upon an essentially oligopolist

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1 Minister of Finance, House of Commons, Debates, 26th Parliament 1st Session 1963, June 13, p. 1006.

situation.[1] At the same time takeovers are one way in which productive efficiency is improved and wealth and income increased. Nevertheless, in some of these industries which are largely foreign owned or controlled, one or more large companies either dominate or set the patterns for their sector, for example in the petroleum, automobile and chemical industries. This, of course, is not necessarily contrary to the public interest, but it is quite evident that those who control the leading companies posses enormous power and influence which may be working at a tangent with the policy aims of the Canadian government.

Another source of irritation in Canada is the chronic balance of payments deficit which places Canada in the position as

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1 "In the years 1945 to 1961, about 650 foreign takeovers occured compared with about 1200 domestic takeovers which ... to a considerable degree was proportional to the distribution of ownership between foreign and domestically-controlled firms already in the industry. Further, for manufacturing as a whole takeovers account for about an eighth of the increase in the value of foreign-owned firms from 1945 to 1961. The remainder of the increase arose from the growth of firms owned prior to 1945. Three factors - U.S. merger activity, bankruptcies and corporate liquidity together explain over 90 per cent of the variation (domestic-horizontal, foreign-vertical) in foreign takeovers in Canada during this period. Grant Reuber, Benefits and Costs of Foreign Investment in Canada. Paper delivered at the 10th Annual Seminar on Canadian-American Relations at the University of Windsor. Windsor, Nov., 1968, pp. 3, 5.

one of the major debtor countries on international account.[1] One of the contributing factors of this balance of payments disequilibrium has been the current accounts deficit, which in the last eleven years has only fallen below 500 million dollars just once, and in 1965 was over 1 billion dollars.[2]

The only factor which prevents this balance of payments deficit from bankrupting the country has been the steady inflow of American capital which can be counted upon to offset much, if not all, of Canada's current account deficit.[3] And it should be remembered that this inflow of capital, which is mainly in the form of direct investment, has gone into the sale of our corporate assets, the implication being, as Sharp readily admits, that all of this capital becomes ultimately repayable or repatriable to the United States.[4]

This dependence upon steady annual inflows of foreign

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1. The balance of international indebtedness as defined by Dominion Bureau Statistics is the difference between the excess of its assets and liabilities, that is owed to non-residents.

2 Mitchell Sharp, "Canada-U.S. Financial Relations," No. 66/4, Information Division, Department of External Affairs, Jan. 27, 1966, p. 3.

3 Ibid.

4 It is interesting to note that if this were scaled up to the dimensions of the American economy, it would find them with a deficit of 15 billion dollars annually!

capital to cover Canada's perennial current accounts deficit raises the problem of this country's vulnerability to changes of the mood of foreign investors and actions on the part of the American government, because anything which will block or sharply reduce this flow of investment would throw Canada into an immediate financial crisis.[1]

One such financial crisis did occur on July 19, 1963 when President Kennedy delivered his balance of payments message to Congress. One of the measures with which he proposed to rectify the American deficit was the Interest Equalization Tax which was essentially designed to make American investment abroad less attractive by increasing the cost to the borrower by roughly 1 per cent. In other words, it was a tax payable by American investors on the purchases of foreign securities. The effect of this message on the Canadian economy would have been either to leave Canada seriously short of foreign exchange and investment capital, or it would have necessitated a substantial increase of interest rates in Canada to levels that would induce Canadian borrowers -- provinces, municipalities, and corporation--to borrow in the United States

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1 Val Sears "Is Canada For Sale?" Toronto Daily Star February 1967.

in the required volumes, despite the tax. In other words, there was a likely prospect that there would be a reduction in the inflow of capital which is necessary to help cover Canada's current accounts obligations and ultimately to stem bankruptcy.

A hurried exchange with officials in Washington convinced Secretary of the Treasury Douglas Dillon that it was not possible to reduce the American balance of payments problem through the Interest Equalization Tax's application to Canada since the Americans enjoyed a healthy trade surplus with Canada and such a tax would require drastic import cuts on the part of the Canadian government in order to offset the loss of investment capital needed to meet the current account's deficit. As a result therefore, Canada was given exemption from the Interest Equalization Tax.

The significance of this event is that the Canadian economy, because of the magnitude of American ownership and control, is quite sensitive to American good will; or, as was the case Canada's economic prospects were dependent upon America's being made aware of her self interest! Aitken says "if Canada wants the United States to do something, she must be able to prove that it is in the national interests of the

United States.[1] [2]

An interesting remark worth noting concerning this involvement was made in a speech on May 5, 1965 by Mr. Sharp: "Roughly speaking, every dollar of capital invested in Canada by U.S. residents flows back into the States more or less immediately in payment for at least a dollar's worth of goods or services imported by Canada from the States".[3] What Sharp was explicitly stating is that Canada has a net loss almost immediately of one dollar in its bilateral trade relations with the United States, and that conversely, the United States makes 100 per cent profit almost immediately as a result of investment in Canada.

A nation which relies heavily on the importation of capital may periodically be subjected to substantial changes in the rate and direction of that flow--a flow which can be and is subject to foreign governmental policies. This was the case in February of 1965 when the American President, Lyndon Johnson, announced

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1 H. Aitken, op. cit., p. 156 .

2 One might note that the granting of such concessions has a very real implication of Canadian acceptance of America's right to control subsidiary operations. No mention is made of attempts to apply countervailing legislation.

3 Sharp, op. cit., p. 8 .

another defensive measure designed to correct the disequilibrium in its balance of payments, i.e., temporary and voluntary guidelines, which were applied inter alia, to corporations, with the target of improving their individual current accounts by: 1) higher exports; 2) lower imports; 3) increased repatriation of earnings and idle assets; and/or 4) reduced capital outflows for investment abroad.

Canada, however was specifically exempted from these cutbacks in direct investment, but not with respect to the repatriation of cash balances held abroad. As a result of the guidelines, the prospect for Canada in 1965, as Mitchell Sharp concluded, was that: "after these guidelines were announced, there was ... a fairly substantial draining away to the United States of short-term capital ...." [1]

In December of that year the American government again embarked upon a new and permanent policy of guidelines with respect to direct investment by multinational corporations based in the United States. At this time, a quantitative limit was imposed upon direct investment, even though it was in fact still voluntary. Of these restrictions Sharp said "it is no more than realistic to suppose that the guidelines

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1 Ibid., p. 8.

(would) be observed and can, therefore, be regarded as having almost mandatory force,"[1] especially in light of the fact that progress reports must be made quarterly to the government. In addition, even though the target of the guidelines was global in orientation and not directed specifically against Canada, the guidelines did not provide for Canadian exemption.[2]

The underlying potential danger exists that American based multinational corporations might, at any time, change normal commercial practices and place the objectives of their government ahead of those of the host country. And this possibility was in fact given some moment when Secretary of the Treasury Fowler, in a speech to the U. S. Council of the International Chamber of Commerce on December 8, 1965, was reported as saying: For this nation, therefore, they (U.S. owned international companies) have not only a commercial importance, but also a highly significant role in a U.S. foreign policy that has met with general approval

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1 Ibid., p. 9.

2 Val Sears, notes that several Canadian officials considered American action a response to the attitudes of Gordon and Diefenbaker "for anyone who could add two and two, the disruption of the Canadian Economy didn't make any sense-for the United States. On balance, Canada helps the U.S. in dealing with its balance of payments problem." "Is Canada for Sale?" Toronto Star. Feb., 1967.

by the Atlantic countries.[1]

Although this sentence seems harsher read out of context, it nonetheless seems to echo the sentiments of policy makers in the United States and should serve to remind Canadians that the state of their economy is very much linked with that of the United States on more than just the economic level.

To salve the blow to national integrity which the guidelines seemed to imply, the communique of the U.S.-Canada Cabinet Committee on Trade and Economic Affairs amplified on their meaning:

> The United States members made clear that the U.S. Government was not requesting U.S. corporations to induce their Canadian subsidiaries to act in any ways that differed from their normal business practices as regards the repatriation of earnings, purchasing and sales policies, or their other financial and commercial activities. United States members reemphasized the view that United States subsidiaries abroad should behave as good citizens of the country where they are located.[2]

Canada got its exemption, a partial one by which we (were) allowed free access to the American borrowing market provid(ed)

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1 As quoted by W. Gordon, op. cit., p. 75.

2 Sharp, op. cit., May 5, p. 9.

we (didn't) abuse the privilege and stuff any money into our sock by building up reserve funds.[1] The point to be made here then is that American corporations are indeed subjected to periodic pressures from the American government to carry out parts of the economic objectives of the American government without any considerable regard to the effects of such pressures upon the economies of countries such as Canada which require steady operations for policy implementation and planning.

Finally, in response to the American guidelines, Canada issued its own set of what were called 'operational principles' regarding the way in which the Canadian government expected subsidiaries to conduct themselves.[2]

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1 Sears, op. cit.,

2 A letter from the Honourable Robert Winters to the Chief Executives of Foreign Company subsidiaries in Canada, Ottawa, March 31, 1966. The following list is taken from Safarian op. cit., pp. 27-28. The principles urged the firms: 1) to pursue sound growth and full realization of productive potential; 2) to realize maximum competitiveness especially through specialization; 3) to develop markets abroad and sources of supply in Canada; 4) to process natural resources in Canada as far as possible; 5) to assure a fair return on exports by the subsidiary; 6) to develop research and design capability in Canada; 7) to Canadianize their senior personnel; 8) to retain sufficient earnings for growth after paying a fair return to owners; 9) to issue shares in Canada; 10) to report publicly on operations; 11) to support national objectives; and 12) to support community activities.

Aside from the revelation of economic facts which indicated that the subsidiaries were not being 'good corporate citizens', their issuance, was made only after it was manifest that the American guidelines were hurting or were putting strains on the Canadian capital market. [1]

The conclusion arising from these examples is that the Canadian economy, because of its linkages with the American economy, is hypersensitive to the moods, policies and statements of both the American investor and the American government. The day has gone, in other words, when domestic considerations are the dominating factor respecting Canadian monetary and economic policies. Both the operations of parent firms and subsidiaries as well as the objectives of the American government bear great weight on policy making and formulation, even in limiting the range of priorities which the government can feasibly make.

Principlesof interdependence confined exclusively to our bilateral arrangements with the United States could develop as far as Canada is concerned into dependence and ultimately to

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1 Eric Kierans, "We are Economic Vassals," Financial Post Vol. 60, Feb 5, 1966, pp. 17-18.

a loss of independence.

A second conclusion is that the guidelines, as a case in point of extra-territoriality, raise the issue of guided capitalism. As long as capital is generated by private corporations or individuals, and motivated for a pure profit motive, then the spectre of foreign government interference is nugatory. But when and if a foreign government interferes, representing an attempt to transform the management of private business into the lengthened arm of that government, there is an enormous step away from the system of free enterprise which results in guided capitalism. This then, as Eric Kierans points out, "threatens not only to reduce the constructive role of the international corporation, but will also force adjustments by governments throughout the world to new conditions." [1] Assuming for the moment that the American government institutes such a course of action and that consequently, the motivating force in economics is no longer a number of disparate policies and agencies but rather the goals of the American government, what guarantees are there that flows of capital will be allowed to revert to normal practices once the American balance of

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1 Ibid., p. 18.

payments crisis is rectified? It is conjecture of course, but it is difficult to reverse trends, especially if they seem to be solving the problem for the American government. [1]

It is probably a platitude to suggest that a nation cannot be classified into a collection of disciplines covering the entire spectrum of the social sciences, for example, economics, political science, and sociology, et cetera. [2] Consequently, any formulation of public policy cannot be neatly compartmentalized as having effects in just one area, such as economic ramifications. In other words, public policy can have political repercussions as well.

Proceeding on the premise that it is a 'good' that the Canadian government run Canadian affairs, and granting the fact that the environment of today's interdependent world hedges and conditions the government's functional autonomy, it might be advantageous to ask just what degree of freedom of action is necessary to preserve national independence and integrity? And within the context of American investment in

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1 For example, the strains which the Vietnam war is placing upon the American economy could perhaps force increasing attempts to control capital and investment expenditures abroad.

2 Gordon, op. cit., p. 92.

Canada, what is the minimum amount of autonomously effective decision-making power which is necessary?

The most prolific source of apprehension and the major catalyst of ill feeling in Canada is this question of when and if control of Canadian industry passes to the United States--and this seems to be the developing trend according to the data--will Canada relinquish control of her destiny?

An official presentation of this fear was the final Report of The Royal Commission of Canada's Economic Prospects. As the Final Report put it:

> At the root of Canadian concern about foreign investment is undoubtedly a basic traditional sense of insecurity vis-a-vis our friendly, albeit our larger and more powerful neighbour, the United States. There is concern that as the position of American capital in the dynamic resource and manufacturing sectors becomes ever more dominant, our economy will inevitably become more and more integrated with that of the United States. Behind this is the fear that continuing integration might lead to economic domination by the United States and eventually to the loss of our political independence. [1]

There is no suggestion in the Task Force Report on Foreign Ownership that absentee owners acting in their own economic

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1 As quoted in Safarian, op. cit., pp. 239-240.

self-interest, serve as instruments of American foreign policy. But, it is plausible to argue that the multinational firms, operating in response to a given institutional and economic setting, in an attempt to improve their economic positions and at the same time to abide by American laws, might at times disregard Canadian economic policy.

The concern is that even though American corporations may not consciously serve as agents of the American government, it has been, at the same time, possible for that government to extend American laws extra-territorially by means of the parent-subsidiary relationship, which when it occurs, is a serious threat to Canada's autonomy. In other words, American government laws can follow ownership and control across the Canadian border even though they may conflict with Canadian interests.[1]

Summary

In recapitulation, there are certain things which should be recognized. First the question of foreign ownership and control is not simply a case of one clear-cut pattern. On the one hand, foreign ownership has contributed to the development

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1 A. Rotstein, The Multinational Corporation and the Nation State, Address to the 10th Annual Seminar on Canadian-American Relations, Windsor, Nov., 1968. Appendix A.

of objectives favoured by the Canadian government, viz., increasing the standard of living, decreasing unemployment and promoting strength and diversity in the Canadian economy. But, it has also fostered dual sovereignty, guided corporate capitalism and the possibilities of extra-territoriality. One cannot glibly declare in this matter that "chauvanism's greatest cost is the inability to see one's own interest." [1] It is not always the case that national sentiment obscures national interest, for national sentiment is neither irrelevant nor a non-functional factor of a country's existence. On the contrary, it is a question of balancing interests, economic, social, psychological and political, and need not be a perverted form of nationalism. In short, foreign ownership and the question of American direct investment in Canada is both a blessing and a millstone.

Secondly, Canada cannot be absolutely autonomous in external relations. It is true that in order to maintain international economic relations, as in international political relations, one must recognize the existence of other nations, and also that they have policies designed to promote their own interests. Yet, normally policy is made with the head and not the liver. That is, it is based on a calculation of interests and a rational balancing

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1 Safarian, op. cit., p. 244.

of advantages and disadvantages. As this applies not only to political states, but also to multinational corporations, it is evident that the interests of the multinational corporation or subsidiary and the Canadian government (or the American government and the Canadian government, or the multinational firm and the Canadian subsidiary) are often on a collision course. And where a conflict does arise between them, Canada's own economic and political self-interest should predominate, at least to the extent that Canada does irreparable harm to her future options. For it the multinational corporation not to be under government control would mean that governments have abdicated a series of important economic decisions to the board-rooms of these companies in which the basis of the decisions would not be the same as that desired by governments.[1]

Finally, Canadian reliance and dependence on American good will and confidence, as manifested in bilateral trade agreements and the influx of capital, has become a permanent feature of Canadian existence.

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1 J. W. Bahrman. The Multinational Enterprise and National Power, Paper delivered to the 10th Annual Seminar on Canadian-American Relations, Windsor, Nov. 21, 1968. p. 6.

Therefore, foreign investment in Canada is one litmus test as to whether Canada will remain sufficiently independent. Closer economic relations, whether through trade or investment, does not necessarily mean that Canada will be inevitably absorbed by the United States, but it raises the possibility if not the probability that Canada will increasingly find herself subordinate to the priorities of the American government. It would seem anomalous that an independent country should have the power to decide upon a course of action and yet find that its power to act in accordance with or in defence of that policy is limited to the extent that its internal economy is sensitive to mere statements of intent on the part of foreign administrations.

Chapter IV

Costing: Identity, Nationality and Economics in the Balance

> It is probable that we have already advanced too far along the road to economic union with the United States for turning back to be possible. They need our resources, we want their standard of living. Geography weds us, culture weds us. To turn back now would be to drop Canadians far down the scale of prosperity, to retard our development drastically, to invite mass emigration of Canadians who refused to accept such deprivations, and perhaps to drive the United States into taking by force-- economic rather than military-- certain of our resources.
>
> It is not reasonable to suggest turning back. But it is dishonest to refuse to admit where advancing will land us. More so it is dangerous.
>
> In the next few years Canada is almost certain to lose economic and, to a certain extent, political control over large areas of our national being. If we do not admit this, we will not define the extent of the loss, and we will not be in a position to determine what must not be lost.[1]

What this editorial of the Globe and Mail seems to assume is that the people of Canada have any cohesive consensus as to the economic ramifications of large scale American investment. It is quite difficult to attain any rational balance of just what 'mix' the ingredients of various economic, social, political and national factors will produce. It would appear

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1 The Toronto Globe and Mail, editorial, December 31, 1965, p. 6.

that many sweeping generalizations are made, without concrete attempts at verification. For example, it has been frequently asserted that Canadians lack entrepreneurial ability--without regard either to the comparative capital position (the risk capital available in the United States as opposed to that available in Canada) or the scope of opportunity within the domestic market. It would seem that a more likely candidate for lack of investment on the part of Canadians would be the structure of the financial community and its inaccessability rather than any timerity which is inborn in Canadians. Further, the lack of Canadian investment in certain fields such as mining and petroleum may be more of a function of Canada's inability to mobilize the necessarily massive and long term financing so necessary for such ventures, rather than any lack of will to do so. Also, given the length of time in which American subsidiary operations have been resident in the domestic economy, it would appear that the relatively great advances in managerial skills and techniques have developed primarily within the giant firms controlled from abroad. Hence, just as there is an infant industry argument for a tariff, there may be an infant entrepreneur argument for restricting foreign ownership. The demonstration effect argument that foreign owners keep Canadian businessmen and firms on their toes has not produced any noticable

effect in inducing domestic entrepreneurship because of the many advantages of American firms.[1]

There does seem to be a definite need for research into coherent policies, and for the integration of these efforts into some general guidelines for Canadian policy makers. Perhaps, in one sense, Canada needs a new National Policy designed for the new priorities and realities of the twentieth century.

It would also appear that a need exists to correct the rather one-dimensional concept currently popular within large sectors of the country, that goal formulation is attained through economic laws which are autonomous and independent of institutions, legal forms or social habits. One recognizes that:

> there is no theory of the costs and benefits of integrating economies through direct ownership of industry -- of the new structure of international production and distribution which is substituting for trade and investment. [And that] it is, therefore, not easy to balance the net gains of the impact of multinational enterprises against a loss of sovereignty....[2]

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1 Hymer, op. cit., p. 198.

2 Bahrman, op. cit., p. 3.

However, the increasing extent of involvement by Canadians with the American economy is creating a condition in which more research, hard thought and realistic assessment are urgently needed.

Athough I would agree with the statement made by Jacob Viner that:

> Above all, the relations between the two countries and their peoples, political, economic, geographic, strategic, cultural psychological, have few if any parallels in the present-day world or in past history, in degree of intimacy, harmony, mutual respect and trust. The moral of all this seems to be that the implications of the heavy investment of American capital in Canada should not be examined in terms of appeal to analogy with other countries and other times, but in terms of frank and unemotional scrutiny of the facts as they exist in the here and now. [1]

I would also agree with J. W. Bahrman's thesis that Canadian-American relations center primarily, first on a nation's will to act and second on the ability to carry out that will. A focus for further research might be to discover those supports-- cultural, economic, social and political which affect a nationality's will.

This study has hopefully pointed out the very real element within the Canadian identity-- rejection of America. To assess in moral terms such a rejection would be neither fruitful nor

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1 Jacob Viner, "American Capital and the Canadian Economy," Economics: Canada. op. cit., p. 190.

analytical. That a cost benefit model of direct investment might be done without reference to the question of nationalism is apparent but to do so seems less than objective. To counter the term of 'economic nationalist' it seems reasonable in a sense to accuse the accusers' of 'economic reification'. In other words, what seems apparent is that many arguments concerning the question of American direct investment in Canada bear the stamp of fundamental viewpoints of prioriies and objectives.

Hence, one might agree with Kari Levitt that:

> the continentalist orientation is fundamentally destructive of the consensus upon which rests the continued existance of Canada. It rejects the maintenance of the national community as an end in itself. It puts the value system by which a nation is ultimately defined, up for sale. In every 'cost-benefit' calculation concerning the gains and losses from direct investment, there is an implict price tag on national values and beliefs. [1]

One might also agree with the statement of George Ball that:

> sooner or later, commercial imperatives will bring about free movement of all goods back and forth across our long border. When that occurs, or even before it does, it will become unmistakably clear that countries with economics so inextricably intertwined must also have free movement of the other vital factors of production - capital, services, labour. The result will inevitably be substantial economic integration, which will require for its full realization a progressively

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1 Levitt, op. cit., p. 62.

> expanding area of common political decision. [1]

In sum, the question of direct investment traditionally rests in two contexts- both ideological and both polemnical to a degree. That is not to indicate any particular distaste for such analysis, but rather to point out the limitations of such an approach. There are obvious orientations which intellectuals cannot fail but to imbibe in the area of problem solving.

In this presentation of areas of conflict concerning the questions of nationality and direct investment there can hardly be an end to the problem. There is no simple pattern of definitions. There is no apparent range or bounds to the questions.

> The problem is, in essence, one of a trade-off of power to gain wealth, or the rejection of possible wealth to retain national sovereignty. It is a conflict of national welfare with international welfare in which the share of each nation remains undetermined and is determined in practice by the operations of the multinational enterprise. The basic conflict is over power and is expressed in a variety of tensions surrounding the entry and operation of the multinational enterprise. In other words, significant choices are made in the areas of the economy which national governments regulate and this constitutes power. [2]

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1 George W. Ball, The Discipline of Power. New York, 1968. p. 113.

2 J. N. Behrman, "Multinational Enterprise: The Way to Economic Internationalism," Journal of Canadian Studies. May, 1969, p. 13.

Certainly the degree of economic control exercised by Americans was not according to any predetermined or co-ordinated plan, but has come rather at the behest and approval of Canadians and their governments' policies. The problem lies in the fact that the agent of investment, the multi-national corporation, creates institutional stresses in which the corporation and state overlap in legal, political, economic and social dimensions. "The new multinational corporation and the new technology has wide ramifications that penetrate to the political and social shere and the very mode and style of life in a given society." [1] "The ability of the multinational enterprise to circumvent government policies and alter economic results means that power is passed to a foreign entity, whose power has no particular legitimacy, for the foreign parent is not incorporated under any single governmental jurisdiction." [2] That Canada's position vis-a-vis the multinational corporation is not unique is apparent from a statement taken from J. J. Servan-Scheiber's book the American Challenge in Europe:

> If we allow American investments to enter freely under present conditions, we consign European industry - or at least the part that is most scientifically and technologically advanced and

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1 Rotstein, op. cit., p. 1.

2 Bahrman. op. cit., p. 14.

> on which our future rests - to a subsidiary role, and Europe herself to the position of a satellite. 1

There are, of course, many possibilities available to halt economic integration, including discriminatory legislation. Even the inducement of the factor of instability is likely to discourage the increasing ratios of American investment. The ulimate sanctions are nationalization and expropriation - the case of Mexico in 1938 could be instructive. [2] There is however, no simple defined pattern of reactions, and what should be noted is that the options of the multinational corporation are far greater than those of domestic corporations. That is, in a trade off of restrictive legislation the firm may simply move elsewhere. Further, in every sphere of conflict, whether a question of sovereignty or the promotion of a particular goal, the reactions of Canadians are in essence a judgment of whether costs incurred will not endanger other important objectives. Generally the use of controls and interference at the unofficial level does not sway American policy makers who require statutory or regulatory action on

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1 J. J. Servan-Schreiber The American Challenge in Europe. New York, 1969. p. 52.

2 Aitken, op. cit., p. 171.

the part of the host country.[1] Hence, the operations of corporations which may make balance of payments adjustment difficult, limit fiscal and monetary policies, affect trade opportunities, etc., would require regulation formed by the total range of socio-economic objectives of Canada.

The description of Canadian-American relations in the termonology of power politics might become evident when we realize that although the multinational corporation seems a creature apart from nationality there is little doubt that the corporate requirements of stability and long range planning are subject to pressures from headquarters in the company's native country.

The benefits of the new 'technostructure' accrue principally to the United States because the overwhelming number of multinational corporations are resident in that country. Further, the myth of corporate responsibility becomes strained in countries such as Canada in which the parent firm is the sole stockholder. In a situation of conflict the corporation will not generally follow the host country directives unless all alternatives including direct parent governmental pressure

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1 Bahrman op. cit., p. 13.

fail.[1] What this indicates is, again, that in the absence of clear objections by Canada, the multinational corporation will follow the total economic, political, and foreign policies of the United States.

In the vital areas of trade and tariff- the options - ranging from free trade, bilateral or multilateral arrangements, to a new'national policy' require adjustments to the essential power relations now enjoyed by Canadian and Americans. The rationalization of industry for example within Canada without regard to the nationality of the firms involved might only increase the power of subsidiaries. Likewise free trade without industry safeguards has many long range as well as short term implications.

If Canadians as a whole perceive the question of American direct investment solely in terms of an economic problem then the arguments of nationalists seem ill placed. However, the very inconsistent and seemingly irrational response of some Canadians in the form of anti-Americanism may be a national response in the form of maximizing two goals-economic and

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1 Bahrman notes."Since governmental policy might involve regulation, information necessary to determine that there should be no regulation is withheld by the companies. Policy tends, therefore to be made in ignorance."op. cit., p. 17.

political. That is, the economic goals of the businessman or even perhaps the goals of a majority of Canadians may indicate a continentalist orientation while the social philosophy of those same citizens may preserve a political framework in which the element of anti-Americanism may predominate.

It would be presumptous to speak here on behalf of the 'Quebecois' but it would nevertheless seem plausible to note that a possible major division within Canada would be the conflict of proirities and orientations of the two major communities. (Two used in the sense that categorically speaking, non-French and non-English groups appear relatively assimilationist) The use of political means to control the economic decisions of the French-Canadian 'nation' and hence serve as a bulwark to cultural preservation [1] as opposed to generally individualist concepts prevalent within English speaking Canada would appear to be a basic and perhaps fundamental cleavage within Canada. It is perhaps but two views on the maintenance of Canada's existence in the political sense. It might seem that the measure of the question of direct investment and nationality in Canada cannot fail but to resolve in either the convergence of contintentalist orientation or the

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1 Levitt, op. cit., p. 62.

increased fragmentation of the country. Although closely bound to realities of continued membership in the North American community, Canada does perhaps derive many benefits--tangible and intangible--from the maintenance of her separate existence. Politically, culturally, economically and socially, Canada provides attractive alternatives within the confederal community. For the pacifist who wishes to avoid conscription into the American forces, for the farmer in search of new lands, for the Empire Loyalist who views American republicanism with horror, for the worker who cannot handle the alienation which microdivision of tasks effects, for the Huttorite who wishes to opt out of mass society and for the isolationist who does not wish to belong to a 'superpower' with global responsibilities, Canada offers attractions which it would not possess as part of the United States.

However, efforts to maintain a separate Canadian political entity may be ultimately inadequate, given the absence of a national identity. For, unless there is a conscious and concrete will to maintain a nationality, the tides of economic integration may well be sufficient to effectively flood out a viable and separate existence.

Frederick says:

> I do not believe the Canadian people to phrase it in economic terms, believe the marginal utility of free trade

> (rationalization) is nearly as great as the marginal loss in terms of social disadvantage and economic sovereignty.[1]

But it is not a matter of the dispute of facts but rather a question in terms of the priorities and choices to be made.

Hence, in economic policy, Canada's freedom of action is certainly limited, but the limiting factor is, in the last analysis, Canada's own acceptance of full employment and rapid economic development as high-priority social objectives.[2]

In terms of nationalism and American direct investment in Canada, it is not within the scope of this work to make recommendations but rather to assure that the issue of nationality is not dismissed as a consideration of relevance or import to the total scope of our relations with the United States. It is to suggest that the object of inquiry in the field of Canadian-American relations refocus itself to the essential task of analytically discovering the relative balances which a country's policy making might weigh. The

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1 Frederick, op. cit., p. 235.

2 Hugh G. J. Aitken "Continental Integration and National Identity," Economics: Canada op. cit., p. 332.

facts indicate that relatively large areas of decision making lie outside of our borders, but perhaps on balance the Canadian people regard the net gains from direct investment as outweighing the net loss in terms of sovereignty.

There is essentially a power relationship between Canada and the United States which has become refracted and perhaps obscured in the semanics of higher per capita income, free trade, continentalism, trade expansion, nationalization, economic imperialism, etc., arguments. It would be somewhat naive to assume that the resolution of the various economic problems which direct investment entails will come about without regard to the will and ability of the investing country to effect policy changes favourable to that country, basing those policy changes upon optimal self interest. For example,

> it is unrealistic for Canadians to argue that the U.S. should lower its own tariff walls so that American subsidiaries in Canada can compete with the parent in the American market when the subsidiaries exist at all as a result of Canadian tariffs. It is not the role of the United States to play a philanthropic role towards Canadian industry. [1]

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1 Frederick, op. cit., p. 234.

Hence, there is a grain of truth in the assertion of Kierans when he notes of subsidiary guidelines:

> Now, behind the facade of thousands of companies acting individually, is a single, directing authority guiding policy towards the payment of an American balance-of-payments equilibrium.[1]

Several authors suggest that coutervailing legislation would ensure that no intrusions of foreign laws would prevail. J. Gibson, says for example:

> If the rules are not fair under which Americans are investing their capital, then these rules should be changed. And if we wish to give our nationals somewhat better treatment than foreigners it is within our power to do so.[2]

What Gibson states is, of course, theoretically a fact but in real terms of action it is unconvincing. There is an implication that the present economic relations with the United States can quite realistically be turned more favourably to our balance if we so wish--without any regard to the fact that such a choice may be quite limited simply in terms of power and self interest. It would seem to be an act of folly to

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1 Eric Kierans, Challenge of Confidence: Kierans on Canada. Toronto, 1967. p. 88.

2 J. D. Gibson, "The Changing Influence of the United States on the Canadian Economy," Canadian Journal of Economics and Political Science. November 1956. pp. 430-431.

phrase all questions of sovereignty in terms of a moral dichotomy which has no relation to the way in which many states regard their activities. The United States government does affect its internal economy by efforts upon market mechanisms because it is the desire of policy makers and the electorate to do so. The American dream includes the right of the businessman to complain to policy makers concerning trade disadvantages, tariff policy, credit extensions and the whole range of governmental policy which affects and effects economic conditions. It is further apparent that some of the difficulties which the application of extra-territorial laws entail are not just a function of the application of self-interest of one nation upon another but rather, more fully, the added cost of national will, as expressed by political policy. Trading relations with communist nations, for example, are affected not simply by the economics of self-interest but also by the economics of nationality.

As regards the operations of subsidiary corporations, there do not seem to be any fixed pattern of loyalities or patterns of reactions. It would seem then that in a real sense the actions of American affiliates are formed by the total scope of the foreign and economic policies of Canada. Restraints, in any economic sense, one might conclude, are the prerogative of

political action. The total economic position of the United States vis-a-vis Canada is but an expression of the relative balance which both nations have worked out with relation to various policies. It does seem, in a very real sense, quite fruitless to argue over the abstract nature of economic nationalism if such nationalism is based on any component of national will. Whether nationalism is chauvinistic, emotionalism or a reactive complex or any other dimension still does not tell us anything about what the relative balance in inter-state relations will be.

Rotstein centers his attention upon the interrelated nature of nationality and economics--specifically with respect to direct investment--when he asserts:

> the nation-state must have a unity and coherence if it is to survive as a political entity, which is essentially the coherence of its various spheres: the political, economic, legal etc. The infringement of any one sphere, its penetration or disruption for example by an outside force such as a foreign corporation, inevitably rebounds in diverse ways into the spheres of the nation state. [1]

At this point we might conclude that the whole question centers upon a country's rational correlation of economic, social,

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1 Rotstein, op. cit., pp. 5-6.

and political objectives. Hence, one might hypothesize, for example, that the high degree of economic integration of Canada with the United States reflects a psychological dimension of Canadian nationality--involving particularly Canadian non-acceptance of a lower standard of living than that enjoyed by Americans. It is perhaps then this keeping up with the American Joneses[1] that requires such large capital inflows.

Further, it is possible that the concrete terms of wages, standard of living and what one might term the 'Canadian Dream' have greater relevance in the perception of the citizens of Canada than the less identifiable object of nationality. Given that there does seem to be a very real lack of a cohesive national identity, for whatever reason, one might then construct a cost-benefit model in which the correlations of investment and nationality are weighed to an acceptable level. It is most plausible that the clarion call of some 'economic nationalists' would be regarded as but a rationalization of domestic inefficiencies as expressed in real economic costs of such policies as the tariff.

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1 David A. Baldwin, "Canadian-American Relations: Myth and Reality," 4th Annual Orvil E Dryfoos Conference on Public Affairs. Hanover, New Hampshire, 1967. p. 19.

Professor Paquet claims that:

> we can rely upon the basic economic forces and the natural inertia of the Canadian people to effect this shift toward continental unity. The timing and the form of such integration will depend basically on how long the people of Canada will accept to buy this good called nationality, up to what price they are willing to pay for it and on the type of social aggregation which will be dominant, these questions being obviously interrelated. [1]

As a comment upon the Canadian peoples' concern for the issue of nationality I will conclude with the following quotation.

> The Canadian Centenary Council
> Meeting in Le Reine Elizabeth
> To seek those symbols
> Which will explain ourselves to ourselves
> Evoke unlimited responses
> And prove that something called Canada
> Really exists in the hearts of all
> Handed out to every delegate
> At the start of proceedings
> A portfolio of documents
> On the cover of which appeared
> In gold letters
> not
> A mare usque ad mare
> not
> E pluribus unum
> not
> Dieu et mon Droit
> but
> Courtesy of Coca Cola Limited [2]

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1 Paquet, op. cit., pp. 111-48.

2 F. R. Scott, "National Identity," McLeans's June 1, 1963. p. 2.

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U.S. Business Investments in Foreign Countries. A Supplement to Survey of Current Business, 1960

Appendix A

Table I: Non-resident Ownership and Control as a Percentage of Capital Invested in Selected Canadian Industries, Selected Years, 1926-1963

Industry	Non-resident Ownership							Non-resident Control						
Percentage of total capital owned or controlled by all non-residents:	1926	1948	1957	1959	1961	1962	1963	1926	1948	1957	1959	1961	1962	1963
Manufacturing	38	42	50	51	54	54	54	35	43	56	57	59	60	60
petroleum & nat. gas	-	-	63	62	63	63	64	-	-	76	73	72	74	74
mining & smelting	37	39	56	58	62	63	52	38	40	61	61	59	58	59
railways	55	45	30	27	25	24	23	3	3	2	2	2	2	2
other utilities	32	20	14	14	13	12	12	20	24	5	5	5	4	4
merchandising & constr.	-	-	-	9	9	11	10	-	9	-	9	11	11	12
Total:	37	32	34	34	34	35	35	17	25	32	32	33	34	34
Percentage of total capital owned or controlled by U.S. residents:														
manufacturing	30	35	39	41	43	43	43	30	39	43	44	45	45	46
petroleum & nat. gas	-	-	57	55	54	53	54	-	-	70	67	63	63	62
mining & smelting	28	32	46	49	54	55	54	32	37	52	53	52	52	52
railways	15	21	11	9	9	9	9	3	3	2	2	2	2	2
other utilities	23	16	11	12	11	11	12	20	24	4	4	4	4	4
merchandising & constr.	-	-	-	6	6	7	7	-	6	-	6	6	6	7
Total:	19	23	26	26	27	28	28	15	22	27	26	26	26	27

Note: As figures are individually rounded, totals do not necessarily equal the sum of their component parts.

Table 2: Ownership and Control of Selected Canadian Industries, Selected Year Ends, 1954-63

Enterprise Classification	Foreign Ownership					Foreign Control				
	1954	1957	1959	1961	1963	1954	1957	1959	1961	1963
Manufacturing:										
Beverages	29	28	26	26	26	20	13	13	14	17
Rubber	78	84	86	88	87	93	97	98	99	97
Textiles	21	21	22	24	20	18	19	23	23	20
Pulp & paper	51	53	52	51	52	56	55	49	46	47
Agricultural machinery	37	37	43	45	49	35	38	55	50	50
Automobiles & parts	78	78	89	90	91	95	95	97	97	97
Transportation equipment	34	47	58	57	59	36	67	73	70	78
Primary iron & steel	16	24	25	-	-	6	26	23	-	-
Iron & Steel mills	-	-	-	30	20	-	-	-	25	14
Electrical apparatus	70	70	74	73	70	77	77	81	78	77
Chemicals	64	62	61	62	63	75	75	77	76	78
Other manu.	46	50	52	56	59	52	57	61	66	70
Sub-totals:	47	50	51	54	54	51	56	57	59	60
Petroleum & natural gas	60	63	62	63	64	69	76	73	72	60
Mining:										
Smelting & refining of non-ferrous native ores	59	54	56	55	52	55	66	66	55	51
Other mining	55	56	59	64	66	49	59	59	60	62
Sub-totals:	56	56	58	62	62	51	61	61	59	59
Totals:	51	54	55	57	59	55	61	62	63	64

Source: Dominion Bureau of Statistics: The Canadian Balance of International Payments, 1963, 1964, and 1965, and International Investment Position, p. 79.

Table 3

Corporation Profits in Canada, 1956-1959
(in millions of dollars)

	1956	1957	1958	1959
Corporation profits Before taxes	2908	2547	2483	2836
Add: Dividends Paid to Non-Residents	437	480	447	490
Corporation Profits Including Dividends Paid to Non-Residents	3345	3027	2930	3326
Deduct: Corporation Income tax liabilities	-1413	-1326	-1280	-1506
Corporation Profits After Taxes	1952	1701	1650	1820
Deduct: Dividends Paid to Non-Residents	-437	-480	-447	-490
Corporation Profits Retained in Canada	1495	1221	1203	1330
Deduct: Dividends Paid to Canadian Persons	-364	-351	-346	-373
Undistributed Corporation Profits	1131	870	852	957

Source: Dominion Bureau of Statistics, National Accounts, Income and Expenditure, 1959, Ottawa, 1960, Table 50.

Table 4

U. S. Annual Outflow of Direct Investment in Canada as a Per Cent of U. S. Direct Investment in all Countries 1950-1964

1950	46	1955	43	1960	27
1951	46	1956	31	1961	19
1952	51	1957	28	1962	19
1953	55	1958	36	1963	18
1954	61	1959	30	1964	11

Source: Balance of Payments (U.S.) and Survey of Current Business, June, 1965.

Table 5 Number of Firms Investing Abroad by Industry - 1955

Industry	No. of Companies	Foreign Investors #	Foreign Investors %	Outside Canada #	Outside Canada %
Ordnance	3	1	33.3	1	33.3
Food & Kindred Pds	130	53	41	41	32
Tobacco	13	6	46	5	32
Textile Mills Pds	80	20	25	11	14
Apparel	7	2	29	1	14
Lumber	20	4	20	3	15
Furniture	7	3	43	2	29
Paper	63	36	57	9	14
Printing & Publ.	20	9	45	5	25
Chemicals	89	64	72	51	57
Petroleum & Coal	43	30	70	22	51
Rubber	15	10	67	8	553
Leather	8	2	25	2	25
Stone, clay glass	39	18	43	14	36
Prim. & Fab. metals	143	68	48	42	29
Machinery(exclu. el.)	138	76	55	55	40
Electrical Machinery	52	3	66	16	31
Transportation	190	51	57	27	30
Professional, sc.	20	17	85	14	70

Source: E. R. Barlow and I. T. Wender, Foreign Investment and Taxation. p. 40. Exhibit 12.

Table 6 Location of Foreign Investments - 1955

Country	Investment by 247 Companies having One or more investments
Canada	191
Latin America	652
Western Europe	588
Far East and Australasia	282
Near East and Africa	179

Source: Barlow and Wender, op. cit., p. 101, Exhibit 16.

Table 7

Source of Funds in Direct Investments In Canadian Mining and Petroleum

	1957	1958	1959	1960	1961	1962	1963	1964	Average
From the U. S.	26	25	20	21	13	10	8	5	15
Invested Profit	35	32	39	45	41	43	45	49	42
Depreciation	26	30	30	35	34	32	33	30	31
From Canada	13	14	11	-1	12	15	14	17	12

Source: Levitt, op. cit., p. 74

Table 8

Residence of Directors of 105 Direct Investment Companies

Residence of Directors	Wholly Owned Subsidiaries	Partially-Owned Subsidiaries	Total
United States	219	155	374
United Kingdom	11	38	49
Canada	199	284	483
Total Directors	429	477	906

Source: Brecher and Reisman, op. cit., p. 134.

Table 9

Direct Canadian Investment Abroad

Direct Canadian Investment in Branches, Subsidiaries and Controlled Companies	All Countries	United States	United Kingdom	Other Countries
1939	671	412	59	200
1945	720	455	54	211
1949	926	721	59	146
1953	1,507	1,147	104	256

Source: Canadian Balance of Payments, 1954, and International Investment Position, p. 5.

Table 10

New Direct Investment and Receipts from U.S. Foreign Enterprises 1965-66 (in millions of dollars)

	New Funds		Income		Fees, Royalties	
	1965	1966	1965	1966	1965	1966
Europe	1,432	1,673	760	703	369	455
Canada	895	1,071	692	755	185	211
Australia, N.Z. South Africa	171	159	139	144	59	69
Latin America& Other Western Hemisphere	260	228	1,014	1,100	171	185
Asia & Africa	570	289	1,287	1,252	115	121
International & unallocated	43	-57	69	24	10	10
Total	3,371	3,363	3,961	3,978	909	1,051

Source: Survey of Current Business, March, 1967, pp. 26-31.

APPENDIX B

FACTORS ATTRACTING FOREIGN INVESTMENT [1]

a) Vigorous growth characteristic

b) Vast natural resources

c) Well developed market in conjunction with a high per capita income

d) A stable economy

e) Record of political stability

f) Fiscal integrity and developed banking system

g) No restrictions on international transfers and freedom of movement for money and securities

h) Low cost energy to attract power using industries

i) Psychological factor - geography makes Canada safe from international embroilments

j) Cultural and sentimental considerations - Canada shares language and culture with her two principal investors, the United States and the United Kingdom

k) The high tax laws of the United STates(excess profits tax) and other investing nations may induce them to invest

l) Tax incentives operating within Canada, specifically designed to attract investment

1 Summation of study by J. Grant Glassco, "Certain Aspects of Taxation Relating to Investment by Non-Residents," Royal Commission on Canada's Economic Prospects. Ottawa, 1956, p. 7-8.