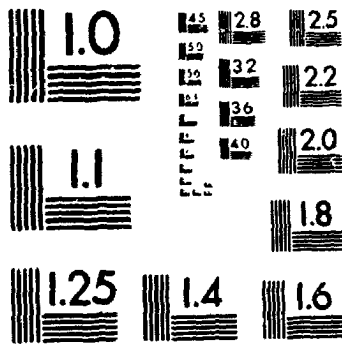


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**“CREATION AND CONSTRAINT:  
ECONOMIC IDEAS AND POLITICS IN CANADA”**

by

NEIL BRADFORD, B.A., M.A.

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

Doctor of Philosophy

Department of Political Science

Carleton University

Ottawa, Ontario

December 17, 1993

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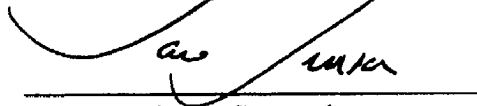
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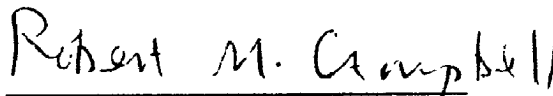
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## Abstract

This dissertation investigates the politics of strategic choice and economic policy innovation in liberal democracies. It asks how countries mobilize intellectual and political resources to devise and implement new policy frameworks in periods of significant economic turbulence. An "institutional-interpretive" approach is developed to highlight the concrete settings where policy-relevant knowledge is generated and disseminated, and the political processes that transform economic ideas into authoritative action-frameworks. Cross-national analysis reveals substantial variation in the actors and locales central to policy innovation. Such variation is related to differences in social structure, institutional histories, and organizational relationships.

Focusing on Canada, the dissertation argues that the "economic idea network" has been housed in statist advisory commissions, councils and bureaucratic committees. Specifically, three major royal commissions have functioned as economic policy switchpoint mechanisms in the Canadian political system. In these commissions, non-partisan policy intellectuals have produced models of economic development that launched successive federal state strategies. In the process, commission-generated products in Canada have come to resemble the "governing projects" associated with political parties, politicians, and interest organizations in many other countries.

The dissertation traces Canada's techno-bureaucratic approach to policy innovation from the Keynesian revolution of the 1930s into the free trade breakthroughs of the 1980s. It relates this pattern to the workings of Canada's system of political representation

and the organization of state-society relations. In suggesting the centrality of techno-bureaucratic ideas and processes in the Canadian case, the dissertation also considers why some economic models have moved rapidly from conception to implementation, while others have been more limited in their progress.



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# CHAPTER 1

## The Political Influence of Economic Ideas

### Introduction

Since the Great Depression and the Second World War, Canadian federal governments have embraced three successive national development strategies. In the immediate postwar years, Keynesianism provided the framework for economic and social management. By the early 1960s, an alternative project had taken shape calling for greater state intervention to support domestic capital formation. The debate over a national industrial strategy extended across two decades before a resolution occurred in the mid 1980s, when a new discourse crystallized, emphasizing continental trade and state retrenchment in economic development policy and social welfare programmes. The formation of each of these policy projects has involved fundamental political decisions about the nature of state-society relations, and Canada's place in the world economy.

This study explores the politics of strategic choice and economic policy innovation. It asks how countries mobilize intellectual and political resources in the face of economic crisis to generate new solutions and launch policy departures. In offering an answer, we develop what has been termed an "institutional-interpretative" approach to analyzing public policy and the relationship between states and societies.<sup>1</sup> This approach pays particular attention to the role that ideas play in political life and policy making. At

the same time, it highlights the institutional settings that generate policy-relevant knowledge and the political processes that transform idea systems into authoritative frameworks channelling official thought and action. In this way, the interpretive and institutional dimensions converge in a focus on struggles amongst organizational actors in the political system to define policy problems and mobilize support for solutions.

In this study, the institutional-interpretive approach is elaborated through two additional concepts that facilitate empirical analysis: the idea network and the national policy model. The idea network refers to nationally-specific constellations of forces organizing the generation and dissemination of policy knowledge. The national policy model is a broad conceptual orientation to economic development that provides for certain periods of time relatively enduring reference points for key participants in the policy process. Our presentation reveals how Canada's postwar national economic policy models have taken shape through the creative and strategic work of actors inside the political system's idea network.

This chapter launches the main historical narrative on Canadian strategic choice and policy innovation with four introductory discussions. The first of these presents the argument in capsule form. The second deals with theoretical issues about state-society relations and public policy, reviewing existing approaches to the fundamental question of what moves the state. In relation to these theories, we then introduce our own framework for analysis using concepts derived from the institutional-interpretive perspective on state-society relations and policy making. The next section offers an illustrative comparative application of our analytic framework to three countries already well-researched by

students concerned with the politics of economic policy making – Sweden, the United Kingdom, and the United States. Finally, we turn our attention to Canada, situating it in relation to these comparisons and in relation to the subsequent historical case study that constitutes the bulk of the thesis. We consider literature on the organization of state-society relations in the Canadian political system, and in particular, on modes of interest representation and policy innovation.

## **1.1 The Argument in Brief**

Students of public policy typically ask three kinds of questions about the course of action followed by governments. The first of these questions focuses on influence, probing the social interests that benefit from public policy choices. A second seeks to evaluate the consequences of policies and programmes in relation to stated objectives. And a third question asks about change, how fundamental policy directions are charted and re-charted by public authorities. Obviously these questions of power, effect, and process are inter-related and any policy study will touch on each to some degree. But points of analytic emphasis differ and our focus is on the third area of inquiry: the macro-political process of strategic choice and policy change. Our analysis is of whole political systems, looking at the relationship between states and societies to grasp the broad historical and organizational factors that shape patterns of policy innovation. We cut into these problems through examination of periods of great turbulence, when long-standing patterns of policy thought and practice are contested, and when familiar relationships of authority are called into question. Under such conditions old nostrums fail to inspire and

satisfy. The search for alternatives is accelerated and the debate is joined by a diverse range of political actors.

In Canada, we identify three such periods of change in economic policy formation: the 1930s, the 1950s, and the 1980s. In each of these periods debates and struggles in the Canadian political system resulted in significant shifts in the terms of economic policy making. These conjunctures are analyzed as instances of intensive policy learning, when political systems generate new understandings of problems and mobilize administrative political resources for implementation. These learning dynamics are shaped by political struggles to embed systems of meaning and policy discourse in the decision making routines of the state.

In analyzing economic policy change, the critical role of economic ideas – in the form of models of economic reality (how the world works) and the prescriptions that flow from them (what policy makers should do) – is highlighted. During times of uncertainty, such models can redefine goals, interpret constraints, reveal opportunities, and offer action frameworks to individuals and groups seeking direction. Crises spawn fragmentation and polarization. Ideas packaged as models of reality reinvent the terms for compromise and bargaining among diverse actors in the political community. They enable policy entrepreneurs to move with purpose, connecting solutions to problems and different interests to common objectives. Reinhard Bendix has captured the essential argument:

I believe that the ideas for the many by or on behalf of the few are clues to an understanding of individual societies. For such ideas can promote the social cohesion of a class, justify their good fortune in their own eyes, facilitate communication, help resolve the dilemmas of organization with which men in command must deal on a daily basis ... decision makers have made use of such idea systems time and again. These are the reasons

why I believe such ideas are worth examining over time and in a comparative perspective.<sup>2</sup>

In these terms, ideas help people to “grasp, formulate, and communicate social realities”.<sup>3</sup> But just as ideas are not more or less elaborate rationalizations of some underlying structural logic, neither are they determining of outcomes in any mechanical sense. Rather the process of policy learning that joins ideas and action, economic thought and political strategy, takes place in identifiable institutional contexts. The idea network is an historically-evolved configuration of political actors mobilized to create solutions and make change. A critical empirical question for this study is to understand the internal workings of the idea network, how it generates models and builds support for their implementation.

In studying macro-political processes of economic policy learning in Canada, we find that innovation has been dominated by non-partisan experts moving within a statist idea network of advisory commissions, committees, and councils. These policy intellectuals are labelled “techno-bureaucrats” to capture their dual role in learning and innovation – as intellectual generators of theoretical knowledge about the economy’s workings and as action-oriented change agents pulling politicians toward new ways of working. Techno-bureaucrats – as distinct from either civil servants or academics – are not constrained by the mores of conventional administrative practice nor are they without the access and resources required to translate their interpretations of economic reality into currencies of political strategy and policy program.

From country to country, different political actors and institutional locales may be integral to the dissemination of similar internationally-recognized economic policy models.

The centrality of techno-bureaucrats and commissions in the Canadian economic idea network we suggest is related to historical and organizational factors particular to the brokerage system of political representation.

Three 'era defining' royal commissions, mandated by governments to renew Canadian economic policy at moments of crisis have provided the switchpoints in Canada's techno-bureaucratic form of policy learning. Rowell-Sirois, Gordon, Macdonald: these are the names we find at the creative centre of the economic idea network. In these inquiries economic theory and policy analysis have been linked to broader issues of history, culture, and identity to produce dramatic new syntheses that laid the foundations for successive national policy models. Commission-generated products have supplied the discourse of development in Canada in a fashion similar to the governing projects variously associated with parties, political leaders, and interest organizations in many other liberal democracies. The formulation of schools of economic thought by techno-bureaucrats - Keynesianism, industrial strategy, continentalism - and their confirmation through ad hoc Ministerial alliances has driven policy learning in Canada, not the moral visions of parties or strategic initiatives of organized interests.<sup>4</sup> The economic ideas of commission-based policy experts have supplied coherent policy frameworks to guide political action in the face of deep uncertainty and growing fragmentation among various state and societal interests.

In arguing that three major commissions of inquiry have been central to the workings of Canada's postwar economic idea network, we consider in each case a common set of issues: the political-economic context for the commission appointment,



the mandate from government, the composition of the commission and its research structure, and the public consultation process. We then analyse the content of the commission's report – its arguments and recommendations – and track their effects on policy making.

Across the three episodes of change, we find substantial continuity in the central role played by techno-bureaucrats in the commission-centered idea network. However, we also find differences in the form and nature of the policy influence of the techno-bureaucrats and their economic ideas. In the 1940s, an intellectual consensus within the idea network galvanized the techno-bureaucrats and they moved decisively to lead the politicians toward a new policy model. In the 1960s and 1970s, intellectual conflict within the idea network divided the techno-bureaucratic community around two schools of economic thought and prevented consolidation of a policy model. In the 1980s, sufficient intellectual consensus took hold within the idea network to enable techno-bureaucrats to direct politicians toward a new policy model.

In our conclusion, we interpret the significance of this pattern, making two generalizations about the influence of economic ideas in the Canadian political system. First, we suggest that intellectual division among the techno-bureaucrats dominating the idea network will paralyze the policy process, given the weak capacity of governing parties and politicians to resolve internal state disputes and mobilize external societal support behind choices. Second, we suggest that economic ideas which place limited demands on the political system for their implementation will achieve the greatest policy impact. Policy models requiring cultivation of supportive coalitions and the management

of trade-offs between sectors and regions will founder on the shoals of the brokerage system. Policy models requiring scientific expertise and relying on depoliticized market incentives will encounter much less resistance. Tracing the differing legacies of the Rowell-Sirois and Macdonald Commissions on the one hand, and the Gordon Commission on the other, clarifies this point. Keynesianism and free trade economic ideas conformed to the innovative capacities of the Canadian political system. The prospects for national industrial strategy were much dimmer because it demanded that politicians make hard intellectual choices and that parties sustain societal coalitions. Here, the limits of technobureaucratic policy learning are revealed.

## **1.2 Economic Ideas and Policy Innovation: Framework for Analysis**

This dissertation tackles two basic tasks. First, it seeks to describe federal economic development strategy in postwar Canada, highlighting the shifting goals articulated and instruments deployed. Second, it aims to analyse the process of policy innovation, probing the political dynamics that translate conceptual breakthroughs from the world of ideas into the premises underpinning government action.<sup>5</sup>

The first of these tasks moves in the direction of intellectual history, tracing the evolution of influential currents of policy-relevant knowledge. The second enterprise is a form of public policy analysis, asking, in effect, what moves the state? It involves identifying the principal actors and key locales of substantive policy debate and decision making in the political system. It also entails surveying the positions formulated by a range of political actors on economic development issues, assessing their capacity to

generate coherent ideas, inject them into policy debates, and mobilize the support necessary to implement their projects.

These second order tasks require the formulation of a framework for analysis. Theoretical inspiration in these matters may be provided by considering leading approaches to the study of the state and policy making. From the literature, three broad traditions can be distinguished: neo-Marxist; statist; and rational choice. To what extent can these theories help understand policy innovation and the role of ideas in political life? At the risk of some oversimplification, we will review these prominent approaches in ideal-typical form to clarify their relationship to this dissertation's core concerns.

Neo-Marxist arguments are anchored by the belief that pressures from economic interests, typically the bourgeoisie or its most powerful fraction, guide the activity of state managers.<sup>6</sup> Policy outcomes are seen as a rather straightforward imposition of an agenda, or an elaborate orchestration of an evolving social compromise by the dominant capitalist class working through its allies in the state apparatus. The concept of relative autonomy allows that the state's capacity to fulfill its function for capital -- to represent and organize the long term interests of the class as a whole -- depends on its degree of independence from any given fraction. The capitalist structure of production and accumulation process provide the foundation for class forms of political domination.<sup>7</sup> In this formulation of economic policy making, there is a causal chain linking production structure, class interest, state strategy, and historical outcome.

In contrast, statist writers argue that factors ranging from the predispositions of public officials to the organization of government institutions intervene between socio-

economic structure and decision making with significant effects on policy outcomes.<sup>8</sup> Here, the state is seen as a substantially autonomous actor with its own interests, fully capable of formulating and pursuing goals that do not simply reflect the demands of social classes, groups, or electoral coalitions. The statist approach downplays 'societal pressures', arguing instead that state managers operating in relatively 'well-insulated' institutions will express in any given policy field the national interest. In pushing the concept of autonomy much further than their Marxist counterparts, the statist writers grant a determining role to permanent state officials and administrative traditions. They debate whether the national interest emerges from the push and pull of bureaucratic politics or evolves from past policies which become institutional rigidities binding subsequent deliberations over strategy to commitments made at earlier conjunctures.<sup>9</sup>

The third major approach, rational choice theory, also grants autonomy to the state. However, the state is not conceived as an institutional structure embodying the public good and acting on the national interest. Instead, it is viewed as comprised of self-interested individuals joined only by a desire to maximize career goals, in the case of politicians to secure re-election and in the case of civil servants to expand program resources.<sup>10</sup> The rational actor theory is an individualist variant of neo-Marxist structuralism. It shares a deterministic view of political behaviour, attributing preferences to key social categories whether collective or individual based on inferred interests. Resting its explanations for policy outcomes on the invariant motivations of individual state officials, the rational actor approach has little concern for external environmental factors which arguably establish the context for such micro-level rational action.

Clearly, each of these theories views the state and policy making somewhat differently. However, it is the shared concern with mapping continuities in policy and constraints on political action which limit the utility of these approaches for analysing policy change and political creativity. These arguments emphasize the power of strategically-located social forces and political actors to determine policy outcomes. For neo-Marxists the concern is with fractions within the dominant class of the economy; for statist the focus is on officials in the executive, bureaucratic and judicial branches of the state. In each case, assumptions embedded in the theory about interests and capacities reduce incentives to explore how public authorities come to acquire their encompassing visions, either of the overall long term needs of classes or of the particular historical lessons and policy legacies that will promote national well-being in the present. These theories stop short of a complete investigation of the process through which capital or state managers recognize collective interests, package them into coherent strategic frameworks, and direct appropriate policy action. In the absence of such description to support their quite robust conclusions about outcomes, these theories remain vulnerable to charges of functionalism and reductionism.

Similarly, the rational choice theorists' disregard for historical and cultural factors leaves them ill-prepared to analyse periods of turbulence when definitions of self interest become unstable for a wide variety of individuals and groups. Such discontinuity suggests that political rationality may not be pre-given and unchanging, but rather be constructed historically in accordance with interpretations of goals and means applied in particular policy making settings. Moreover, during these episodes electoral politics is likely to

involve more than “pork barrel politics” to buy off interested groups, and bureaucratic politics is likely to range beyond jockeying for more resources for existing programs.<sup>11</sup> They may well involve inventing larger visions and novel approaches designed to mobilize support from popular movements and private interests seeking new direction in the face of genuine uncertainty about the future. Both of these processes — interpreting possibilities for rational action within the historical matrix of environmental constraints and opportunities, and building coalitions for political survival and policy renewal — point out creative aspects of politics not captured by the rational choice perspective.

Viewed from our perspective, then, these leading theories of the state share two outstanding features: first, they operate with a model of power based on inferred interests and assumed capacities, and second, they conceive of state-society relations as a kind of dualism where one sphere acts on the other to realize its goals.<sup>12</sup> It is our contention that these predispositions and orientations deflect attention from change processes and innovative dynamics.

Tackling these issues, we suggest, requires greater concern for the role of ideas in political life and for the institutional links between state and society that organize the flow of “information, resources, and pressure between public and private sectors”.<sup>13</sup> As Peter A. Hall has observed, organized interests, politicians, and officials “do not simply ‘exert’ power; they acquire power in part by trying to influence the political discourse of their day”.<sup>14</sup> Here, the generation and dissemination of ideas about collective problems and legitimate solutions is an important dimension of political conflict and public policy development. In liberal democracies, systems of interest intermediation and political

representation are institutional settings where interests and ideas are combined in the construction of public policy. Politicians may compete for office by articulating moral visions which appeal to the anxieties of the electorate, and by issuing policy manifestos that address the needs of societal actors. Bureaucrats and policy intellectuals may respond to economic problems by devising new solutions that resolve policy dilemmas or reveal new possibilities for positive-sum bargaining among groups. Organized interests may advance their particular cause by putting forward broad views of the overall direction of the economy that attract new allies and engender public support.<sup>15</sup> The point is that the relationship between ideas and interests in these institutional networks connecting state and society in policy development may well be more fluid and open than allowed by the theories reviewed above.

Accounting for policy innovation pushes to the foreground creative aspects of political life that remain largely invisible in major state theories: partisan leadership, intellectual breakthroughs, and bureaucratic entrepreneurship. Theories that explain political constraint and policy continuity are not well-suited to revealing the interplay between ideas, strategy, and historical circumstance. Yet it is from this interplay that political systems often produce significant policy innovation.

What is needed at this point is a middle-level analysis paying close attention to institutional settings where state officials and societal organizations interact to construct authoritative interpretations of desirable and feasible policy direction.<sup>16</sup> K. Sikkink has aptly described recent attempts to analyse ideas and interests in institutional settings as an institutional-interpretive approach.<sup>17</sup> In any policy sector certain ideas cohere as

frameworks modelling the field of action for decision makers. These integrative conceptions specify what is wrong, what can be done, and what technical and political instrumentalities are available to sustain, adjust or overhaul policies. The generation and consolidation of such interpretive frameworks is far from automatic. They are neither invented by a smart state nor dictated by powerful social forces. They are constructions, created and maintained over time by political actors maneuvering within the organizational space of national political systems to define the parameters of the policy agenda and the content of the national interest.

An institutional-interpretive approach can be harnessed for case study policy research through elaboration of two key concepts: the national policy model and the idea network. The concept of the national economic policy model has been developed by J. Pekkarinen.<sup>18</sup> In Pekkarinen's useful formulation, the national policy model refers to an inherited framework of ideas that:

defines the broad boundaries of the policy agenda in each country; what types of economic problems are to be solved by economic policy intervention and what tools are to be used. It does not necessarily imply any detailed policy scheme, but rather identifies the main orientation of views on economic policy in each country ... The policy model is tied to the broad economic-structural, cultural, political, and institutional setting of each country. ... No matter how similar the actual economic development of different capitalist countries, the style of argumentation about economic policy and the corresponding balance among policy measures still differ remarkably from one country to another.<sup>19</sup>

For our purposes, the national economic policy model can be broken down into three main components: foreign economic policy for managing the relationship between the domestic and global economies; industrial policy to ensure that factors of production required for development are available in sufficient quality and quantity; stabilization



policy using monetary and fiscal measures to finance state activities and to promote expansion while minimizing disruption. The three core components of the national policy model combine in specific development strategies.<sup>20</sup> How do countries acquire a particular national policy model?

Here, an idea network can be identified within political systems housing actors whose thought and action give direction and purpose to state intervention in policy fields. Every political system contains a distinctive constellation of forces – party politicians, interest group representatives, civil servants, professional experts – channelling the flow of ideas and information into decision making circles. From this vantage point, the construction of national policy models can be viewed as proceeding inside institutional-political networks located at the interface of states and societies.

Across countries specific formations of idea generators may evolve, acquiring over time legitimacy as deployers of strategic understandings about desirable policy development and the scope and role of government.<sup>21</sup> Therefore substantial variation in both the socio-political actors and institutional locales critical to policy making may be observed, arising from differences in social structure, institutional arrangements, and organizational histories. Idea networks then can take shape in a variety of policy-relevant settings, including the party and interest group systems, the bureaucracy, the judiciary, public inquiries and commissions. It follows that the internal properties of such configurations – their social base, patterns of interaction, intellectual traditions, modes of analysis – are important in understanding strategic policy choice and innovation.

These networks are not 'launching pads' for the doctrinal breakthroughs of individual thinkers any more than they are 'conveyor belts' for material interests. Rather, they must be seen in a more complex and contingent context, expressing the "organizational intelligence" of a political system.<sup>22</sup> As Peter A. Hall writes "economic policy is not the output of individuals, but of organizations that aggregate the endeavors of many individuals in particular ways".<sup>23</sup> Idea networks in their intellectual deliberations and representational activities crystallize certain ideas and interests into models that provide stable boundaries for policy discourse for many actors. Disagreements may persist, but they are confined to disputes over distribution of benefits or technical refinements. However, these normal periods of relative consensus within the model are the resolution of crisis situations when struggles cut much deeper. As Pekkarinen emphasizes:

... there are episodes when the policy model may change substantially and during which the influence of economic theory on the reorientation of economic policy may be very powerful indeed. This is the case when the policy model finds itself in a crisis, that is, the lack of correspondence between it and its structural determinants is generally noticed and economic theory has a credible alternative to offer.

... Such a crisis of the policy model can ripen gradually, when it is unable to cope with gradual changes in the economic and social environment. More illuminating, however, may be the crisis that occurs when some sudden and profound change in the environment abruptly outdates the policy model.<sup>24</sup>

It is out of moments of rupture, like the 1930s Great Depression, that national economic policy models are created. Such critical junctures are distinguished by intensive questioning and widespread reconsideration of established social relations, political accommodations, and policy routines. Consensus collapses and the search for alternative

conceptions of development begins. Creative work in the realm of ideas during these turbulent periods can take on exceptional political significance: novel interpretations of the past and visions of the future can mobilize new partisan formations, recast interest alliances amongst societal groups, and redefine the premises of policy making.<sup>25</sup> States and societies become consumed by interactive policy learning whereby old commitments are scrutinized and new solutions brought forward. Renewal takes place through idea networks, and innovations in the goals and instruments animating the policy process respond to the network's collective deliberations and judgements. A reformulated national policy model emerges, narrowing once again the terms of debate, albeit within a restructured relationship between state and society.

To analyse the intellectual content and political logic of strategic choice and innovation, then, this study identifies and examines a country-specific set of economic idea networks. The next section of this chapter applies these concepts in a comparative discussion of learning processes in the Swedish, American, and British political systems. Our aim is not to contrast outcomes between cases in order to generalize about economic performance across these capitalist democracies. The goal is to use "individualizing comparisons" to investigate how different countries reached new policy understandings in similar periods of acute international economic pressure and domestic political discontent.<sup>26</sup> In the words of Reinhard Bendix, this method asks "the same or at least similar questions of very different contexts and thus allows for divergent answers."<sup>27</sup>

The varying processes by which similar era-defining economic policy models entered state-society relations in Sweden, the United States, and the United Kingdom will

be highlighted. Are there recurrent patterns within national experiences suggesting that countries develop characteristic ways of proceeding in the face of uncertainty? To what extent do the institutional-political configurations producing policy models vary cross nationally, implying different divisions of labour within the idea network among parties, interest organizations, civil servants, experts etc.? These case studies draw on a rich secondary literature to explore these questions. They will help to situate our detailed discussion of Canada as well as to illustrate the utility of the analytic framework.

### **1.3 Comparative Perspectives**

Historical patterns of economic and political development create organizational contexts for idea generation and policy learning. From country to country distinctive combinations of parties, interest organizations, civil servants and experts may cohere as creators and carriers of the models that shape relations between state and society in policy sectors. Paths to modernity, charted through 19th century dynamics of industrialization and democratization left in place diverse templates for contemporary economic policy making.<sup>28</sup>

Particularly relevant for this study, the ruptures and innovations associated with the twentieth century's great watershed of the 1930s and 1940s were shaped by these preexisting forms of political representation and organization. They provided the institutional matrix for the major reconstruction of economic policy underpinning the postwar settlement. But these legacies and inheritances were constraining rather than determining. Choices and changes followed the dynamic interplay between ideas and

interests in this period of crisis in the history of the capitalist democracies.

*i) Sweden: Political Exchange*

Historical transformations in Sweden fashioned a political landscape and policy making environment dominated by cohesive, nation-spanning, class-based interest organizations and programmatic political parties.<sup>29</sup> Sweden's particular pattern of centralized, late industrialization provided fertile ground for the formation of a unified labour movement, politically mobilized alongside equally comprehensive and centralized business peak associations. In this context, the early 20th century struggle for parliamentary democracy and universal suffrage organized by the Social Democratic Party revealed an enduring and distinctive feature of Swedish politics and policy making: realignments generated from the evolving strategic interaction of parties, interest groups and popular movements merging ideological appeals with organizational imperatives. As Goran Therborn concluded the "popular movements of the founding period of Swedish political modernity had a long term and still enduring impact upon twentieth-century politics in Sweden: its popular but not populist character, based upon well-structured, resourceful mass organizations ... and the movement dynamic of these organizations".<sup>30</sup>

Here, our discussion of Sweden will build on the observation of Scott Lash and John Urry that "from the 1930s the labour movement was the motor for the organization of the **whole** of Swedish society ... it provided a set of norms, institutions and policies which were generalized not just to working-class Swedes, but to **all** of Swedish society".<sup>31</sup>

In these terms, other political institutions and organizations – for example, the bureaucracy and expert communities – have been accommodated within a governing project defined by the social democratic labour movement. In the case of the bureaucracy, its structure rendered it an unlikely source of economic ideas, much less a catalyst and driving force in policy innovation. First, the administrative machinery of Swedish state is organized around independent agencies and boards, typically directed by interest groups representatives themselves. Second, the regular government departments have very small staffs with recruitment practices reflecting a long tradition of valuing legal training rather than social scientific expertise. This pattern was observed “even within the sector of the administration concerned with economic affairs persons with an economics degree [were] outnumbered roughly 5 to 2 by the lawyers”.<sup>32</sup> Bo Rothstein has argued that the principle of interest group governance in economic and social policy was established by the early twentieth century:

There is no evidence that a “strong public sector” created loyal organizations from above. Instead it appears as if a public sector that was weak and fairly unsure of itself in these areas established corporative institutions in an effort to seek knowledge information, and legitimacy (for policies).<sup>33</sup>

Relatedly, commissions of inquiry, key locales for non-partisan policy experts in many other countries, have been dominated not by technocrats, but rather by officials from parliamentary parties and interest groups. Furthermore, commissions have been typically charged by the government to produce consensus, extending sometimes to the drafting of legislative proposals, around initiatives already generated in the political arena. Particularly in areas of fundamental interest to the workplace parties and their partisan

representatives such as economic development strategy, commissions in Sweden have not been handed open-ended mandates that invite fundamental reassessment of established routines and policy preferences. In this way, the commission process has been instrumental to what Hugh Heclø and Henrik Madsen have termed the Swedish labour movement's "strategic ability to divide, wear down through continuous consultations, and periodically coopt factions of their opposition".<sup>34</sup>

Thus, the making of modern Swedish politics was organized in civil society where partisan channels of interest representation provided decisive arenas for coalition formation amongst politically active groups challenging conservative forces entrenched in the state. The party and interest group system was pivotal in organizing struggles for democratic reform and economic policies for industrial take-off.<sup>35</sup>

Economic policy making in Sweden in the 1920s was dominated by classical assumptions of how self-regulating capitalist economies worked. Chronic unemployment throughout the decade did not occasion any sustained departure from restrictive budgetary practices, the gold standard, and free trade. After playing a key leadership role in the popular struggles for universal suffrage, the Social Democratic Party unexpectedly found its forward momentum stalled. The electoral benefits anticipated from political democratization failed to materialize. Liberal, Conservative and Agrarian forces coalesced in opposition to Social Democratic policy initiatives, particularly in regard to taxation and industrial relations matters. There was no majority waiting to follow the Social Democrats along the parliamentary road to socialism. Confined largely to its bedrock working-class support in the elections of the 1920s, the Social Democrats were unable to exercise any

decisive influence on government policy making.<sup>36</sup>

In fact, the political neutralization of the party was matched by limitations in its own analysis of the employment crisis and policy responses to the steadily deteriorating economic conditions. The Social Democrats explained the economic crisis as a consequence of capitalism's irrationality, but that theoretical critique deflected the party from exploring policy options short of the long term goal of socialization. Even here the party temporized; minimal attention had been given to the organizational and political requirements for implementing an economic programme based on public ownership. Accordingly, the Social Democratic leadership, when participating in Sweden's minority governments of the 1920s, deviated very little from the economic liberalism of other parties. By default the Social Democrats followed the view that deflationary measures (including wage reduction) would facilitate the private investment necessary to provide relief to the unemployed.<sup>37</sup>

However, in 1930 the Social Democrats broke with the orthodoxies, proposing in the Swedish Parliament a bill for greatly increased state spending on public works to stimulate the economy. Embracing these ideas effectively delivered the party from both its policy impasse and political dilemma. What factors led the party leadership to this dramatic shift in thinking? The new policy emerged from learning dynamics driven by the interplay of ideas and strategy within the political and industrial wings of the labour movement. Theoretical innovation, electoral goals, and organizational interest merged in the 1930s to generate and sustain this alternative economic project.



In this context a series of developments between 1928 and 1930 proved critical. In 1928, the Social Democrats suffered a significant electoral setback, with their share of the popular vote dropping 4%. This defeat triggered a far-reaching internal review of the party's economic policy and its connection to electoral strategy.<sup>38</sup> From these deliberations came the consensus that the party's future depended on its capacity to attract the votes of small farmers and rural workers, unhinging the Agrarian Party from its partnership with Liberal and Conservative parties. The positive experience with alliance politics from the earlier constitutional struggle could now be replayed by the labour movement, substituting Agrarians for Liberals based on recognition of cross-cutting economic interests. Influential party intellectuals such as Gunnar Myrdal argued that the 1928 campaign run on the conventional, long term socialist programme had only accelerated the movement of farmers over to the bourgeois parliamentary bloc. Consolidation of the strategic reorientation, however, presupposed two departures: first, new economic thinking to specify common ground between historically opposed labour-agrarian formations and second, new party leadership to link such policy ideas with political support. Here, Ernst Wigforss's theoretical work and Per Albin Hansson's coalitional politics found their historical significance in Swedish public policy.

In 1928 Wigforss published the first of a series of pamphlets clarifying an "action program" between liberal laissez-faire and Marxist breakdown theory. In an original reformulation of underconsumptionist theory Wigforss provided an economic rationale for countercyclical budgetary policy in times of less than full employment.<sup>39</sup> This orientation accommodated the call in 1928 from the trade union leadership for the party to campaign

for a new productive, public works program paid at market wages. Such a scheme would replace the existing system of below-market wage relief works which the state had used to undermine public sector unions and erode the movement's market power, rather than provide more employment. Expansionary measures could respond to the demands for economic stabilization from both urban industrial and rural agricultural workers.

The Social Democrats mobilized around this recovery program in the 1932 election. With the full effects of the Depression plunging Swedish export industries into crisis, causing unemployment to rise to over 20%, the Social Democrats won their greatest number of Parliamentary seats thus far. However, the party fell short of a governing majority and the spectre of a return to the failures of the 1920s persisted. Against this backdrop, then, the party used the new economic thinking to define the terms of a parliamentary deal with the formerly hostile Agrarians. The ideas gave substantive and strategic meaning to the social democratic concept of the "people's home" popularized by Per Albin Hansson. Armed with their unorthodox economic proposals the Social Democratic leadership could now explore a new form of democratic political practice: alliance formation around party policies with organized economic interests while also engaging voters in substantive dialogue over the issues.<sup>40</sup> In 1932, Hansson described the party's approach to group and electoral coalition building:

... one has to seek to weave together interests, to get more and more people to integrate their special interests in the common interest. The latter is the same as getting the citizens to think and act democratically. It is possible that one can get the elite that presently dominates our economic life to act in this way.<sup>41</sup>

In 1932, then, the Social Democrats launched their loan-financed reflationary package. Between 1933 and 1936 legislation for public works, agricultural price supports, unemployment insurance, and pensions was passed through the farmer-labour alliance. Moreover, each of these policies was institutionalized in the state's operating procedures through political rather than bureaucratic mechanisms. The theoretical rationale for this alternative administrative structure had been elaborated in the writings of party theoretician Nils Karleby.<sup>42</sup> Karleby argued that social democratic progress depended on enhancing working class capacities in civil society, not on placing reform-minded technocrats throughout the existing state apparatus. Under the leadership of Social Democratic Minister of Social Affairs, Gustav Moller, Karleby's ideas about class power and public administration were put into practice. In the 1930s, responsibility for the design and implementation of many elements of Swedish social policy was assumed by the trade union movement itself. In this way the new programs reinforced the organizational strength and improved the policy competence of the Social Democratic Party's core electoral constituency.<sup>43</sup>

For reasons largely unrelated to the economic effects of these policies, by 1935, the Depression began to subside. Rising external demand for Swedish products spurred by earlier currency devaluations, more than domestic stimulation, has been judged the critical force in the economic turnaround.<sup>44</sup> Far more significant for the Social Democrats were the political consequences of their economic ideas which extended beyond the partisan arena to facilitate a new accommodation between the labour movement and organized business. When a strike in the building trades jeopardized the

party's parliamentary base in 1933, the trade union central took the unprecedented action of intervening to impose a settlement on the grounds that party control of the state altered the strategic context for achieving the overall goals of the working class.<sup>45</sup>

Similarly for business, the political success of the farmer-labour alliance reconfirmed in the 1936 election – forced reconsideration of its historic reliance on state policy to wage class struggle. Fearing hostile political intervention and with its domestically-oriented sectors benefiting from demand stimulation, the employers' organization sought a compromise with the labour movement. The Social Democratic Party's economic ideas and political strategy had created innovative policies calling forth altered assessments of 'class interests' by key private actors. Business and labour both reflected anew on their strategic positioning within the Swedish political economy in the wake of the 1932 and 1936 elections. These recalculations were confirmed in the 1938 Basic Agreement stipulating conditions for industrial peace and productivity; business recognized labour's dominance in the polity and labour recognized the economic power of business.<sup>46</sup>

At the height of the Great Depression, then, Swedish channels of political representation engineered three historic shifts: the recasting of parliamentary alliances, the renegotiation of relations between business and labour, and the reorganization of the state's place in the economy. In these interrelated breakthroughs the role of economic policy ideas loomed large. In the late 1920s, proto-Keynesian notions emerged within the labour movement as the party sought to overcome political isolation and the trade unions cast about for ways to arrest organizational decomposition. Resolution to either of these

strategic dilemmas was not possible within prevailing policy discourses. Demand stimulation through government spending was an idea empowering the Swedish labour movement. It became the binding agent for a partisan mobilization and political realignment which gave the labour movement new and significant influence over public policy. The terms on which the state's economic role was debated by political actors changed in the mid 1930s from sound finance and wage deflation to employment creation and welfare provision. Keynesian ideas entered Swedish politics as a response to problems facing a politically neutralized yet structurally well-positioned labour movement. They mapped the ground for a new cross-class coalition represented by parties and interest groups.<sup>47</sup>

At the end of the war, the labour movement collaborated to develop a new program departing substantially from the interwar package. Drawing on the wartime experience with the regulation of production and anticipating that a return to Depression-like conditions was imminent, the union-party committee called for state investment planning and intervention in enterprise decision making. However these doctrinal changes were politically marginalized. First, the persistence of near full employment reduced greatly the persuasiveness of the new program's economic prescriptions. Second, the defection of the Agrarians signalled that these ideas could not sustain the cross-class coalition orchestrated in the 1930s. Indeed, they served to mobilize business and party opposition against the Social Democrats in the ideologically-charged election campaigns of 1944 and 1948. Following successive electoral setbacks, the Social Democrats reconstituted the farmer-labour alliance in 1951. The terms of the 1930s compromise were

reintroduced in an altered strategic setting for economic policy formation and political mobilization – full employment and inflation. Organizational pressures and innovative thinking within the labour movement converged once again to introduce an economic policy framework sustaining Social Democratic governance through a new cross-class political compromise.<sup>48</sup>

Beginning in the mid 1950s intense pressures were placed on economic policy makers to supplement stabilization and demand management concerns with supply side measures for growth and capital formation. In Sweden, as many writers have described, postwar economic strategies evolved as a “series of deals” originating in the thought and strategy of the labour movement.<sup>49</sup> The Rehn-Meidner model launched Sweden’s departure from Keynesian principles, showing how restrictive fiscal policy could be combined with an egalitarian wage structure reinforcing trade union cohesion and promoting capital efficiency. In the place of incomes policy and general expansionary measures it called for selective spending on labour market adjustment. Budgetary surpluses would not only finance worker retraining and mobility but also provide a public capital fund to supplement private investment in the non-inflationary macro-environment.

Implementation of this economic framework was secured through party politics and interest group negotiation, against the backdrop of changes in Swedish class structure and corporate behaviour. Specifically, in postwar Sweden farmers were losing their political significance to the new middle class, and the operations of industry were increasingly internationalized.

In this setting, the Social Democrats embraced active labour market policy and a supplementary public pension scheme to forge a new coalition of wage-earners and export-oriented industry behind the Rehn-Meidner structural change economic policy – a policy opposed by farmers and the generally less profitable home market firms. Core elements of the Rehn-Meidner model were confirmed administratively and politically in the late 1950s; first, the party greatly expanded the national labour market board and then cemented the new wage-earner coalition in the 1960 election, fought explicitly over the pension fund concept with its associated public investment strategy.<sup>50</sup>

The latest chapter in this story would begin with the labour movement's third major economic policy initiative in the modern era – the wage-earner funds proposal, conceived by the blue collar trade unions in the context of the protracted economic problems of the 1970s and 1980s. The fate of that project poses complex questions about the historical and structural limits of Sweden's postwar learning regime rooted in labour movement innovations and policy-oriented mobilization. Indeed, the 1990s resembles the 1920s and the late 1940s as the Swedish labour movement grapples with the contradictions undermining familiar policy frameworks, and gropes for new economic policy understandings responding to the organizational goals of both unions and party.<sup>51</sup>

#### *ii) United Kingdom: Party Government*

Historical transformations in the United Kingdom fashioned an idea network and political environment for economic policy model formulation dominated by strong national parties, organizationally vital and ideologically structured. The formal machinery

of government gave great discretion to the political executive and created the possibility for party leadership in policy formation.<sup>52</sup> Parliamentary sovereignty, unfettered by a written constitution, divided jurisdiction, or judicial review, meant that the victorious party not only controlled both the executive and legislative branches of the government but was free from the formal-legal constraints that complicated the task of party government in other Anglo-American liberal democracies.

Samuel Beer has traced this pattern of party direction in British political life back to the 17th century period of conflict between Whigs and Tories over the monarchy's constitutional role.<sup>53</sup> Other writers have mapped its evolution into the 20th century. For example, Peter Gourevitch has described the dominating presence of the Liberals and Conservatives in the representation of interests and framing of policy options in the economic debates of the late 19th century. He writes: "Britain had two major political parties, well developed and with strategies for broad social coalitions ... (these) had already acquired both organization and substantive content ... developed strategies for linking leadership elites with masses in ways that affected the tariff debate".<sup>54</sup> By the early 1900s, key producer interests in the British economy were represented in the polity through close identification with the moral visions, doctrines and policies of two major parties – Conservative and Labour.

The Conservative Party found its social base in the aristocracy, the Crown, the Church, and the City of London financial community.<sup>55</sup> The Conservative Party became a political vehicle defining, integrating, and expressing the policy concerns of propertied classes in Britain. The party's leadership in this area was underscored by the fact that



divisions in the business community between financial and manufacturing interests had inhibited its cohesion and limited its capacity to generate and coalesce around long term economic projects.<sup>56</sup> As Andrew Gamble and Stuart Walkland summarized, “the Conservative party has acted as the umbrella party for all sections of property since at least the 1920s ... party leadership has always seen its role as defending the existing distribution of social power and privilege in civil society and constructing an electoral majority to ensure formation of a Conservative administration”.<sup>57</sup>

During this period, the Labour Party emerged from social movements opposed to the configuration of ideas and interests represented by the Conservatives in British public policy. In particular, the party was shaped by the trade unions’ decision to create an independent political vehicle for advancing the interests of their members.<sup>58</sup> They sought primarily a Parliamentary voice on immediate concerns of collective bargaining rights, but they also looked to gain official representation in broader debates over the long term direction of British social and economic policy. Within a few years of its founding, the Labour Party had developed a detailed program for socio-economic change, and a constitution that provided for regular interaction between elites and mass members on matters ranging from labour legislation to the national economic policy model.

The British political system, then, entered the mid-twentieth century era of economic crisis and change steered by two political parties each in possession of distinctive ideological and organizational legacies. Both parties had comparatively long histories of substantive debate over strategies for linking policy ideas, societal coalitions, and electoral majorities. Moreover, these debates were carried to voters through well-

publicized, comprehensive election manifestos. Under such conditions, the British party system provided a highly relevant channel of policy communication between individuals, groups and the state. Beer has captured the centrality of parties to British politics and policy development:

... certain times are of relatively full realization of a given political order and other times are times of transition between such periods of realization. ... Each of these periods of consensus marks the realization of a certain identifiable political order, possessing in each case a distinctive political culture and distinctive patterns of power, interest, and policy.

... the important fact is the connection of party with such an order. The party struggle preceding the period of consensus and realization involved changes in attitudes and behaviour that helped constitute the new order ... a party that has contributed to the establishment of an order becomes identified with that order and, as the party of the status quo, defends what it had so large a part in bringing into existence (not that parties ever fully realize their initial visions).<sup>59</sup>

With this interpretation of British historical-organizational development in mind, our attention now turns to the workings of the political system in the formation of the postwar economic policy model.

The creation, consolidation and eventual collapse of Britain's postwar settlement evolved in stages with each turning point mediated in significant ways by the competitive dynamics of the party system. In creating the policy model, three episodes were critical: first, the events of 1931 when the Labour government fell in the face of acute financial pressure; second, the return to power by Labour in the watershed 1945 election fought over alternative visions of Britain's peacetime future; and finally, developments in the 1950s which saw all parties meet around the discourse of the managed economy and the welfare state. Keynesian-style policy ideas acquired political meaning in Britain through "Butskellism", involving the emergence of new Conservative and Labour leadership

dedicated to revising party doctrines in light of changing postwar conditions. By the same token, this compromise framework lost its hold over British public policy in the 1970s when a revamped Conservative party shifted intellectual-political direction to mobilize support behind an alternative economic project.<sup>60</sup>

The Labour Party won minority power in 1929, on the eve of the Great Depression. Within two years the government faced an acute policy dilemma in the form of a sterling crisis related to a long-standing British commitment to the gold standard. Possibilities for policy experimentation by the Labour Cabinet to remove the "cross of gold" depended on coalition formation with the Liberals to support departure from the orthodoxy of City financial interests defended in Parliament by the Conservatives.<sup>61</sup> However, ideological and organizational factors in a party system rooted in class politics and policy projects militated against the 'Lib-Lab' cooperation necessary for a social democratic policy breakthrough in Depression Britain.

The policy orientation of the Labour membership and its trade union allies, dating back to the party's inception, emphasized nationalization and planning.<sup>62</sup> Their accommodation with capitalism took the limited form of seeking improved unemployment benefits for displaced workers. Outside the party's world view were proposals for public works, interpreted as supports to prop up capitalism and private profits. Labour's disinterest was also linked with the party's strategic competition with the Liberals.<sup>63</sup> In the late 1920s, the Liberals under Lloyd George had created space within their advisory council for J.M. Keynes and his unorthodox theories of economic management. Keynes thus entered the British policy debate as a Liberal partisan, authoring two influential

monographs on policy direction and political tactics. By the end of the 1920s, he had also acquired a reputation as an unsympathetic observer of trade union and socialist politics.<sup>64</sup>

In fact, Britain's first Labour government focused on consolidating its electoral breakthrough by displacing the waning Liberals as the main alternative to the Conservatives. With this in mind, the Cabinet's goal was to solidify its organizational base and bedrock support by rejecting the capitalist apologetics of the Lloyd George-Keynes Liberal axis, at the same that it expanded its electoral appeal by providing responsible state administration avoiding the spending excesses identified with the new liberalism.

However, the difficulties in performing this balancing act came to a head in the 1931 sterling crisis. With unemployment soaring, the City called for deflationary spending cuts to preserve the currency's value. The Labour Cabinet found itself cut adrift from either of the two alternative options – stabilization through stimulation as preached by the Liberals or through socialization and monetary reform as supported by key activists in the Labour Party. Increasingly isolated from their Parliamentary supporters and party membership, the Prime Minister and his Finance Minister followed the prevailing governing orthodoxy, choosing to cut unemployment benefits. The government self-destructed as Labour members defected and Liberal support disappeared. A new Parliamentary coalition dominated by Conservatives began to govern. Following Labour's 1931 catastrophe, the British approach to the Depression was firmly grounded in Conservative economic orthodoxy, and the pattern of policy was aptly summarized in the party slogan "Safety First".<sup>65</sup>

During the 1930s, however, the Labour Party undertook an intensive renewal process that involved addressing both the country's economic crisis and the party's capacity to govern.<sup>66</sup> The search for new policy ideas and a restructured relationship between parliamentary officials and party membership was carried out in a variety of party-based settings. These included: the annual conference, research groups led by Labour intellectuals H. Dalton and H. Morrison, and trade union policy committees. The result of these deliberations was publication of three key party documents in the 1930s. First, *Labour and Government* addressed organizational relationships particularly ensuring membership voice in policy formation. Second, *For Socialism and Peace* focused on the need for a practical policy agenda, offering detailed discussion of centralized planning and nationalization. Finally, the 1937 annual conference adopted *Labour's Immediate Program*, which incorporated the new directions into a framework for election manifestos in the 1940s and beyond.<sup>67</sup>

In economic policy, the fundamental theme in Labour's approach was that control of production was vital to prosperity and equality. Keynesians and their Liberal representatives, it was argued, were mistaken in believing that their goal of full employment could be achieved without making institutional changes in the economy. Planning was superior to the market in resource allocation and income distribution in both efficiency and ethical terms. This core belief ran throughout the party's learning process in the 1930s. It framed the postwar election manifesto *Let Us Face the Future*, unveiled for the 1945 campaign. It also clearly distinguished Labour's position on the postwar economy from the policy disputes percolating inside the wartime bureaucracy, where

tension emerged between new advisory recruits such as Keynes attached to the economic section of the War Cabinets and the orthodox officials in the Treasury Department.<sup>68</sup> Across the final years of the war, this controversy persisted between those counselling budget balancing and those proposing new stimulative policy priorities. This technocratic division was not resolved by 1944, with the result that the postwar economic blueprint the White Paper on Employment, “fell short of fully endorsing Keynesian policy to control employment”.<sup>69</sup> However, this technocratic competition and policy compromise was rendered essentially beside the point in 1945 by electoral politics. The Labour Party won power and imposed its own economic policy agenda on the state apparatus. Influential Labour Party politicians long opposed to Keynesian policies “denounced the 1944 White Paper on Employment Policy” not for its profligacy but for its disregard of public ownership and nationalization. Britain was launched on a new policy path by the Labour Party.

During the 1945 election campaign there was all-party agreement that governments could do more to moderate the business cycle. However, there was substantive disagreement – presented to the voters in the campaign – over the nature and instruments of stabilization policy. It was widely understood that this disagreement was rooted in the enduring and fundamental partisan division over the boundaries of public and private power, and the balance between economic liberty and collective responsibility.<sup>70</sup> Liberals and Conservatives opposed Labour’s claim that public ownership was necessary to economic stabilization. In essence, Labour argued that if stabilization policy reduced business flexibility and profits by maintaining tight labour markets and high taxes, then

the government must resist unemployment and spending cuts to preserve investment. At such pressure points, the state would intervene to sustain consumer demand and capital formation.

Labour's victory in 1945, therefore, signalled not the consolidation of the Keynes-Beveridge discourse that had been jockeying for intellectual hegemony inside the state since the early 1940s, but rather a party-driven break with all established bureaucratic thought about postwar policy.<sup>71</sup> The origins of the shift were to be found in the post-1931 Labour renewal process, culminating in its most mature statement, *Let Us Face the Future*. That document, more than Keynes' *General Theory* or Beveridge's widely publicized welfare report, provided the conceptual underpinnings for the government elected in 1945. In practice, Labour economic ministers would emphasize the "manpower budget" not the Keynesian instrument of the financial budget.<sup>72</sup> The manpower budget was shaped through production controls, material allocations, consumer rationing and so forth. Indeed, Prime Minister Atlee announced to the country that the Treasury Department would not be the center of policy activity because his government understood the economy "in what is really a new way ... from the point of view of manpower rather than finance – our human resources rather than our financial resources".<sup>73</sup>

As events would have it, the Labour planners were immediately confronted with unforeseen problems. In their first years in power, inflationary pressures proved more salient than unemployment. Moreover, there were complex technical and organizational difficulties in operationalizing the manpower plan. Beginning in 1948, it is generally conceded that British economic policy moved away from supply side manpower planning

to demand side management techniques. By the early 1950s, the Labour claim that nationalization and planning were preconditions for stable prosperity had lost much of its persuasiveness.<sup>74</sup> It was in the context of these changing conditions and chastened expectations, that leadership formations emerged in both the Labour and Conservative parties to secure the place of Keynesian-style ideas in party doctrine and policy thought.

In the Conservative Party, the intellectual realignment toward the "new Conservatism" was associated with the leadership of H. MacMillan and R. Butler.<sup>75</sup> Butler headed the expanding Conservative Research Branch in the early postwar years. He used its resources and influence with the Shadow Cabinet to move the party to accept the economic ideas introduced into British politics during wartime. In engineering this doctrinal conversion, Butler worked to convince factions within the party who saw the 'new Conservatism' as compromising the party's ideological traditions and abandoning its societal interests. Butler responded that the changes were a coherent and necessary attempt to "restate conservatism in light of modern economic theory".<sup>76</sup> In 1947, he oversaw publication of the benchmark statement of the new Conservatism, the *Industrial Charter*. When the Conservatives returned to government in 1951, Butler's project had taken hold in key leadership circles and in party policy formation networks.

The ascendance of Keynesian ideas in the economic platform of the Conservative Party was straightforward when compared to the protracted struggle inside the Labour Party. After the 1951 defeat, internal conflict erupted over the lessons to be drawn from the Atlee years.<sup>77</sup> On the one side, A. Bevan stood for the defense of the 1945 orthodoxy and opposed any amendment to the party's constitution that would weaken Clause IV,



defining the party's overarching goal as achieving "the common ownership of the means of production, distribution, and exchange". On the other side, opposed to Bevan were the so-called revisionists led by H. Gaitskell who offered an alternative theory of society and economy to guide the party's behaviour.

Following Gaitskell's leadership win in 1955, the revisionists set out to change Labour's direction.<sup>78</sup> Gaitskell's caucus colleague, C.A.R. Crosland was the principal intellectual architect of the new approach. His influential writings argued the case for reconceptualizing Labour's policy thought and political strategy. The postwar boom (and the Conservatives' failure to create unemployment), the revisionists said, revealed the potential for wealth redistribution within the mixed economy. Supporting the socialist goal of equality required now a party dedicated to expanding public services not public enterprises. This policy reorientation was linked to a new electoral strategy. Drawing on postwar academic research into British political behaviour, the revisionists concluded that structural and attitudinal changes in the full-employment society rendered Labour's traditional working class base a less reliable electoral asset. These ideas became the basis for program-making in the late 1950s. The party debated and accepted a new discourse which preserved Clause IV (if only symbolically) at the same time that it embraced the Keynesian economic and social policies. The 1958 document *The Future Labour Offers You*, with its diverse appeals to individual voters for particular services and programs, confirmed the victory of the revisionists.<sup>79</sup>

By 1960, then, the Keynesian welfare state policy model was embedded in British politics as the framework for an ideological compromise between the parties. The Keynesian revolution in Britain acquired policy relevance only **after** the major parties of government had arrived at their own accommodations with the new ideas. In both parties this meant debate and struggle over the relationship among deep-seated principles, evolving policy knowledge, electoral strategy, and the expectations of key constituencies. As such, each party's arrival at the Keynesian compromise passed through distinctive ideological memories and organizational networks. Thus, if the economic boom that underpinned the compromise between the new Conservatism and the Labour revisionism were to collapse, it would follow that these differences would once again find expression in party programs and electoral competition.

In fact, throughout the 1960s, the question of Britain's comparatively slow growth rate and the need to modernize the economy became a point of contention between the parties. While both Conservative and Labour governments found inspiration in the continental model of 'indicative planning', partisan differences began to surface. By the 1970s, Labour manifestos questioned the cornerstones of British foreign economic policy. They proposed an anti-market strategy of government-business planning for industrial restructuring and government-labour cooperation for income control. The Conservative approach to modernization turned increasingly toward markets and free enterprise. The failure of both of these projects to arrest economic decline indicated the demise of the Butskellite formula for broad compromise and set the stage for a more polarized party debate about Britain's future.<sup>80</sup>

In this process of crisis and change, the party system once again became the key mechanism of innovation. In the 1979 campaign, the Conservatives moved to the ideological offensive and offered voters a manifesto setting out a new philosophy of government based on anti-union, anti-interventionist state principles. Here, monetarist economic ideas became the party's chief weapon in defeating the Butskellite framework. Monetarism shaped a policy mandate for Conservative governance where economic decision making relied not on state direction and negotiation with social partners but on respect for fixed spending targets and deflationary rules. Unions would have to accommodate themselves to restricted public spending and defend themselves against a government rejecting any obligation for high employment or support for the principle of public welfare provision.<sup>81</sup>

From the outset, the Thatcher Conservatives aimed to change the nature of state-society relations in Britain. They forced their economic ideas on the Keynesian bureaucratic machinery through appointments and reorganization.<sup>82</sup> The power of local governments to tax for welfare state purposes was reduced while some metropolitan councils were abolished in order to reduce checks on the Parliamentary executive. British politics in the 1980s became decidedly confrontational and exclusionary. The Conservatives deployed their economic ideas to forge a winning electoral coalition on the basis of new political identities hostile to Labour's world-view. Public policy encouraged property ownership not public housing; private share holding not public enterprise; and industrial decline rather than regional economic renewal.<sup>83</sup> As it had been in the past, the British party system continued to play the dominant role in the formation of policy

regimes and in defining the relationship between state and society.

*iii) United States: Presidential Coalitions*

Historical transformations in the United States left in place a modern policy making environment very different from Western European forms, variously dominated by ideological parties, centralized interest organizations or directive bureaucratic structures associated with a 'strong state' tradition.<sup>84</sup> Fragmentation of political sovereignty and decentralization of power were key principles circulating in the formative period of American constitution-making in the late 18th century. Here, it is important to consider the effects of such institutional inheritances as checks and balances and federalism in limiting prospects for coherent exercise of majority power through party politics or political exchange.<sup>85</sup>

Indeed, the framers of the American constitution explicitly sought to limit possibilities for cohesive political mobilization and unified policy authority. In comparing American state structures with continental European traditions, Theda Skocpol has observed that the "U.S. national government, starting late in the game and from a low level, developed autonomous administrative capacities only imperfectly and under central executive coordination and control".<sup>86</sup> Moreover, the innovative capacities of parties and organized interests in the American political system were limited given that "the framers were haunted by the spectre of enduring political "factions" based on economic condition – above all factions based on propertylessness".<sup>87</sup> Not surprisingly, the Congress was designed as the legislative focal point, giving institutional preeminence to individual

legislators and regional interests over national parties and ideological visions. Moreover, the constitutional enshrining of property as an individual right shifted substantive policy debates about state-economy relations and the definition of the public interest to courts and judges away from legislatures and politicians.

Stephen Skowronek has described this 19th century political system as “a state of courts and parties”.<sup>88</sup> However, American parties were distinctive. Decentralized in their organization, they operated through patronage networks dividing the spoils of power at the local level. Lacking organizational roots in nation-spanning or class-based societal interests, such ‘clientelist parties’ did not cultivate the capacity to develop longer term policy frameworks or mobilize alliances around them. As scholars of American labour politics have shown, community ties and ethnic identities became the dominant way that parties appealed to voters and formed attachments with successive generations of new immigrants and the American working class.<sup>89</sup> Moreover, this institutional fragmentation of the state and policy weakness of the parties was paralleled by similar limitations in the American interest group structure:

For not only does U.S. federal democracy impede unified working-class politics; it also gives full play to divisions within business along industrial and geographical lines.

... U.S. corporate interests have always found it difficult to provide unified support for national initiatives that might benefit the economy as a whole on terms favourable either to most sectors of business or to economically dominant sectors.<sup>90</sup>

The cumulative effect of this political-organizational history has been that most observers agree that the modern American policy process finds its creative center in presidential politics.<sup>91</sup> Policy innovations forged through presidential coalitions are

distinct from changes based either on the translation of party ideas into policy through electoral mandates, or negotiated exchange between policy-engaged social partners. In twentieth century America, fundamental policy departures have not flowed from long-standing party doctrine. They have come from the particular ideas and alliance proclivities of candidates or incumbents who emerge as party presidential standard bearers in elections during periods of crisis and uncertainty. Indeed, at such times, it has been argued that the party's orientation and society's electoral alignment can both be re-made in the image of the president. E.C Hargrove and M. Nelson propose:

The history of domestic political change during at least the first three quarters of this century can be understood in terms of recurring cycles of electoral political competition and public policy making within the bounds of American political culture. The focus of these cycles has been the presidency.

At the heart of each twentieth-century cycle has been a "presidency of achievement" ... in which great bursts of creative legislative activity occurred that altered the role of government in society in the service of some combination of purpose values ... Such reform periods are made possible by overwhelming, if very general, popular mandates for change.<sup>92</sup>

In these terms, we now consider the institutional-political dynamics of American economic policy innovation in the modern era.

As in all capitalist democracies, the American watershed occurred in the 1930s and 1940s when the Depression and war fundamentally altered the decision making environment. In this period, presidential leadership alliances were constructed as the federal government sought for the first time to devise a national response to unemployment. Possibilities were created for policy innovation through the electorally strengthened and partially realigned Democratic party. The architect and agent of change

was Franklin D. Roosevelt who later reflected that "great presidents were leaders of thought at times when certain historic ideas in the life of the nation had to be clarified".<sup>93</sup> In the 1930s, Roosevelt's policy project became the basis for coalition formation, institution building and party reconstruction. The result was that between 1929 and 1949, a new policy framework was put in place for national economic and social development.

When the Depression hit the United States in 1929 the Republican party was in power, representing northeastern business interests opposed to labour rights, agrarian populism and monetary experimentation.<sup>94</sup> President Herbert Hoover was a firm believer in the economics of balanced budgeting, supplemented in social matters by private philanthropy. His response to the economic crisis mixed two strains of orthodoxy, protectionist trade policy and deflationary fiscal policy. He informed Congress in 1930: "Economic depression cannot be cured by legislative action or executive pronouncement".<sup>95</sup> Hoover's preaching of "self reliance" and his championing of the Republicans as the party of prosperity, however, were rapidly discredited by the persistence of unemployment among urban workers and the collapse of agricultural markets. New opportunities were available to the Democratic party and the 1932 election provided the first opening.

Franklin Roosevelt campaigned promising "bold experimentation" from the federal government to reverse the economic and social deterioration. While little of policy substance was attached to the promise of activism, Roosevelt distinguished his position from Hoover's reluctance to move. The outcome clearly signalled popular support for

different stewardship of the economy. Roosevelt's victory in 1932 was broad and deep, bringing a ninety seat gain for his party in the House, and change in the Senate from a deficit to a twenty five seat majority.<sup>96</sup> However, there was no clear policy mandate to be claimed as the President-elect had not defined a course of action. Roosevelt's future Secretary of State, Cordell Hull, described the leadership situation in Washington on the eve of the 1933 inauguration: "No political party in Washington is in control of Congress or even itself ... there (is) no cohesive nationwide sentiment behind any fundamental policy or idea today. The election was overwhelmingly a negative affair".<sup>97</sup> Moreover, there was no direction emanating from within the state: "When the Depression hit ... the U.S. had (for a major industrial nation) a bureaucratically weak national government, and one in which existing administrative capacities were poorly coordinated".<sup>98</sup>

During the next four years, however, Roosevelt used his victory in 1932 to reshape the national political agenda, building the rationale for a greatly increased federal policy presence in the economy and society. The Administration's first "100 days" cleared the ground for a legislative package that would consolidate his campaign support from workers, farmers, and certain industry groups. Two major policy initiatives were unveiled, the *Agricultural Assistance Act (AAA)* and the *National Industrial Recovery Act (NIRA)*, each designed to show the federal government acting to stabilize conditions for urban and rural groups. The AAA provided price supports for agricultural producers while the NIRA encouraged business cooperation in the form of market sharing and production planning. The NIRA also provided union recognition and representation rights for workers in recovery planning.



By Executive Order he established a series of emergency agencies to implement the New Deal agenda, ignoring the regular bureaucracy which he viewed as staffed by partisans unsympathetic to his ideas and cumbersome in its operations.<sup>99</sup> In 1934, Roosevelt appointed his own Committee on Economic Security, headed by Cabinet officers to supplement the regulatory measures of the AAA and NIRA with proposals for social security.<sup>100</sup> During his first term, Roosevelt emerged as an institution-builder, putting in place a New Deal reform bureaucracy. Throughout 1934 and 1935, Roosevelt mobilized support in Congress and the public at large behind this federal agenda. Inside the Executive Branch, he recruited unorthodox economic thinkers such as M. Eccles and L. Currie to develop and refine New Deal projects. In the 1934 Congressional elections, with the President campaigning strongly for his recovery measures, the Democratic party defied strong precedent to gain seats.<sup>101</sup> A social security package, based on the principles of insurance and self-finance, was introduced in 1935, followed by fair labour standards legislation which established national standards for minimum wages and hours of work.<sup>102</sup>

By the mid 1930s, then, Roosevelt had solidified his own political resources and managed to sketch the outlines of a new national policy model. Its cornerstone was the belief that the federal government was responsible – albeit within the bounds of capitalist property relations and basically orthodox budgetary principles – for the welfare and employment of the citizenry. He had used his ambiguous 1932 mandate as the foundation for a political realignment crafted around policies for social provision, labour rights, and rural-industrial market stabilization. One of Roosevelt's closest advisors, Rexford Tugwell,

was struck by the President's political skill in "joining movements for reform or for the redress of grievances and of being their spokesperson and leader".<sup>103</sup> As Tugwell explained: "He expected – and got – political support in return. ... This was true of the farm leader, of the labour organizations, of the big city bosses."<sup>104</sup>

However, by 1936 the forward momentum of the Roosevelt New Deal was stalled. The business community's participation came unstuck as it resisted the NIRA's labour provisions, and the Supreme Court declared both the AAA and the NIRA unconstitutional. In response, Roosevelt embarked on an ambitious political counter-offensive against the judges and the "economic royalists" in support of his New Deal policies and coalition.<sup>105</sup> First, he took the case to the electorate. In contrast to 1932, Roosevelt campaigned for a mandate to continue the reform process in the face of institutional and societal opposition. The aim was to confirm an alignment of voter loyalties between a Democratic party united around aggressive liberalism and a conservative Republican party representing opposition to the New Deal discourse. With banners at his rallies proclaiming "We love him for the enemies he has made", Roosevelt was re-elected in 1936 by the largest electoral vote in history.<sup>106</sup> Unlike 1932 and 1934, however, Democratic gains in Congress were very slim.

For his second term, Roosevelt focused on further structural and institutional changes that would be necessary to consolidate the innovative policy directions launched in the first four years. Three major initiatives came from the Executive Branch: the 'court packing' plan to create a New Deal majority on the judiciary; a public campaign of party reorganization to defeat conservative Democrats in the primaries leading to the 1938

election; and finally, a reorganization of government to increase the capacity of the presidency to dominate the domestic policy process, and specifically to extend the influence of New Deal ideas. As the Committee on Executive Reorganization put it, the goal was a presidency "equipped with the personnel, planning and fiscal control necessary to implement ... its social program".<sup>107</sup> Roosevelt moved quickly to endorse the Committee's conclusions, later described as a "ringing manifesto for presidential supremacy which had not been accepted before the New Deal".<sup>108</sup>

Taken together, these three actions constituted political strategy at its boldest. Roosevelt sought to remake the Democratic party in the image of his progressive coalition and to transform the judiciary and executive into an institutional force behind liberal reform against the potential resistance of Congress and states.

By the late 1930s, however, the limits of Roosevelt's New Deal policy and political strategy were apparent. Congressional resistance to the court packing scheme was strong, and the voters basically refused his call to defeat Democrats unsympathetic to the New Deal. The sweeping government reorganization plan was substantially modified by Congress, although the Executive Reorganization Act of 1939 still authorized creation of a White House Office, Executive Office of the Presidency, and Bureau of Budget. Thus while Roosevelt's ambition surely exceeded his political reach, his second term did shift the policy orientation and identity of the Democratic party toward reform liberalism. Moreover, the focal point of economic governance in the United States moved from 'courts and parties' toward the 'institutional presidency', and from principles of states' rights to national standards.

In 1938-39 Roosevelt announced plans for federal stimulative spending of \$6 billion.<sup>109</sup> He began to depart from the regulatory approach that had expanded the federal presence in American society and economy toward the less intrusive Keynesian fiscal management techniques. Here a conservative Congressional alliance of southern Democrats, middle-western Republicans and eastern business interests mobilized to limit government expenditures and commitments to stabilization. A similar pattern of resistance was played out when the final legislative episode of the Roosevelt New Deal, the Full Employment Bill, was significantly watered down in Congress. At the same time, the Republicans and southern Democrats passed the Taft-Hartley Act which repealed much of Roosevelt's NIRA.<sup>110</sup>

Nonetheless, the 1930s was a watershed decade in modern American politics and policy. Traditional liberal ideology had changed to incorporate a new view of state-society relations and the presidency had emerged as the command center of strategic policy development. Underpinning these changes was a cross-class, cross-regional, inter-ethnic electoral coalition organized through the Democratic party supporting a more activist role for the federal state in economic and social affairs.<sup>111</sup> As Peter Regensterief summarized in his study of comparative party politics:

Roosevelt left several social and organizational legacies to his party. His policies and appeal helped gain urban, minority-ethnic, and lower-status groups for the Democratic party, leaving the opposition with a dwindling proportion of the electorate: namely rural, Protestant, and upper-status support. The support of the Democrats by the trade unions was an important component of the Roosevelt "coalition". However, in the process of creating this Democratic majority, Roosevelt also managed to acquire the enmity of the business community for his party.<sup>112</sup>

The legacy of this voter alignment and style of policy innovation was evident at subsequent moments of economic uncertainty and political unrest. During the 1960s, discontent with racial and class inequality provided the context for the postwar period's major strategic policy project, launched again from the White House. With his Great Society and War on Poverty initiative, Lyndon Johnson followed the Roosevelt example.<sup>113</sup> He brought together professional expertise to translate his policy vision into action. The Great Society programs were developed by White House Office task forces, Cabinet officers and civil servants all responding to the president's plan for recasting the Democratic party as the vehicle for integrating the poor into America's growth economy. By the 1960s, there was mounting evidence that the New Deal system had not achieved this integration, and further intervention by the federal state was required. Through the Great Society, Johnson sought to provide the Democratic party with an opportunity to "solidify its electoral base in the black ghettos of the North and in the poor rural areas of the South without disrupting existing New Deal ties to white ethnic political machines in the cities or the elite dominated system of the old South".<sup>114</sup>

To implement these policy ideas, President Johnson built legislative alliances in Congress and cemented public support by using the 1964 election to seek a mandate for the reform agenda. From 1964 to 1966, he received Congressional approval for the most sweeping domestic legislative package since the 1932-36 period. Johnson himself understood his project to complete the New Deal vision by expanding its definition of liberalism to include quality of life concerns and racial and class equality. Under this revamped policy model, new federal programs passed by Congress included those for

health care, anti-discrimination, environmental clean-up, skills training, community action and urban renewal.

Of course the Vietnam War, the Civil Rights struggle, and the later economic downturn severely dimmed the prospects for a revamped New Deal electoral coalition within the Great Society Democratic party. In fact, by the late 1970s, conditions were favourable for a full-scale assault on the Roosevelt-Johnson political discourse and economic policy model. Ronald Reagan campaigned in 1980 around a project that would disrupt the institutions and programs linking social groups with the Democrats.<sup>115</sup> Reagan sought to expand the Republican electoral base by using new policy ideas to realign significant political interests to the Republican party. Reagan's reforms were strategically and substantively significant. Extensive tax reductions and spending cuts compromised the network of social agencies that tied individuals and groups to the New Deal state. Deregulation in the labour market challenged the postwar accommodation between business and workers and facilitated union-avoidance. Finally, Reagan's anti-communist rhetoric and his administration's intensive military build-up, according to Benjamin Ginsberg and Martin Shefter, contributed to a basic change in political identities, transforming Roosevelt Democratic workers into Reagan Republican patriots.<sup>116</sup>

In essence, Reaganomics enabled the Republican party to adopt a new political strategy. Following a 'modus operandi' not unlike the one pioneered by President Roosevelt, Reagan became the spokesperson for an alternative policy project and his administration used economic ideas to consolidate a new political alignment. The New

Deal-Great Society Democrats found themselves on the defensive as the White House incumbent mobilized against what he labelled the special interest liberalism embedded in federal bureaucracies and congressional committees.

#### **1.4 Alternative Idea Networks and Learning Regimes**

This comparative survey has introduced a number of points about the historical relationship between economic ideas, systems of political representation and policy making at moments of crisis and change. Attention was drawn to cross-national variation in both the relevant mechanisms of collective choice and in the idea networks that generated concepts, filtered options, and selected policies, thereby structuring outcomes. In mapping such institutional configurations – in effect, the differing divisions of labour within the network among parties, interest organizations, civil servants, and experts – the discussion indicated how country-specific elite formations at the interface of state and society coped with crisis and directed change.

In Sweden, national interest groups interacted with parties to develop novel policy ideas, promoting frameworks that became the basis for political mobilization, electoral conflict, and coalition formation. The elaboration of demand management ideas was linked to (indeed, emerged from) the convergent strategic objectives of the political and industrial wings of the labour movement. Parties and interest groups in Sweden faced the crisis of the 1930s with their own Keynesian-style policy ideas conceived in relation to political strategies for organizational survival. Across the postwar period, learning has proceeded through organizational exchanges between parties and groups pursuing common

interests made visible by the injection of new ideas. The generation of frameworks within the political and industrial arms of the labour movement and their capacity to organize and sustain cross-class coalitions has been central to policy choice and change in Sweden.

By comparison, the United Kingdom presents a case of party government in understanding state strategic choice and policy innovation. The idea network was housed in the party system, and elections became sites of debate where mandates were generated. Policy learning has been driven by parties examining and adapting their ideology in light of changing conditions. The results of such internal debates then place a partisan stamp on state policy behaviour for the life of the government. Adjustments to economic crisis have been worked-out through principled conflict within and between parties over state-society relations. British parties have not embraced willy-nilly shifting policy models. Their departures have been rationalized by leaders in the context of party principles and more general analyses of the country's situation. In Britain, the competition between ideological parties rooted in specific constellations of societal interests has supplied the guideposts to the substantive evolution of the British economic policy model. At moments of crisis and change, then, the British party system "has been revealed as one of the principal sources of innovation in economic policy".<sup>117</sup>

In the United States, at moments of crisis such as the 1930s, governing projects galvanized through the presidency have aligned voting blocs into patterns of partisan loyalty linked to policy renewal. President Roosevelt moved an alternative long term solution to seemingly intractable social and economic difficulties onto the political agenda by experimenting with new economic ideas to fashion a programmatic coalition of social



groups, legislators and judges supporting his New Deal. Complementing this strategic activity centered around Congress and its committees, the president engaged a broader public offensive conducted through electoral politics where the partisan lines of division were clarified and mandates sought for policy reform as well as institutional change to government. In the United States, with its division of powers and decentralized party structures, then, presidents have used new policy ideas to forge social coalitions that receive confirmation through elections realigning party identities and support bases.

British parties, American presidents and Swedish labour movements, of course, have been constrained in their ambitions and often limited in their achievements. Strategic choice is complex and risky. Innovation is difficult. Nonetheless each of these political actors has been responsible for bringing new economic policy ideas into political life, and mobilizing the support necessary to translate vision into policy and program. They organized the critical debates in the political system that created from the wreckage of the Depression innovative economic policy models that would shape the postwar era. At later moments of uncertainty when the search for new directions was engaged, the economic thought and strategic behaviour of British parties, Swedish interest organizations, and American Presidents mattered most in their respective political systems

The innovations common to the United Kingdom, the United States, and Sweden were created and carried out by different political actors moving within system-specific networks of discourse construction and interest representation. In each case, the crystallization of new economic ideas triggered and shaped nationally-specific processes of political and administrative adjustment. The result was the formation of distinctive

national policy models and styles of economic governance across the postwar period.<sup>118</sup>

Such cross-national variation suggests the embedding of relatively durable institutional centers of “organizational intelligence” in each political system. Each political system has evolved characteristic ways of generating, debating and confirming new domestic policy understandings in response to significant international economic change. These different modes of policy innovation and patterns of postwar economic governance suggest that there is no single division of labour between political forces mobilized to shape the orientations and perceptions of policy makers in capitalist democracies. The concept of the idea network joining state and society accommodates such institutional-political variation, and reveals the workings of particular regimes of policy learning which persist for certain periods of time within nations.

The final section of this chapter introduces the Canadian case into the comparative framework. It prepares the ground for the main historical analysis by reviewing the key literature on the Canadian political system, state-society relations, and policy innovation. Significantly, this literature makes few constructive references to the principal actors in the Swedish, British and American stories – interest organizations, political parties, and politicians. Evidently, Canada has evolved another process for generating ideas, defining options, making choices and mobilizing support for change. Describing that process and better understanding its essential workings is this study’s main challenge.

## 1.5 Situating Canada<sup>119</sup>

Canada emerged from the formative period of national development a fragmented and dispersed political community. Salient organizational features included parochial forms of group formation and collective action in civil society corresponding to a divided constitutional structure, regionalized economy, and ethnic-cultural dualism. The national party system was dominated by basically indistinguishable cadre factions stitching together ad hoc electoral alliances disconnected from enduring policy principles or programmatic commitments. Dispensing government largesse and patronage appointments, party leaders cultivated personal loyalties in local constituencies to secure their electoral base. By the early twentieth century the “Liberal party as well as the Conservative party” F.H. Underhill remarked “ceased to stand for anything in particular”.<sup>120</sup>

In Canada, regular channels of liberal democratic representation and policy formation remained underdeveloped as first Conservative and then Liberal Prime Ministers, without deep roots or broad presence in civil society, engineered quasi-public ‘nation-building deals’ with business elites and provincial officials. Many critical political functions involved in consolidating the nation were given over to a federal bureaucracy coordinating immigration, transportation, and tariff policies. The federal Department of the Interior, for example, was “handed a political mandate” in the 1870s that was “crucial in formulating and executing the policies of ‘defensive expansionism’”.<sup>121</sup>

This logic of political development left in place a particular template for 20th century economic policy making. Canada entered the modern era with a peculiarly ‘statist’ institutional-political configuration: weakly organized societal interests and limited forms

of party organization and competition were offset by the "energizing agency" of the federal bureaucracy which assumed important developmental tasks.<sup>122</sup> However, Canada's divided and patronage-ridden state structure did not possess the expertise and resources necessary to command the economy and penetrate society's institutions. In contrast to the 'strong state' planning traditions that developed in continental Europe, in post-Confederation Canada a "professional civil service was slow to develop ... in its place was favoured a small, patronage-based service which could be supplemented, when expertise was required, by royal commissions or, if the expertise was needed on a permanent basis, by the creation of Crown corporations".<sup>123</sup>

The legacy of this developmental history has been evident in the consolidation of Canada's distinctive brokerage political system, manifest in the structure and functioning of parties and interest groups. Canadian brokerage parties have organizational features and practices that differentiate them from their counterparts in the other capitalist democracies we surveyed above.<sup>124</sup> Lacking systematic, historically evolved connections to particular social groups, they do not develop coherent world views that nurture electoral coalitions and frame policy choices. Brokerage parties are given to re-inventing support coalitions and issue profiles at each election. Party competition revolves around packaging the leader as the personality most able to balance the range of interests and opinion in the country.

This balancing act, it has been argued, would be impossible if encumbered by coherent ideas and enduring policy vision. Social cleavages and ideological differences that become the basis for policy-oriented mobilization in other countries are obscured in Canada. As H. Clarke et al. write: "Rather than following through on the logic of stances

adopted in the past, brokerage parties practise inconsistency as they search for electorally successful formulae, or respond to new versions of old problems".<sup>125</sup> In organizational terms, brokerage parties are dominated by their leaders, and more specifically their leaders' personality or character. Such parties do not develop the capacity for substantive policy formulation. Their thought and strategy is not meaningfully informed by extra-parliamentary networks or professional research staffs. There is no organizational structure for monitoring evolution of the party's ideological heritage or the relationship between party policy and coalition possibilities among societal actors.

The persistence of brokerage organization and practices in Canada has been accounted for in two basic ways. First, there is the traditional view that the fragmented polity with its many cleavages has forced parties to the center of the political spectrum in search of majorities.<sup>126</sup> To embrace coherent ideas about state-economy relations would not only jeopardize the balance of regional, ethnic and cultural concerns but might also lead to the disintegration of the nation. The second line of explanation for the brokerage regime focuses on class interests, as reflected in the choices about what is relevant for political debate made by bourgeois party notables financed and supported by capitalists who benefit from the obfuscation of economic divisions.<sup>127</sup> Regardless of which account is preferred, the central fact remains that class differences and the economic projects historically associated with them have not provided the basis for public policy debate and partisan mobilization in Canada.

Moreover, this analysis of party behaviour in the brokerage system is complemented by research on interest groups and the organization of civil society in

modern Canada. Here, writers have highlighted the decentralized and fragmented structure of representation associated with key economic interests in the policy making process.

About the business community, W. Coleman has written:

The system of business associations in Canada is highly fragmented, consisting of many small, narrowly focused organizations. Further, these groups are isolated one from the other. There are no "peak" associations to integrate these associations or look to the longer-term evolution of the economy. ... Lacking encompassing, integrated peak associations, the business community in Canada is unlikely to view its place in the larger context of society as a whole. Rather its views tend to be more narrow and tied to a particular sector or even an individual firm. There exists little capacity for speaking with representatives of workers, farmers, and consumers in a sustained dialogue about the overall needs and objectives of all Canadians.<sup>128</sup>

This pattern of fragmentation inhibiting the building and maintenance of consensus on broad policy matters on the business side has been matched in regards to labour's organizational capacity. According to L. Panitch, Canadian labour's main representational vehicle, the Canadian Labour Congress:

is a highly decentralized body, with little effective power over its affiliates, and without a role in collective bargaining. Even its information, research, service, and political role is divided, along the lines of the Canadian state ... All these factors have made business and the state ... dubious about the value of great efforts or policy compromises in order to incorporate the CLC in state policy, in the absence of any clear evidence that it could restrain its affiliated unions.<sup>129</sup>

Thus, Canadian workers and employers created representative associations with little capacity for participation in the various stages of the policy process, ranging from early consultation around basic goals to implementation of specific programs. Business and labour, historically, have not developed the expertise nor created the centralized decision making mechanisms that would permit them to speak authoritatively and

coherently on longer term national directions. It follows that economic interest groups have entered the political system not as bearers of innovative policy ideas, but as lobbyists for particular constituencies on an issue-by-issue basis. Given the policy weaknesses of governing parties, it is also natural that these interests would seek recognition for their interests from bureaucratic officials rather than political leaders. The weakness of interest groups undermines prospects for bi-partite negotiation of policy direction, implemented through exchange relationships with parties clarifying choices to the electorate. Paul Pross has concluded "in terms of practice and of ideology Canada has followed a path that is far removed from corporatism".<sup>130</sup>

Successive generations of scholars have discussed the implications of the brokerage system for the quality of Canadian democracy, innovative capacity, and public policy. In the 1930s, writing against the backdrop of the Great Depression, F.H. Underhill railed against Canada's "absurd" party system:

An irrepressible conflict looms up which can no longer be banished or delayed by the old formulae ... The work of the statesman would then be to mobilize those groups whose interests are thwarted ... and to consolidate their force behind a new formulation of the national interest ... the new synthesis would release new energies ... Men would still seek their own interests, but there would be more opportunity to take broad views and long views of what those interests are.<sup>131</sup>

Underhill's pleas for new policy ideas and innovative leadership from Canada's two main parties went unanswered in the 1930s. At the height of the Great Depression, the Liberals managed to establish themselves – without any internal reforms or policy commitments – as the party of government. A later student of electoral behaviour, P. Regenstreif, elaborated on Underhill's polemic. As regards economic ideas and ideology,

Regenstrief observed that the Liberal leadership of the mid-century "was neither of the "right" or "left":

It had simply been governmental or managerial. In other words the Liberal party had so successfully encamped itself at the centre of the Canadian political spectrum that it removed most political issues from the realm of ideology and placed them in the province of "administration" ... the party played the role, not of an innovator, but of a "governor" or administrator.<sup>132</sup>

The observations of Underhill and Regenstrief were incorporated into the sweeping critique of brokerage politics and administrative politicians launched in the 1960s by the so-called creative politics school.<sup>133</sup> The failure of the Canadian political system to lead and organize change in the face of "dysfunctional historical arrangements" had exacted a high social cost.<sup>134</sup> The country's progressive impulses were politically irrelevant leaving Canadian society immobile, static, and dull and without the capacity to acknowledge, much less challenge inequities of wealth and power. Indeed, such issues were barred from the public agenda by parties and politicians preoccupied with managing the rolling compromises perceived as necessary for regional balance and cultural equilibrium. Meaningful discussion of economic policy strategies and trade-offs occurred in institutional settings beyond parties and voters.

This line of analysis finds its most mature theoretical and empirical expression in *Absent Mandate*, a multi-authored study of Canadian voting behaviour, political representation, and public policy focusing on the elections of the 1970s and 1980s.<sup>135</sup> These writers draw out the full consequences of brokerage politics. The party system lacks the capacity 'to think long term' about public issues.<sup>136</sup> Lacking the internal resources to analyse problems and generate solutions, parties also have no reliable support



base to call on in support of innovative or longer term reform projects. Voters conditioned to responding to the inconsistency, often dramatic policy reversals, of parties, become extremely flexible in their attachments. Citizens become spectators in their country's policy development process: between elections brokerage parties limit opportunities for participation, and during elections they send vague, opportunistic messages.

The result is that economic governance proceeds without the meaningful citizen-state dialogue provided in political systems where policy commitments underpin mandates that become the basis for subsequent voter judgements. In terms of the political system's policy capacity, the absence of policy mandates and the failure of elections to debate solutions and register strategic choices, undermines the ability of leaders to mobilize support for change and translate ideas into action even during periods of great economic stress and societal unrest. All of these factors have combined in Canada to produce "a virtual displacement of policy innovation from the party system" to "arenas constitutionally isolated and protected from electoral politics".<sup>137</sup>

In sum, three generations of scholarly commentary have analyzed the representational gaps and policy deficiencies of the brokerage political system. Given the absence of ideological party government as in Britain, corporatist political exchange as in Sweden, or executive-centered realignment as in the United States, we are left with the question of how Canada has dealt with the policy challenges posed by the modern era's economic flux and uncertainty. In analyzing interwar and postwar shifts within Canada's National Policy tradition, this study asks how the interplay between new economic ideas and policy formation has been organized in the political system. Each generation of the

above cited brokerage critics alludes to the federal bureaucracy as the creative wellspring of the economic policy making process. Some analysts of the postwar policy era, such as G. Williams, R. Whitaker, and R. French have provided more detailed discussion of particular aspects of the political executive's dependence on the civil service for policy support and ministerial talent.<sup>138</sup> However, the institutional-political processes of economic idea generation and dissemination that have organized policy innovation in modern Canada remain substantially unexplored.

In this study, therefore, we take our cue from the brokerage critics and build on the departures of policy analysts to explore more completely the process of strategic economic policy choice and innovation in postwar federal politics. Chapter Two begins the analysis with the interwar and wartime watershed associated the Keynesian revolution. Chapter Three considers changes occurring in the decade from 1955 to 1965 when the postwar settlement was first re-examined in light of changing international conditions and domestic demands. Chapter Four tracks this debate into the 1970s as alternative post-Keynesian projects were developed and considered. Finally, Chapter Five examines the 1980s, a decade of decision when inconclusive debates from earlier decades found resolution in the confirmation of a new national policy model that restructured relations between state and society and Canada's position in the international economy. The concluding chapter returns to the theoretical and comparative arguments about cross-national variation in the settings organizing policy thought and the actors driving change in periods of great uncertainty.

## Notes

1. K. Sikkink, Ideas and Institutions (Ithaca: Cornell University Press, 1991), pp. 25-26.
2. R. Bendix, Force, Fate and Freedom (Berkeley: U. of California Press, 1984), p. 75. In similar terms, Max Weber wrote:

Not ideas, but material and ideal interests directly govern human conduct. Yet very frequently, the 'world images' that have been created by 'ideas' have like switchmen, determined the tracks along which action has been pushed by the dynamics of interests.

H. Gerth and C.W. Mills, eds., From Max Weber: Essays in Sociology (New York: Oxford University Press, 1964), pp. 63-64.

In a Canadian context, former advisor to Prime Minister Pierre Trudeau, Thomas Axworthy, offered an insightful observation about ideas and politics:

Politics is a never-ending process of satisfying your supporters, disengaging the supporters of your opponents and attracting the un-interested. The ideas which drive policy must somehow connect with the public. Thus, communicating the values inherent in a policy directive is just as important as writing a bill. Building a coalition to organize around an idea is just as important as passing a law.

See T. Axworthy, "The Essentials of Strategic Policy Making," in P. Fox and G. White, eds., Politics: Canada (7th ed; Toronto: McGraw-Hill Ryerson, 1991), p. 491. This dissertation argues that Axworthy's argument does not reflect the workings of the Canadian political system in regards to economic policy making in the period 1930-1990.

3. Sikkink, Ideas, p. 6.
4. Former Prime Minister Joe Clark once remarked about Canada: "The nation is defined on the turf of its administrators." See J. Clark, "A Prime Minister's View of the Office," in P. Fox and G. White, eds., Politics: Canada (6th ed.; Toronto: McGraw-Hill Ryerson, 1987), p. 469.
5. This section draws on recent works highlighting organizational and ideational factors in politics. See in particular: J. Jenson, "Gender and Reproduction: Or, Babies and the State," Studies in Political Economy 20 (Summer, 1986) and J. Jenson, "All the world's a stage: Ideas, Spaces, and Times," Studies in Political Economy 36 (Fall, 1991); Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," Comparative Politics (April, 1993); Peter A. Hall, Governing the Economy (New York: Oxford University Press, 1986); Sikkink, Ideas, especially Chapter 1; M. Atkinson, ed., Governing Canada: Institutions and Public Policy, (Toronto: HBJ, 1993) especially pp. 17-46.
6. There is a voluminous literature on Marxist state theory. The fundamental issues are covered in the famous debate between N. Poulantzas and R. Miliband. See N. Poulantzas, "The Problem of the Capitalist State," New Left Review 58 pp. 67-68; R. Miliband "The Capitalist State: Reply to Nicos Poulantzas" New Left Review 59, and R. Miliband, "Poulantzas and the Capitalist State," New Left Review 82.

7. The most sophisticated and challenging presentation of this class argument remains R. Mahon, The Politics of Industrial Restructuring (Toronto: University of Toronto Press, 1984).
8. For a concise and influential statement of this position see T. Skocpol, D. Reueschemeyer, and P. Evans, eds., Bringing the State Back In (New York: Cambridge University Press, 1985), especially Chapter 1. Original contributions include: S. Krasner, Defending the National Interest (Princeton: Princeton University Press, 1980); E. Nordlinger, On the Autonomy of the Democratic State (Cambridge: Harvard University Press, 1981); A. Cairns, "Governments and Societies of Canadian Federalism," reprinted in D.E. Williams, ed., Constitution, Government, and Society (Toronto: McClelland and Stewart, 1988).
9. See S. Krasner, "Approaches to the State: Alternative Conceptions and Historical Dynamics," Comparative Politics 16:2, pp. 223-246; M. Weir and T. Skocpol, "State Structures and the Possibilities for "Keynesian" Responses to the Great Depression in Sweden, Britain, and the United States," in Evans, Reueschemeyer, and Skocpol, eds., Bringing the State Back In, pp. 107-163.
10. For an application of the rational actor approach to the politics of economic policy making see M. Trebilcock, The Political Economy of Economic Adjustment (Toronto: University of Toronto Press, 1985).
11. Sikkink Ideas, pp. 16-17. Along with Sikkink, I have found I. Katznelson, "Rethinking the Silences of social and economic policy," Political Science Quarterly 101 (1986), to provide insightful commentary on the limits of rational actor political theory.
12. Of course, the claim that neo-marxist and statist theories operate with a dualistic conception of state and society is open to debate. For example, see the interpretation of neo-marxism offered in Bob Jessop, Marxist Theory and Political Strategy, (London: Macmillan, 1985), Chapters 7, 12.
13. Peter A. Hall, ed., The Political Power of Economic Ideas (Princeton: Princeton U. Press, 1989), p. 380.
14. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," p. 290.
15. *Ibid.*, p. 289.
16. Of course, theoretical concern with ideas is not entirely novel. Much work has been done from the cultural values perspective, deducing explanations for state action from the mix of values and beliefs 'congealing' in societies. National variations in policy approach are traced to the presence (or absence) of particular ideological traditions which provide fixed reference points about the role of government in the economy and society. See G. Horowitz, Canadian Labour in Politics (Toronto: University of Toronto Press, 1968) especially Chapter 1; L. Hartz, The Liberal Tradition in America (San Diego: HBJ, 1955).

We believe that this approach to the political power of ideas relies on overly 'top-down' arguments about the primacy of culture (or the ideological imposition of consent). Insufficient attention is paid to the concrete historical contexts and institutional settings where such influential world-views are generated and disseminated. Accordingly any argument about the role of ideas in policy innovation remains substantially undeveloped. In their conclusion to Bringing the State Back In, Evans, Rueschemeyer, and Skocpol make the point:

Investigations of these basic questions would tell us a great deal about how variously structured and situated national states, and the intellectual and social groups associated with their policy-making processes, create, appropriate, and rework transnationally visible economic doctrines and associated institutional practices (such as planning agencies or statistical capacities or norms for dealing with multinational corporations). We may expect to learn more about the "fit," or lack thereof, between given economic doctrines and particular kinds of state structures and state capacities for monitoring and intervening in economic processes. And we should learn about the political and social networks through which economic ideas and practices are, or are not, transmitted and reworked.

See Evans, Rueschemeyer, and Skocpol, Bringing the State Back In, p. 358.

17. Sikkink, Ideas, pp. 25-26.
18. J. Pekkarinen, "Keynesianism and the Scandinavian Models of Economic Policy," in Hall, ed., Political Power, pp. 311-347.
19. *Ibid.*, pp. 312-313.
20. This usage of the economic policy model can be related to the Canadian intellectual tradition analysing successive National Policies. For representative works see Donald Smiley, The Federal Condition in Canada (Toronto: McGraw-Hill, 1986); J. Brodie, The Political Economy of Canadian Regionalism (Toronto: Harcourt Brace Janovich, 1990); L. Eden and M. A. Molot, "Canada's National Policies: Reflections on 125 Years," Canadian Public Policy (September, 1993), pp. 232-252.
21. For an insightful discussion of ideas in particular institutional-political settings see George Ross, "Adieu aux vieilles idées," in G. Ross, ed., Contemporary France (London: Frances Pinter, 1987).
22. Hall, Governing the Economy, pp. 232-234. Our use of "organizational intelligence" is somewhat different from Hall's original formulation. Hall emphasizes how organization shapes interests and mediates policy design and implementation. In this dissertation, organizational intelligence refers to policy ideas and ideologies – generated and disseminated within historically-evolved institutional settings – which shape the definition of interests and strategic choice. Hall's institutionalism reveals much about the constraining dimensions of organizational life while our approach focuses more attention on the creative capacities of political systems.
23. *Ibid.*, p. 233.
24. J. Pekkarinen, "Keynesianism and the Scandinavian Models," p. 315.
25. See P. Gourevitch, "Keynesian Politics: The Political Sources of Economic Policy Choices" in Hall, ed., Political Power, pp. 87-106; A. Hirschman, "How the Keynesian Revolution Was Exported from the United States, and Other Comments," in Hall, ed., Political Power, pp. 347-361.
26. J. Myles, "Introduction: Understanding Canada: comparative political economy perspectives," Canadian Review of Sociology and Anthropology (Winter, 1989); C. Tilly, Big Structures, Large Processes, Huge Comparisons (New York: Russell Sage Foundation, 1984) especially Chapter Five. See also D. Ashford, ed., Comparing Public Policies (Beverly Hills: Sage, 1978), Chapter 1. Ashford argues that to "increase our ability to make general statements about institutional

interaction in democracies", economic policy analysis need

not focus on finding out why growth occurs or who benefits from it. These are important, but secondary questions in relation to the problem of how each country tends to solve problems in characteristic ways.

... substitutability refers to the general question of how states often appear to be doing the same thing, but how, on closer examination, they appear to be doing it in very different ways.

See Ashford ed., Comparing Public Policies, p. 87.

27. R. Bendix quoted in Tilly, Big Structures, p. 92. See also V. Bonnell, "The Uses of Theory, Concepts and Comparison in Historical Sociology," Society for Comparative Study of Society and History (1980), pp. 156-173.
28. S. Berger, ed., Organizing Interests in Western Europe (New York: Cambridge University Press, 1986), pp. 1-23.
29. Background information for the Swedish case has been drawn from a variety of sources, including the following key texts: A. Martin "Trade Unions in Sweden," in P. Gourevitch et al., eds., Unions and Economic Crisis (London: Allen & Unwin, 1984); J. Pontusson, "Sweden," in J. Krieger et al., eds., European Politics in Transition (Lexington: Heath, 1987); T. Tilton, The Political Theory of Swedish Social Democracy (Oxford: Oxford University Press, 1990); O. Ruin, Tage Erlander: Serving the Welfare State, 1946-1969 (Pittsburgh: University of Pittsburgh Press, 1990).
30. G. Therborn, "'Pillarization' and 'Popular Movements'," in F. Castles, ed., The Comparative History of Public Policy (Cambridge: Polity Press, 1989), p. 201.
31. S. Lash and J. Urry, The End of Organized Capitalism (Cambridge: Polity Press, 1987), p. 35.
32. N. Elder, Government in Sweden: The Executive at Work (Oxford: Pergamon Press, 1970), pp. 103-104.
33. B. Rothstein, "The Roots of Swedish Corporatism," (Uppsala: Department of Government, University of Uppsala, 1989), p. 28.
34. H. Heclø and H. Madsen, Policy and Politics in Sweden (Philadelphia: Temple University Press, 1987), p. 40. See also V. Pestoff, "The Swedish Organizational Community and its Participation in Public-Policy Making," (Stockholm: Research Report #6, The Associative Action of Swedish Business Interests, 1983) pp. 41-45. Interestingly, Gunnar Myrdal, the Swedish Social Democratic Minister and policy intellectual, was invited to appear before the Rowell-Sirois Commission in 1938. In his testimony, Myrdal noted how the commission process in Sweden had been used by the Social Democratic government to organize and confirm support among opposition parties and groups for its policies. See Hearings Rowell-Sirois Commission, pp. 9146-9147.
35. See Lash and Urry, End of Organized Capitalism, passim.
36. Martin, "Trade Unionism in Sweden," pp. 193-203.
37. W. Higgins, "Ernst Wigforss: The Renewal of Social Democratic Theory and Practice," Political Power and Social Theory 5, pp. 215-216.

38. M. Hamilton, Democratic Socialism in Britain and Sweden (New York: St. Martin's Press, 1989), pp. 166-168.
39. G. Myrdal, Against the Stream (New York: Pantheon Books, 1973).
40. This capacity to mobilize support in the 'private' world of organized economic interests and in the 'public' world of elections was the key to the remarkable political success and policy achievements of the postwar Swedish Social Democrats. For an elaboration of the nature and limits of this governing project see G. Esping-Andersen, Politics Against Markets (Princeton: Princeton University Press, 1985). For insights into the project and process from one of the principal actors, Tage Erlander, see Ruin, Tage Erlander, especially Chapters 7 and 9.
41. Tilton, Swedish Social Democracy, p. 139.
42. *Ibid.*, especially Chapter 4.
43. See B. Rothstein, "Managing the Welfare State: Lessons from Gustav Moller," Scandinavian Political Studies 13 (1985).
44. Heclø and Madsen, Politics and Policy in Sweden, p. 48.
45. See P. Swenson, Fair Shares: Union, Pay and Politics in Sweden and West Germany (Ithaca: Cornell University Press, 1989), pp. 48-49.
46. Pontusson, "Sweden," pp. 471-493.
47. J. Pontusson, "Swedish Social Democracy and British Labour: Essays on the Nature and Condition of Social Democratic Hegemony," Western Societies Program Occasional Paper 19, Cornell University (1988), Chapters 2,3.
48. Esping-Andersen, Politics Against Markets, pp. 106-114.
49. P. Gourevitch et al., eds., Unions and Economic Crisis, p. 365.
50. See J. Pontusson, Public Pension Funds and the Politics of Capital Formation in Sweden (Stockholm: Swedish Center for Working Life, 1984).
51. For discussions of the labour movement's current challenges see R. Mahon, "From Solidaristic Wages to Solidaristic Work: A Post-Fordist Historic Compromise for Sweden?" Economic and Industrial Democracy 12:3 (1991); A. Martin, "Wage Bargaining and Swedish Politics: The Political Implications of the End of Central Negotiations," paper prepared for the Swedish Power Commission, 1991.
52. See M. Harrop, "The United Kingdom," in M. Harrop, ed., Power and Policy in Liberal Democracies (Cambridge: Cambridge University Press, 1992), pp. 71-95.
53. S. Beer, The British Political System (New York: Random, 1974), pp. 140-152.
54. P. Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press, 1986), p. 81.

55. A. Gamble and S. Walkland, The British Party System and Economic Policy (London: Oxford University Press, 1984), p. 9.
56. C. Leys, "Thatcherism and British Manufacturing," New Left Review 151, pp. 5-21.
57. Gamble and Walkland, British Party System, p. 12.
58. L. Minkin, The Labour Party Conference (Manchester: Manchester University Press, 1980), p. 3.
59. Beer, The British Political System, *passim*.
60. The following treatment of the British case draws on a number of authoritative sources, including: Hall, Governing the Economy; J. Krieger, "Britain," in J. Krieger, et al., eds., European Politics in Transition; C. Leys, Politics in Britain (London: NLB, 1988); M. Weir, "Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States," in Hall, ed., Political Power; and the various writings of Samuel Beer, principally Modern British Politics (New York: W.W. Norton & Co., 1982) and The British Political System.
61. Hall, Governing the Economy, p. 49.
62. E. Durbin, New Jerusalem (London: Routledge & Kegan Paul, 1985), pp. 47, 53.
63. Gourevitch, Politics in Hard Times, pp. 137-138; A. Booth, British Economic Policy, 1931-49 (London: Harvester Wheatsheaf, 1989), p. 39.
64. Booth, British Economic Policy, pp. 31-33.
65. P. Addison, The Road to 1945 (London: Jonathan Cape, 1975), pp. 26-32.
66. Durbin, New Jerusalem, pp. 74-115.
67. Minkin, Labour Party Conference, pp. 17-21.
68. Booth, British Economic Policy, p. 162; Gamble and Walkland, British Party System, pp. 57-60.
69. Weir, "Ideas and Politics," p. 67.
70. Gamble and Walkland, British Party System, p. 45.
71. *Ibid.*, pp. 58-60.
72. Beer, Modern British Politics, pp. 179-187.
73. *Ibid.*, p. 192.
74. *Ibid.*, pp. 196-200.
75. S. Ingle, The British Party System (London: Basil Blackwell, 1987), pp. 38-40; Beer, Modern British Politics, pp. 302-317.
76. Gamble and Walkland, British Party System, p. 63.



77. Beer, Modern British Politics, pp. 220-221.
78. Minkin, Labour Party Conference, pp. 273-278.
79. Beer, The British Political System, p. 177.
80. Hall, Governing the Economy, pp. 85-99.
81. Krieger, "Britain," pp. 111-112.
82. P. Hall, "Policy Paradigms, Experts, and the State," in A. Gagnon and S. Brooks, eds., Social Scientists, Policy, and the State (New York: Praeger, 1990), pp. 68-71.
83. Krieger, "Britain," pp. 104-124.
84. See R. Hague, "The United States" in Harrop, ed. Power and Policy, for a survey of the American tradition. Also M. Weir, A. Orloff, and T. Skocpol, eds., The Politics of Social Policy in the United States (Princeton: Princeton University Press, 1988), especially Chapter 1 "Introduction: Understanding American Social Politics", pp. 3-37.
85. W. Forbath, Law and the Shaping of the American Labor Movement (Cambridge: Harvard University Press, 1991), especially Chapter 1, pp. 10-37.
86. T. Skocpol, "Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal," Politics and Society 10 (1980), p. 174.
87. *Ibid.*, p. 27.
88. S. Skowronek, Building a New American State (Princeton: Princeton University Press, 1982), p. 24.
89. See I. Katznelson, "Working-Class Formation and the State," in Evans, Reueschemeyer, and Skocpol, eds., Bringing the State Back In, pp. 257-285; M. Shefter, "Party and Patronage," Politics and Society 7 (1977), pp. 404-45; Weir, Orloff, and Skocpol, eds., Politics of Social Policy, p. 21.
90. Weir, Orloff, and Skocpol, eds., Politics of Social Policy, p. 22.
91. Hague, "The United States," p. 101. Our general interpretation of the American case relies on the work of a variety of influential writers, including: E.C. Hargrove and M. Nelson, Presidents, Politics and Policy (Baltimore: Johns Hopkins Press, 1984); S. Milkis, "The Presidency, Policy Reform, and the Rise of Administrative Politics," in S. Milkis and R. Harris, eds., Reforming American Politics (New York: Westview Press, 1989) pp. 146-187; S. Skowronek, "Presidential Leadership in Political Time," in M. Nelson, ed., The Presidency and the Political System (3rd ed; Washington: Congressional Quarterly, 1990); W. D. Burnham, Critical Elections and the Mainsprings of American Politics (New York: Norton, 1970).
92. Hargrove and Nelson, Presidents, p. 67.
93. F. Roosevelt quoted in "Thinking About Tomorrow: The Clinton Era Begins," in U.S. News & World Report November 16, 1992.

94. Gourevitch, Politics in Hard Times, p. 148.
95. Hargrove and Nelson, Presidents, p. 70.
96. Ibid.
97. Skowronek, "Presidential Leadership in Political Time," p. 121.
98. Skocpol, "Political Response to Capitalist Crisis," p. 175.
99. Rexford Tugwell, The Enlargement of the Presidency (New York: Doubleday, 1960) p. 431.
100. A. Orloff, "The Political Origins of America's Belated Welfare State," in Weir, Orloff and Skocpol, eds., Politics of Social Policy, pp. 69-76.
101. Hargrove and Nelson, Presidents, p. 94.
102. M. Weir and T. Skocpol, "State Structures and the Possibilities for "Keynesian" Responses," in Evans, Reuschmeyer, and Skocpol, eds., Bringing the State Back In, especially pp. 134-137.
103. Tugwell, Enlargement of the Presidency, p. 417.
104. Ibid., pp. 395-396.
105. S. Milkis, "The Presidency, Policy Reform, and the Rise of Administrative Politics," in Milkis and Harris, eds., Reforming American Politics, pp. 149-155.
106. New York Times, 15 November, 1992.
107. M. Weir, "The Federal Government and Unemployment: The Frustration of Policy Innovation from the New Deal to the Great Society," in Weir, Orloff and Skocpol, eds., Politics of Social Policy, p. 164.
108. S. Hess, Organizing the Presidency (Washington: The Brookings Institute, 1976), p. 38.
109. Weir and Skocpol, "State Structures and the Possibilities for "Keynesian" Responses," p. 138.
110. See N. Lichtenstein, "From Corporatism to Collective Bargaining," in S. Fraser and G. Gerstle, eds., The Rise and Fall of the New Deal Order, 1930-1980 (Princeton: Princeton University Press, 1989), pp. 122-153; M. Weir, "The Federal Government and Unemployment," in Weir, Orloff, and Skocpol, eds., Politics of Social Policy.
111. Burnham, Critical Elections, pp. 9-10.
112. P. Regensterf, The Diefenbaker Interlude (Toronto: Longmans, 1965), p. 17.
113. Milkis, "The Presidency, Policy Reform, and the Rise of Administrative Politics," pp. 155-162; Hargrove and Nelson, Presidents, pp. 73-74, 111.
114. Ira Katznelson, "Was the Great Society a Lost Opportunity?" in Fraser and Gerstle, eds., The Rise and Fall of the New Deal Order, p. 203.

115. B. Ginsberg and M. Shefter, "The Presidency, Interest Groups and Social Forces: Creating a Republican Coalition," in Hargrove and Nelson, eds., Presidents, pp. 335-352.
116. *Ibid.*, pp. 339-348.
117. Hall, Governing the Economy, p. 274.
118. It also follows that the most prominent policy intellectuals in each country have been located in different institutional settings. In Sweden, an idea network in the labour movement enabled figures such as E. Wigforss, G. Myrdal, G. Rehn, and R. Meidner to achieve national, and indeed, international influence for their economic thought. In Britain, the party system became the base for the idea network and numerous experts entered that system to influence public policy. From the Labour Party the list of key intellectuals includes H. Dalton, A. Bevan, A. Crosland, and A. Benn. On the Conservative side influential thinkers who entered the partisan fray include R. Butler, E. Powell, and K. Joseph. Of course, the British Liberals counted among their numbers two of the greatest economic policy intellectuals of the twentieth century -- J. M. Keynes who acted as an advisor, and W. Beveridge who was a candidate for election. In the United States, similarly influential policy intellectuals have worked through the political executive as part of Presidential advisory teams. The most famous example of this pattern is Franklin D. Roosevelt's New Deal "brain trust". In the 1960s, economists and sociologists were recruited to staff the numerous White House task forces appointed to implement the Kennedy-Johnson "War on Poverty" and "Great Society" programs. Also noteworthy is the recent appointments by President Clinton of two renowned policy intellectuals to his inner circle -- Robert Reich as Labor Secretary and Ira Magaziner as a senior domestic policy advisor.

In Canada, we will make the case that a techno-bureaucratic idea network has been supported by the use of royal commissions which second the expertise of policy intellectuals. The products of these commissions have framed state policy strategies, and non-partisan experts exercise substantial influence through state inquiries and councils quite separate from regular party and interest group politics.

119. It should be emphasized that our analysis of Canada considers only federal politics. At the provincial level, there are cases of policy innovation that would probably correspond with patterns we have observed in Sweden, Britain, and the United States. Relevant examples would include Saskatchewan in the 1940s and 1950s under the Co-operative Commonwealth Federation government, and Quebec in the 1960s and 1970s under both Liberal and Partic Quebecois governments.
120. F. Underhill, "The Party System in Canada," in F. Underhill, In Search of Canadian Liberalism (Toronto: Macmillan Co., 1975), p. 165.
121. V. Wilson and O.P. Dwivedi, eds., The Administrative State in Canada (Toronto: University of Toronto Press, 1982), p. 9.
122. David Smith, "Party Government, Representation and National Integration," in P. Aucoin, ed., Party Government and Regional Representation in Canada, (Toronto: University of Toronto Press, 1985), p. 16.
123. *Ibid.*, p. 13.

124. This discussion follows the argument found in H. Clarke et al., Absent Mandate (2nd ed.; Toronto: Gage, 1991), especially Chapter 1, pp. 1-25. See also G. Horowitz, "Toward the Democratic Class Struggle," in T. Lloyd and J. McLeod, eds., Agenda 1970 (Toronto: University of Toronto Press, 1968).
125. Clarke et al., Absent Mandate, pp. 9-10.
126. For the classic brokerage statements see J. A. Corry, Democratic Government and Politics (Toronto: University of Toronto Press, 1946); R. M. Dawson, The Government of Canada (Toronto: University of Toronto Press, 1948).
127. J. Brodie and J. Jenson, Crisis, Challenge and Change (Ottawa: Carleton University Press, 1988).
128. W. Coleman, Business and Politics (Kingston: McGill-Queen's Press, 1988), p. 6.
129. Leo Panitch, "Corporatism in Canada?" in R. Schultz, J. Terry, and O. Khurak, eds., The Canadian Political Process (Toronto: Holt, Rinehart and Winston, 1980), p. 68.
130. P. Pross, Group Politics and Public Policy (Toronto: Oxford University Press, 1986), p. 225.
131. Underhill, "The Conception of a National Interest," in Underhill, In Search of Canadian Liberalism, p. 181.
132. Regenstrief, The Diefenbaker Interlude, pp. 20-21.
133. See J. Porter, The Vertical Mosaic (Toronto: University of Toronto, Press, 1965); Horowitz, "Toward the Democratic Class Struggle."
134. Porter, The Vertical Mosaic, p. 369.
135. Clarke et al., Absent Mandate.
136. An interesting reflection on this general feature of Canadian parties is found in J. Fayerweather, Foreign Investment in Canada (Toronto: Oxford University Press, 1974). As part of his research on foreign investment policy, Fayerweather attempted to relate government policies to party positions. He described his frustrations in carrying out this exercise:
- I directed substantial research effort to trying to identify these positions and determine their trend. This effort proved exceptionally frustrating. In part the problem lay in the heterogeneous character of the two major parties ... which makes it hard to determine anything that can be characterized as the party position at any one time. And in part it is difficult to find statements that are useful for this purpose, that have sufficient authority and comprehensiveness. There are just a few official party policy statements. Otherwise one must work from a hodgepodge of speeches by leaders, policy recommendations by party subgroups, and other material which is less than authoritative and comprehensive.
- See Fayerweather, Foreign Investment, p. 177.
137. Clarke et al., Absent Mandate, p. 13.

138. R. Whitaker, The Government Party (Toronto: University of Toronto Press, 1977). Whitaker's focus on party organization and financing limits his interest in the substance of economic policy development during the 1935-57 period of Liberal dominance. For an insightful discussion of economists and industrial policy formation see G. Williams, Not for Export (2nd ed.; Toronto: McClelland and Stewart, 1986), Chapter 7; and R. French, How Ottawa Decides (Ottawa: Canadian Institute for Economic Policy, 1980). French prefaces his study of federal economic decision making by stating that his "thesis is that a close examination of the behaviour of officials and ministers within (government) institutions will illuminate the 'public history' of the period". Our analysis of Canada's idea network certainly supports French's argument about the crucial center of economic policy action in Canada. At the same time however, we suggest that a similar focus on statist institutions in other countries such as Sweden, the United States, and the United Kingdom would not illuminate key aspects of the "public history". In those cases, the policy story must be told through the intellectual-political biographies of other institutions and actors.

See French, How Ottawa Decides, pp. ix, x.

## **CHAPTER 2**

### **The Rise of Keynesianism: 1930-1948**

#### **Introduction**

This chapter begins our study of economic idea networks and policy formulation in Canada. It traces the development of Keynesian economic management and social welfare ideas, analyzing how this conceptual apparatus overturned orthodox thought and practice about Canadian state-society relations. It examines both the intellectual content of the new policy framework and the institutional-political processes organizing Canada's passage between the eras of the First and Second National Policies. We argue that in the Depression crisis of the 1930s, state-sponsored commissions of inquiry became decisive settings for fundamental debates about the future of Canadian federalism and capitalism. Commissions acted as a 'switchpoint mechanism' for the political system when conventional channels of interest representation were unable to generate or sustain alternative projects. In Canada, the commission process acquired a significance for policy innovation reserved for parties, elections, inter-governmental conferences, or interest group bargaining in most other liberal democratic political systems.

The chapter explores the interplay between ideas and institutions in the federal governments of R.B. Bennett and Mackenzie King spanning the years 1930 to 1948. It focuses on two major commissions of policy inquiry appointed in the late 1930s: the

National Employment Commission (NEC) and the Royal Commission on Dominion-Provincial Relations (Rowell-Sirois Commission).

## 2.1 The Decline and Fall of the First National Policy

From 1900 to 1930 the Canadian political economy underwent a gradual transformation marking the end of the era associated with the National Policy of 1878. The First National Policy was a package that combined immigration, transportation and tariff measures to integrate and stimulate national economic flows, both by ensuring the movement of hinterland raw materials through central Canadian commercial networks, and by encouraging domestic manufacturing growth through tariff protection.<sup>1</sup> Following the 1867 Confederation political agreement, Prime Ministers Macdonald and Laurier engineered nation-building deals with business elites and provincial politicians to launch Canada's original economic development strategy. However, the first three decades of the twentieth century witnessed the exhaustion of the great 19th century developmental project that had been overseen by successive federal Conservative and Liberal leaders.<sup>2</sup> These years were distinguished by a rising provincialism, fuelled by social and economic change and by judicial review of Canada's original federal bargain codified in the *British North American Act* (BNA Act).

While the First World War allowed for temporary reassertion of federal dominance the broad trajectory was one of provincial ascendance in key economic and social policy concerns. To some extent, the constructive purposes of the federal government were eclipsed by legislative concerns constitutionally controlled by the provinces. New

demands for the management of minerals, the construction of highways, the provision of hydro power, the organization of labour relations, and the provision of social welfare benefits and education, steadily shifted the focus of policy attention to the provincial capitals. Accordingly, the relative significance of the provincial state to business, labour and the public at large increased as the federal presence receded.<sup>3</sup>

These socio-economic forces driving the decentralization of power within Canadian federalism were confirmed and extended through decisions handed down by the Dominion's highest court, the Judicial Committee of the Privy Council (JCPC).<sup>4</sup> In a series of judgements beginning in the 1880s, the JCPC made the BNA Act's provincial property and civil rights clauses take on greater significance than the federal government's general power over trade and commerce, and its even more open-ended responsibility for the country's peace, order and good government. Socio-economic changes had propelled the provincial state into the public policy spotlight, and legal interpretation attached constitutional authority to this new prominence. In turn, these structural and legal factors prepared the ground for an ideological-political offensive led by the Premiers of the wealthiest and largest provinces, Ontario and Quebec.

Here, provincialist claims against the federal government and the JCPC arguments were synthesized into what came to be known as the 'compact theory' of Canadian federalism and state-society relations.<sup>5</sup> The compact theory held that the BNA Act was a treaty or agreement among sovereign and equal provinces, each of which retained all those powers not specifically surrendered in the constitutional document. Federal legislative competence was thus reduced to items enumerated in specific sections and



clauses of the Act, any residual powers belonged to the provinces.

Across the 1920s, Quebec and Ontario political elites (most notably, Premiers A. Taschereau and G. Ferguson) used this reasoning to guide their various interactions with the federal government. In particular, the compact theory provided the rationale for insisting on greater provincial control over tax revenues, and on full provincial participation in any discussions with Great Britain related to amendment of the original federal bargain.<sup>6</sup>

While the compact theory was the creation of Privy Councillors and provincial politicians, it had a certain appeal for Canada's federal political leaders in the 1920s. In these years, Liberal Prime Minister Mackenzie King viewed his two political challenges to reside, first, in protecting the federal purse and, second, in placating the ambitions of the Premiers from the larger provinces comprising his government's electoral base.<sup>7</sup> What he referred to as the policy principles of "sound finance and responsible government" meshed with the basic orientation of the compact theory.<sup>8</sup> Responsible government emphasized a clear division of powers between levels of government (in effect, legitimating the expansive role for the provinces) while sound finance spoke to the concern for limited public expenditures and opposition to monetary reform.

From King's perspective, the compact theory's call for a diminished federal role in social and economic policy and a watertight division of powers outlined the basis for a reconstructed Canadian national unity beyond the legacy of the centralizing and interventionist 1878 National Policy.<sup>9</sup> The economic vision was one of limited government within a decentralized federation organized around self-regulating markets

and individual economic responsibility. These notions took hold in the 1920s as benchmarks for federal policy making. The Liberal government embraced the classical economic-constitutional objectives of balanced budgets, free trade, and direct accountability between expenditure and the revenue raising authority of different levels of government. As an emerging orthodoxy, the compact theory dictated that the role of government in Canadian society would be shaped not by new social demands or evolving understandings of state-economy relations, but by existing local and provincial fiscal capacities.

Furthermore, the compact theory identified cultural differences as the central line of conflict in the Canadian political community. In the early twentieth century this translated into a preoccupation on behalf of federal parties and politicians with finding ways to accommodate and balance the interests of the country's English and French linguistic-religious communities. Liberal and Conservative politicians competed to present themselves to the electorate as the most reliable guardians of national unity. After the first world war, the federal Liberals had secured an electoral base in Quebec, and the compact theory's decentralist and limited government precepts continued to serve the party well. As we will show below, in the 1930s this orientation to politics seriously limited the capacity of the Mackenzie King Liberals to take-up the new economic and social challenges posed by the Depression.

At the end of the '920s, it was possible to envision a new era in Canadian development quite different from the 19th century National Policy order. Its institutional-political logic reflected how legal interpretation and socio-economic change supported

provincial mobilization and permitted federal retreat in the face of emerging public policy concerns. However, the catastrophic turn of events in the early 1930s rocked the foundations of this decentralizing, laissez faire alternative to the First National Policy.

The Great Depression was especially devastating for countries such as Canada, dependent on export trade. By the late 1920s almost one third of Canada's national income was derived from export, and in particular, the movement of unprocessed raw materials to more mature industrial markets. With the sudden collapse in global demand for cereals, metals, fish and lumber, and forest products, Canada's engines of growth were stalled. The effect on the country's income levels and purchasing power was devastating. Destitute commodity producers saw their personal income cut by almost 70% within five years. From the mid 1920s to the mid 1930s, nation-wide per capita disposable income and gross national income fell by 40%; unemployment figures shot over 20% while capital investment declined by almost twice that amount.<sup>10</sup>

Furthermore, behind the remarkable country-wide statistical evidence lay a particular spatial and class configuration to the wreckage wrought by the Depression in Canada. The near total devastation visited on staple producers concentrated in western and maritime provinces stood in partial contrast to trends in central Canada where more diversified economic structures translated into more differentiated outcomes. There, industries sheltered by tariff or monopolistic leverage, fared better than both the export-dependent staple producers and activities associated with construction. Nonetheless, deprived of key domestic market consumers, leading central Canadian industries such as farm machinery and autos suffered directly, as did their major partner, the steel industry. Notwithstanding

the interregional variation in the depth of the crisis, unemployment for waged (as opposed to salaried) workers soared to unprecedented levels in urban-industrial Canada.<sup>11</sup>

The collapse in global trade created destitute farmers, unemployed workers, and business bankruptcies, imposing tremendous burdens on provincial and municipal treasuries. While sub-national capacities to bear the costs of exploding relief demands varied across the federation, the pattern was evident: provincial governments borrowed wherever and whatever they could while municipal authorities scrambled to squeeze a stagnant real estate market for revenue. In Canada, the Depression simultaneously exposed three political-economic faultlines: the weaknesses of international capitalism, the tensions embedded in Canada's first National Policy, and the limitations of the thirty year experiment with the compact theory's vision of a new Canadian political-economic order based on the doctrines of sound finance and responsible government.

As Canada passed through the roaring twenties into the dirty thirties, intense and unfamiliar pressures were placed on the Canadian state system. Deep-seated divisions in society became rallying points for rival organizations articulating radical alternatives to the orthodoxy of responsible government and sound finance guiding the behaviour of elected federal and provincial politicians. Conditions of economic crisis triggered different forms of regional and social protest contesting the ideas and interests coalescing around the compact theory's model of federalism and capitalism. After 1930, a range of new forces calling for change began to struggle for voice and position on the national political stage. It was clear that Canadian society was entering a period of profound uncertainty and flux. Much less clear was the direction that change would follow, the key social

agents and political actors who would shape the process, or the institutional settings where alternative policy projects would be developed and debated.

In these transformations, the role of the federal government was pivotal. How would federal politicians and state managers respond to the societal crisis triggered by nationwide economic collapse? Would solutions flow from political innovation, following patterns observed in many nations where “a coalition of social groups, forged by political elites around a new set of priorities, has been the agency for a major shift in policy”?<sup>12</sup> Would Canadian political parties devise governing projects integrating new currents of economic policy thought to galvanize an alliance of societal forces behind a recovery plan? Would federal politicians forge an inter-governmental coalition to break the constitutional impasse?

These questions about political representation and policy innovation in conditions of economic crisis are explored in the remaining sections of this chapter. We begin with R. B. Bennett’s Conservative administration holding federal power from 1930 to 1935.

## **2.2 Ideas, Politics and Policy in the Bennett Years: The Limits of Orthodoxy**

Canada had a federal election in July 1930, eight months following the stockmarket crash that had announced international economic disaster. In the winter of 1929-30, evidence of mounting unemployment problems began to emerge as municipal representatives and parliamentarians from western Canada called for federal recognition of escalating pressures placed on local governments for relief payments. The King Liberal

government was unmoved. Ministers argued that the seasonal dynamics of the business and employment cycles would soon silence the regional voices of unrest, safeguarding a Liberal victory in the election planned for the summer of 1930.<sup>13</sup>

However, the Prime Minister misread both the depth and scale of the economic problems and the electorate's unease about the future. King resisted overtures from party organizers to address the deteriorating economic conditions. Some urged that he resurrect the socially-oriented policy themes contained in the 1919 Liberal Party agenda that had been effectively discarded by his government in the 1920s.<sup>14</sup> Instead, the Prime Minister campaigned defensively, demonstrating little comprehension of how the country's employment and fiscal problems were rapidly assuming proportions of a national crisis. In following this tack, Mackenzie King and the Liberals lost all momentum (and eventually the election) to the campaign of his Conservative Party rival R.B. Bennett. In August 1930, the Conservative Cabinet was sworn in to office with a solid majority in Parliament.

Throughout the campaign Bennett criticized King for his failure to confront the changing economic conditions. In making their case, the Conservatives unveiled a recovery program that focused on international trade, specifically the familiar Canadian policy instrument of the tariff. Bennett proposed a more strategic deployment of the tariff, using aggressive protectionism to bargain for preferential market access within the British Empire. Prosperity and jobs would return to Canada if the federal government could "blast a way into the markets that have been closed". The benefits from this policy, Bennett predicted, would soon restore fiscal balance to Canada's sub-national levels of

government. In the meantime, Bennett accepted that limited, short term federal financial aid to the most strapped provincial governments was necessary to prevent bankruptcy and provide a bridge to the good times generated by Conservative trade policy.<sup>15</sup>

Thus, the Conservatives devised a trade policy for the 1930 election that distinguished them from Mackenzie King's freer trade Liberals. However, on the broader domestic political economy questions raised in 1930 by the spectre of prolonged recession – questions about the modernization of Canadian federalism and the reform of capitalism – R.B. Bennett shared his opponent's abiding faith in the orthodoxy of sound finance and responsible government. From 1930 to 1933, the Conservative government grappled with the Depression through the policy mix of protectionism, ad hoc grants-in-aid to the provincial governments, and defense of the federal treasury.

In his first year in office Bennett revised manufacturing and tariff schedules upwards and used the Imperial Conference of 1931 to lobby foreign political leaders on behalf of Canadian exporters.<sup>16</sup> The *Unemployment Relief Act* was passed in 1930 which called for inter-governmental cost sharing for relief and even some public works projects. Consistent with orthodox thinking, however, the legislation made clear that these issues were provincial and municipal responsibilities. As such, the federal role would be of limited duration and financial commitment. When the 1930 Act expired in 1931, another similarly restrictive charity package was cobbled together, providing a further twelve months of emergency aid. The resulting patchwork of inadequately funded local relief and works programs was not viewed by any contemporary observers as the foundations for a co-ordinated national economic strategy designed to replace or even stimulate enfeebled

private investment.<sup>17</sup> Evidence for the view that these initial Bennett policies amounted to nothing more than groping for quick fixes anchored in orthodox thinking, was amply available from the government's Throne Speeches and Budget statements.<sup>18</sup> The former basically avoided any discussion of employment problems while the latter vigorously supported the logic of cyclical public financing where economic downturns were met with tax increases and expenditure reductions.

In fact, by 1933 the Conservatives abandoned any pretence of seeking alternatives to orthodoxy and embraced with a vengeance the doctrine of sound finance and responsible government.<sup>19</sup> Prime Minister Bennett rejected any radical approaches in the strongest of terms. He asked Canadians, increasingly desperate about their plight:

What do they offer you for dumping you in the mud? Socialism, communism, dictatorship ... And we know that throughout Canada this propaganda is being put forward by organizations from foreign lands that seek to destroy our institutions. And we ask every man and woman to put the iron heel of ruthlessness against a thing of that kind.<sup>20</sup>

With the Depression at full force, the federal government launched an austerity campaign that terminated public works spending and cut back aid to the provinces for unemployment relief. To implement and enforce this policy, the Prime Minister followed a two-track strategy. First, he convened a Dominion-Provincial Conference to inform the Premiers of his decision, announcing that he would appoint his own investigator to report on the irresponsible spending and administration of the previously available federal funds. Second, to reinforce the move to discipline the premiers, Bennett decided to extend the treatment to the victims of the economic crisis and the ineffective policies of the state. He directed the federal police force to oversee creation of labour camps for the



unemployed. Not surprisingly, by 1934 word of political confusion and policy drift began to spread from official Ottawa; it was conceded that "conditions are now operating in this country ... which we are not able to control".<sup>21</sup>

While the Bennett government remained paralyzed within the confines of its narrow policy framework, there were novel responses emerging in Canadian society to the economic collapse and constitutional impasse. By 1933, various political formations had mobilized around a range of unorthodox interpretations of the causes of the crisis. These provided the intellectual underpinnings for new policy projects questioning established views of state-economy and inter-governmental relations. Here, the basic interpretive categories were region and class with various movements mixing perspectives in distinctive packages offering alternative reconstruction projects.

The two most prominent of these movements were prairie-based rivals, the Social Credit Party (SCP) and the Cooperative Commonwealth Federation (CCF). The Social Credit Party argued that the Depression resulted from the monetary and fiscal policies of the first National Policy that had served central Canadian financial interests and strangled independent commodity producers. However, the SCP resisted any association with urban socialism or labour interests. Its reform program managed to combine a radical challenge to established principles of public finance with an equally conservative defence of private property.<sup>22</sup>

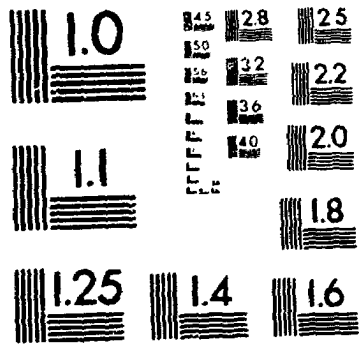
Competing against the SCP to represent independent commodity producers, within a broader alliance of societal groups dispossessed by the Depression, was the Cooperative Commonwealth Federation. The CCF traced the problems not to the inequities of

Canada's National Policy but to capitalism's basic structural relationships. Popularizing socialist categories, the CCF produced its Regina Manifesto advocating public ownership and socialized investment implemented through comprehensive, national planning coordinated by expert representatives of the exploited labour and farmer classes. The CCF's dismissal of capitalism was complemented by a scepticism about Canadian federalism as an institutional form compatible with political modernization and economic policy progress.<sup>23</sup>

Of course, the CCF and Social Credit were far from being the only entrants taking aim at the Bennett-King ideological axis of the 1930s. Other contenders mobilizing behind alternative projects included: the Liberal provincial government in British Columbia which attempted to institute a Roosevelt-style New Deal program of 'work and wages', the disaffected Conservative Cabinet Minister, H. H. Stevens, who established his own small business oriented Reconstruction Party echoing the anti-monopoly regulatory themes associated with American progressivism; the Communist Party of Canada, which despite state repression managed to mobilize sections of the labour movement for extra-parliamentary politics and industrial action in defense of jobs and civil liberties; the Canadian trade union movement, where the craft leadership continued to practise North American 'business unionism' with its limited political horizons while many of the locals and industrial unions participated in the formation of the CCF. In short, by the second half of the Bennett mandate, a rich mix of social movements entered the federal political system representing unfamiliar interests and injecting new ideas into the policy process.<sup>24</sup>

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Yet, these pluralistic currents of class and regional protest in Depression Canada never acquired the political status of a heterodox interest coalition unified by a coherent policy discourse. Perhaps the only common ground amongst the organizations spawned by the chaos of the Depression was the rejection of the Conservative and Liberal orthodoxy defining options in the first half of the 1930s.

A number of structural and organizational factors have been cited by political sociologists and historians to explain the failure of these societal mobilizations to coalesce for political realignment and policy innovation.<sup>25</sup> In cultural terms, linguistic and religious differences kept popular forces in Quebec, the second largest province, isolated from the reform debates and protest activities; institutionally, Canadian federalism allocated responsibility for labour relations to the provinces which hampered cultivation of a national working class political identity forged through common experience in political struggle and strategic action. Finally, at an economic-structural level, Canada's historic staple mode of production within international capitalism supported Social Credit-style protest politics emphasizing spatial cleavages and regional identities at the expense of the class cleavage and nation-spanning identities of CCF-style protest politics. Whichever explanation is preferred for the failure of popular alliances to be forged in the 1930s, it is clear that reform-oriented ideological and organizational resources in Canada were politically diffused rather focussed. Thus, as the floundering Bennett government began its final year in power it was confronted by a divided field of oppositional forces, mobilized behind divergent solutions to the crisis.

It was in this context that the Prime Minister confounded the critics and shocked the nation with a remarkable series of radio broadcasts in January 1935.<sup>26</sup> In an about-face from his 1933-34 commitment to an entirely restrictive view of federal capacities and objectives, Bennett sprung a "New Deal" on his Cabinet, his party, the public and the widening field of interests organized in the political system. Bennett's rhetoric drew expressions of shock and disbelief from Conservative business supporters and radical critics alike. Declaring that either "the dole" or "the system" would have to go, Bennett announced his choice: "I am for reform ... I summon the power of the state to its support." He promised that legislation would be introduced into the pre-election parliamentary session providing for regulation of working hours, wages and conditions; oversight of monopoly and price setting; an agricultural credit program; health, unemployment and industrial accident insurance; and a permanent Economic Council to bring new forms of professional expertise to the state's increasingly complex policy responsibilities and problems.

Remarkably, Canada's New Deal was launched in a political vacuum. Prime Minister Bennett had concluded his broadcasts with the observation that his "policy of reform will force, **inevitably**, a political re-alignment" (my emphasis).<sup>27</sup> However, realignments on the scale required to implement the New Deal are complex political constructions. To reinvent the Canadian state along the lines proposed by Bennett was an ambitious undertaking requiring determined and sophisticated leadership from governing politicians and parties. Certain of the New Deal policy initiatives appealed to certain societal interests. The critical political task was to make clear the points of intersection between

the ideas and interests in order to transform an emerging reform consensus into a durable socio-political coalition supporting long term policy change. Furthermore, to implement the New Deal, with its constitutional and regulatory innovations, bargains would have to be struck with provincial leaders and business elites. Such elite-level negotiations would have to be sustained by broad public understanding of and support for the reforms. The organizational and ideological leadership of the new popular movements would be critical resources for the Bennett government to draw on in leading this realignment.

However, there was no meaningful political strategy associated with the New Deal. Indeed, the superficial view of the relationship between politics and policy which informed the New Deal was evident in Bennett's final radio address, devoted largely to a diatribe against the opposition Liberals. It soon became clear that this kind of narrow and negative partisanship was both the beginning and the end of Bennett's political strategy.

The Prime Minister had arrived at this new vision without consulting any domestic political actors – save for his Minister to the United States, W. D. Herridge. Not surprisingly, historians of the period agree that the inspiration for the entire package was Roosevelt's economic recovery offensive communicated through his own radio 'fireside chats' in 1933 (the year when Bennett's orthodoxy was most pronounced).<sup>28</sup> Despite the crass foreign borrowing, a case can be made that the Prime Minister's reform package was not entirely without domestic political potential. In fact, it contained some of the ingredients necessary to build a viable political coalition for change within the fragmenting Canadian polity. The New Deal's ideas spoke to rising discontent in English

Canada with the consequences of federal Ministers' continued deference to the compact model of Canadian political economy. According to James Mallory, Bennett had articulated a direction that "seemed to most Canadians to be the proper ends of government ..."<sup>29</sup> It brought into focus the assumption shared by at least a 'working majority' of the new societal movements that only the federal government could mobilize the resources for the desired transformation of state-economy relations.

Formulated in a vacuum and dropped from the sky by the Prime Minister, however, the New Deal for all its rhetorical promise landed without much prospect for implementing and consolidating new policies. In reality, the meagre political resources commanded by Bennett's Conservative government rendered the Canadian state system very weak in relation to the challenges of policy innovation. Certainly, the New Deal was a project beyond the capacity of the Conservative Party to sponsor in any serious and sustained way. The broadcast's secretive process and radical substance combined to divide the Cabinet and caucus. Some members rallied around the announcements and sought immediate "passage of the bills referred to in the New Deal broadcasts," followed by "a dramatic appeal to the electorate".<sup>30</sup> Other "right-thinking Conservatives" remained hostile throughout. Prime Minister Bennett compounded the confusion by essentially exiting from the scene in the critical months following the radio addresses. His appearances in the House of Commons to defend the legislation were infrequent, and in May 1935 he left the country for the Silver Jubilee celebrations.<sup>31</sup> At the point when strong political direction was required to steer the New Deal package through Parliament and build supportive coalitions, the Conservative party was in near disarray. In fact,

Bennett had lost interest in the project. Upon his return from England, he began his formal retreat. Rather than appealing to public opinion and taking advantage of parliamentary opportunities provided by the opposition, he began referring to legal constraints on the federal government, citing favourably recent judgements from the American Supreme Court declaring parts of Roosevelt's New Deal unconstitutional.

Hence, when the Liberals – to the Prime Minister's dismay – announced they would not oppose the New Deal, the hollowness of the whole exercise was exposed. The government scrambled to throw together enabling legislation, resulting in a hodgepodge of watered-down measures that reflected the Prime Minister's new sensitivity to constitutional implications. The bills fell well short of the original design sketched in the radio broadcasts.<sup>32</sup> As J.H. Wilbur concluded, Bennett "was no Canadian version of Franklin Roosevelt".<sup>33</sup> Canada's New Deal never got off the ground.

Far from providing the framework for a revamped political-economic order, the New Deal was effectively abandoned by the Conservative government before the 1935 election. And the Conservatives chose not to use the campaign to mobilize support for the reform project. Bennett returned to the themes which had defined Conservative governance from 1930 to 1935: law and order to discipline agitators who questioned capitalism and fiscal rectitude to discipline constituencies seeking assistance from the federal treasury.<sup>34</sup> Thus, the Bennett Conservatives completed another remarkable about-face, casting aside the reform agenda introduced only months earlier. Some Ministers and caucus members announced they were leaving the government to form their own party that would rescue elements of the lost New Deal.



More stable than the Conservative Party, of course, were unemployment and relief pressures which remained at record levels as more than one million Canadians (and their provincial and local governments) continued to search for solutions to their distress. Such policy direction was not forthcoming from the official political opposition, the Liberal Party, however, which preferred to harass the government for what it saw as policies of "vast expenditure and waste".<sup>35</sup> In Parliament, Mackenzie King and his colleagues confirmed their reputation as steadfast defenders of constitutional and economic orthodoxy. They parted ways with the Bennett Conservatives on the tariff question, but otherwise provided sympathetic criticism of the federal government's struggle in support of the principles of balanced budgets, limited state intervention, and provincial responsibility. In opposing the process rather than the substance of the New Deal, the Liberals took comfort in the likelihood that the package would be brought before the JCPC and quickly buried. Here, the Liberals "employed the whole range of outraged constitutionalism which has come to be the stock argument of those whose quarrel with modern administrative techniques is at bottom concerned more with the ends to be served than with the means of achieving them."<sup>36</sup> Midway through the Bennett government's term, the reform-minded *Canadian Forum* passed judgement on the parliamentary debates dominated by Conservative and Liberal spokespersons: "In Ottawa several hundred well-meaning persons sit and legislate ... They no more represent the new, thinking Canadians than they do the hypothetical inhabitants of the planet Mars".<sup>37</sup>

This Liberal isolation from the new movements and ideas was displayed in the 1935 election campaign, when the party began to denounce the New Deal as containing

elements of fascism and communism. Adopting this position, Mackenzie King found that he could recycle the compact model for a national unity campaign emphasizing sensitivity to the provincial rights disregarded by Bennett in his New Deal, while avoiding any discussion of social unrest and economic reform. Despite five years of evidence revealing the intellectual and political limitations of the 'sound finance and responsible government' policy package, the Liberal leadership clung to its apparent electoral potential. "King or Chaos" became the rallying cry, with no convincing analysis of either the causes of the chaos or what King proposed to do about it.<sup>38</sup>

While the 1935 election occurred in the midst of an intensive societal debate about Canada's future, the main parties practised politics as usual. And in the end, despite the crisis conditions, the election outcome was routine – maximum policy continuity and minimum partisan change as majority power passed between holders of the orthodoxy, from the Conservatives to the Liberals. The constellation of societal forces that had organized into protest movements between 1930 and 1935 remained fragmented, with new parties dividing a 25% share of the popular vote. Granting the King Liberals a five year stay in power, the election effectively closed the possibility that party-led societal movements would bring new solutions to a paralyzed state system. The imbalance between society's popular discontent and the state's policy inertia remained unaddressed by party competition and electoral politics. As J. Brodie and J. Jenson summarized, the election did not "demonstrate that the crisis of authority which spawned such a flourish of alternative political options had been resolved".<sup>39</sup>

With their sweep in 1935, the Liberals confirmed the power of the brokerage approach to elections and governance in Canadian politics. The Liberal strategy focussed on presenting Mackenzie King as uniquely able to manage an accommodation between English Canada and Quebec. Cultural issues of language and religion were viewed as critical to preserving the fortunes of the federal Liberal party. Harmony between French and English cultural communities was then defined as the central issue in preserving Canadian national unity. The class and regional economic conflicts triggered by the Depression were not interpreted by the King Liberals as a political opportunity for developing new policies and electoral support bases. King did not want to bring these issues into the electoral arena, even if such public debate and political leadership might have produced new alignments of interest behind workable solutions. Economic crisis created regional and class discontents that were at odds with Mackenzie King's definition of national unity and Canada's essential political challenges.

As such, the Liberals neither developed new economic and social policy ideas themselves, nor particularly sought them out from other political actors and organizations. They were content to position themselves as brokers of Canada's two cultural communities, preaching the wisdom of the traditional compact theory approach to Canadian federalism. By the same token, King maintained a basic intellectual commitment to the economic orthodoxy of sound finance and responsible government. Alternative responses to the crisis conditions of the Depression could be explored and debated by experts and bureaucrats in representational contexts removed from parties and elections. As Richard Simeon and Ian Robinson have put it:

... the first priority of King and his Liberals, for both ideological and party self-interest reasons, was national unity. As long as there was no clear English-speaking majority position on the appropriate role of the state, electoral politics left King with room to manoeuvre.

... But King's strategy of minimal federal activity, informed by his conviction that the principal threat to national unity lay in French-English conflict, was much less effective under conditions of economic crisis than it had been in the 1920s. For while federal inaction minimized the potential for new federal-provincial conflicts related to language, it provoked increasing criticism from those who saw the nation primarily through the lenses of region and class.<sup>40</sup>

Representative channels within the Canadian political system were unable to develop new strategies and policies for resolving the impasse. Rebuilding the economic-constitutional foundations was stalled 'from above' by the orthodox thought and brokerage strategy of governing politicians, and 'from below' by the divisions preventing alliance formation amongst the heterodox challengers.<sup>41</sup> It was in this specific context of political representation at the national level in Canada, where long term policy debates were not encased in the ideology and strategy of governing parties or social coalitions, that a technocratic caste of policy intellectuals became critical 'agents of history', directing the changes necessary to meet the Depression crisis. In these years of crisis there emerged a division of labour in federal economic policy formation supporting the Liberal brokerage style. Elections and parties were marginalized as state-organized, expert-led inquiries and bureaucratic committees became the creative networks for the economic ideas and reform strategies that were increasingly necessary by the late 1930s.

The next section explores this division of labour in policy development in the King Liberal government from 1935-1940. It shows how policy intellectuals assumed leadership in changing Canadian federalism and capitalism, as governing politicians remained

preoccupied with the cultural issues they defined as central to national unity.

### **2.3 Ideas, Politics and Policy in the King Years: Commissioning Solutions**

Following its evasive and policy starved campaign, the new King government quickly settled into an orthodox agenda consistent with the tenets of the compact model.<sup>42</sup> Two early moves were particularly telling: first, the entire New Deal legislative package was officially shelved by Cabinet through its own referral to the JCPC, where it was certain to receive an unsympathetic hearing. There would be no Roosevelt-style 'court packing' by the King Liberals to consolidate political momentum behind economic reform policies.<sup>43</sup> J. Mallory concluded:

To some extent courts were blamed for a fault which lay elsewhere. Whether by good luck or by clever manoeuvring, Mr. King had made it appear that he and his government were prevented by the courts from taking the measures which they would like to take to deal with the depression. Actually the nature of Mr. King's majority was such that it is doubtful if his party would have supported such measures.<sup>44</sup>

The second critical initiative of the new government reinforced the point. King invited Charles Dunning, a staunch fiscal conservative and well-known advocate of the "old immutable laws of economics" to be the government's Finance Minister.<sup>45</sup> These early choices in relation to the fate of the New Deal, and the appointment of Dunning, clarified the message muddled throughout the election campaign: the Liberals stood against any experimentation with new techniques in public finance or mechanisms for power reallocation permitting greater federal responsibility in public policy. The Liberal

government's essential continuity with the defeated Conservatives approach to the Depression was obvious.

At the most general level, Mackenzie King shared his predecessor's view that the only hope for recovery lay in more effective trade relations. In King's case, this conclusion led him to a policy of freer trade within North America. "My own view" King wrote "is that the most effective means of ending the drain of relief expenditures on our financial resources and of making bearable the burdens of existing debt is to be found in the revival of trade".<sup>46</sup> From this perspective, King, like Bennett before him, could avoid consideration of the problems of state-economy relations inside Canada's borders, where ideological rigidities continued to choke off political creativity in the face of ongoing economic breakdown. This orientation to the crisis was manifest in the specific initiatives undertaken by the government in the first two years of its mandate. In a pattern of behaviour remarkably reminiscent of the Conservatives, the Liberals announced an increase in relief grants to the provinces in 1935 only to withdraw it in the next year, signalling an ongoing reduction of the federal contribution in the employment field.<sup>47</sup>

In all of this, the Liberals accepted Bennett's contention that much of Canada's debt problems resulted from provincial mismanagement and extravagance. In an attempt to prove his point, Bennett in 1933 had hired social workers to investigate provincial administrative practices. In 1935, the Liberals, motivated by the same suspicions about provincial waste and the same concerns for expenditure restraint went a step beyond Bennett to appoint their own commission of inquiry, the National Employment Commission (NEC). Established in April 1936, it has been recognized as a "watershed"

in the modernization of the Canadian state system and public policy.<sup>48</sup>

The following discussion explores how the NEC became such a watershed. It considers three aspects of the NEC process: first, the way in which the commissioners ranged well beyond the limits established for their inquiry by the government's charge; second, the nature of the conflicts the NEC findings triggered within governing circles, and the substantive policy divisions clarified thereby; and third, the degree to which the NEC recommendations set the intellectual stage for a much larger royal commission appointed by the King government to resolve the escalating policy controversies.

*i) The National Employment Commission*

In establishing the NEC, Mackenzie King never imagined it would become a catalyst for debate, forcing into the open – and onto the official policy agenda – simmering disputes about the Canadian economy and federalism.<sup>49</sup> To the contrary, King believed that the commission would be a key instrument in supporting his new government's commitment to the old ideas of balanced budgeting and responsible government. The NEC was conceived as an investigative body whose analysis and findings were not intended to establish a rationale or context for federal departures on the economic crisis. The commission's mandate, the Prime Minister insisted, must convey Ottawa's basic message that savings to the federal treasury was the overriding policy concern. Here, the Prime Minister was reassured by the warning to Parliament issued by Norman Rogers the Minister responsible for the NEC. In the weeks before the NEC's formal creation, Rogers reminded Parliamentarians that:

we have reached a point in the state of our public finances when we are compelled to consider the deterrent effect of large governmental expenditures and increasing deficits upon the flow of savings into productive investments ... I do not think it is possible for any government to spend its way out of unemployment ... I am sure, however, that it is possible for a government to spend its way into chaos by a policy of this character ...<sup>50</sup>

Accordingly, the legislation creating the NEC instructed the commissioners to "find ways and means of providing remunerative employment, thus reducing the numbers at present on relief, and lessening the burden of taxation".<sup>51</sup>

As historians of the NEC have emphasized, the intent of the mandate was to channel the commissioners' creative impulses away from public works or other unorthodox proposals toward uncovering abuses hindering the practice of sound finance and responsible government.<sup>52</sup> The NEC was to provide new statistical information on provincial and municipal grant administration and on the habits of relief recipients. Its mission was of the 'watch-dog and fact-finding' variety, an orientation quite distinct from the generation of new concepts and ideas to shift federal policy. In its commentary on this problem-definition, the *Canadian Forum* accused the government of the "crudest kind of empiricism" and dismissed the NEC because its mandate situated the unemployment crisis outside an analysis of "the axioms of capitalism in its present phase of restriction of production".<sup>53</sup>

The composition of the NEC was designed to be representative, both of economic and regional constituencies in Canadian society and of opinions on the employment and relief question within the Liberal Cabinet. As such, there was diversity in the backgrounds of the seven people appointed to the NEC. The three players who emerged as the most significant contributors to the process were personal selections made by the Ministers



most directly involved with the Commission. Finance Minister Dunning chose Montreal businessman, A. Purvis, who sat on the Board of Directors of a number financial and industrial corporations. Purvis became the NEC's chairman. He had been an outspoken business critic of Bennett's New Deal and a supporter of the Liberal government's promise to avoid such policy experimentation. Labour Minister Norman Rogers invited his former colleague at Queen's University, economist W. A. Mackintosh. Throughout the 1920s and early 1930s, Mackintosh had written extensively about early Canadian economic development. By 1935, he was refining his insights into the domestic policy capacities of staple exporting nations to ease the burdens imposed by violent international market fluctuations. Finally, Mackenzie King selected Mary Sutherland, ostensibly to provide insights into the plight of unemployed women, but more likely because she had strong connections in the Liberal Party. She was close to the Prime Minister, and he could rely on her as a conduit for Cabinet concerns as the NEC proceeded.<sup>54</sup>

The other four appointments were of less strategic import to the government, and more reflective of the general desire for a representative national commission. Small businessmen were appointed from Quebec and the Maritimes, along with a western Canadian to provide a rural perspective. Tom Moore, past-president of the craft-based Trades and Labour Congress, was the labour representative. By the time of his appointment, Moore had earned a reputation for leadership in support of conservative business unionism, in opposition to the more militant mobilization strategies prevalent in the resource industries and secondary manufacturing.<sup>55</sup>

Despite the government's stated intention to limit the scope of the inquiry, it was soon apparent that the commissioners were inclined toward a broad interpretation of their task. Appointed a full six years after the onset of the Depression, the commissioners gravitated to the two basic questions which various political movements and individuals had long insisted could not be sidestepped if the political process was to respond to Canada's economic breakdown and policy stalemate. The first of these questions was procedural – which government should be responsible for the unemployed? The second question was substantive – what action could that government take to restore stability?

In deciding to tackle these questions and find their own answers, the commissioners looked for guidance from the two fields of intellectual inquiry – political economy and social work – represented in the NEC. James Struthers has described how concepts from each of these disciplines came to structure the NEC's approach to the crisis.<sup>56</sup> In the case of political economy, commissioner Mackintosh was the central figure; in social work, research consultant Charlotte Whitton – whose expertise in overseeing relief administration had previously been used by Prime Minister Bennett – was hired by the NEC.

Each of these disciplines came of age in Canada in the 1930s. Social work's theory and practice responded to the myriad of strains accompanying the passage into the urban-industrial age. In the Depression its preoccupation was with the design, administration, and funding of unemployment relief programs. Political economy's sweep was broader, focusing on the historical and institutional context that shaped long run patterns of wealth production and distribution. In the Depression many of its practitioners were drawn to

policy-relevant study of economic disequilibrium, and the instruments that could be deployed by governments to spur national recovery.

Of course, within political economy and social work there were internal debates over intellectual approach and political outlook.<sup>57</sup> Here, the NEC's recruits, Mackintosh and Whitton, shared a common world-view. They identified themselves as policy scientists or neutral technicians prepared to advise and participate in government after hard-headed investigation of the facts. This understanding of professional expertise separated both Mackintosh and Whitton from their academic colleagues working in the League for Social Reconstruction (LSR), where social values and political beliefs were seen as inseparable from policy analysis and advocacy.

Indeed, LSR activist, F.H. Underhill, had in mind experts such as Mackintosh and Whitton when he blasted Canadian social scientists for their "self-imposed role of minor technicians, never questioning the major purposes of the capitalist system in which they found themselves".<sup>58</sup> According to Mackintosh, however, economics "prescribes no policy and enunciates no doctrine apart from the analysis of the particular facts of the moment". In practice, economists must remain "unalterably opposed to all programmes based on unreason".<sup>59</sup> For her part, Whitton dismissed the views of LSR-affiliated social workers such as Harry Cassidy who called on the federal government to increase substantially and permanently its financial commitment to relieving the unemployment crisis. Whitton saw the problem in more technocratic terms, rooted in the failure to mobilize the knowledge of social workers trained in investigative case work and efficient dispensation of public monies.<sup>60</sup> Thus, the disciplines of political economy and social

work were represented inside the NEC by the academy's two most authoritative spokespersons for the view that scientific expertise harnessed by the state could provide rational direction in correcting the social and economic imbalances wrought by the Depression.

The NEC's advice to Cabinet was presented in two separate documents, the *Interim Report (IR)* released in August 1937 and the *Final Report (FR)*, issued approximately six months later. To appreciate how the NEC became Canada's catalyst for official revision of the economic-constitutional orthodoxy, it is necessary to distinguish between the reports, paying attention to the progression in thought across the two sets of prescriptive analysis.

The *IR* was released by the NEC after more than a year of policy discussion and informal communication between commissioners and Cabinet Ministers.<sup>61</sup> It was an unremarkable document, offering a coherent but rather conventional package of proposals. Its macro-economic framework, elaborated by Mackintosh, mirrored prevailing government assumptions that market forces – particularly international demand – were leading a gradual recovery and that public expenditure programs might slow the momentum by inhibiting the private sector's employment generating capacity. The *IR* recommended that "there should be a very substantial contraction in the total government expenditures for public works projects".<sup>62</sup> Given this assessment of the free market's progress in leading recovery, the *IR* defined a limited role for the state. The only stimulative measures were proposals for modest federal public investment in areas where private sector spending was minimal: subsidies for low-rental housing and slum clearance;

and bonuses to farmers to retain journeymen during winter months. The *IR* did not explore state-led employment strategies, but rather focussed on programs to increase the “employability” of unskilled individuals who were unprepared for the opportunities created by the private sector upturn.<sup>63</sup> With unqualified workers rather than defective capitalist institutions identified as the principal problem for economic policy makers, the *IR* proposed apprenticeship schemes and a labour market exchange service to match the soon-to-be employable unemployed with soon-to-be created private sector jobs.

When it came to the fiscal and constitutional arrangements necessary to implement the proposals, the NEC turned from Mackintosh’s political economy to Whitton’s social work.<sup>64</sup> The *IR* again demonstrated its caution in endorsing conventional arguments concerning the need to overhaul local relief administration in the interests of reducing pressure on the federal treasury. Proposed here were two levels of professional supervision over the relief network: first, the imposition of strict conditions on federal grants to sub-national governments, and second, vigilance on the front lines to ensure that demonstrated need underpinned all individual assistance.

Thus, the *IR* did not counsel major departures in the policy course followed by the federal government since 1930. Its economic-constitutional discourse remained within the established national policy model. It respected the Prime Minister’s fundamental concerns – limited federal expenditure and sub-national responsibility for unemployment. The areas where federal action was recommended – for instance, vocational training, low-rental housing, and job placement – were rationalized by the commissioners in terms of accelerating a private recovery. They also could be effectively used to reinforce the

political message common to both Conservative and Liberal federal governments that individual initiative rather than systemic or institutional failures determined employment prospects. Of course, the fact that implementation of even these modest employment proposals required some alteration to existing jurisdictional lines of authority offered a convenient rationale for political inaction.

Indeed, just such a response, combining indifference with rejection, was conveyed by the King Cabinet to the commissioners following release of the *IR* in August 1937.<sup>65</sup> Labour Minister Norman Rogers was rebuffed by his colleagues when he presented the NEC policy recommendations and budgetary requests. After some debate and considerable delay, concerted federal action followed only on the farm worker subsidy program. NEC Chairman Purvis argued that the interim agenda required \$20 million. Ottawa provided \$1 million to support scattered and partial initiatives in the training and housing areas. By the fall of 1937 it was obvious that the commissioners had failed to achieve anything of lasting significance. Their largely orthodox analysis of the Depression crisis had certainly not shifted the terms of policy debate, while their guarded proposals for federal action failed to inspire the government to move beyond its defensive adherence to old ideas and ad hoc approach to the crisis.

However, the escalation of economic difficulties in 1937, combined with Cabinet intransigence, set the stage for a dramatic follow-up to the *IR* within six months.<sup>66</sup> In December 1937, the NEC released its *FR*, an ambitious commentary that amounted to a succinct but uncompromising revision of Canada's economic-constitutional orthodoxy. On the two central questions of the 1930s, the *FR* did not equivocate: the federal government

was the only government capable of responding to the Depression, and this response must include introduction of a range of new policy measures, from selective public investment to national unemployment insurance and centralized relief assistance. The King Cabinet, the NEC's *FR* declared, must take responsibility for developing a Canadian employment strategy. Historian Blair Neatby concluded: "John Maynard Keynes had come to Canada".<sup>67</sup>

In part, the commissioners' boldness responded to Mackenzie King's belated announcement in November 1937 of federal interest in a national unemployment insurance program.<sup>68</sup> King's general statement provided an official opening to the NEC for a comprehensive rethinking of the employment question, since an earnings-based insurance system could only be one element in a solution when almost one million workers had no prospect of qualifying for such benefits. Positive job creation measures and relief assistance were necessary to give meaning to an unemployment insurance system. The challenge mapping such economic and social policy relationships galvanized the NEC in the fall of 1937 as the commissioners reflected on the dismal fate of its *IR*. The commissioners prepared a new argument, calling for state economic intervention: long-standing assumptions about the proper division of powers within Canadian federalism as well as the appropriate boundaries between state and society were challenged.

W. A. Mackintosh organized the *FR*'s economic analysis. It reflected how the Depression had become a catalyst for theoretical creativity. Mackintosh was one of the architects of the indigenous tradition of economic research known as the "staples

approach" which highlighted historical and institutional factors distinguishing "new country" development from more mature European political economies.<sup>69</sup> Specifically, the white settler colonies were trade-dependent. Unlike Britain or even the United States, their prosperity depended much less on domestic consumption levels and far more on cost and supply-side factors conditioning export competitiveness. As such, the staple theorists described Canadian development as "cyclonic" rather than incremental, with intensive bouts of activity followed by longer periods of structural adjustment to changing international market forces. In this developmental process characterized by weaknesses and dislocation, the state's role was ambiguous. It contributed to the exploitation and transportation of staple commodities, but in so doing introduced rigidities into the price system inhibiting market adjustment.

For these reasons, Canadian economic thought provided no immediate or obvious openings to the notion that the state could be an effective mechanism for either short term stimulation or long term stabilization. In the *FR*, Mackintosh began an integration of proto-Keynesian concepts of demand-management with the staples framework. Here, the *IR's* deference to the self-regulating dynamics of the private economy was modified. The *FR* departed from the orthodoxy of its earlier report by calling for centralization of authority over unemployment relief. It was the commissioners' "considered judgement that ... the co-ordination of a nationally administered system of Unemployment Insurance and Employment Offices, buttressed by similarly administered system of Unemployment Aid, would have decisive advantages over the present system in coping with problems of employment and unemployment".<sup>70</sup> These advantages it was now argued, stemmed from



a variety of factors the most pressing of which were regional fluctuations in employment levels and inefficiencies embedded in the grants-in-aid system of fiscal transfers. The evidence uncovered by the NEC for each of these problems – intense regional variation and inter-governmental confusion – suggested that exploitation of Ottawa's capacity for flexible revenue and administrative experience was the only basis for "a functional system".<sup>71</sup>

The NEC's employment and relief package constituted a major challenge to the ideological foundations of the Bennett-King federal policy regime. Deep-seated views on the obligations of the state had been dissected by an expert, representative federal body and judged inappropriate for the modern era. The official consensus in government circles that there was no feasible alternative to the status quo suddenly began to crack. Coherent and opposed policy positions crystallized in Cabinet as the divisions erupted on the *FR* analysis and recommendations. A policy debate on core questions of state-economy relations – indeed, the public debate never seriously engaged in the 1935 election or in subsequent first-ministers' conferences – was underway.

On one side was Prime Minister King and Finance Minister Dunning, judging the commissioners' final efforts "wholly indefensible".<sup>72</sup> In Cabinet, opposition to this view came from Labour Minister Rogers who had encouraged the NEC to exploit the opportunity for basic rethinking provided by the federal statement of intent on unemployment insurance. The eventual showdown inside Cabinet was first played out in the NEC itself, where differences produced a minority report from Mackenzie King's ally Mary Sutherland. Sutherland's dissent went to the heart of the opposition from the Prime

Minister and the Finance Minister to the *FR*'s program. In their elegant description of a "functional system", Sutherland believed that her colleagues had sown the seeds of collapse for the entire Canadian state system. The implications cut much deeper than the jealousies and rivalries associated with provincial rights. At issue, Sutherland argued, were basic questions of state-society relations in the modern era:

The least important reason for anything, although it may be the most compelling, is a constitutional reason. In this case there is a fundamental basis that transcends in importance all others, for leaving the primary responsibility for the relief of distress arising from loss of income because of no work with the Municipal authority and/or the Province. It is that in a democratic government the individual has a more responsible attitude to and interest in government to which he pays his taxes directly and which he sees functioning for himself and his neighbours. The further removed and more centralized government becomes and the less direct its taxing powers, the less easily can the individual relate his own responsibilities to its functions. No matter which government is responsible for and administers relief of distress arising from loss of income because of absence of work, there will be constant pressure to increase the benefits and to enlarge the base of admittance to benefits. If the responsibility and administration are centralized in the Dominion government the important counter-pressure from local taxpayers will be eased.<sup>73</sup>

The consequences of violating the principles of sound finance and responsible government were profound:

Of most significant import too will be this situation, that the state will have added a fixation of permanency to the evils and abuses that are alleged to have grown up around relief and the mechanics of its administration. An admission of permanency is one that all governments have avoided. Such an admission would indicate that all hope of a great destiny for Canada had been abandoned.<sup>74</sup>

Sutherland's dissent questioned the two main conceptual breakthroughs contained in the *FR*: the linkage between national unemployment insurance and centralized relief provision, and the assertion that concentrated authority over employment policy would contribute to socio-economic stability. To situate her critique, she returned to Mackenzie

King's original conception of the NEC as a fact finding, federal watch-dog body, scolding her colleagues for straying into an "unnecessary and gratuitous discussion" well beyond their terms of reference.<sup>75</sup>

Mackenzie King found much to agree with in Sutherland's logic and argument. His fears over the *FR* were captured in Sutherland's dramatic conclusion that the "system proposed in the Final Report has such far-reaching implications that, at the moment, they can be seen only as through a glass darkly".<sup>76</sup> To the Prime Minister's way of thinking, implementation of the *FR*'s recommendations was to unleash the "chaos" that he had promised to contain in the 1935 campaign. For Mackenzie King, the orthodoxy so eloquently reaffirmed by Mary Sutherland was the "ideological bulwark" against social and institutional collapse.<sup>77</sup> The commitment to balanced budgets and responsible government was at root the safeguard for a workable balance between state authority and societal claims. State bankruptcy and dependency would follow if the federal government acknowledged responsibility for the unemployed and recognized the permanency of such a commitment. To preserve the discipline and restraint imposed on societal groups and individuals and state officials by balanced budgeting remained for King the political challenge of the modern era. In the personal diary where King recorded his private anxieties about public affairs he despaired that implementing *FR*'s blueprint would plunge the "whole situation in chaos ... for years to come".<sup>78</sup>

Had Mackenzie King cared to look he would have seen that the *FR* had set out a constitutionally centralist and mildly Keynesian strategy which made visible common cause amongst disparate societal interests. The Canadian Manufacturers' Association

acknowledged that the “problem of unemployment and its relief is still a most serious one”, and observed that the “proposals for dealing with the situation which which are being made by the National Employment Commission under the chairmanship of one of our own members, Mr. A.B. Purvis, are naturally followed with the greatest and most sympathetic interest by all industrialists”.<sup>79</sup> With Purvis and trade unionist T. Moore speaking out in support of the reform package, the federal government could reasonably have expected influential business and labour allies if it pursued a break with orthodoxy. In political terms, the NEC pointed to a possible cross-class coalition of economic interests rallying behind the ideas expressed by the technocratic experts. Furthermore, seven of the ten provincial premiers expressed interest in the package. The leftist CCF and LSR – despite reservations about what they saw as the economic timidity of the commissioners – also offered support.<sup>80</sup> In sum, similar to the political potential contained in Bennett’s New Deal, the NEC’s agenda could be used by governing politicians to build business-labour alliances and inter-governmental coalitions.

However, it was Sutherland’s dissent that clarified the operative subjective constraints on federal policy innovation. Rather than viewing it as a political opportunity for cementing new societal and inter-governmental alliances, Mackenzie King scrambled to bury the *FR*. Supported by the Conservative opposition in its stalling tactics, the Cabinet first delayed publication and then announced that the entire matter would be given over to yet another public inquiry staffed by policy intellectuals: the Royal Commission on Dominion-Provincial Relations, appointed just as the NEC was winding down its activity.<sup>81</sup>

In the end, the *FR* was not wholly without effects of its own on government policy making.<sup>82</sup> Labour Minister Rogers, in alliance with senior civil servants, carried the *FR* recommendations to the Cabinet table. The ensuing struggle between Ministers supporting the Purvis-Moore-Mackintosh position and those adhering to the Sutherland alternative produced a compromise agenda that recognized Ottawa's constructive role in economic recovery but imposed strict expenditure caps on the various recovery measures proposed by the NEC. This compromise became the basis for Finance Minister Dunning's final two budgets of the decade. In 1938 and 1939, he unhappily admitted the reversal of Liberal fiscal policy and announced that the government was planning deficits to finance increased grants-in-aid for relief and public works that were now accepted as important to economic recovery. Dunning informed the House of Commons:

... a government cannot stand idly by and allow the ravages of depression to take their toll because of the too slow revival of private investment. In these days, if the people will not spend, government must. It is not a matter of choice but of sheer social necessity. The alternative is a greater burden of relief and greater dangers from deflationary forces. This is the reasoning ... behind the increase in our special expenditures already proposed ... in supplementary estimates now before the House.<sup>83</sup>

However, this pattern of fierce political resistance followed by begrudging, minimalist economic policy concessions underscored the incompleteness of the NEC's 'victory'. In its brief discussion of economic efficiency and administrative rationality, the *FR* had recommended decisive federal action on the decade's most controversial questions. Yet, more was needed by way of political argumentation and technical analysis if the policy orientations of the Prime Minister and his Cabinet were to be recast, and their anxieties overcome. The NEC had identified the vehicle for policy renewal, the

federal government, and clarified a logical action strategy to implement an integrated national employment policy inspired by the Keynesian concepts that were rapidly gaining international currency.

However, the NEC did not develop either a political rationale for such innovation or provide insight into the institutional processes required to engineer such a reorganization of the Canadian state's capacity. From the perspective of a leader as committed to economic-constitutional orthodoxy as Mackenzie King, it appeared that the NEC commissioners had done little more than drop their "functional solution" behind what Mary Sutherland had termed the political future's "thick glass". Greater attention to 'the why and the how' of policy innovation was required before leaders in the Canadian political system would respond creatively to the chaos of the Depression. Viewed in this light, the NEC's breakthroughs set the stage for the work of the Royal Commission on Dominion-Provincial Relations appointed by the Prime Minister, in part, to manage the pressures created by the publicity surrounding the NEC's controversial recommendations.

Here, Mackenzie King's desperate referral of the *FR* controversy to another expert-led public inquiry took on historical significance. Support from the federal Cabinet for a new national policy model based on macro-economic management of employment, social welfare, and regional equalization followed tabling of the multi-faceted case for change made in the report from the Rowell-Sirois inquiry into Canadian federalism and capitalism.

*ii) The Rowell-Sirois Commission*

J. H. Dales has concluded that the Rowell-Sirois Commission gave its “contemporaries a coherent picture of themselves – of where they had been and how they got where they were; of where they stood in relation to each other and to the rest of the world; and where they seemed to be going”.<sup>84</sup> What were the critical components of this ‘era defining’ intellectual achievement? What were the political and policy consequences of its formulation?

We argue that four basic contributions from the Rowell-Sirois Commission were important in organizing the change in state-society relations that gradually occurred in mid-twentieth century Canada. The Rowell-Sirois Commission discovered and mapped the basic economic and constitutional directions of this historic shift. First, it offered detailed analysis of the poorly understood subject of public finance, describing fiscal arrangements enabling the Canadian state system to embrace new responsibilities for social and economic management. Second, it provided a pathbreaking historical analysis of Canadian development which situated popular appeals for a centralized system of fiscal control and social service provision within the politically evocative myths and symbols of nation-building, national unity, and provincial autonomy. Third, it devised the conceptual framework for a policy compromise which gave direction to a fragmented political community and substantially narrowed the ideological divide between societal forces of change and conservative public officials. Finally, on the basis of all of the above, it created the template for long term patterns of Canadian policy formation based on technocratic leadership in bargaining and negotiating implementation of Keynesian

economic and social ideas.

Each of these points will be expanded on in the following discussion. It examines the commission's mandate, composition, product, and impact on politics and policy.

The Rowell-Sirois Commission was appointed by federal Order-in-Council in August 1937. The broad factors leading to the inquiry were the unresolved controversies generated by the NEC and the decisions handed down by the JCPC holding that key elements of the Bennett New Deal were unconstitutional. The immediate precipitant, however, was a declaration of virtual bankruptcy by two western provinces, Manitoba and Saskatchewan. In response to representations from Bank of Canada officials that such defaults posed a direct threat to the credit position of the federation, the King government agreed to the creation of a commission mandated to investigate the interpenetration of constitutional and economic problems.

Consistent with his early expectations about the NEC, King hoped that the new commission would provide "a fact finding body which would organize the data on government revenues and expenditures and suggest how these might be redistributed to allow each level of government to balance its own budget independently".<sup>85</sup> Accordingly, the commission's terms of reference highlighted orthodox premises: the search for more "equitable and efficient" allocation of taxing and spending powers within the federation, conducive to "a more efficient, independent, and economical discharge of governmental responsibilities in Canada". This narrow focus on responsible government and sound finance, however, was framed by a broader call for novel historical interpretation based on "a re-examination of the economic and financial basis of Confederation and of the



distribution of legislative powers in the light of the economic and social developments of the last seventy years".<sup>86</sup> In this way, the path was cleared for fundamental diagnosis of strained and broken relationships, first, between governments in the federation, second, between public and private sectors in the economy, and third, among societal groups advancing alternative restructuring projects.

The commission consisted originally of a regionally representative mix of legal authorities, academics, and journalists: Ontario Chief Justice N. Rowell, Canadian Supreme Court Justice F. Rinfret, political scientist R. Mackay of Dalhousie University, economist H. Angus of the University of British Columbia, and J. Dafoe political editor of the *Winnipeg Free Press*. Illness prevented Rinfret (and later Rowell) from participation and he was replaced by Laval University legal scholar J. Sirois. While this group brought impressive credentials to its task, none had established a strong policy reputation in relation to debates about the Depression crisis. Some were known to be sympathetic political (Dafoe) and intellectual (Mackay) observers of Mackenzie King and his Liberal government. The co-chairman, Newton Rowell, was one of the most prominent Ontario Liberals of his generation.<sup>87</sup>

In many ways, Dafoe's intellectual-political profile was representative of the initial location of the commission as a 'collective policy actor'. Douglas Owram has aptly described Dafoe as a "transitional figure between the older and newer versions of Canadian liberalism".<sup>88</sup> Dafoe's writings on public policy had mixed support for a dominant federal government, presumably along the lines suggested by the NEC, with equally strong criticism of the American Roosevelt experiment, not to mention its

radicalized Canadian version expressed primarily by the CCF-LSR.<sup>89</sup> In short, Dafoe, like his fellow commission appointees, had variously shown himself sympathetic to the fears of financial and social chaos that anchored federal ministers to orthodoxy and to the reform arguments advanced by technocratic policy intellectuals such as W. Mackintosh. Therefore, it was difficult to gauge the direction that the commission's thinking would take from the intellectual-political biographies of its members.

However, no such ambiguities surrounded the orientation of the elaborate research staff assembled to support the commissioners.<sup>90</sup> The team was chosen by senior civil servants closely allied to the expert community that had inspired the analysis underpinning the NEC's *FR* recommendations.<sup>91</sup> The Rowell-Sirois Commission drew on the intellectual resources of the country's most established political economists, historians, and political scientists, almost all of whom shared a common understanding of the basic identity of the Canadian political community and the policy challenges confronting it.<sup>92</sup> Dissenting voices were not invited to participate by the senior officials controlling selections: neither intellectual defenders of the compact model's classical federalism and laissez faire capitalism, nor the socialistic proponents of a unitary state and planned economy, were represented in the research team. Consequently, the commission's political discourse and economic policy orientation would be grounded in the same Keynesian-inspired thought that had underpinned the NEC. As with the NEC, the researchers seconded to the Rowell-Sirois Commission were cautiously progressive not boldly radical. They were technocrats seeking a framework for an activist central government advancing the public interest through rational management of the market

mechanism.

As events transpired it became clear that the Rowell-Sirois Commission's application of the principles of positive liberalism to the Canadian case would be built around three key research studies. Monographs from political economist W. A. Mackintosh, historian D. C. Creighton, and political scientist, J. A. Corry each placed the commission's task in a common historical context, stressing the parallels between the challenges of the 1930s and the country's founding decade of the 1860s.<sup>93</sup> These writers produced analyses revealing the economic, political, and social forces which connected the crises of the two periods. Creighton's work described the political challenges overcome by the Fathers of Confederation as they engineered the federal union and invented Canada's first economic strategy in conditions of great uncertainty about world trade and commercial relations. Mackintosh's monograph showed how Confederation and the 1878 National Policy had created a fragile economic unity based on interdependence amongst regionally specialized production zones. Corry's studies traced the connection between social changes wrought by 20th century economic development and shifting perceptions of the appropriate boundary between public and private domains of responsibility.

For the commissioners and federal politicians alike the message from the research team was clear. These studies stressed the importance of national vision and political action in periods of crisis. And they marshalled the socio-economic evidence for the case that the Canadian polity of the 1930s stood once again at an historic crossroads, calling forth bold national leadership. Within a year of the commission's appointment, a compelling new historical synthesis of Canadian development was in place for ordering

the public hearings and private deliberations.<sup>94</sup>

In 1938, the commission held public hearings in the provincial capitals, receiving over 400 briefs from an enormous range of organizations, international experts, and government officials. In the course of the first round of public hearings, J. Dafoe remarked about the presentations "if they are a sample of those to come later, the combined briefs for Canada will leave no difficulty unstated, no state of friction unreported and no conceivable suggestion not advanced".<sup>95</sup> In general, the public hearings gave full expression to Canadian society's fragmented interests, and the divisions within the state system, that had contributed to the policy stalemate presided over by Conservative and Liberal governments since the onset of the Depression.

Of course, there were some areas of apparent common ground between key societal actors. The convergence of business and labour interests (first evident during the NEC) in support of a policy of public works and fiscal stimulation was presented again to the new commission. In its brief, the National Construction Council of Canada explained how representatives from the Canadian Manufacturers' Association and the Trades and Labour Congress had co-operated in preparing the case for new federal economic policies.<sup>96</sup> For its part, the Trades and Labour Congress "advocated social and labour legislation", and reported to the Commissioners that: "the Congress early recognized the barrier to progress imposed by provincial jurisdiction in certain fields, and in consequence we have consistently sought amendment to the BNA Act to give the Parliament of Canada law making powers ... in questions touching the welfare of the wage earners".<sup>97</sup>

The Canadian Manufacturers Association took a more circuitous route to arrive at essentially the same position as the TLC. In fact, the CMA ended up making two separate appearances before the commission. This was the case because the CMA's initial effort was essentially dismissed out of hand by Chairman Rowell for its narrow argument and unhelpful recommendations. In its first presentation, the CMA analysed the Depression as caused by high taxes and government debt. The solution was straightforward and simple: immediate and large tax reductions and expenditure cutbacks. This case was also put forward by other business spokespersons from various Boards of Trade, and Chambers of Commerce.<sup>98</sup> The CMA stated the business position most concisely:

We respectfully submit that our troubles are chiefly financial. If, by some means, public expenditures and taxes could be reduced by 20%, or even by 10% with reasonable hope that they could be stabilized, at such lower levels, many of the pressing problems of today would disappear.

If, on the other hand, an entirely new constitution for Canada were provided, we venture to think, that if public expenditures and consequently taxes continued to increase, the new plan would encounter exactly the same difficulties as we are experiencing today.<sup>99</sup>

After listening to the CMA presentation, Chairman Rowell took its authors to task for what he saw as the feeble quality of advice to the commission. Rowell's reaction gave voice to the frustrations of the commissioners who found themselves bombarded with discordant policy briefs, many of them insubstantial in their research and arguments. Rowell challenged the CMA to provide more direction:

The problem is this. We are called upon to investigate the whole problem of debts in Canada, and it is being very frequently suggested in the press and elsewhere that the problem is how to reduce our debt and how to reduce taxation. In your opening statement you say that if taxes could be reduced by even 10% it would largely solve our problem. What I should like to know is whether your association has considered the question how that might be

accomplished. Have you any suggestions which we could consider as to any method whereby debt and taxation would be reduced?

... it does not help us in our deliberations merely to be told that it is desirable, unless some suggestions are thrown out ... as to how it might be done so that we could make some recommendation.

... the problem is an exceedingly difficult one. It is one with respect to which apparently the public expect some action, yet so far we have had no suggestion from any body that has appeared before us to show how there could be a reduction in public expenditure or in taxation ... If there are suggestions, we should very much like to have them.<sup>100</sup>

In response, the CMA conceded it had nothing further to add to its formal presentation but committed to returning to the commission at a later date with a more expansive analysis and specific recommendations. It was at the second visit that the CMA announced a policy turn-around. It now supported an activist federal economic policy, suggesting that "since the conclusions and recommendations of this Commission will inevitably be the subject of intense public interest, it is respectfully submitted that the regulation and control of public works in the interests of economic stability merits consideration by this Commission in the formulation and publicizing of those conclusions."<sup>101</sup> For expert reference, the CMA invited the commissioners to consider the recommendations on the implementation of public works expenditures made at the June 1937 meeting of the International Labour Conference in Geneva.

Of course, the extent to which this 'second' CMA position – cobbled together after the prodding of the commission chairman – actually reflected membership views was unclear. It was also not obvious whether the CMA's belated call for new federal policies had much resonance with other business groups in Canada which had shared the initial critique of 'tax and spend' governments. Nonetheless, the CMA's conversion allowed the

commissioners to identify from the public hearings some common economic policy ground between the two major national business and labour organizations in the country.

A somewhat different approach to the issues was presented to the commission by the LSR and CCF. Spokespersons for these groups, Leonard Marsh and F.R. Scott, argued for a radical realignment of the federal government's role in the Canadian society and economy. Their briefs applied class analysis in interpreting the Depression and called for a "Dominion National Welfare Code" to serve the shared interests of urban and rural workers, and to regulate the power of business. Given the reform liberal orientations of the commissioners' intellectual profile, it was understandable that they were unsympathetic to the LSR-CCF ideas. They were disturbed by what they viewed as the emphasis on "regimentation" rather than "regulation" in the policy recommendations. At one point, the Chairman interrupted to ask whether these groups were not advocating a solution "very close to national socialism". Another commissioner, after listening to Marsh and Scott, exclaimed: "You have very definitely taken the position that economic control can be efficient and beneficial".<sup>102</sup>

Among the provinces that appeared before the commission, there was some agreement that the existing division of taxing power and spending responsibilities was unacceptable, but there was division on possible solutions. The prairie and Maritime provinces looked to Ottawa for redress, as the Manitoba government put it, from the combined blows of the Depression and the National Policy's transportation and tariff regime. In opposition to the call for more power at the centre, Alberta, Ontario, and Quebec each advanced familiar arguments in support of the compact model, even

questioning the legitimacy of a federal investigation of inter-governmental relations and economic policy.

In sum, the hundreds of individuals, officials, and groups who made presentations to the Rowell-Sirois Commission confirmed both the widespread desire for change and the absence of consensus on its appropriate form or direction. After observing the public process, L.W. Simms, an executive officer of the CMA, sympathized with the challenge before the commissioners when he criticized the "parochialism of some presentations, and the selfishness of some of the recommendations".<sup>103</sup> In the face of divisions between governments within the federation, the confusion from societal actors, and temporizing by politicians, the Canadian political system had been stalled throughout the 1930s. The Rowell-Sirois Commission public hearings amply demonstrated that a conceptual framework for inter-governmental bargaining and trade-offs between societal actors — in short, a framework for political experimentation and policy innovation — had not yet found expression in Canada.

Caught in the same crossfire of ideas and interests that had overwhelmed federal Cabinets since the early 1930s, the royal commissioners found their policy bearings in the coherent economic-constitutional package being crafted by the research team.<sup>104</sup> These ideas provided the structure for the commission's analysis and recommendations, formally presented in two tightly related volumes (supplemented by third volume, a statistical appendix on public expenditure and accounts). Volume One contained the historical interpretation introducing the concrete proposals of the second volume. Across the two volumes, the central argument was made that the orthodox economic ideas and



constitutional thinking of the 1930s were obstacles in the path of progress and modernization. The historical depth and breadth of the argument was designed to help the Rowell-Sirois Commission succeed where the NEC had failed. The NEC's conceptual breakthroughs in policy understandings had generated widespread comment, but such recognition did not move federal politicians. The Rowell-Sirois Report was crafted to pull the federal government away from its orthodoxy, by supplying Cabinet ministers with a persuasive framework for action that could inspire and sustain alliances among provincial actors and societal groups interested in finding a new national policy.<sup>105</sup>

In these terms, the first two volumes of the Report were most significant. Together they provided an interpretation of Canadian development that introduced into contemporary political debate a brilliant argument supporting federal innovation in economic and social policy. The power of this argument came from two fundamental insights. First, it shifted the historical- developmental focus away from diplomatic and legal relations attending Canada's Dominion status within Empire, to the internal dynamics of nation-building where inter-governmental relations were pivotal in marshalling financial resources for economic expansion and frontier settlement. Second, it grounded the narrative about internal nation-building in a reconstruction of the intentions of the Fathers of Confederation in terms relevant to the critical questions about federalism and capitalism of the 1930s – the role of the national government in the economy as shaped by jurisdictional authority, fiscal capacity, and policy responsibility.<sup>106</sup>

The result was the crystallization of a new policy perspective on the Depression which endorsed the NEC's functional argument that only the federal government could resolve a crisis of national dimensions. But the Rowell-Sirois Commission went much further in insisting that such leadership was necessary to preserve the essential logic and spirit of Canadian development as defined by the founding fathers. Recalled in the report were the dashed aspirations of many founding fathers for a legislative union. The fact that the great responsibilities of the state in the 19th century - defence, transportation, trade and commerce - were assigned to the Dominion government was highlighted, as were the Dominion's various grants of override power vis a vis the provinces. To this interpretation of Canada's origins, the commissioners then added the political, economic and social analyses of Creighton, Mackintosh, and Corry, to highlight the adjustment failures of the Canadian political system in the first thirty years of the 20th century. Changing economic conditions and new social demands in the Dominion had not been accompanied by the kind of political innovation and policy renewal envisioned by the country's original architects. The commissioners implicitly held the judicial and political elites accountable for their disregard of history and abandonment of national destiny:

when the bases for progress along the old lines disappeared ... Canada's political, public finance and economic organizations were not adapted to deal with the sharp and prolonged economic reverses. When a specific and co-ordinated program was required, there was bewilderment; when positive action was needed there came only temporizing and negative policies; when a realization of the far-reaching effects of the altered circumstances was demanded, there was but faith in the speedy return to the old conditions of prosperity.<sup>107</sup>

The commissioners' description of 19th century federal political leadership in frontier development contrasted sharply with the temporizing and passivity of the 1930s. Similarly, their reconstruction of the intentions of the founding fathers exposed the narrowness of the JCPC's legal reasoning. The JCPC had destroyed the constitutional flexibility underpinning progressive national development, and federal politicians had done nothing – even when presented with opportunities for innovation by the Depression catastrophe – to challenge the constraints invented by the British councillors. The conclusion was a strong one: the federal government entered the 1930s as willing accomplices in the compact model of Canadian development, a model developed by judges from England relying on ahistorical modes of thought and by the premiers from the Dominion's largest provinces exploiting sectional tensions. The commissioners wrote:

It was a policy of expediency which failed either to promote maximum welfare under the circumstances or to safeguard the financial position of the various governments. The Dominion, from whom alone leadership could have come, was mainly concerned with steering a day-to-day course between insisting on the constitutional responsibility of the provinces and the necessity of preventing widespread starvation.<sup>108</sup>

Without policy ideas and without political resources, the federal government drifted into the Bennett debacle and King paralysis of the 1930s. For the commissioners it was the latest and most tragic instance of Canada's 20th century pattern of political failure to adjust national policy to changing economic and social conditions.

In Volume Two the commissioners unveiled their own adjustment agenda. The point of departure was that governments could take constructive economic and social action in the face of business cycles and constitutional inheritances. In a reversal of orthodox premises, they announced that it was "the goal of human welfare which should determine

the character of both political and economic systems".<sup>109</sup> The commissioners' political economy extended the NEC's Keynesian inclinations by emphasizing not simply income stabilization goals but the maximization of output and employment: "In seeking the highest possible national income we must seek conditions in which full employment of the whole labour force of the nation will occur ..."<sup>110</sup> Running throughout the discussion was the theme of national economic interdependence and differential spatial impacts of development policies which established the basis for an expansive understanding of federal policy responsibility. The first task was refurbishing the capacity of the federal government to intervene in Canadian society. At a minimum, this meant securing a revenue base, and to this end the commissioners proposed an overhaul of the system of public finance to concentrate fiscal control at the centre.

It was recommended that the federal government assume all provincial debts and the authority to levy corporate and personal income tax and succession duties. Furthermore, as the NEC suggested, full responsibility for unemployment relief and employment policy was to be transferred to Ottawa. The federal government was urged to introduce unemployment insurance and to establish a national employment service to administer relief and insurance to unemployables. This centralization of resources and responsibility for employment, the commissioners believed, would give federal politicians both the motivation and capability to embrace the new Keynesian instruments of economic management outlined by the commissioners. Concluding that "governments can do a great deal" they wrote:

The planning of public works and developmental expenditures, an intelligent and co-ordinated use of credit, foreign exchange, trade, transportation, and

taxation policies are powerful instruments with which to combat unemployment and to reduce fluctuations in income. The Dominion is the only government which can use these instruments effectively. ... The Dominion, which would have to bear the burden of unemployment would have an interest in helping to finance these public works in times of adversity.<sup>111</sup>

Part and parcel of the commissioners' vision were specific commitments undertaken by the ascendant federal government to its provincial counterparts. Each province must be able to meet its constitutional obligation for educational and social service provision "to the average Canadian standard, and to do this without imposing a tax burden upon its residents greater than the average for Canada."<sup>112</sup> Here, the bridge joining the Commission's federal state capacity goal with its national unity goal came in the form of a novel proposal for a "National Adjustment Grant". Provinces unable to meet Canadian standards in their services would receive from Ottawa annual financial support that was unconditional in form, allowing provincial legislatures to determine the scope and character of services. This 'fiscal need' grant was introduced to meet three objectives: the establishment of a meaningful national minimum in services, the preservation of provincial discretion in the design of programs, and the rationalization of public expenditures through oversight of all grants by a technically expert federal Finance Commission.

With its Keynesian conceptions and fiscal-political adjustment strategies, the Rowell-Sirois Commission created a blueprint for institutional change in inter-governmental and state-economy relations. By packaging their innovations as in the service of the original vision of the country's founders for national development and unity, the commissioners enhanced the prospects that their ideas would be embraced by contemporary federal

politicians. Indeed, the *Financial Post* immediately lauded the commissioners as the "Fathers of ReConfederation" and *Maclean's* hailed them as authors of a "Charter of ReConfederation".<sup>113</sup> After publication of the Rowell-Sirois Commission, supporters of the compact theory and its associated policy orthodoxy began to find themselves on the defensive, responding to charges in the media and other policy arenas that they were backward-looking defenders of sectional and regional interests in an emerging era of national progress guided by compelling Keynesian concepts of economic and social management.<sup>114</sup> For example, in the CMA discussion on the findings and recommendations of the commission, F.W. Simms, a past President of the organization, declared:

I do not think anything has happened since Confederation that is so heartening as the collaboration of statesmanship that this report reveals, as far as I have been able to comprehend it. The breadth of vision and the dispassionateness with which it has risen above sectionalism has given us an opening in the barriers that have been growing. ... All the silly multiplications of party strife and manoeuvring are a terrific waste and a discouragement to the things that really count in our living together. ... I am not going to venture to discuss Maritime union or anything like that. All those things are relegated to second place by the obvious, simple, clear proposals in this report. We cannot afford to let it lie dormant. We should not waste our time on debates on different viewpoints. We should really concentrate on this thing. I am not quite clear as to how it can be made effective as far as the resolution is concerned, but if every member of the C.M.A. can have brought home to him the great privilege he has in his own community of overcoming all the old sectional prejudices, and work toward having this implemented ...<sup>115</sup>

The shifting ideological and political terrain that followed the report can be seen by tracking the fate of its key policy recommendations in the 1940s. Of course it is important here to consider how the report's blueprint for domestic innovation was affected by Canada's entrance into World War Two. Certainly, the war mobilization altered the

political and administrative context for economic policy making. Its imperatives could trigger bold political experimentation with new economic ideas or could become an excuse for further stalling in domestic reform.<sup>116</sup> In this context, the next section considers the impact of the Rowell-Sirois Report on federal policy making.

#### **2.4 The Rowell-Sirois Report: "What is best for them as well as for us" <sup>117</sup>**

When Mackenzie King recorded those words in his diary in 1941 it was apparent that he saw the Rowell-Sirois Report as a catalyst for significant change in Canadian policy and politics. The commissioners, he said, had elaborated a "bold and far-reaching policy" that "laid a true foundation on which it will be possible for us or others to continue to build".<sup>118</sup>

However, the Prime Minister's enthusiasm for the Rowell-Sirois ideas did not translate into any commitment to using electoral politics to mobilize support for their implementation. In fact, the fate of the report from 1940 to 1945 corresponds to the Canadian pattern of economic and social policy formation that we have argued marked the 1930s: temporizing and stalemate in regular channels of political representation, offset by strategic deployment of intellectual and organizational resources in policy expert communities linked with the civil service. Through this 'behind the scenes' and essentially non-partisan process, the key principles for national economic governance generated through the NEC and the Rowell-Sirois Commission were haltingly but unmistakably installed as conceptual cornerstones of the postwar order's key policy making institutions.

The three volume Rowell-Sirois Report was presented to the Liberal government in February 1940. In analyzing the official response, important distinctions must be made between the state's administrative and political wings. The Prime Minister and the Cabinet reacted in a fashion fully consistent with the principles and practices of brokerage politics. Despite indications in private that they found much to their liking in the report, the Cabinet chose to delay its release until **after** a general election.<sup>119</sup> For three months the report was buried to ensure that its ideas and proposals did not become the subject of public discussion or party-led debate during the election campaign. With the Liberals using the war as the pretext for avoiding any consideration of domestic social and economic policy renewal, the 1940 election "was in many ways a non-election".<sup>120</sup>

In fact, Mackenzie King had originally promised to recall parliament before calling an election. He had told the House of Commons in September 1939 that there would be further opportunity to discuss national issues, most obviously the war emergency but as well the still unresolved economic and constitutional questions.<sup>121</sup> In the latter case, the Rowell-Sirois Commission was due to present its much anticipated findings in early 1940. King, however, regretted making this promise and soon was anxious to avoid both parliamentary scrutiny of the war effort and public debate over domestic reform.

The problem was finding a credible way to renege on his earlier promise about recalling the wartime parliament and to avoid public debate of the Rowell-Sirois recommendations in the pre-election period. The solution was clear: the prime minister would call a snap election and at the same time instruct the commissioners not to release their report until after the vote. In this way the election would run its course



unencumbered by either an informed opposition about the government's war strategy or an informed public about economic-constitutional options (generally perceived as even more pressing in light of the demands for war finance). Mackenzie King needed a pretext for this pre-election 'double knockout', and he found one in January 1940 when the Ontario legislature voted to condemn the federal government's prosecution of the war effort. The Prime Minister was elated: an immediate election could be rationalized, "avoiding thereby all the contention of a session known to be immediately preceding an election."<sup>122</sup> As one senior Liberal Minister recalled:

... at the time I discussed the advisability of an election with King, he had seemed to be considerably worried about our finding an issue. As luck would have it there was one ready-made for him, and though I did not think it was a particularly strong one, King, with his usual talent for exaggeration, was able to make a great deal of it. ... This vote of censure by a provincial legislature was sufficient for King to seize upon as a great issue on which to go before the people;<sup>123</sup>

King insisted that the only campaign issue was national unity and efficient prosecution of the war effort. Yet, by dissolving parliament and postponing the long awaited Rowell-Sirois Report, any opportunity for meaningful discussion of public finance, wartime mobilization and so forth was lost. The Conservatives had no knowledge base to debate war strategy with the Liberals, while the CCF was robbed of any momentum and legitimacy that the Rowell-Sirois Report might have provided to its domestic reform agenda. With the government successfully manipulating the electoral agenda, the Conservatives flayed away at the concept of a National Government for wartime.<sup>124</sup> The CCF was marginalized by its 1936 policy convention commitment of strict neutrality in military conflict. The Liberals were re-elected on March 26, 1940 with

an increased majority. In the midst of the campaign, *Maclean's* parliamentary correspondent described the non-election:

As this is written, Prime Minister King's Blitzkrieg election shows little sign of Blitz. Actually, it is the oddest election, one of the dullest and most baffling, that Canada has had in a generation. Nobody seems to put much heart into it, or much salt or conviction, and many don't seem to know exactly what it's about.

The fault is Mr. King's. When he blew up Parliament with sudden dissolution, he blew up with it nearly 100 questions the Opposition had placed on the Order Paper. Those questions concerned the Government's war effort; asked why certain things had been done, or left undone; asked about military, financial and economic measures; asked about this contract and that; asked about patronage, favouritism. Blown up with the House, these questions are lost; unanswered. There is no real way by which they can be answered. Instead of official replies that would go the record and which would be subject to check and audit, we are now getting rhetoric; charges and counter-charges; suspicions and innuendoes; answers which no one can say are true or untrue – the usual platform bombast.

It is a desperate loss. Had Parliament not been blown up, had the House sat even a fortnight, it would have been possible to have questions answered, to have documents and records produced, to have officials called to give evidence. That done, and an election called, the public could have pieced together the picture; would have something to go on – and vote on. The public, as it is, has little to go on – or vote on. Mr. King, for some extraordinary reason, locked away the files. The jury must hear the case – or the summing up of the case – without hearing or seeing the evidence. Must take Mr. King's say-so – or Dr. Manion's.

No wonder the jury is confused.<sup>125</sup>

The Liberal victory, therefore, involved no public ratification of a policy direction; indeed, one journalist warned the government that “it would be an error of the first magnitude to suppose that it was in any respect a partisan victory”.<sup>126</sup> In fact, it soon became clear that the election was a sideshow to the real policy development process taking shape inside the key departments of state. Here the completion of the Rowell-Sirois

Report set the stage for a restructuring of state-economy relations and federalism under the leadership of the techno-bureaucrats.

The commissioners finally tabled their work in Parliament on May 10, 1940. The post-election policy development process began in earnest in the summer of 1940 as the Cabinet received representations from senior civil servants to convene an inter-governmental conference to announce full federal support for the Rowell-Sirois framework and to mobilize provincial consent for its immediate implementation.<sup>127</sup> The commission report had been warmly received within the upper echelons of the civil service, particularly from the officials at the Bank of Canada and Department of Finance who had overseen its appointment and staffing. The bureaucrats pointed to the Prime Minister's recent movement on the unemployment insurance question and urged similar action on the Rowell-Sirois recommendations. They suggested that the government use the demands of war as an opportunity to forge popular and inter-governmental support behind reconstruction of fiscal arrangements and economic policy practices. The case from the bureaucrats to the politicians was straightforward:

Reforms that were desirable yesterday are today essential; there can be no question of the urgent necessity of strengthening the Canadian economy both to make the maximum possible war effort and to face the post-war adjustments that will be necessary... If this were understood by the public might not an effort to deal with the Report receive popular support; and so far as the provinces are concerned, might action not be represented as the first constructive piece of work which provinces could do on the home front?<sup>128</sup>

That this strategy for coalition-building in support of the Rowell-Sirois framework had been rejected by the Cabinet during the 1940 election was not lost on the bureaucratic advocates.<sup>129</sup> They insisted that the conference's success depended on it being "preceded

by a campaign of public education, 'making clear that the Dominion has adopted the principles of the Report and that it is convinced of the urgency of adoption' ".<sup>130</sup> In response to concerted pressure from the bureaucracy, the new Liberal government in one of its first major initiatives began preparations for a Dominion-Provincial conference for "obtaining agreement to the full adoption of the recommendations of the Report".<sup>131</sup> Federal Finance Minister J. Hsley met with his provincial counterparts while key contributors to the commission such as W. A. Mackintosh, J. A. Corry, and J. Sirois were asked to draft the federal government's position.

In January 1941, the first ministers met in Ottawa to find the political consensus necessary to begin implementation of the new framework. The federal government's goal was to demonstrate the urgency of fiscal and jurisdictional change if the country was to defeat fascism and to manage the transition to peacetime in a politically unified and financially viable way. This argument was made strongly in both the Prime Minister's opening speech announcing the government's general support for the Report, and the Finance Minister's statement on the specific revenue and expenditure transfers, including the National Adjustment Grant.

Mackenzie King now "recognized that the federal Government must indicate its willingness to implement the main recommendation of the Sirois Report".<sup>132</sup> He stressed how the commissioners had "outlined the situation clearly":

They have shown how in a rapidly changing world, the position of Canada is changing; how a great inter-dependence and instability of international trade had profoundly affected Canada because our economy is so closely geared to international markets and how the changing industrial structure and changing standards of social obligation had created difficult internal problems which did not exist two generations ago.<sup>133</sup>

He then indicated the federal government's new position:

The commission have worked out a carefully balanced solution. They have recommended what they consider the minimum of change necessary to effect a substantial improvement in the ability of the various governments of Canada to perform their needed services. The recommendations of the commission, we believe, are, at least, as much in the interests of the provinces as of the dominion.

... the report commends itself strongly to our judgement. It is our considered view that the adoption of the commission recommendations is necessary to put our country in a position to pursue a policy which will achieve the maximum war effort, and at the same time to build a sound foundation for post-war reconstruction. That is our conviction, after a careful study of the report and its recommendations.<sup>134</sup>

Despite Mackenzie King's post-election conversion, the three premiers who had challenged the initial appointment and subsequent activities of the Rowell-Sirois Commission restated their objections at the conference. The fact that Ontario, Alberta and British Columbia would in all likelihood contribute rather than receive the adjustment grant funding proposed in the Report added another dimension to their defense of provincial rights and revenue. According to one contemporary observer, the provincial governments "looked on the Report as a preliminary to the 'horse-trading' which must be the basis of any agreement."<sup>135</sup> However, in the face of initial provincial resistance, the Prime Minister rapidly retreated and pursued no further negotiation on a settlement. For all intents and purposes, the conference ended after the eleven ministerial opening statements. The various working committees on the details of implementation ranging from finance, labour and unemployment matters to constitutional mechanisms were cancelled on the conference's second day. King would proceed no further, choosing to wait for the day when "the provinces will have come to see, that the Sirois Report is,

after all, what is best for them as well as for us”.

In effect, this 1941 non-conference confirmed, as had the 1941 non-election, that there would be no political passage into the era of Keynesian style economic and social policy. Although the federal government had now shifted its thinking to accept the commission generated solutions, no progress had been made in building societal alliances or constructing a coalition for constitutional amendment to implement the new ideas. The 1940 election and the 1941 conference became further chapters in the unfolding story of political stalemate that extended Canada's period of policy drift into the 1940s. Significantly, following the conference, politicians responsible for extending the impasse by leaving the commission framework on the table were roundly condemned in the national media. J. L. Granatstein recorded that in response to the latest failure: “The blame was spread around by the newspapers, but most was affixed to ‘Canada’s three saboteurs’, Hepburn, Aberhart, and Patullo, although the Prime Minister came in for his share of attack for his unwillingness to provide a forceful lead”.<sup>136</sup> H.K. Thompson from the CMA expressed the general frustration with the governing politicians: “Everyone is begging for leadership these days and leadership will see that this report is put in effect and not pigeonholed”.<sup>137</sup>

Of course, Canada's part in the war had to be financed, and for this purpose the concentration of taxing power recommended by the commission was a necessity. The federal government succeeded in reaching an agreement with the provinces, by which they suspended the use of the personal and corporate income taxes for the duration of the war in exchange for annual payments based on the revenues they had been receiving from

them. The federal government also imposed succession duties in addition to those collected by the provinces. The rationale and tactics for such federal action were developed in the Finance Department and announced through the 1941 Budget that followed the Dominion-Provincial Conference.<sup>138</sup> Mackenzie King, whose resentment of the techno-bureaucracy was never far from the surface, was moved to observe that the federal government was fortunate to have Finance Ministry advisors who were "very clear and far-seeing in financial affairs."<sup>139</sup>

In the end, it was the necessities of war and actions of techno-bureaucrats that combined the ingredients of policy innovation – circumstance, ideas, and strategy – in a way that the necessities of Depression and the actions of politicians had not. The 1941 inter-governmental conference set the stage not for political construction of the Keynesian welfare state but for an emergency unilateral invasion of provincial revenue fields by Ottawa. The budget announced the Wartime Taxation Agreements which adopted the financial transfer proposals of the Rowell-Sirois Report, but deliberately defined their application narrowly in terms of war needs unrelated to any of the stabilization, employment and redistributive goals packaged by the commissioners. Progress on these larger institutional and policy relationships would provide the agenda for the wartime committees composed of senior civil servants mandated by the politicians to find a way to overhaul the state system's fiscal capacity for the peacetime transition.

The Finance Department initiated strategies for securing the federal revenue base and policies for managing the economy of the nation. Officials from Finance and the Bank of Canada quickly organized themselves into formal working groups and committees. At

the same time, numerous boards and agencies were introduced for intensive state direction of economic life, with emergency measures ranging from wage and price controls to investment steering, production quotas, public ownership and labour skills training. Many of the key activists now working inside the state had been leaders in the commission process of the late 1930s, in some cases as key policy idea generators.<sup>140</sup>

During this period, the three central themes woven into the Rowell Sirois Report provided the common language for a techno-bureaucratic policy offensive: Keynesian macro-economic management; financial centralization and provincial program discretion; minimum national social standards and regional wealth transfers. Empowered by their mastery of these policy concepts and institutional relationships, civil servants and expert advisors assumed crucial strategic planning roles. Meanwhile, the political system remained adrift in inter-governmental division and Cabinet tentativeness on the key domestic questions raised by the Depression and postwar reconstruction.

Federal politicians had been unable and unwilling to use either electoral or inter-governmental processes to cultivate regional and class coalitions for constitutional adjustment to facilitate policy action. Consequently, a technocratic policy development process was engaged based on negotiated fiscal transfers within the existing division of powers that would allow incremental movement on the economic and social policy ideas brought forward by the commissions.<sup>141</sup> By 1942, Canada was well on the way toward implementing a version of the national policy model associated with the international Keynesian revolution. The next section describes the wartime bureaucratic offensive that dominated Canadian policy formation across the 1940s, culminating in the confirmation



of the federal government's Second National Policy by the decade's end.<sup>142</sup>

## **2.5 Implementing Canada's Second National Policy: Techno-Bureaucratic Entrepreneurship**

At about the same time that the inter-governmental conference on the Rowell-Sirois findings ended in political impasse, two committees were created inside government to oversee the war economy and to plan postwar economic and social reconstruction.<sup>143</sup> The first of these committees was the Economic Advisory Committee (EAC) and the second was the Committee on Reconstruction (CR). In their composition and in their conceptual orientations both of these committees reflected the influence of the 1930s commission process – its ideas and personnel – on official policy making in the early and mid 1940s.<sup>144</sup> In 1943, a policy compromise based on a synthesis of existing economic and social welfare ideas was organized under the auspices of a third postwar planning body, the EAC's sub-committee on reconstruction chaired by W. A. Mackintosh. This sub-committee assumed direct control within government for the preparation of the postwar economic and social policy framework as it was articulated in the 1945 White Paper on Employment and Income and elaborated through the reconstruction conferences of 1945-46.

These three committees provided the institutional bases for the federal state's techno-bureaucratic economic idea network crystallized in the late 1930s. However, the rather cool and at times competitive relations that developed between the EAC and the CR demonstrated that within this coalition there remained alternative points of policy

emphasis and approaches to implementation of the new ideas. These differences within the coalition were played out inside the state between 1941 and 1943.<sup>145</sup>

The CR's sponsoring Ministry was the Department of Pensions and National Health, and its focus was on developing a social policy agenda for recovery and reconstruction. The CR was not a bureaucratic committee per se; rather it was an internal advisory committee to the Minister staffed not by permanent civil servants but by a cross-section of academic, business, and labour elites who had been visible in the commission-based idea network of the 1930s. Labour, for example, was represented by T. Moore who had served on the NEC. For research and report writing, the CR hired Leonard Marsh, in the 1930s a leading member of the LSR who had published critical commentary on the NEC and had presented the views of the LSR during the Rowell-Sirois hearings. In both activities, Marsh had sought to extend the progressive inclinations of the commissioners in a social democratic direction.<sup>146</sup>

Under Marsh's influence, the CR's reconstruction framework featured three major social welfare initiatives: public health insurance, family allowance benefits, and active labour market measures in support of full employment. Elements of this agenda were presented by the CR in various fora throughout 1941 and 1942 in briefs to parliamentary committees, in memoranda to the Minister, and in an interim report for consideration by full Cabinet and the senior civil service. In 1943, the full-blown statement of the CR position came with the unofficial publication by Leonard Marsh of his own report on social security.<sup>147</sup> There Marsh developed the core argument tying together the CR views that a national economic policy commitment to stable employment

must be sustained through both universal social policies for income maintenance and comprehensive labour adjustment services and retraining programmes. In its implications for postwar capitalism and federalism, Marsh's report moved beyond the boundaries for state-economy and inter-governmental relations mapped by the NEC and the Rowell-Sirois Commission.

The Marsh report, and the impressive mobilization of ideas and bureaucratic resources by the CR that lay behind it, marked another step in Canada's technocratic journey toward the Keynesian welfare state. Not only was the media eager to lavish favourable and extensive coverage on Marsh's monograph but its release also drew the interest of the Canadian state's other major wartime planning committee, the inter-departmental EAC.<sup>148</sup> The EAC was a permanent planning body composed of civil servants from the Finance Department and the Bank of Canada – the principal bureaucratic sponsors and intellectual architects of the NEC and Rowell-Sirois Commission including G. Towers, A. Skelton, W. Clark, and W. A. Mackintosh. Their preoccupation was with wartime fiscal capacity, and to a lesser extent, postwar economic management, concerns which they saw as prior to (although not unrelated to) Marsh's social policy focus. According to J. Granatstein, these bureaucrats were alarmed at how Marsh's proposals stretched the limits of the reform framework introduced by the NEC and deepened by the Rowell-Sirois Commission.<sup>149</sup>

In response, they took action along two lines. First, they decided to expand the horizons of the EAC's work beyond its preoccupation with the financial administration of the war, and second, sought and received approval for a new sub-committee on

reconstruction that would consider the points of convergence between the CR's social reform prescriptions and their own evolving macro-economic model. Leonard Marsh was invited to sit on the committee. In January 1943, Mackintosh was appointed chair of a new reconstruction planning committee which added Marsh's name to a membership list otherwise drawn from the EAC.

The impact of the new sub-committee on the direction of policy promotion within the bureaucracy suggests that the process was one of takeover rather than merger. Within months, the new group absorbed limited aspects of the CR social security discourse into the EAC's macro-economic management framework. In the end, the CR's – or at least Leonard Marsh's – larger vision of state intervention and institutional reform in the national labour market to support employment commitments was marginalized. The rationale for the sub-committee's approach to the CR agenda was rooted in the growing confidence that Clark, Mackintosh and their cohorts in the economic Departments shared in the Keynesian-inspired doctrine of employment stabilization and income growth through demand management. Expectations dating back to the mid 1930s about the possibilities for expert application of these techniques had been substantially confirmed by experience in the wartime laboratory.

Consequently, the EAC sub-committee could make three arguments against the CR conception of the state's reconstruction agenda. First, they could claim that the theoretical refinement and empirical results of Keynesian-style management apparent by 1943 rendered the more intrusive remedies offered by Marsh essentially beside the point. There was no need for politicians interested in effective economic management to burden

themselves with long term institutional change and societal reform because the market's periodic downturns could remain short term through expert counter-cyclical tax and budgetary adjustment. On this basis, the sub-committee looked favourably on only one aspect of the CR social policy package – the proposal for family allowance and child benefits. Such an initiative could take its place alongside unemployment insurance as one of the programmatic cornerstones of the Keynesian regime, contributing to a pattern of income distribution and consumer spending maintaining aggregate demand across the business cycle. Moreover, family allowance payments were viewed as instrumental in a wider trade-off with organized labour whose representatives had voiced concern about wage controls in another wartime state planning forum, the National War Labour Board. By supplementing household incomes, family allowances became social transfers preserving wage stability in the face of rising fears about postwar inflation.<sup>150</sup>

In these terms, the sub-committee saw the family allowance as one of the macro-economy's 'automatic stabilizers'. In the Rowell-Sirois Commission the technobureaucrats made the case that regional income redistribution could further the political goal of national unity; now the same policy intellectuals refined their argument that social income redistribution could facilitate the political goal of economic stabilization. The foundations of the federal government's Second National Policy were in place. The Liberal Party – in power but peripheral to the policy debates and developments – was poised to reap the electoral rewards of the attractive policy synthesis.

At this point it is necessary to take account of shifts in popular attitudes and party politics that were forcing the Liberal government to 'go public' with its support for the

ideas percolating inside the bureaucracy and advisory committees. David Wolfe has identified a number of factors that by 1942 were converging to generate broad societal support for an expanded view of government's role in the economy and the social entitlements of citizens in society.<sup>151</sup> These factors, all related to the war experience, were: increased awareness of the potential of economic planning to accelerate production; the steady growth of organized labour as industrial activity greatly increased; the concern that a replay of the government's 1930s passivity in domestic reform would lead to a return to Depression conditions; the release of the Atlantic Charter by the allied leaders recognizing the government's responsibility for minimum living standards and social security; and the Soviet Union's role in the allied struggle which allowed for a temporary widening of the political debate to include more balanced consideration of socialism and communism.

These attitudinal shifts and wartime developments provided the context for an unexpected renewal of the two main opposition parties in Canadian politics. In 1942, the Conservatives made leadership and ideological changes that abruptly ended decades-long resistance to economic and social innovation. John Bracken, former Progressive Premier of Manitoba, was elected party leader. In the late 1930s, he had been perhaps the most well-known and persistent political defender of the policy departures mapped by the NEC and Rowell-Sirois Commission. This reputation was amply confirmed at the 1941 Dominion-Provincial Conference. Bracken's ascent to the party's apex brought with it an official name change (to the Progressive Conservatives) as well as acceptance of a platform celebrating federal preeminence in a new era of state activism. The contrast with

the tenor of the Bennett Conservative leadership regime was sharp.

For its part, the CCF, always a sympathetic critic of the commissions of the late 1930s, experienced a sudden upsurge in public support, as well as greater organizational and financial backing from the trade unions. The party's increased strength was demonstrated in a series of federal by-elections and provincial elections from 1942 to 1944, peaking in the historic breakthrough in Saskatchewan where North America's first socialist government was formed in 1944.

Caught off guard by these pressures, Mackenzie King and his closest political advisors scrambled to reposition the Liberal government. In 1941, the government's acceptance of the Rowell-Sirois Commission's blueprint had been widely applauded in the national media, but neither the Cabinet nor the Liberal Party had undertaken any campaign of public education that might identify the party as determined advocates of domestic reform. By 1943, the Liberals had no organizational structure for such policy dialogue and development, and the Cabinet, according to one inside observer, had "lost the will to step outside the line of war policy already grooved".<sup>152</sup>

The impetus for change came from the Prime Minister's Office where Jack Pickersgill and Brooke Claxton called a meeting of the Advisory Council of the National Liberal Federation to ratify a new platform from policy resolutions that they had quickly cobbled together, drawing on the techno-bureaucratic idea bank.<sup>153</sup> In September 1943, the Liberals embraced a "5-point program" featuring government commitments in social welfare, reconstruction planning, and labour relations policies. However, the opportunism inherent in this top-down 'revival' of the governing party did not go unnoticed, even by

key members of the Cabinet. C. Power conveyed his concerns about the limits of this kind of party politics and policy development process:

All reports indicate that in spite of a period of hope engendered by a meeting of the National Liberal Federation, the spirits of our members are at a very low ebb. There is talk of not presenting themselves again, of not holding meetings, of not discussing political matters with their electors, of discontent against the government ...<sup>154</sup>

In the aftermath of the governing party's manoeuvring, the policy development role of the techno-bureaucrats assumed greater significance. The Liberals had publicly shifted their outlook, but there was no Ministerial leadership, much less a party-based policy idea network, driving or sustaining the change process. As such, intellectual direction and strategic leadership continued to come from inside the state apparatus. Here, the EAC sub-committee was ready with its family allowance proposal and a formal statement of the new economic management paradigm. The sub-committee's integration of social and economic policy was given concrete expression in the government's two major initiatives of 1944 and 1945: family allowance legislation and the White Paper on Employment and Income. In both cases, the process of policy generation, advocacy, and execution was dominated by key civil servants based in the EAC sub-committee. The Cabinet and the Liberal Party had bit parts in the production. W. C. Clark, Deputy Finance Minister, sold the Cabinet on the idea of family allowances in a series of policy seminars prior to the 1944 Throne Speech. W. A. Mackintosh provided similar leadership in the creation of the White Paper. From 1945 to 1947, they combined to define the terms for the inter-governmental negotiations required to implement the new policy model.



Clark's mobilization behind family allowances actually proceeded in the face of early indifference, bordering on hostility, from the Finance Minister J. L. Hsley. Hsley was both Clark's direct political master and the politician responsible for budget matters. It was Mackenzie King's judgement that Clark's exposition of the political and administrative logic behind family allowances was integral to a new conception of economic and social management that neutralized resistance from senior ministers such as Hsley, C. D. Howe, and T. Crerar.<sup>155</sup> In advancing the proposal, Clark built alliances with sympathizers in the Prime Minister's Office such as J. Pickersgill and B. Claxton. He also used influential media contacts for "transmitting civil service views to the public as a means of smoothing the way for the program".<sup>156</sup> Douglas Owsram has concluded that as regards the new economic and social policy relationship "only the braintrust' fully understood these implications and it was they who made the family allowances the center-piece of government policy".<sup>157</sup>

Clark's influence was manifest in the 1944 Throne Speech that formally announced intentions in the areas of social security and employment policy. The speech also proposed establishment of a new Department of Reconstruction under C. D. Howe to coordinate the transition to peacetime and the inter-connected policy departures. In this context, Mackintosh's role became significant in 1945. Appointed as the economic research director in the Reconstruction Department, he authored the statement which officially ushered in the era of Canada's Second National Policy. The White Paper summarized the refinements on the commission discourse made by the techno-bureaucrats in the war years and established the parameters of the new federal order. Mackintosh's

reflections on the White Paper process are revealing of the relationship between ideas, politics and administration that distinguished Canada's Keynesian revolution. Concerning ownership of the initiative he wrote:

The suggestion that such a statement be issued was my own. I had for some months been worried by the preoccupation of ministers with immediate matters, the uninformed proposals emerging from various sources and the lack of comprehension among industrialists. ... The White Paper as it appeared was written entirely by me except for two easily identifiable paragraphs added by Mr. Howe. The scope and pattern were mine. When I say the Paper was written by me, this covers all degrees of writing from genuine authorship to the work of amanuensis.<sup>158</sup>

After Mackintosh had "prolonged discussions" on the substance of the statement with his inter-departmental colleagues, he turned to the elected representatives for speedy ratification:

I was fortunate in that the Cabinet named Mr. Howe, Mr. Ilsley and Mr. St. Laurent as a committee to review it and make a recommendation to the Cabinet. ... We spent the greater part of a day on it. I was forearmed with a text which I had underlined in different colours the specific commitments, the general statements of policy, the implied commitments and all statements in the name of government. I required specific approval to each, or alternatively amended wording. By the end of the day, they were visibly wearied by my schoolmasterish drill, but they approved the text for formal acceptance by the Cabinet, having made no change of substance.<sup>159</sup>

Mackintosh concluded by underscoring the depoliticized context that surrounded the government's adoption of the White Paper and its Parliamentary introduction. He was clear in disassociating the document's development from any innovative party mobilization or strategic political leadership. Far from being viewed as the foundations for a policy mandate, Mackintosh recalled that the White Paper

... was not conceived as an election document nor shaped as one. Mr. Howe accepted it with reservations and gave no evidence of considering it politically

important. I do not recall that it received more than occasional mention during the election.<sup>160</sup>

The substance of the federal government's White Paper underscored the technocratic nature of the Canadian policy development process. The White Paper's policy agenda signalled a departure from both the wartime regime of state economic control and regulation, and the ad hoc defence of laissez faire dogma characteristic of the 1930s. In the 1945 statement, the key premise was that the performance of the private economy could be enhanced by public policy. The vehicle for positive action was the annual budget, no longer viewed as a static exercise in financial accounting but as a dynamic process of balancing the stocks and flows of the macro-economy. In the 1930s, fear based on lack of knowledge about the consequences of intervention had been an important factor anchoring the politicians to the orthodoxy of sound finance. Now theoretical breakthroughs from the late 1930s, combined with empirical progress in wartime, had opened new possibilities for action based on scientific analysis of where the market economy was headed and how its equilibrium could be safeguarded.

In this sense, the White Paper was technocratic rather than political in its orientation to public policy formation. It described a process of economic management guided by neutral expertise. This was distinct from any political mobilization committing the government to an outcome – for example full employment – and proposing institutional changes such as investment planning or formalized tri-partite negotiation to reach the goal. Avoiding what Mackintosh termed “impractical and illusory schemes for which there was neither the know-how nor a demonstrated need”, the White Paper sought only “high and stable levels of employment and income”.<sup>161</sup> This could be achieved through

manipulation of the four components of national income now systematized in the Keynesian framework: government expenditure, consumer spending, export income, and private investment. The measures available to governments for this balancing act included taxation, public works, social security automatic stabilizers, and international tariff reduction. In essence, the White Paper restated with more confidence and clarity the synthesis of Keynesian concepts and the Canadian staples approach first tabled through the NEC and refined in the Rowell-Sirois Commission. The focus was on the state's technical capacity for offsetting fluctuations in private investment and in adjusting the economy to international market forces.

The necessary counterpart to the White Paper was the Green Book, formally known as Proposals of the Government of Canada for the Dominion-Provincial Conference of 1945. The Green Book dealt with the inter-governmental and constitutional implications of implementing the White Paper's agenda. Here the familiar arguments from the Rowell-Sirois Report for a more centralized system were restated, now in more sophisticated terms reflecting the conceptual integration of social security and macro-economic management. The federal government alone would levy personal and corporate income taxes and collect all succession duties in return for unconditional annual subsidies to the provinces, and the federal government would assume responsibility for high employment, unemployment relief, and old age pensions. These proposals were developed and clarified in meetings of the Economic Committee, with W. C. Clark and W. A. Mackintosh the principal federal spokesmen. As Maxwell Cohen wrote in the weeks leading up to the 1945 conference:

The failure of the 1941 conference to consider these proposals, while a sad commentary on the political leadership of the time, was, however, in the perspective of the years, perhaps a quite good thing to have happened. ... for the Sirois report has aged well in its presentation of the historic pattern of the pre-war and post-war problems, while the knowledge and experience gained in living and working in a Keynesian wartime economy has broadened the view and refined the fiscal technique of those administrators upon whose advice for the post-war both the central and local government will so heavily rely.<sup>162</sup>

Throughout the negotiations for the postwar national policy model, Mackenzie King's resentment of the techno-bureaucratic architects of the federal government position continued to grow.<sup>163</sup> But these feelings were never publicly expressed, and they had no substantive impact on his government's official thought and action from 1945 to 1947. The Prime Minister stewed privately, confining his critique to entries in his diary. From these writings, it is clear that King felt the experts had moved the policy process in a direction poorly understood and weakly supported by the politicians. They had imposed an intellectual framework which the Ministers had not grasped, made a series of spending commitments which the Ministers never really endorsed, and proposed a political strategy that was at odds with the basic orientations of the governing Liberal Party. In all of this, the Prime Minister was acknowledging the remarkable influence of the techno-bureaucrats and the power of their vision of Canadian federalism and capitalism. Despite his private objections, the public position of the federal government in the three key political contexts for postwar planning – the 1941 Rowell-Sirois meeting, the 1945 election, and the 1945-46 reconstruction conference – followed the ideas and strategy of the techno-bureaucrats. Behind closed doors, King:

did tell Cabinet quite frankly that the main source of difficulty had been we acting at the instance of the Bank of Canada and through Clark who was closely associated with others in the Bank. ... It makes me really very sad to

see how this whole ground has been turned out from under us and the position which was sound. The Liberal position which we had held for years is now being turned against us.

I feel very strongly we have been put in an entirely false position as a Liberal party by the way things have been handled by the Finance Department in regard to Federal-Provincial relations. ... Indeed, there is far too much Bank of Canada influence on the Finance Department and the Finance Department on Government policies ... It was the arbitrary stand of the Finance Department which exasperated all the Premiers. (One) said he did not come down here to be greeted pleasantly by Ministers and then turned over to Deputies, with all of which I have the utmost sympathy.

Dr. Clark is really the one who is responsible for members of Government not doing what I think the judgement of most of them inclines them to do. Hsley feels helpless without him.<sup>164</sup>

King went so far as to indicate not only sympathy for the provincial premiers, but support for their position in relation to the one taken by his own government. After hearing from Premier Drew of Ontario, the Prime Minister noted:

I confess I was more sympathetic with his point of view than I was with our own. Except as a temporary measure to meet the situation in this transitional period, and as it has grown out of the war, I would not try to defend our position for a moment. ...Clark, however, always raises objections to this on the score that we must have all the fields to be able to meet what will be required in the way of taxes. The truth is the Finance Department has allowed such tremendous expenditures, and made so many commitments that it finds itself in the position that is going to be very difficult to work out.<sup>165</sup>

King continued to note that two of his Cabinet colleagues, Hsley the formal sponsor of the fiscal proposals and Claxton of the social proposals, reminded him that he "had approved the brief which was presented at the start" of the Dominion-Provincial Conference. More generally of course, the Liberal government had been re-elected in 1945 apparently accepting that the "achievements of full employment and social security will require no less careful planning, skilful organization and wise direction than has been needed in achieving a maximum war effort".<sup>166</sup> The Prime Minister may have rejected

his own government's position, but it was that position from the techno-bureaucracy which was presented to the public in the 1945 election, and framed the inter-governmental negotiations for a postwar national policy model modifying Canadian federalism and capitalism.

However, the 1945 conference dragged into 1946 without political agreement on a new constitutional arrangement allowing full implementation of the new national policy model. The conference's principal achievement, then, was to authorize continuation of the basic wartime fiscal transfer arrangement through negotiation of a formula for federal 'renting' of provincial income tax, both to avoid double taxation and to allow for some inter-provincial wealth redistribution based on fiscal need.<sup>167</sup> As such, initiative and authority on postwar policy matters remained with the civil servants who carried on official-level talks for administrative collaboration in the financing and implementation of the more limited inter-governmental fiscal agreements and shared-cost grants. In describing the implementation route followed by the White Paper and Green Book policy proposals after the 1945 conference, A. Cairns has written: "pragmatism and expediency at the political level of cabinets allowed a degree of bureaucratic autonomy for specialists to work out agreements with counterpart civil servants in the other jurisdiction ... federal-provincial relations were handled in discrete categories by specialists, guided by professional norms..."<sup>168</sup>

Implementation of the new policy ideas proceeded incrementally through bureaucratic negotiation of inter-governmental fiscal arrangements, sparing a generation of risk-averse federal political leaders from the political troubles associated with securing

formal constitutional change to allow bold state action. A pattern of 'experts on top not on tap' was consolidated as "Dr. Clark's boys" took their place as the "Ottawa men".<sup>169</sup> This chapter has argued that Canada's techno-bureaucratic passage into the postwar Keynesian era was rooted in the relationship between holders of scientific policy knowledge and representative institutions forged during the 1930s crisis period. In 1953, Mackintosh reflected on the techno-bureaucratic biography of the postwar federal policy framework:

**These developments have come as the result of a relatively long background of thinking. The approach was one which was recommended in 1938 by the National Employment Commission, in 1940 by the Royal Commission and later by the Federal Government itself in its reconstruction proposals. It represents a fairly firm Canadian view of a proper line of development.<sup>170</sup>**



## Conclusion

This chapter has described the generation and adoption of Keynesian economic management and social welfare policy ideas in Canada during the Depression and wartime years. In the face of protracted fiscal and social crisis, the King government finally responded in the late 1930s by appointing commissions of inquiry mandated broadly to explain the origins of breakdown and chart the course beyond. These commissions became institutional focal points in the national political system for the mediation of popular struggles and for the creation of new economic-constitutional categories. Royal commissions, rather than governing parties and politicians, were critical in organizing processes of policy renewal common to all capitalist democracies in the interwar and wartime periods. In their wake, the context for partisan politics and inter-governmental bargaining in Canada were transformed. Through the commission-based idea network a new national economic policy model was put in place.

Non-partisan policy intellectuals packaged new concepts of economic governance – countercyclical stabilization, national adjustment grants, automatic social stabilizers etc.

to respond to the crisis and redefine state-society relations. In wartime, the technocratic experts gained official sponsorship for their ideas through communication with and participation in top echelons of the federal bureaucracy. As such, the economic policy learning process became housed within a techno-bureaucratic network of public inquiries and inter-departmental committees. This network generated a new school of thought eventually accepted, albeit reluctantly, by politicians in power.

In Canada, Keynesian concepts galvanized a generation of policy intellectuals while

rem. 'ining marginal to the political process since economic ideas were not used by leaders to cement alliances and coalitions for a party-led realignment. Throughout the Depression and into the war period, Canada's federal party system remained oriented to personality politics and cultural accommodation. Moreover, the interest group system was too fragmented to build support for nation-spanning policy projects or initiate modes of 'political exchange'. Regular political channels of policy development and interest representation remained dysfunctional to economic innovation.

**\*A Note on the International Dimension of Canada's Idea Network and Policy Model**

The national policy model that was put in place at the end of the war had an international dimension that complemented the domestic stabilization package.<sup>171</sup> In fact, there was a parallel process of policy learning in the 1940s shaped by the lessons drawn about the 1930s collapse of the world economy by officials primarily located in the Department of External Affairs.<sup>172</sup> Just as the domestic orthodoxy of sound finance and responsible government was discredited by the Depression, the international recovery strategies of currency devaluation and tariff protection were reinterpreted as dysfunctional 'beggar-thy-neighbour' approaches that not only failed to trigger economic recovery but set the stage for war. Here officials from External Affairs, supported by the Finance Department and Bank of Canada, played an active role in the construction of a new peacetime international economic regime. Global trade and finance would be governed by principles and codes of conduct, enforceable through multi-lateral dispute settlement processes. The goal was to allow governments to implement their new domestic

stabilization goals while also preserving international equilibrium.

The central institutions in this postwar regime were the General Agreement on Trade and Tariffs (GATT) and the International Monetary Fund (IMF), both created in the second half of the 1940s. The IMF was responsible for regulating exchange rates at fixed levels by providing support to deficit countries to maintain payments balances without resort to import controls or currency devaluations. The GATT was responsible for trade and investment issues, limiting the use of national barriers and organizing dispute settlement. These institutions were conceptually linked by their architects through common intellectual roots:

The two institutions were built on the proposition that a liberal system based on agreed rules would lead to prosperity and growth for its members, and in turn contribute to peace and stability. They assumed the theory of comparative advantage and the premise that the competitive forces at work in international trade and the effective operation of the price system would benefit the world economy and the economies of individual countries.<sup>173</sup>

Embedded in liberal economic theory, these institutions were guided by three basic operational principles: multi-lateralism; non-discrimination; and fixed exchange rates. To support these principles in practice, the international regime evolved two further institutional entities to provide ongoing intellectual direction and political-bureaucratic consultation: the Organization for Economic Co-operation and Development (OECD) and the Group of 7 Summits.

Across the postwar period almost all governments have conveyed general support for these principles and institutions. At the same time, however, the management of national economies and the formulation of development strategies have proceeded quite independently of the rules embodied in the international regime.<sup>174</sup> When faced with

trade-offs between domestic stabilization, adjustment or growth priorities and international equilibrium, states have made consistent and clear choices. As one Canadian Finance Minister put it following a Summit meeting: "In the end, everything really starts with domestic policy ... We can't change our policy as a base for doing something for another country".<sup>175</sup>

Indeed, Canada's record is instructive here since the federal government was one of the strongest backers of the new institutions in their formative years. Even during the so-called 'golden years' of Canadian diplomacy in the twenty years following the war, governments pursued courses of action that deployed measures inconsistent with GATT and IMF rules through processes that were not multilateral.<sup>176</sup> Canada has consistently acted either unilaterally or bilaterally to implement 'non-conforming' international trade and monetary policies.

Subsequent chapters in this study will describe this pattern in more detail. For now we can simply point out the range of areas where GATT-IMF disciplines have failed to constrain in any meaningful way Canadian economic decision making. Examples extend back to the earliest days of the international regime.

In 1947, Canada responded to balance of payments problems by imposing restrictions on imports rather than seeking financial assistance from the IMF. In 1950, Canada decided to allow its currency to float without prior consultation with IMF officials whose subsequent criticisms had no impact on the policy which remained in place for more than a decade. As regards trade policy, throughout the 1950s Canada maintained a level of tariff protection higher than almost all other GATT members, and in the 1960s

the federal government did not accept the broadly based reductions central to the 'Kennedy Round'. Instead, Canadian officials preferred sectoral agreements with the United States that involved negotiated access to selected markets. This alternative to the GATT's multilateral free trade agenda was developed further in the 1970s. At that time, a number of industrial policy instruments were introduced that challenged the principle of general benefits from the free flow of capital across borders in all sectors. In the 1980s, this thrust was reversed, but the new direction was not toward multilateralism. Instead, Canada entered into a comprehensive bilateral agreement with the United States that provided the foundations for a North American regional bloc quite distinct from the spirit and practice of multilateralism.<sup>177</sup>

Of course, the fact that national priorities have been set without serious regard for GATT and IMF principles does not imply that these institutions have not exercised some influence over Canadian economic policy making. Certainly, accounts of learning dynamics within the GATT and the IMF would enrich our story about domestic actors, networks, and innovation processes. Yet, the historical record indicates that long term options have been debated and development strategies implemented, notwithstanding the significant incompatibility between these policies and the obligations of the international regime. To a large extent, Canada's commitments have been formalistic and rhetorical. As such, the GATT and IMF have acted as obstacles in the limited sense that non-conforming measures and approaches often required justification, but that constraint quickly came to be viewed by decision makers as only an inconvenience. On key economic questions, international regime norms have not shifted the definitions of

Canadian policy problems nor limited discussion of feasible solutions. A focus on domestic idea networks, therefore, is critical to understand how Canada's national policy models have been formulated.

## Notes

1. See Brodie, The Political Economy of Canadian Regionalism, pp. 85-118.
2. See V. Fowke, The National Policy and the Wheat Economy (Toronto: U. of T. Press, 1957), pp. 3-9, 40-69; H. Aitken, "Defensive Expansionism: The State and Economic Growth in Canada," in W.T. Easterbrook and M.H. Watkins, eds., Approaches to Canadian Economic History (Toronto: McClelland and Stewart, 1967).
3. See C. Armstrong, The Politics of Federalism (Toronto: University of Toronto Press, 1981), Chapters 2-4. Also H. V. Nelles, The Politics of Development (Toronto: Macmillan, 1974).
4. See J. Mallory, Social Credit and the Federal Power in Canada (Toronto: University of Toronto Press, 1976).
5. Armstrong, The Politics of Federalism, pp. 4-5.
6. *Ibid.*, pp. 31-32, 145-148. See also: Mallory, Social Credit, pp. 42-45; R. Simeon and I. Robinson, State, Society, and the Development of Canadian Federalism, especially Chapter 4, pp. 31-56.
7. See Allen Seger and John H. Thompson, Decades of Discord (Toronto: McClelland and Stewart, 1985), pp. 26-27. Also B. Neathy, The Prism of Unity, 1932-39 (Toronto: University of Toronto Press), p. 153.
8. Mackenzie King explained that "as regards our revenues and expenditures " politicians must remain committed "... to responsible government in the fullest meaning of that term, whereby the governments that spend public monies must be the governments which, through the agency of taxation, raise what is to be spent." Quoted in Armstrong, The Politics of Federalism, p. 203. King's orthodox fiscal thinking is also described in Neathy, The Prism of Unity, pp. 30-31, 129-30, 150.
9. See Seger and Thompson, Decades of Discord, pp. 131-37. Also Armstrong The Politics of Federalism, p. 144.
10. Robert Campbell, Grand Illusions (Peterborough: Broadview Press, 1987), pp. 8-9; Brodie and Jenson, Crisis, Challenge and Change, pp. 158-64. Michael Cross and Greg Kealey, eds., Modern Canada 1930-1980s, (Toronto: McClelland and Stewart, 1984).
11. Brodie and Jenson, Crisis, Challenge, and Change, p. 162.
12. Hall, Governing the Economy, p. 63.
13. Seger and Thompson, Decades of Discord, pp. 197-99.
14. *Ibid.*, pp. 198-202.
15. See B. Neathy. "R.B. Bennett: The Business Executive in Politics," in B. Neathy, The Politics of Chaos (Toronto: University of Toronto Press, 1972).
16. Seger and Thompson, Decades of Discord, pp. 209-214.

17. See Canadian Problems as Seen by Twenty Outstanding Men of Canada (Toronto: Oxford University Press, 1933). Reprinted selections in J.R.H. Wilbur, ed., The Bennett New Deal (Toronto: Copp Clark, 1968), pp. 28-32.
18. House of Commons, Debates, September 8, 1930, pp. 5-7; March 12 1931, pp. 2-3; June 1 1931, pp. 2142-2195.
19. Armstrong, The Politics of Federalism, pp. 148-59.
20. Wilbur, ed., The Bennett New Deal, pp. 10-11.
21. Seger and Thompson, Decades of Discord, p. 221.
22. See C.B. Macpherson, Democracy in Alberta (Toronto: University of Toronto Press, 1953), pp. 221-230; Mallory, Social Credit, pp. 161-162.
23. W. Young, The Anatomy of a Party (Toronto: University of Toronto Press, 1969), pp. 48-49; Brodie and Jenson, Crisis, Challenge and Change, pp. 167-76.
24. For more detailed treatment of these movements, see Brodie and Jenson, Crisis, Challenge and Change, pp. 156-216; M. Horn, The Dirty Thirties (Toronto: Copp Clark, 1972); I. Abella, Nationalism, Communism, and Canadian Labour (Toronto: U. of T. Press, 1973); Cross and Kealey, eds., Modern Canada.
25. Major contributions to this literature include: P. Ehrensaft and W. Armstrong, "The formation of dominion capitalism," in A. Moscovitch and G. Drover, eds., Inequality: essays on the political economy of social welfare, (Toronto: University of Toronto Press, 1981); G. Laxer, Open for Business (Toronto: Oxford University Press, 1989); Simeon and Robinson, State, Society, and Canadian Federalism; Brodie and Jenson, Crisis, Challenge and Change.
26. A comprehensive resource base on the Bennett New Deal is Wilbur, ed., The Bennett New Deal.
27. R. B. Bennett, "The Fifth Address," reprinted in Wilbur, ed., The Bennett New Deal, p. 28.
28. Representative research Prism of Unity.
29. Mallory, Social Credit, p. 189.
30. J. Wilbur, The Bennett Administration, 1930-35 (Ottawa: CHA Booklets, 1969), p. 15.
31. Ibid., p. 16.
32. Neatby, The Prism of Unity, pp. 90-97.
33. Wilbur, The Bennett Administration, p. 19.
34. J. M. Beck, Pendulum of Power (Scarborough: Prentice Hall, 1968), p. 212.
35. I. Brecher, Monetary and Fiscal Thought and Policy in Canada 1919-1939, (Toronto: University of Toronto Press, 1957), pp. 200-201. See also, Beck, Pendulum of Power, p. 208. Beck concluded: "If the exigencies of the time required extensive remedies, they were not to be found in the Liberal



- programme".
36. Mallory, Social Credit, p. 51.
  37. "The Pot Simmers," Canadian Forum, (April 1932), pp. 243-244. Cited in Seger and Thompson, Decades of Discord, p. 230.
  38. Beck, Pendulum of Power, pp. 206-219. For an account of the Bennett-King competition in the 1935 campaign, see Seger and Thompson, Decades of Discord, pp. 272-276.
  39. Brodie and Jenson, Crisis, Challenge and Change, p. 181.
  40. Simeon and Robinson, State, Society, and Canadian Federalism, pp. 81-82.
  41. For an argument, with illustrative examples of different national experiences, about political change organized from below by popular forces and from above by state and corporate elites see Lash and Urry, The End of Organized Capitalism.
  42. Neatby, The Prism of Unity, pp. 153-154.
  43. See Simeon and Robinson, State, Federalism, pp. 81-82.
  44. Mallory, Social Credit, p. 189.
  45. Seger and Thompson, Decades of Discord, p. 279.
  46. B. Neatby, "The Liberal Way: Fiscal and Monetary Policy in the 1930s," in V. Hoar, The Great Depression (Toronto: Copp Clark, 1969), p. 102.
  47. J. Struthers, No Fault of Their Own (Toronto: University of Toronto Press, 1983), pp. 168-9.
  48. *Ibid.*, p. 175.
  49. *Ibid.*, p. 141.
  50. House of Commons, Debates, February 17, 1936, p. 242.
  51. Preamble, The National Employment Commission Act, April 8 1936.
  52. See Struthers, No Fault of Their Own, especially Chapter 5, and Neatby, The Prism of Unity, pp. 155-6.
  53. Canadian Forum, 16:184 (May 1936), pp. 3, 6.
  54. Struthers, No Fault of Their Own, pp. 143-144.
  55. See H. Logan, Trade Unions in Canada: Their Development and Functioning (Toronto: MacMillan, 1948), pp. 320-321.
  56. Struthers, No Fault of Their Own, pp. 153-155.

57. See D. Cwram, The Government Generation (Toronto: University of Toronto Press, 1986), especially Chapters 8-10.
58. F.H. Underhill, "The Conception of a National Interest," reprinted in F.H. Underhill, In Search of Canadian Liberalism, p. 180.
59. J. Granatstein, The Ottawa Men (Toronto: Oxford University Press, 1982), p. 156.
60. Struthers, No Fault of Their Own, p. 154.
61. Ibid., pp. 167-170.
62. Interim Report of the National Employment Commission, (Ottawa: King's Printers, 1937), p. 14.
63. Ibid., p. 11, 19.
64. Struthers, No Fault of Their Own, p. 170.
65. Ibid., pp. 164-165.
66. See David Wolfe, "The Delicate Balance: The Changing Economic Role of the State in Canada," Unpublished Phd. Dissertation, University of Toronto, 1980, pp. 310-318. Wolfe suggests that Mackenzie King's resistance to the interim report was critical in triggering the much stronger final report.
67. Neatby, The Prism of Unity, p. 255.
68. Struthers, No Fault of Their Own, p. 162, 172.
69. See M. H. Watkins, "The Political Economy of Growth" in G. Williams and W. Clement, eds., The New Canadian Political Economy (Kingston: McGill-Queen's Press, 1989), pp. 16-35.
70. NEC, Final Report, p. 28.
71. Ibid.
72. Struthers, No Fault of Their Own, p. 177.
73. NEC, Final Report, p. 49.
74. Ibid., p. 49.
75. Ibid., p. 45.
76. Ibid., p. 50.
77. For an extended treatment of this argument applied to countries other than Canada see, Bradford Lee, "The Miscarriage of Necessity and Invention: Proto-Keynesianism and Democratic States in the 1930s," in Hall, ed., Political Power, pp. 129-171. The term "ideological bulwark" is drawn from Hall's introductory chapter, p. 19.

78. As quoted in Struthers, No Fault of Their Own, p. 180.
79. Industrial Canada, (July 1937), p. 7. Further support for the NEC was indicated in June 1938, when Industrial Canada, the Canadian Manufacturers Association trade journal, featured a lead editorial from H.A. Michell, Professor of Political Economy at McMaster on Canada's employment situation. Michell began:

The final report of the National Employment Commission, published in April, 1938, which supplements and completes the interim report, is a notable document and demands close attention. It gives, for the first time, a detailed analysis of the whole situation with regard to unemployment up to September, 1937, and a close study of the figures it supplies will reveal much that is of value to a proper understanding of the situation which faces the Dominion. ... The considerations of broad policy to induce recovery are wise in pointing out the desirability of prudence and courage on the part of governments in curbing expenditures and reducing debts in periods of rising revenues.

See H. Michell, "Some Comments on the Report of the National Employment Commission," Industrial Canada (June 1938), pgs. 37, 40.

80. See "A National Attack on Unemployment?" in Canadian Forum (June, 1938); Struthers, No Fault of Their Own, p. 172.; see also the review of the NEC by Leonard Marsh, Canadian Journal of Economics and Political Science 5 (1939), pp. 80-85.
81. An opposition Member of Parliament used a baseball analogy to describe the Liberal reliance on the commission-based idea network for policy development. He remarked that the referral of issues to the Rowell-Sirois Commission was similar to the completion of "a double play in a baseball game, 'Rogers to Purvis to Rowell'". House of Commons, Debates, April 6, 1938, p. 2091.
82. Neathy, The Prism of Unity, p. 257.
83. House of Commons, Debates, June 16, 1939, p. 3146.
84. J. H. Dales, "Introduction," in W.A. Mackintosh, The Economic Background of Dominion-Provincial Relations (Toronto: MacMillan, 1978), p. 2. See also J.H. Perry, Taxation in Canada (Toronto: U. of T. Press, 1961), p. 307. Perry wrote that the Rowell-Sirois report was:
- a landmark in Canadian history comparable to Lord Durham's Report of a century before. Seldom anywhere has a similar attempt been made to weigh at one stroke the economic, political, and financial progress of an organized system of government from its conception, and to chart its future course.
85. Neathy, The Prism of Unity, p. 200.
86. Report of the Royal Commission on Dominion-Provincial Relations (Ottawa: Queen's Printer, 1954 printing), Book 1, p. 13. Hereafter cited as Report.
87. M. Prang, Newton Rowell: Ontario Nationalist (Toronto: University of Toronto Press, 1975), pp. 489-490.
88. Owram, The Government Generation, p. 240.

89. See M. Donnelly, Dafoc of the Free Press (Toronto: MacMillan, 1968), pp. 162-187; R. Cook, The Politics of John W. Dafoc (Toronto: University of Toronto Press, 1963) especially Chapter 8.
90. Owram, The Government Generation, pp. 240-242.
91. Prang, Newton Rowell, p. 490.
92. The Rowell-Sirois Commission was the first 'modern' public inquiry in that it supported the commissioners with an elaborate research infrastructure staffed by prominent experts who were charged to provide an authoritative historical-empirical mapping of the country's ills. The work of the Rowell-Sirois Commission research team was met with almost universal acclaim and respect. As we will describe in subsequent chapters, all future economic inquiries recruited similar teams of experts, and their work was a key input into commission 'discourse production' and related policy recommendations.
93. Mackintosh, The Economic Background of Dominion-Provincial Relations; J.A. Corry, Difficulties of Divided Jurisdiction and The Growth of Government Activities Since Confederation; D. C. Creighton, British North America at Confederation. All published as part of Appendix 111 to the Report, King's Printer, 1939.
94. Dales, "Introduction", p. 12.
95. Donnelly, Dafoc of the Free Press, p. 166.
96. Hearings, Rowell-Sirois Commission, pp. 6826-6850.
97. Hearings, Rowell-Sirois Commission, pp. 3086-87.
98. For example, see the presentation by the Toronto Board of Trade. The Board told the commissioners: "business and industry are more vitally interested in the efficiency and economy of government as a whole than even in the forms of taxation and the financial relation between governments at different levels." Hearings, Rowell-Sirois Commission, p. 6599.
99. Hearings, Rowell-Sirois Commission, p. 2308.
100. Hearings, Rowell-Sirois Commission, p. 2240.
101. "Submissions of The Canadian Manufacturing Association, Inc." reprinted in Industrial Canada (May 1938) pp. 66-72.
102. The two commissioners commenting on the LSR-CCF position were John Dafoc and H. A. Angus. See Hearings, Rowell-Sirois Commission, pgs. 2843, 6494.
103. L. W. Simms, "An Expression of Thanks to the Retiring President, F. C. Brown," Industrial Canada (July, 1938), p. 71.
104. Owram, The Government Generation, p. 239.

105. The ideas generated by the commissions have been viewed by various observers as the foundations of a Second National Policy. See V. Fowke, "The National Policy – Old and New" Canadian Journal of Economics and Political Science (August, 1952), and D. Smiley, "Canada and the Quest for a National Policy" Canadian Journal of Political Science (March, 1975).
106. Owrain, The Government Generation, especially Chapter 10.
107. Book I, Report, p. 144.
108. Book I, Report, pp. 172-173.
109. Book II, Report p. 9.
110. Book II, Report, pp. 9-10.
111. Book II, Report, p. 24.
112. Book II, Report, pp. 81-85.
113. Macleam's, (June 1, 1940).
114. J. Granatstein, Canada's War (Toronto: University of Toronto Press. 1975), p. 162.
115. L.W. Simms, "Report of the Royal Provincial Relations: Discussion of Report" Industrial Canada, (July 1940) p. 101.
116. The Chairman of the CMA's Legislation Committee made the case for immediate action on the Rowell-Sirois Commission:

The Report of the Royal Commission on Dominion-Provincial Relations has had such publicity as to its volume that those who should have already campaigned for its implementation by legislation and adoption by the Dominion and the Provinces – I mean people like ourselves, not Members of Parliament and our Legislatures – have been afraid to look at it, particularly in the sudden stress that has come upon us in the last two or three weeks.

Everyone seems to have taken the attitude that there would be nothing done about it during the war: that it is, after all, a mass of theory and since we have got along so far without any changes in our constitution that it may recommend that no harm will come from continuing to put it off.

In my opinion this is wrong. The changes recommended are very very broad – and the only time these changes can be made is in time of stress when all are for the country and none for himself.

... To effect these changes provinces and people must give up things – and a war period accustoms us to giving up. ... These changes may never come in peacetime when there is limitless time for their discussion, and to make not one but many political footballs of them. If they are ever made effective in peacetime it will only be when the country is on the verge of going to pieces because they have not been made.

H.K. Thompson, "Report of the Royal Commission on Dominion-Provincial Relations," Industrial Canada, (July 1940), p. 99.

117. Mackenzie King quoted in Granatstein, Canada's War, p. 174.
118. As quoted in J. Pickersgill, The Mackenzie King Record, 1939-1944 (Toronto: U. of T. Press, 1960), p. 161.
119. Granatstein, Canada's War, p. 161.
120. Brodie and Jenson, Crisis, Challenge and Change, p. 199.
121. Pickersgill, The Mackenzie King Record, p. 60.
122. As quoted in *Ibid.*, p. 62.
123. C. Power, A Party Politician (Toronto: Macmillan of Canada, 1966), p. 353.
124. Beck, Pendulum of Power, p. 227.
125. "Backstage at Ottawa," Macleam's (March 1, 1940), p. 10.
126. G. Ferguson, "After the Election," Queen's Quarterly XLVII (Summer 1940), p. 243.
127. Granatstein, Canada's War, p. 161.
128. *Ibid.*, p. 161.
129. The bureaucrats were not alone in lamenting the absence of political leadership. Business elites also voiced their concerns. At the CMA meeting for discussion of the commission the following interventions were recorded:

I.W. Simms (Saint John): I do not think it is an unfair criticism of legislators in general – having in mind the number of things that are wished on them for their attention, their political traditions of having to keep their ears to the ground, and their traditional cautiousness, – to say that with anything as tremendously comprehensive as this, their chronic attitude is likely to be one of procrastination in getting their teeth into it and putting it across. I think this convention could not do anything better, while we are assembled here, than to decide that the policy of this Association for the next year will be to concentrate on this matter and get it across: to create a public sentiment that will leave no doubt in the minds of the Government that the people of Canada want to take advantage of the magnificent job that this Commission has done, and to implement one of the most effective instruments for national unity and for winning the war that we could possibly find.

... If (industrialists) will only come out of their shells they can make a stronger impact on their communities than the little politicians in their balliwicks. We should push forward unitedly to accomplish this task.

G.W. Swan (Winnipeg): We want to win the war, and we must bend every energy that we have so that we may hold what we have got and succeed in the ultimate result, but in spite of all that we have domestic problems at home that must be faced in some degree. If we wait until the war is over, as we have seen in days gone by, the thing is never accomplished, and the recommendations, that we know are good are simply allowed to drift along and no action is taken. And so along with our great determination in succeeding in winning the war let us press the implementing of this report with all the vigour and enthusiasm we have in, in order to take some advantage of the wonderful work that has been done, and see that it is brought to a successful consummation.

G.W. Swan continued, making a point about how the Rowell-Sirois framework had mapped the policy ground for a new mobilization of interest groups. He suggested:

that this Association appoint a committee immediately from among the best men that we have to consider what may be done in co-operation with other national organizations ... and have a definite and concrete campaign across Canada, in which we would have public meetings, and get the best speakers to educate the public on this issue, and do everything possible to so create a sentiment for this that we can achieve the end set forth here, and sweep aside all tendency to petty opposition, I would say now that such a committee be appointed.

See Industrial Canada, (July 1940).

130. Granatstein, Canada's War, p. 164.
131. *Ibid.*, p. 164.
132. As quoted in J. Pickersgill, The Mackenzie King Record, p. 160.
133. Dominion-Provincial Conference, Report of Proceedings, January 14, 1941, p. 5.
134. *Ibid.*, p. 5.
135. "Dominion-Provincial Relations," Round Table 36 (July 1946), p. 380.
136. Granatstein, Canada's War, p. 172.
137. H. K. Thompson, "Report of the Royal Commission on Dominion-Provincial Relations: Discussion of Report) Industrial Canada (July 1940), p. 99.
138. Granatstein, Canada's War, pp. 172-172.
139. Pickersgill, The Mackenzie King Record, p. 177.
140. The most obvious example here is W. A. Mackintosh who became a pivotal actor in the Finance and Reconstruction Departments, but there were other commission-based experts who made the move into the civil service. At the same time, two prominent politicians who had their careers launched through

the Rowell-Sirois Commission were future Cabinet Minister B. Claxton, and Prime Minister Louis St. Laurent. For elaboration see Owram, The Government Generation, Chapters 10-12.

141. R. Fowler, the Secretary of the Rowell Sirois Commission, offered the following

In terms of the immediate of its proposals, the Rowell Sirois Commission was a failure. However, in subsequent years its report was substantially implemented in a piecemeal fashion, and the policies and factual information in the report and in the research studies became the basis for much of Canadian economic policy in the next 20 or 30 years.

See R. Fowler, "The Role of Royal Commissions," in D.C. Smith, ed., Economic Policy Advising in Canada, (Montreal: C.D. Howe Institute, 1981), pp. 101-102.

142. See Brodie, The Political Economy of Canadian Regionalism, Chapter 6.
143. See Granatstein, Ottawa Men, Chapter 6, and Granatstein, Canada's War, Chapter 7; Owram, The Government Generation, Chapters 10, 11; James Rice, "Politics of Income Security," in B. Doern, ed., The Politics of Economic Policy, (Toronto: University of Toronto Press, 1985), pp. 221-251.
144. In his history of the civil service "intelligentsia", Owrarn has summed up the process: "Here were the pioneers of the campaign for a central bank, a member of the National Employment Commission, and key figures in the Rowell-Sirois investigation sitting together on the committee charged with post-war policy formation." Owrarn, The Government Generation, pp. 285-286.
145. See Owrarn, The Government Generation, pp 286-287, and Granatstein, The Ottawa Men, pp. 158-165.
146. See L. Marsh's critique of the NEC's Final Report, and Owrarn, The Government Generation, p. 287.
147. Marsh Report, Special Committee on Reconstruction, Report, (Ottawa: 1943).
148. Owrarn, The Government Generation, pp. 285-286.
149. Granatstein, The Ottawa Men, pp. 161-162.
150. Owrarn, The Government Generation, p. 312.
151. Wolfe, Delicate Balance, pp. 270-280.
152. Granatstein, Canada's War, pp. 160-174.
153. J. Pickersgill, The Liberal Party, (Toronto: McClelland and Stewart, 1962), p. 36.
154. Power, Party Politician, p. 309.
155. *Ibid.*, p. 282.
156. Owrarn, The Government Generation, p. 313.
157. *Ibid.*, p. 314.



158. W. A. Mackintosh, "The White Paper on Employment and Income in its 1945 Setting," in Canadian Economic Policy Since the War (Ottawa: Carleton University), p. 15.
159. *Ibid.*, pp. 15-16.
160. *Ibid.*, p. 19.
161. *Ibid.*
162. Maxwell Cohen, The Dominion-Provincial Conference (Toronto: Ryerson Press, 1945), pp. 4-5.
163. J. Pickersgill and D. Forster, The Mackenzie King Record Volume 3 (U. of T. Press, 1970), pp. 207-215.
164. As quoted in *Ibid.*, p. 207, 217, 385.
165. *Ibid.*, p. 209, 217.
166. Pickersgill, The Liberal Party, p. 41.
167. R. M. Burns, "The Royal Commission on Dominion-Provincial Relations: The Report in Retrospect", in R. Clark, ed., Canada Issues (Toronto: Macmillan, 1961), p. 152.
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170. W. A. Mackintosh, "Federal Finance," Canadian Tax Journal 1 (1953), p. 428.
171. This note on the international dimension draws on three main sources: A. Claire Cutler and Mark Zacher, eds., Canadian Foreign Policy and International Economic Regimes (Vancouver: University of British Columbia Press, 1992); Michael Hart, Canadian Economic Development and the International Trading System (Toronto: University of Toronto Press, 1985); Jock A. Finlayson and A. Wesson, The GATT, Middle Powers, and the Uruguay Round (Ottawa: North-South Institute, 1990).
172. See A.F.W. Plumptre, Three Decades of Decision: Canada and the World Monetary System, 1944-75, (Toronto: McClelland and Stewart, 1977). Key Canadian officials joining Plumptre in this process included Norman Robertson, D. Wilgress, W.C. Clark, W. A. Mackintosh, Hector McKinnon, and Louis Rasmirsky.
173. Hart, Canadian Economic Development and the International Trading System, p. 10.
174. This argument is convincingly made in various articles in Cutler and Zacher, eds., Canadian Foreign Policy. In particular, see the editors' "Introduction" pp. 3-16, and Michael C. Webb, "Canada and the International Monetary Regime", pp. 153-185.
175. Finance Minister Michael Wilson quoted in Michael C. Webb, "Canada and the International Monetary Regime," in Cutler and Zacher, eds., Canadian Foreign Policy, p. 178.

176. *Ibid.*, p. 183.
177. Details about these measures can be found in Hart, Canadian Economic Development and the International Trading System, especially Chapter 4, "Canada's Economic Development Policies: Constraints and Opportunities", pp. 53-77.

## CHAPTER 3

### Confirming and Contesting Keynesianism: 1948-1965

#### Introduction

The last chapter illustrated how the Keynesian revolution in Canada was driven by techno-bureaucrats manoeuvring within a particular institutional setting for discourse construction and political representation. The dissertation's working hypothesis that policy innovation emerges from the organizational intelligence of the political system proved helpful in clarifying the process of choice and change. The concept of the idea network illuminated how a new national policy model was conceived and entered state-society relations to reshape decision making patterns.

Parties, politicians and interest groups were not the principal actors defining, disseminating, or mobilizing support for new policy understandings in the face of crisis. The royal commission process launched Canada's version of the Keynesian political settlement, and with it, many of the central actors in the bureaucratic mode of policy change which came to characterize postwar innovation. Policy developments reflected the lessons techno-bureaucrats drew from past experience and changing conditions. They could not be reliably traced to political strategies devised by parties to forge new electoral coalitions around experimental solutions.

This chapter continues the historical analysis, beginning with a discussion of the way in which the national policy model launched through the commission process in the late 1930s became the framework integrating national economic decision making and defining legitimate political debate in the first postwar decade. The chapter then turns to the period of conflict, beginning in the mid 1950s, when the postwar national policy model first came under critical scrutiny. The institutional settings and key protagonists for this debate, we find, correspond to learning dynamics and organizational arrangements rooted in the 1930s and 1940s experience with economic crisis and policy renewal.

### **3.1 Embedding the Postwar Economic Policy Model: Ideas, Politics and Policy in the St. Laurent Years**

The commissions of the 1930s brought into focus a new national policy model beyond the polarized visions of a unitary state and planned economy advocated by the left, or the classical federalism and budget balancing defended by governing politicians. A reform agenda was unveiled which envisioned federal economic leadership but did not run roughshod over provincialist sensibilities. Bargaining toward a solution to the economic crisis could begin.

After 1940, federal politicians in power embraced -- haltingly but systematically -- the new solutions. As our previous chapter described, it was wartime that created the critical openings for this project. Accepted in a limited sense by politicians at the end of the 1930s, the basic Keynesian framework for manipulating and monitoring expenditure and investment flows was rapidly introduced under wartime conditions. Many of the

professional experts dominating the political system's idea network through the mechanism of the outside commission moved directly into administrative agencies at the center of the wartime policy making apparatus. The war was a crucial testing ground for the new Keynesian techniques. They had proved their value in organizing emergency production with the result that those responsible for their design and workings were well-positioned to influence postwar developments.

Indeed, we saw that the new era's benchmark policy statement – the 1945 White Paper on Employment and Income – was written, even conceived, by W.A. Mackintosh. Similar dynamics drove the development of specific policy initiatives such as family allowances and more general strategic planning around inter-governmental negotiations. These impressive achievements in technocratic policy entrepreneurship, far from being an aberrant seizure of political initiative by the bureaucracy, were the logical culmination of a decade's worth of intensive mobilization by professional experts under conditions of economic crisis and political stalemate. Mackintosh's movement between the commissions and federal departments reflected a larger pattern taking shape within the Canadian economic idea network, whereby technocratic experts became policy actors of extraordinary influence.

In the 1945 election, the Liberals won re-election on a platform owing much to the accumulated wisdom of the techno-bureaucratic community. By war's end, the ideas summarized in the White Paper had acquired broad acceptance with other parties, in the media, and in society as the basis for a new consensus on national policy principles. Factors leading to the economic distress and political conflict of the Depression years

were now understood and subject to administrative management by the techno-bureaucrats.<sup>1</sup> Armed with ideas suggesting the federal state's potential to combine economic stabilization with some degree of social and regional equity, the governing Liberals moved to publicly identify themselves with the new national policy model.

In crisis conditions of the 1930s and early 1940s, then, the techno-bureaucrats had exercised an effective monopoly over the new economic ideas, domesticating the Keynesian prescription, interpreting its policy applications to what they saw as amateurish politicians and an uncomprehending public. During the war, Mackenzie King asked for "a clear definition of gross national product" and after hearing the response from the techno-bureaucrats despaired that it "has all become highly technical and involved".<sup>2</sup> In private he noted that the politicians had been "pushed into this new method of financing for which ... Keynes perhaps has been mainly responsible in influencing governments of the U.S. and Canada".<sup>3</sup>

The consensus in Canada's economic idea network by 1945 was that scientific refinement of the Keynesian conceptual framework could banish the uncertainty that had led to the policy failures and political inertia of the 1930s. In the immediate postwar years, the politics of embedding the Second National Policy turned on renovating national administrative capacities to establish a more rational and efficient policy process. To stabilize the economy and rationalize the federation were tasks seen to be beyond the capacity of the parties and politicians. This was one of the principal lessons from the 1930s drawn by the techno-bureaucrats. W.A. Mackintosh contrasted the rationality of Canada's path to Keynesianism with what he saw as the inappropriately politicized

American approach:

Though economists may wrangle over many refinements, an anti-depression fiscal policy is really one of the most ordinary prudence. ... One of the great faults of the New Deal in the United States was that it was confused in its objectives. Its statements dealt more with vilifying its enemies than they did with making a simple statement to the people which give them an opportunity of understanding its aims.<sup>4</sup>

Consolidation of the Keynesian national policy model, the techno-bureaucrats believed, required an administrative form of democratic politics because stabilization of the economy and rationalization of the federation were tasks beyond the capacity of parties and politicians. They were goals demanding full mobilization of the expertise of the self-styled policy scientists.<sup>5</sup> The objective became to insulate policy formation from both the narrow, regional interests expressed through the decentralizing institutions of federalism, and the short-run factional and sectional interests expressed in the brokerage party and interest group systems. In the 1930s, these representative channels had only sustained what the techno-bureaucrats saw as outdated constitutional understandings and unenlightened conceptions of the state's potential to achieve economic and social goals through 'intelligent' monitoring of market activity.

In all of this, the Keynesian revolution in Canada was encased in a market-rationalist discourse, emphasizing private investment and specifying a leadership role for professional experts in translating new economic theory understandings into policy practice. J.M. Keynes himself had supported this application of his work:

a first measure towards the deliberate and purposive guidance of the evolution of our economic life ... would be a recognition of the enormous part to be played in this by the scientific spirit as distinct from the sterility of the purely party attitude, which is never more out of place than in relation to complex matters of fact and interpretation involving technical difficulty. It would mean

the beginning of ways of doing and thinking about political problems which are probably necessary for the efficient working of modern democracy.<sup>6</sup>

Developed by economic professionals from strategic niches in an expanding bureaucracy, Canada's Keynesian revolution involved minimal institutional change beyond sustaining the fiscal momentum of the federal government secured through successful administration of the wartime economy. Beginning with the initial reflections on the crisis in the commissions of the 1930s to the White Paper and Green Book government declarations of 1945, the goal was always to exercise general control over the economic environment by influencing aggregate components of national income. Federalism demanded the negotiation of inter-governmental fiscal arrangements to ensure the efficiency of such a national budgetary strategy. The deficiencies of the Canadian politicians and parties in generating and implementing policy mandates ceded control over this change process to the techno-bureaucracy. In the context of this emerging relationship between knowledge, power, and policy in postwar Canada, Mackintosh's address to the 1948 Liberal Party convention is revealing. He cautioned that the new economic model:

gave rise to issues so complicated and technical that the electorate and even the legislators are apt to be confused and made susceptible to the influence of misleading slogans ... There is a huge job of education to be done if anti-depression financing is to be followed, but the results in economy and stability will be rewarding. I think the process of education would be relatively easy because the policy is so eminently a sensible and prudent one ... I think it is clearly in the interests of a democratic community to recognize its own interests and that progress can be made ...<sup>7</sup>

In effect, Keynesian economic ideas were translated into the federal national policy model through what Albert Hirschman has called the "recruitment effect" of scientific innovations on policy engaged intellectuals.<sup>8</sup> Hirschman explains:



The Keynesian system thus attracted a group of extraordinarily devoted followers. It gave them the exhilarating feeling of possessing the key to truth while being beleaguered by a coalition of ignoramuses and sinister interests. ... As a result of the excitement generated by the new idea and the ensuing debates, intellectually able and ambitious recruits are newly attracted toward the field where the discovery has been made, where its scientific merits remain to be evaluated, and where its ramifications are yet to be worked out.<sup>9</sup>

Within the techno-bureaucratic idea network of the Canadian political system, this recruitment dynamic suggests how Keynesian concepts were consolidated across the expanding economic ministries of the federal government in the early postwar years. Attracted to develop further the analytic foundations of the conceptual breakthroughs achieved in the earlier crisis period, a 'second generation' of Keynesian economists flowed into the federal bureaucracy to implement their ideas.<sup>10</sup> As one 'recruit' to the federal economic bureaucracy recalled: "economic analysis and policy then were an impressive blend of vision and reality; of the grand sweep of ideas and detailed technical expertness ... (t)hought and action then embodied an optimistic covenant".<sup>11</sup>

The institutionalization of the economic policy model was propelled by the deepening analytical sophistication of the Keynesian conceptual framework itself.<sup>12</sup> Most important here was the rapid formalization of a national income accounting system which provided the foundations for elaborate forecasting models of investment intentions, consumer purchasing expectations, and business cycle dynamics. Of course, it was the Rowell-Sirois Commission's pathbreaking collection of national income data that started this process of modernizing the national government's analytical capacity.<sup>13</sup> Wartime regulation had accelerated it, but it was in the years 1945 to 1955 that Canada's economic forecasting industry found its bureaucratic footing and its policy voice.

Elaborate theoretical models of the macro-economy were housed in the Bank of Canada and Trade and Commerce Departments, with overall co-ordination of analytical inputs, research, and forecasts provided by the Department of Finance. In 1946, the Department of Finance established its own Economic Division and Deputy Minister Clark appointed a young Keynesian disciple of formidable reputation, R. B. Bryce as head. Bryce later recalled:

They were heady days in the late 1940s and the early 1950s when we were much more confident and of one mind about what should be done in economic policies. We were a compact group led by Clark, Robertson, Towers, Mackintosh ...<sup>14</sup>

The reliance and faith in these new economic techniques for policy making was clear: "The purpose is ... to provide a basis for common thinking on a wide range of government activities in order that they may be integrated into a consistent whole ... [the] development and application of successful Government policies will depend largely on its ability to foresee in time, the need for certain types of action."<sup>15</sup> By 1950 the Keynesian nucleus in the Departments of Finance and Trade and Commerce was supported across government as "economists were widely distributed among different departments and Crown corporations, namely, the Department of National Defence, the Defence Research Board, the Department of Transport, the Bank of Canada, and the Dominion Bureau of Statistics".<sup>16</sup>

Refining these econometric models brought together public officials, academics, and business economists (from the handful of private companies which had established their own forecasting and data-collection capacity) in information exchanges and consultations. These "regular conferences of business and government economists held twice a year on

a confidential basis” became the key channel of communication between societal actors and the state in the early postwar years on economic policy.<sup>17</sup> Policy formation was a technical rather than political matter. This was the heyday of the techno-bureaucracy: policy formulation was left to a small circle of expert officials and business economists.<sup>18</sup> Through this consultative arrangement public officials could reassure private investors who “will no doubt be nervous about government deficits or will profess to be, but they will be much less nervous if such deficits are foreseen and managed than if they come as unexpected and unpredicted calamities.”<sup>19</sup> Guided by their increasingly sophisticated models of the economy’s aggregate stocks and flows, the Keynesian policy scientists demonstrated to politicians, the public, and private sector elites that heretofore subjective and political forms of economic decision making could be transformed into objective and technical matters, in Mackintosh’s words, “of the most ordinary prudence”.<sup>20</sup>

Recollections from two leading second generation recruits to the technocratic idea network are revealing here. Simon Reisman suggested how these ideas – what became known as “Ottawa economics” – animated policy making in this period:

Great strides had been made in both the theory and the practice of stabilization policy. We were improving our data base, and the introduction of computer technology extended our capacity to handle masses of information. Very considerable strides were being made in quantitative analysis. The construction of economic models contributed to a better understanding of the complex interactions among the myriad of variables in the economy. These developments appeared at the time to convert the art of economic management into something approaching a science.<sup>21</sup>

And Maurice Lamontagne wrote in 1953:

In recent years, the rising power of bureaucracy has been criticized and the demand for the restoration of responsible government has become a favourite theme in some circles ... this trend toward a certain form of technocracy will almost inevitably be growing; even its critics if in a responsible position, would not take the risks of refusing expert advice.<sup>22</sup>

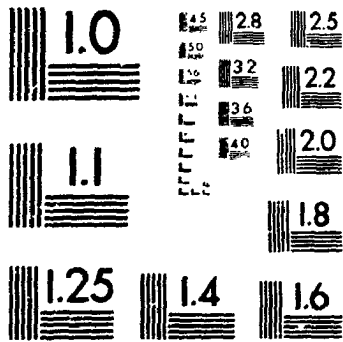
Thus the 1945-55 period was one of continuity -- embedding the innovative ideas of the interwar and wartime period through a policy process built on techno-bureaucratic initiative. The "Ottawa men" deployed their resources, coordinating rapid expansion of the state's data-gathering capacity in relation to the new economic theory, establishing inter-departmental mechanisms for coordinating such scientific advances and consultative fora linking Keynesian economists monitoring the results of policy measures.

Keynesian ideas in postwar Canada galvanized a strategically located community of economic professionals who upon entering senior bureaucratic positions acquired considerable policy autonomy in a party system oriented to personality politics and an interest intermediation system ill-equipped to generate and promote alternative projects. The consolidation of the Keynesian doctrine rested on its positive evaluation in the Canadian idea network's two core domains -- the expert, where it was theoretically persuasive, and the bureaucratic, where it was administratively feasible; resonance with elites in those locales then assured its viability in the broader political arena where it was used by the governing party and accepted by interest groups and the public.<sup>24</sup>

The technocratic nature of Canadian politics and policy making was reflected in the two elections of 1949 and 1953. These elections were very similar in the issues, campaigns, and outcomes.<sup>24</sup> The new Liberal leader, Louis St. Laurent -- ex-Justice

# 3

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Minister in the King Cabinet, and in the 1930s, legal counsel for the Rowell-Sirois Commission – confirmed the federal government's role as the manager of the postwar consensus and efficient administrator of programs implemented through tax rental agreements stabilizing the economy's growth path. In these campaigns, St. Laurent presented the Liberal Cabinet as executive officers of a corporation, arguing that while there were "no outstanding issues" before the electorate, the government was obliged to "submit our accounts to you, every few years (and) ask you to look (them) over and draw your own conclusions".<sup>25</sup> Commentators criticized the new Prime Minister for his passive and platitudinous approach to democratic debate, but the results were impressive. The Liberal party organization, while disengaged from policy development activity, was particularly efficient in raising money for national campaigns.<sup>26</sup> Most importantly, of course, the prosperity of the immediate postwar years supported the Prime Minister's campaign style of reciting official economic statistics such as Gross National Product and unemployment. By 1949, the Liberals had fully embraced the techno-bureaucratic agenda and drawn from it the intellectual-political reference points for a new era of centrist politics, managing rolling compromises at each election that avoided alienating any interests by avoiding any discussion of policy options.

Of course, the situation of the opposition parties was somewhat different from that of the governing Liberals. The Liberals had linked themselves in the electorate's eyes with the interwar and wartime innovations and campaigned successfully in 1949 and 1953 as the best administrators of the new programs and techniques. The Progressive Conservatives and the CCF found themselves competing with the Liberals for the same

basic policy space defined by the techno-bureaucrats. In 1949 and 1953, they were unable to mount effective challenges to the Liberals.

The Progressive Conservatives had a new leader, George Drew, the former Ontario Premier who had acquired a reputation as an unsympathetic critic of the new national policy model. By 1949 and 1953, however, it was clear that any federal electoral strategy based on appealing to provincial rights or criticizing the federal government's expanded policy role was viewed by most voters and media observers as stale, even regressive.<sup>27</sup> Consequently, the Conservatives concentrated their attack on what they saw as the government's administrative foul-ups and abuse of power. As part of this critique, they questioned the degree of influence exercised by the techno-bureaucrats in public policy. As Murray Beck described, Drew talked:

about putting "an end to the minor czars and petty dictators." When challenged on this score, he said he was attacking not the ordinary civil service, but the brains trust, the long-haired boys in ivory towers, "not subject to the supervision of Parliament and in many cases ... independent even of the government."<sup>28</sup>

While Drew's line of attack was not without substance, the polemical tone was a reflection of the bleak prospects of Canada's opposition parties in this period. Commentators rejected Drew's leadership for its focus on scoring "short-term insignificant points instead of keeping his eyes on long-term goals, and of thereby failing to present himself as an acceptable alternative".<sup>29</sup> The voters apparently shared this judgement as the Conservatives made no significant gains in either the 1949 or 1953 elections, finishing a distant second to the Liberals in both contests.

Under George Drew's leadership, then, the Conservatives tried to distinguish themselves as critics of the waste, centralism, and statism of the Liberals. They did not challenge the fundamentals of the postwar economic strategy. And in relation to national unity politics, they found little support for an approach that highlighted provincialism and the maintenance of Imperial cultural ties. Certainly, this message was no match for the new national policy adopted by the governing Liberals, and the Conservatives basically abandoned the debate. One sympathetic observer chided the party at the time for its "aimlessness" and "expediency", cautioning that "there must be some basic consistency of outlook and action if public confidence is to be won".<sup>30</sup>

The CCF, for its part, languished in the hostile international climate of the Cold War, and equally significant on the home front lost its distinctive reform voice in the face of the Liberal shifts. As J. Brodie and J. Jensen have argued, the CCF in the decade following the war contested unsuccessfully the legitimacy of the Liberals' claim to the Keynesian mantle in an effort to pre-empt their own organizational and electoral decline. In these pressing areas the strategy failed, and it also desensitized the party to the tensions of the Keynesian prescription as applied to Canada. They campaigned on extending specific programs and automatic stabilizers within the new national policy model—health insurance, public housing, pensions and so forth. In the process, F. H. Underhill argued, the party gave up on generating new ideas about reform and educating the public through critical debate over alternatives.<sup>31</sup> According to Leo Zakuta, the CCF members were having "trouble finding anything of much interest to say to each other".<sup>32</sup> By 1955, the journalistic assessment that in the Canadian political system the CCF appeared "shop-



worn, [and] largely irrelevant to an economic revolution already performed by other hands” was not far off the mark.<sup>33</sup>

The fundamental policy inertia of the partisan system in this period was mirrored by the parochialism of the major producer groups. The closed and bureaucratic structures of national policy making in Canada were not conducive to the formation of peak associations commanding the information base and representative capacity to promote new policy ideas and forge alliances around them. The absence of policy initiatives from outside the bureaucracy in this period led one observer to question whether “other centers of power in society – business, labour, agriculture, opposition political parties, provincial governments and so on – realize that they themselves need more expert assistance if they are to have an effective voice in policy formation ...”<sup>34</sup> Key participants in the economic policy debate of other countries – principally organized labour and the business community – situated themselves like the parties, outside the idea network.

Labour, in the repressive political climate of the first postwar decade, was on the political defensive and lapsed into a kind of organizational and ideological stagnation.<sup>35</sup> This corresponded to an economistic, short term outlook in policy matters which confined political interventions to lobbying the bureaucratic elites for advantages within the Keynesian framework. In the mid 1950s, Trades and Labour Congress research director, Eugene Forsey, rationalized labour’s position as follows:

... while I am not in the habit of giving bouquets to the administration in office, nevertheless I think in the first place we have pretty competent people and economic experts in the employment of the government of Canada, and I think on the whole the government of Canada has shown in the years since the war a pretty reasonable willingness to be guided by those people and even, on occasion, to take unpopular stands and follow unpopular courses on the best

expert advice available when they thought it was necessary to do so.

I am on the whole rather optimistic. I do not say I agree with all that has done; neither does our group as a whole, but I think in all fairness we must say the government has shown a reasonable capacity in this respect, a reasonable degree of enlightenment, and a fair amount of political courage on occasion.

As we have seen, the decentralized network of business associations, to a much greater degree than labour, had been drawn inside the quiet forums of data exchange and bureaucratic consultation central to the functioning of Canada's short term economic fine-tuning. Moreover, at the political level, C.D. Howe, Minister of Industry, Trade and Commerce, provided his own "two-way channel of information from boardrooms to the Cabinet table and back."<sup>36</sup> Basically satisfied with the postwar policy orientation, business spokespersons deferred to the technocracy's expertise on wider issues of economic strategy, seeing little need to develop the integrative structures necessary for substantive and ongoing participation.<sup>37</sup> There was in the late 1940s and early 1950s, a "willingness on the part of labour, capital and the politicians to allow the bureaucracy to get on with the job of managing the economy".<sup>38</sup>

The economy did not experience the breakdown feared at the war's end and much of the credit for the impressive achievements in investment and employment levels accrued to the techno-bureaucrats who had designed the policy framework and subsequently pulled the right levers. As many writers have noted, it is unclear to what extent such outcomes can be attributed to Keynesian practices (and indeed the degree to which Keynesian principles were actually followed in practice).<sup>39</sup> Nonetheless, it is clear that by the mid 1950s the ideas launched in the 1930s anchored a national policy model, clarifying a new role for the federal government in the economy and society, embracing

a new criteria of scientific expertise as the foundation for incremental policy adjustments. As J.L. Granatstein concluded: "the policy of the new economics these men fashioned was confirmed by the postwar boom and with prosperity their influence was assured. The economists ruled in Ottawa."<sup>40</sup>

### **3.2 Economic Change and Political Uncertainty in the 1950s**

The decade following the war was a prosperous one for Canada. Although not without its ups and downs, the Canadian economy's performance met most of the goals set out within the Keynesian framework as synthesized in the 1945 White Paper.<sup>41</sup> With its new budgetary tools and cautious social policy situated within a broader trade and investment framework encouraging foreign capital, the federal government presided over an employment and income boom that quickly erased any fears of a return to the 'dirty thirties'. Across this period, despite persistent fluctuations, national unemployment figures remained below 3% with the various components of aggregate demand – particularly business investment and consumer spending – remaining buoyant. Private capital formation surged as American corporations established branch plants in Canada's key natural resource sectors. With the Korean War (and the Cold War) sustaining these demand pressures into the 1950s, containment of inflation through a combination of direct controls and Keynesian fiscal and monetary fine-tuning became the pre-eminent policy concern.

However, the second half of the 1950s marked a turning point in postwar Canadian economic policy making. In these years a heated debate erupted over the basic premises

of national economic strategy, against the backdrop of the postwar era's first protracted economic downturn from 1953 to 1955. The statistical indicators were clear enough.<sup>42</sup> In 1954, Canada experienced negative growth. Business investment fell in real terms as did per capita income, by almost 6%. Unemployment more than doubled from its post-1945 2% range to over 5%. Equally disturbing, Canada's precarious financial accounts with the rest of the world slid into permanent imbalance, as the debt-creating dynamics of trading raw materials for American manufactured goods and capital equipment intensified. Under such conditions, fiscal stimulus to domestic consumption escalated imports while doing very little to expand exports.

In short, unexpected, negative effects of Canada's postwar economic policy model were becoming apparent by the mid 1950s. Much less clear, however, were corrective policies to respond to the imbalances and dislocations.<sup>43</sup> Their origins and implications were not immediately recognizable within the prevailing Keynesian demand management economic model.

The Keynesian revolution in Canada promised that scientific mastery of the economy's aggregate demand relationships would progressively reduce investment and income fluctuations. The development, for example, of seasonally-adjusted information on the economy's stocks and flows in the early 1950s was precisely the kind of data refinement welcomed by the techno-bureaucrats as it promised sharper focus in timing adjustments to redress short-run disequilibria.<sup>44</sup> However, the severity of the 1953-54 downturn triggered a more basic reconsideration of the outlines of the Keynesian demand management framework for economic policy making in Canada. Stiffer international

competition in the wake of European and Japanese reconstruction and the ongoing liberalization of global trade suggested that the unanticipated troubles of the Canadian economy were less related to mistiming in Ottawa's balancing efforts and more the product of external pressures and internal rigidities refracted through existing policy practices. New concerns were raised about the national policy model: was there in fact sufficient autonomy within the global (or more accurately the continental) system for the Canadian state system to sustain the priorities synthesized in the 1945 White Paper? And if such manoeuvring room did exist was the prevailing Keynesian framework adequately conceptualizing the opportunities for strategic action?

These little understood relationships prompted diffuse interest in how stabilization and redistribution policies might be linked to a capital formation strategy promoting Canadian success in the changing international environment. Significant here was a statistical survey from the Dominion Bureau of Statistics (DBS) providing evidence of the depth and extent of American investment and ownership in the Canadian economy.<sup>45</sup> The survey showed the concentration of foreign equities in the most dynamic manufacturing and resource sectors of the economy. It documented the outflow of interest and dividend payments to non-resident investors, and the costs incurred by subsidiary firms dependent on external technology and related production processes and services. Moreover, the study's thirty year time horizon revealed starkly the rapid proportionate increase of foreign investment in the postwar boom years from 1948 to 1953. The data produced by the DBS provided the basis for a series of major articles in the *Financial Post* by economic journalist Michael Barkway.<sup>46</sup> Under the headline "Dependence on U.S. Goes

On Growing", he wrote that postwar prosperity had "swept Canada into an unprecedented degree of dependence on the United States". Barkway concluded that the "new data about what actually happened in 1955 have brought a sharp increase in the concern felt by both official and unofficial quarters". Such concerns were shifting attention away from demand management issues to the supply side of the national economy.

In Canada, then, the mid-1950s cast up three problematical relationships between the international and domestic contexts of economic policy that were basically invisible from within the existing Keynesian model: national control over essential economic flows, regional unevenness, and the integration between resource, processing, and manufacturing sectors. When the 1953-54 recession suggested problems in each of these areas, the Liberal government's initial response remained squarely within the bounds of the familiar. The 1955 budget was remarkable not for its experimentation with new instruments to counter or steer market processes but rather for its aggressively Keynesian application of countercyclical tax and spending policies.<sup>47</sup>

As if to acknowledge the government's fundamental disorientation, however, this most Keynesian of postwar budgets also announced the creation of the Royal Commission of Inquiry into Canada's Economic Prospects (the Gordon Commission). Scepticism about the ongoing efficiency and justice of the Keynesian arrangements to achieve employment and prosperity goals raised contentious matters touching on the role of the state in the economy, and the place of the market in promoting growth and other national objectives. Should federal economic strategy now replace its preoccupation with short term stabilization with a more long term developmental thrust? What new budgetary strategies

and non-budgetary instruments might reasonably guide such a reorientation? These were questions which the Canadian political system was ill-disposed to address in the mid-1950s, let alone answer with creative proposals.

As we have described, in the period leading up to the creation of the Gordon Commission, control over economic policy in the Canadian political system became concentrated at the senior levels of the federal bureaucracy. After more than a decade of passive acceptance of policy leadership from the techno-bureaucracy, Canada's alternative locales of policy debate – the national party and interest group systems – were unlikely to propose solutions or lead adjustments. Federal elections remained what they had been in the crisis conditions of the 1930s: largely personality contests organized around an "orgy of symbolism", with the notable difference that the interwar hesitation by parties to embrace the strategies emanating from the techno-bureaucracy was replaced now by complete acceptance.<sup>48</sup> After years of working within this arrangement, the three main federal parties floundered in the mid 1950s when limitations became evident in the established economic model and prescriptions offered by civil servants.<sup>49</sup>

The later reflections on this period from a political advisor to the Liberal Cabinet, Merrill Menzies, are revealing of the nature of the consensus within the idea network and the political system's limited innovative capacity:

Except for the limited application of what was then known as the Keynesian approach to the control of national economies, there were no national goals, however you wish to define them. They simply did not exist. Indeed, it was always very painful for an academic or a politician to challenge what was an overwhelming consensus during this period. If he did, he was considered either rather deficient in mental capacity or possibly dangerous. This was due to the very success – we'll put it this way – the very success of the government and of the public service. During those years there was a great interchange –

interaction – between the academic and the public service that possibly made it difficult, if not impossible, for that generation to adjust to the quite different demands and priorities of peacetime.

...I suggest the blame for this very unfortunate period in the first part of the 50s is pretty evenly spread. The government in power didn't in fact provide us with what I would call the leadership in terms of broad economic and social objectives which would prepare us for what the future was bound to bring. The opposition clearly has to share in that because they provided, in my view, literally no alternative at that time.<sup>50</sup>

Thus, politicians in power, civil servants, interest groups and even opposition parties turned, as they had in the 1930s, to the commission process for direction as conditions worsened. One prominent national journalist speculated that in a “changing society and a disordered world” the Gordon Commission’s “economic report ... could be a catalyst, changing overnight the whole chemistry of politics”.<sup>51</sup> The new commission could “stand on the shoulders of its predecessor” (the Rowell-Sirois Commission) to provide a revised scientific model of the economic order with a new policy blueprint making sense of the recent policy failures while specifying future directions.<sup>52</sup>

The next section describes in more detail the political circumstances surrounding the appointment of the Gordon Commission, its mandate and its composition.

### **3.3 “The Search for an Idea”: The Royal Commission on Canada’s Economic Prospects**

At the time of Walter Harris’ budget in April 1955 Bruce Hutchison, veteran Ottawa columnist for the *Financial Post*, perceptively situated the creation of the Gordon Commission in the broader context of postwar Canadian politics and policy making. Departing from the standard mid-century discussions of stability, accommodation, and the



"end of ideology" in Canadian politics, he speculated about mechanisms of innovation.

His commentary, "The Search for an Idea", is worth quoting at length:

Canadian politics, it must be confessed, have not produced a single idea of importance in 10 years. The obvious purpose of a royal commission on the nation's economic system is to produce such an idea for the politicians to seize and implement ... Its business will be to take an impartial new look at our affairs and tell us where we are going, or should go, from here. Then it will be for the politicians to devise the means of taking us there ... There can be no doubt ... that the postwar program has been largely completed ... A sudden realization of that fact must have caused Mr. Harris to announce his royal commission, the first examination of the national anatomy since the Rowell-Sirois Commission of 1937 ... We shall soon receive an up-to-date measurement of our present anatomy but the Government clearly expects something more than that – some kind of chart for the future, an idea it can get hold of, a new impetus to replace the lost momentum, an inspiration and an issue ... The other parties will be entitled to take what they please out of the commission's report and, if they are smart enough, to build a policy and an issue on it ... A Commission ... may well write our most important state paper since the Durham Report and deeply alter the future not only of party politics but of the Canadian state.<sup>53</sup>

In this passage Hutchison has alluded to a number of themes intersecting with our interpretation of economic policy development in Canada. He relates the significance of the commission's appointment to systemic features in Canada's representation processes that grant considerable autonomy to techno-bureaucratic actors in mediating and channelling forces of change. He points out the historic reliance of the state and party system on commissions for new ideas, suggesting the degree to which such interventions have simultaneously announced the dissolution of old regimes and placed a particular stamp on emergent configurations of interest and policy. With Hutchison's 1955 observations in mind, we will now probe both the external political response to the announcement of the commission and its internal profile – its mandate, membership, representation and research structures. Surveying factors outside and inside the

commission prepares the way for later analysis of the final product and its legacy on politics and national economic policy making in Canada into the 1960s and 1970s.

Given the weak policy capacity of traditional liberal democratic channels of interest representation in postwar Canada, it was perhaps not surprising that the appointment of the Gordon Commission was generally welcomed in the context of uncertainty that accompanied the first serious postwar economic downturn. The Progressive Conservative Finance critic told the House of Commons that there was "a good deal to be said for having an outside view come and explore situations which are being handled by civil servants, however good they may be."<sup>54</sup> Another Member was even more effusive about the good to come from the process:

The Sirois report was a new constitution for Canada. It had everything that was necessary to the rehabilitation of the country ... I hope when the Gordon Commission reports – I trust the Report will not be too lengthy, and that we shall all be able to read it – every honourable member will take it and have a square look at it and say to himself: "I represent Canada and Canadians. Every last recommendation in this report we are going to see implemented."<sup>55</sup>

The CCF, for its part, claimed another moral victory in the appointment of the commission. It saw the Liberals incorporating longstanding CCF policy in favour of more government economic planning. As one CCF member put it, the commission's creation was "all to the good and from our point of view, a very necessary step for the planning of the proper development of our natural resources ..."<sup>56</sup>

On the other hand, inside the Cabinet the commission announcement was more controversial. C.D. Howe, the key political architect of the postwar regime's informal business-bureaucratic consultations, was not party to the decision. According to Tom Kent, he despairingly referred to it as "one of the silly tricks of the men he called the

'Junior Leaguers' Harris, Pickersgill, et al."<sup>57</sup> Within the department of Finance itself, however, where the general concern in the mid-1950s about recycling old ideas in unfamiliar conditions was felt most acutely and persistently in the annual budget preparations, there was support at the most senior bureaucratic and political levels for "a thorough review of economic policies". Echoing this call, the *Financial Post* predicted that the commission's "studies and findings will have a great deal to do in shaping the opinions of responsible Canadians and in conditioning subsequent decisions both in Government and in business".<sup>58</sup> Much would depend, the *Post* argued, "on the quality of the men who sit on the Commission itself and who form the secretariat which will organize the material to be studied". At this point, then, it will be useful to look inside the commission.

The Finance department's choice for chairman of the commission was none other than W.A. Mackintosh. Had Mackintosh accepted he would have enhanced his already extraordinary stature in Canada's economic policy idea network. His stamp would have been placed on benchmark reports in the Canadian political system across three eras – the Depression, the immediate postwar period, and the initial transition into areas beyond the Keynesian orientation. With its sweeping mandate to pronounce on past policies and announce future directions, the commission presented Mackintosh with another opportunity to define an intellectual consensus mapping the terrain for processes of policy adjustment and political negotiation. In the event, Mackintosh turned down the offer from the government, preferring to focus attention on his expanded responsibilities at Queen's University.<sup>59</sup> Walter Gordon, whose overtures to the Finance department about the

government's need for new economic ideas had inspired the budget announcement of the commission, was named chairman in the spring of 1955.

At the time of his appointment to the Royal Commission, Gordon was a successful activist within Canada's techno-bureaucratic idea network. Although an accountant rather than a Keynesian economist by training, his career typified the technocratic nature of economic policy development in postwar Canada. As an expert in taxation matters he had been recruited in the early 1940s to the department of Finance to reorganize fiscal arrangements and public finance along the lines suggested by the Rowell-Sirois Commission. At the end of the war, Gordon established his own professional reputation within these circles by publishing an influential article on further tax reform in the specialized journal *The Canadian Chartered Accountant*, which drew favourable comment from the business community and apparently guided the permanent Finance officials in their plans for implementing the postwar revenue-expenditure regime. Later he served on a royal commission dealing with the salary scales of senior civil servants and chaired an ad hoc Finance Department investigation into tax-sharing imbalances between Ottawa and Ontario. As he recalled: "For almost twenty years, I had been engaged either on investigations for successive federal governments or, during the war, in working with the Bank of Canada and the Department of Finance in the formulation and implementation of public policies."<sup>60</sup>

Not surprisingly, the Prime Minister in 1954 recognized Gordon's achievements as a policy entrepreneur within the idea network by inviting him to enter the Cabinet. Bypassing any party channels or public mechanisms of recruitment, Gordon could move

directly from the techno-bureaucracy into the front benches of the government. However, Gordon declined Prime Minister St. Laurent's offer. The ambiguities surrounding the policy responses to the 1953-54 economic downturn suggested to Gordon that the time had come to reflect systematically on established practices. He had been working on a study addressing some of these concerns. As we have seen, by 1955, the Cabinet, the party system and the permanent bureaucracy, were improbable locales for launching the debate, let alone mobilizing support for alternative policy directions. Sensitive to these constraints – reminiscent in some ways of the stalemate in regular political channels in the mid-1930s – and drawing on his reputation around the Finance department, Gordon proposed and secured a major public inquiry into Canada's economic problems.<sup>61</sup>

The Order-in-Council creating the Royal Commission was issued on June 17 1955. The preamble establishing the commission's terms of reference set out a broad and open-ended mandate.<sup>62</sup> It sought general commentary and long term policy guidance based on study of the nation's "productive capacity, the growth and distribution of the population, the direction and nature of our internal and external trade, progress in standards of living and expanding requirements for industrial and social capital". The commission was asked to examine prospects, identify potential problems and "report upon the long-term prospects of the Canadian economy". The preamble certainly did not restrict the scope of the commission's interventions into the national policy debate. In fact, it pointed out areas of inquiry outside the established postwar policy discourse. Issues of capital formation, industrial structure, and foreign economic relations were matters over which the private marketplace rather than government ruled. Their visibility in the Gordon Commission's

mandate invited exploration beyond the inter-governmental fiscal arrangements, welfarist redistribution, and short term budgetary adjustments fundamental to Canada's postwar national policy model.

Joining Walter Gordon were four other commissioners, all with solid academic and business backgrounds: A. E. Grauer, the political economist who had contributed an important research study on social welfare to the Rowell-Sirois Commission, and in 1955 the president of the British Columbia Electric Company; Omar Lussier, a forestry engineer based in Quebec City; Andrew Stewart, an agricultural economist and the President of the University of Alberta; and Ray Gushue, the President of Memorial University in Newfoundland. There are two noteworthy features of this group. First, similar to the appointments to the Rowell-Sirois Commission there was no representation from organized labour or agriculture (an omission mirroring ongoing power relationships in Canada's economic idea network).<sup>63</sup> Once again the commission process would be directed by technocratic policy intellectuals lacking any organizational ties to societal interest groups or political parties. Second, in contrast to the Rowell-Sirois Commission when, for example, regular member John Dafoe had exercised an important influence on the deliberations, the chairman of the 1955 commission was the only recognized authority in the substantive issues under consideration.

From the outset, it was apparent that Gordon would overshadow the other commissioners. His decisive role was evident in the initial five month planning period where the consultative framework and research programs were elaborated. It was decided then that Gordon would be the only truly full-time commissioner, assuming control over

clarifying the commission's goals, even prefiguring its conclusions. As he later recalled, the "other four commissioners agreed to meet from time to time to approve the scope of the inquiry, to attend the public hearings and later as often as necessary to hammer out the report."<sup>64</sup> Equally revealing in understanding the internal dynamic of the commission process and its relationship to the eventual report are Gordon's reflections on the significance of his planning stage both in narrowing the broad charge set by the government and in filtering public representations. Gordon explained:

The first few months spent in detail planning proved to be of great importance. Because of it everyone concerned with the work was made familiar with what the commission intended to cover, and conversely what it did not intend to do. It meant in effect that almost all the data collected and the opinions expressed in the briefs submitted at the public hearings fitted into some section of a great, predetermined blueprint.<sup>65</sup>

In executing its assignment the commission travelled across Canada, holding public hearings in 14 cities from October 1955 through March 1956, heard more than 750 witnesses, and received 330 submissions.<sup>66</sup> It also launched a large program of research, sponsoring 33 monographs. As with the Rowell-Sirois Commission the nature of this knowledge base – its intellectual context and disciplinary biases – constituted an important factor shaping the analysis and recommendations of the final product. Arguably, for the Gordon Commission the research organization was an especially significant input into overall product. This was so because, as Gordon made clear, the commission process itself – the public hearings, the submission of outside briefs – was to some extent marginalized from the outset by the "great, predetermined blueprint". Within such parameters, narrow representations were encouraged – for example, sectoral or industry estimates of growth and material requirements, rather than analysis of underlying

economic weaknesses or proposals for policy change.

Moreover, the organizational limitations – internal divisions, weak research capacity and integrative mechanisms for debating national economic policy – characterizing business and labour groups in Canada were evident in the Gordon Commission hearings.<sup>67</sup> The result was unclear and often contradictory messages from a multitude of private sector representations on issues such as foreign economic relations, industrial organization and tax policy. For example, when questioned by the commissioners in these policy areas, the Canadian Chamber of Commerce representative stated:

... I would like to emphasize we do not say exactly what we would recommend in the way of our problems on international trade.

... This is not saying that there may not be some industries in some sections that may still need some kind of protection. But the Canadian Chamber, I would like to emphasize, is a very broadly based organization.

... And there is diversification of interests in the Chamber ... The Canadian Chamber has not yet got a policy to say to the government what we think they should do.<sup>68</sup>

At one point during the public hearings, Chairman Walter Gordon summarized the mix of views presented to the commissioners by business and labour on the issue of foreign economic policy:

We have heard a great deal about the control of Canadian industries by non-residents of Canada, and the question of the international unions. Some people have suggested to us that there is nothing wrong in the non-resident control of Canadian industries, but that we should look pretty seriously at international unions. Others have suggested that the opposite is true, and some people have intimated that they think the two things go hand in hand.<sup>69</sup>

At the same time, provincial governments complained that the commission's initial blueprint imposed an unrealistic timetable on groups making presentations and prevented preparation of more comprehensive submissions. As one observer wrote at the time:



There was bitter criticism from provincial governments and other interested organizations ... The shortness of the time allowed made people outside Ottawa think that the Commission was really interested only in its own research and was treating the outside submissions as an unavoidable formality.<sup>70</sup>

As regards the commission's research base, experts were recruited from various branches within a single discipline, economics. Thirty-nine staff economists worked under the guidance of four directors: S. Reisman from the department of Finance, J. Davis from the department of Trade and Commerce, W. Hood from the University of Toronto and Canada's most renowned econometrician, and D.H. Fullerton from the Toronto business consulting firm Harris & Partners. The Gordon Commission also enlisted various private firms and business groups, as well as the labour movement, to prepare limited studies in matters that the commissioners deemed of special concern to those organizations. The decision to organize the research program around economics was logically related to the commission's mandate. The emphasis placed on "future prospects" issued a challenge to the postwar economics profession, as self-styled pioneers in social scientific forecasting, to extend their statistical horizons beyond the annual budget timetable to explore the relevance of their technology to long term policy matters such as 'supply management' and sectoral planning. As well, the commission's research organization reflected the more specialized intellectual context of the postwar social sciences. 'Second generation Keynesian economists', W.T. Easterbrook perceptively noted, were not inclined toward the "task of synthesis" – that is, analyzing the "adjustments necessary if political accommodation was to meet the exigencies of economic change".<sup>71</sup> The contrast was sharp with the intellectual breadth and historical orientation of their predecessors at the Rowell-Sirois Commission. From this perspective, the Gordon Commission provided an

opportunity for technocratic policy intellectuals to extend the Keynesian data base, thereby enhancing the analytical capacity of the state by offering its managers more sophisticated knowledge about long term trends.

Expectations for the Gordon Commission's work were high. Still relatively fresh in the public's mind was the precedent of the Rowell-Sirois Commission's work which set the stage for the postwar national policy model. As we have seen most political elites and policy experts viewed the Gordon Commission as a mechanism for arranging an equally compelling package where the "area of agreement will be readily reached and well-defined".

However, in the next section, we argue that the commission **made visible a division within the economic idea network** that would influence political and bureaucratic action for years to come. The presentation begins with consideration of the political controversy generated by the Gordon Commission's *Preliminary Report* released in early 1957 as the country entered into a federal pre-election period. We then provide a detailed examination of the Royal Commission's economic thought and recommendations, relating them, in the chapter's final two sections, to policy departures undertaken in the Diefenbaker and Pearson years.

### **3.4 Intellectual-Political Change: Gordon's *Preliminary Report* and Diefenbaker's Revolution**

In January 1957, Walter Gordon announced at the press conference releasing his commission's *Preliminary Report* that "the economy of this country is changing, these

changes will require a re-examination of some of the basic principles we all took for granted a few years ago."<sup>72</sup> Gordon saw the *Preliminary Report* as the vehicle for launching such a re-examination. Amidst the uncontroversial statistical forecasts and sectoral outlooks, the report broached a number of unfamiliar issues and framed policy problems in a way that departed from established postwar orientations.

First, the *Preliminary Report* drew attention to regions of the country that it was argued had not prospered under postwar policy framework: the Maritimes in particular, but also the North. As well, it suggested the deficiencies of the Keynesian approach in providing stability and skills to workers, farmers, and fisherman in a world of rapid economic change and uncertainty. Of equal significance, the report suggested the limitations of the postwar national policy model in facilitating advanced industrial development for Canada within what the commission saw as a North American production structure. In recognizing these regional imbalances and continental pressures, the *Preliminary Report* introduced guideposts for a new national economic policy model emphasizing supply side regulation of production, as distinct from the Keynesian preoccupation with demand side management of consumption. The report's overarching message was that Canada's national development policy must include solutions to problems of ensuring adequate domestic capital formation, and of providing more balanced regional investment and sectoral linkages between resource extraction and secondary manufacturing.

Unveiling this conceptual reorientation, the authors of the *Preliminary Report*, it was said at the time, had "rushed in where politicians fear to tread".<sup>73</sup> Writing a few weeks

after its release. George Mowbray wrote that it had “stirred up more comment than any other domestic event since the war”.<sup>74</sup> The *Toronto Star* observed that:

Nothing like the Gordon economic commission report has ever exploded on the Canadian political scene ... Ten years of speeches by members of the opposition parties in the House of Commons haven't produced one third of the new ideas and suggestions contained in the 77,000-word preliminary report.<sup>75</sup>

The government and opposition parties were forced to respond to the report, and to reflect on their own approaches in light of the commissioners' analysis and pronouncements. Not surprisingly, this process proved especially difficult for the governing Liberals, anchored to the Keynesian model embedded in the bureaucracy.

Indeed, the Liberal government's key leaders – Prime Minister St. Laurent, Trade Minister C.D. Howe, Agriculture Minister Jimmy Gardiner – were unsympathetic to the commission's findings and interpretations. John Bird wrote at the time in *Commentator* that it was “difficult to name a single one of Mr. Howe's pet policies or spheres of action which did not get a dusting in the report”.<sup>76</sup> Bird went on to observe that the “spectacle of a Prime Minister so hastily disowning findings of a Royal Commission which his government had appointed, but obviously and properly had not influenced, was relished by the galleries even more than by Opposition members”.

Certainly, the Prime Minister's formative political experiences clearly predisposed him against the non-Keynesian, non-continentalist thrust of the Gordon Report. He had been closely involved with the Rowell-Sirois Commission as its legal counsel, and before that a lawyer for subsidiaries of American corporations in Canada, entities which he saw as “just as Canadian as anybody else”.<sup>77</sup> In fact, the only official public response from the government to the commission's proposals was one combining disagreement and

indifference. In the House of Commons, the Prime Minister pointed to a few specific areas where the government felt the commission was misguided, and then suggested that any future legislation coinciding with the commission's work would be just that – a coincidence, “because ... consideration had been given to the matters previously”.<sup>78</sup>

Yet, there were pockets of resistance to the ‘business as usual’ approach. One minister reflected that:

Sure it will mean trouble for us, but perhaps it is a good thing to shake the government up a little with its suggestions. It is the role of the opposition to keep us on our toes and the opposition is so ineffectual that perhaps it is just as well we have commission reports like this to stimulate us.<sup>79</sup>

However, Walter Harris, the Minister of Finance responsible for the creation of the commission and ostensibly guiding the government's response to its findings, was no match for the Prime Minister and C.D. Howe. The Liberals entered the pre-election period in 1957 as they had in the past – with an appeal shorn of ideological vision or policy alternatives, stressing personality and managerialism. As John Meisel summarized:

Much of what had, in the years immediately before the election, been called Liberal policies or the Liberal programme was actually the product of the intimate co-operation of leading civil servants and their members. The result of this collaboration was that the party as such, tended to neglect the task of reexamining its program and of devising new approaches to the problems facing the country ...<sup>80</sup>

The Royal Commission had been charged to develop long term policy directions for the economy in a period of rising economic uncertainty. When it came forward with elements of an alternative approach, the Cabinet closed ranks behind established lines of thought. Accordingly, the Cabinet continued its postwar ‘business as usual’ approach to governance and pre-election planning – “no issues were admitted to exist, no alternatives

to the Liberals acknowledged, no reason for discontent credited".<sup>81</sup>

However, the public interest in economic policy renewal generated by the Gordon Commission since its appointment in 1955 had done much to alter the chemistry of partisan conflict in postwar Canada. The potential opening to the opposition parties was greater than it had been since 1935 when the Bennett government self-destructed. The editors of the *Financial Post*, for example, in 1956, had remarked:

A number of glib assumptions which Canadians usually accept about their country's place in the scheme of things are due for a re-appraisal by the Gordon Commission. One of them is the consoling story that we are automatically growing into a rounded and mature economy developing more complex and advanced manufacturing processes, and growing less dependent on extractive industry.<sup>82</sup>

Indeed, by deferring to the Royal Commission process in 1955, the government had publicly indicated its intellectual fatigue on major questions of economic governance, and yet when presented with the outlines of a new approach in 1957 it clung to the familiar. The stage was set for the "Diefenbaker Revolution". At almost exactly the same time that the *Preliminary Report* was presented to (and disregarded by) the Cabinet, John Diefenbaker was elected leader of the Progressive Conservative Party.

As we have discussed, Canada's other governing party, the federal Progressive Conservatives, had been electorally stalled and marginalized in policy matters across the first postwar decade. But by the mid-1950s a series of changes within the party pointed to a constructive engagement with the themes and perspectives expressed in the Gordon Commission.<sup>83</sup> Here party leader George Drew made two important contributions. First, he instituted in 1955 a party research bureau. This provided an organizational base for idea generation linking restive elements within the parliamentary caucus to various

dissenting experts critical of both the Conservatives' lingering right wing, free market notions, and the Liberals' complacent Keynesian "preoccupation with national statistics" which "led them to the view that all a government needs to do is to maintain welfare policies and short-run stability".<sup>84</sup> Drew's second contribution to the revival of the Conservative party took the form of his sudden resignation in 1956.

These two developments precipitated a dynamic leadership convention that changed the face of the party. Most obvious here was the victory of John Diefenbaker, a charismatic orator from Western Canada. But the convention also devoted more attention than usual to policy matters. Inspired by the newly created research department, delegates were presented with a series of resolutions that included reference to economic concerns such as natural resource processing and domestic industrial development. Such issues were not completely unfamiliar to Conservative Party activists as earlier campaigns had mentioned nationalist themes (although they were submerged by the critique of statism and support for foreign investment). At the 1956 convention, decades-old "ultra conservative" planks were dumped and "the hallowed 'free enterprise' emphasis was tempered by a new recognition of the government's potential role in economic development".<sup>85</sup>

Of course, these various resolutions did not add up to a coherent economic program, and they were not actually given much attention at the convention by the new leader, John Diefenbaker. By the mid 1950s, Diefenbaker had acquired a national profile in non-economic areas such as defending the liberties of citizens and the rights of Parliament against government. "Economics", Patrick Nicholson wrote about Diefenbaker, "did not

strike a chord".<sup>86</sup> Indeed, the legal approach to politics in the 1950s was particularly useful to ambitious opposition members against the backdrop of what was widely perceived as Liberal abuses in passing various pieces of legislation in the waning months of its administration. Still, rising unemployment and the Gordon Commission's call for change required that contenders for power offer direction in economic policy.

In fact, the Diefenbaker Progressive Conservatives found much to their liking in the *Preliminary Report*, released a month after the convention. There was a broad convergence of thought between the commission's critique of the postwar policy model, and the intellectual preoccupations of John Diefenbaker's personal economic advisor, Merrill Menzies, hired in the months before the 1957 federal election. As discussed earlier, Menzies was a disaffected Liberal advisor who had authored his own critique of the techno-bureaucracy's Keynesian discourse.<sup>87</sup> Like Walter Gordon, Menzies broke from the idea network's consensus in the mid 1950s and sought outlets to advance alternative perspectives. Where Gordon challenged the economic policy of the government through the royal commission process, Menzies accepted an offer to work with the new leader of the main opposition party. The Gordon Commission had placed new issues and instruments on the economic policy agenda. Menzies, and other recruits to the new Progressive Conservative Party Research bureau, became intellectual brokers for these ideas with John Diefenbaker.<sup>88</sup> They translated the new currents of economic thought into a party platform and election themes. Between the leadership convention of December 1956 and the federal election of June 1957, Diefenbaker's vague vision of northern development rapidly acquired greater substance and credibility. In this



transformation, the release of the *Preliminary Report* in January 1957 – the ideas it packaged and the interest it stimulated in policy innovation – was a defining moment.

In June 1957 the Diefenbaker Conservatives toppled the Liberal regime, gaining minority power.<sup>89</sup> Less than a year later, while winning a huge majority, they drew on the Gordon Commission's alternative discourse of national economic development strategy. When the electoral dust settled in 1958, new leadership was in office, armed with new economic ideas. It remained to be seen whether the "vision" would be translated into "revolutionary" and durable change. Would Canada enter the 1960s with a national economic policy model reaching beyond the postwar Keynesian model?

Before exploring that issue it is necessary to look more closely at the Gordon Commission's substantive contributions to economic policy thought. The next section examines the commission's *Final Report*, released in 1958 and accompanied by the research work that underpinned the analysis and prescriptions. Reviewing this package provides insights into important new divisions within the economic idea network's influential techno-bureaucratic community.

### **3.5 The Gordon Commission's Two Economic Policy Models: The Idea Network Divides**

Like the Liberal Cabinet, the civil servants responsible for implementing the official economic policy model in postwar Canada, were troubled by the *Preliminary Report*. When the Rowell-Sirois Commission issued its Keynesian-style economic and constitutional reform agenda, it rallied broad and sustained support from policy

intellectuals. In contrast, the Gordon Commission failed to mobilize the idea network because it actually presented two national policy models that provided the intellectual reference points for policy conflict not consensus. This division, and the techno-bureaucratic competition that it spawned, had significant implications for the innovative capacity of subsequent federal governments, beginning with the Diefenbaker Conservatives in 1958.

The Gordon Commission was internally divided and its published reports expressed the conflict. In this sense, the Gordon Commission did not match the standard for applied policy analysis set by the Rowell-Sirois Commission where technocratic expertise and commissioner deliberations were woven into a coherent, persuasive, and in the end, powerful new policy discourse. Still, the Gordon reports did introduce new ideas responding to the concerns of the mid-1950s, ideas which suggested a significant realignment of the federal government's role in economic management. Yet these departures from established thought were imposed on a social scientific infrastructure (assumptions, models, data, techniques) closely associated with the prevailing economic policy model. Consequently, the commission's message was ambiguous: it innovated but in a way that gave shape to new lines of division rather than setting in motion the incremental but steady institutionalization of a new policy model that followed the Depression-era commissions.

The second generation Keynesian economists serving the Gordon Commission saw it as an opportunity to refine and update – not challenge or displace – the established economic policy model. As such, they were not policy innovators. Consequently, if any

sweeping recommendations were to be offered in response to the "problems" section of the mandate they were unlikely to emerge from the statistical projections of the economists. Such forecasting exercises effectively assumed that the current economic policy mix would not be significantly altered in the future. This predisposition placed an important limitation on the capacity to analyze socio-political developments or to propose new policy strategies to the government. As one observer noted at the time "to make forecasts at all, it is necessary to assume that the governing conditions of the Canadian economy are not going to change very much."<sup>90</sup>

Established academic economists, not surprisingly, were critical of much of the commission's product. They respected, on the one hand, the ambitious scope of the forecasting exercise, but rejected, on the other hand, the principles and goals reflected in the recommendations.<sup>91</sup> Specific criticisms were many and varied, but at bottom reflected the view that the commissioners had taken leave from their research mainstream had misconceived the problems requiring policy attention. Adrift from established analytical moorings, they found themselves counselling major changes on the basis of speculative scenarios rather than marginal adjustments on the basis of existing evidence. Here, the economists searched the report in vain for discussion informed by the idea network's familiar categories: inflationary pressures, public finance and government expenditures, consumer welfare and business competition, and in relation to foreign economic policy, the principles of non-discrimination and comparative advantage.

Along similar lines, the top echelon of permanent officials in the economic departments, the other established presence in Canada's idea network, shared the alarm

of their cohorts in the academy about the *Preliminary Report*. Their response was described as one of "evident horror". Tom Kent elaborated:

The civil servants found long-established policies, for which they had been responsible for years, criticized and rejected in a few brusque sentences. ... Men with long experience of the policy problems of government declared themselves unable to trace the logic and economic analysis that the Commission had used to reach its conclusions. The Commission's case was not argued in a way that commanded understanding, let alone agreement, among the men best qualified to understand an adequate case.<sup>92</sup>

Indeed, "off the record" reaction throughout 1957 from Finance department officials in charge of fiscal instruments was pointed in its objection to the revamped conception of taxation policy implied by the commission's concern with secondary manufacturing, regional development and domestic capital formation.<sup>93</sup> Overall, the vast majority of techno-bureaucrats found the *Preliminary Report* wanting as a theoretical innovation, and in contrast to the doctrinal breakthroughs of the 1930s organized by the Rowell-Sirois Commission, uninspiring in any immediate sense of further scholarly reflection and professional recruitment. The civil servants found it wanting as a set of feasible proposals attuned to the economic problems of the day. Its major fiscal reforms they judged as technically deficient and political "non-starters". As one Ottawa columnist summarized: "Among the senior officials – the so-called brain trust – ... the general verdict here is that the report is inadequate – 'half-baked' is the commonest expression."<sup>94</sup>

The Gordon Commission released its *Final Report* in April 1958, more than a year after the *Preliminary Report*. In their recommendations, these two documents were substantially the same. The 1957 report was preliminary only in the sense that its proposals were advanced without full incorporation of the research team's work. Both

reports were distinguished by the same disjuncture between the optimistic forecasting of Canadian economic prospects on the one hand, and the unorthodox policy recommendations in response to emerging problems on the other.

This section will show that **two projects** – in effect, two national policy models – were engaged inside the Gordon Commission.<sup>95</sup> The first of these was that of the established experts – the idea network’s second-generation Keynesian economists in the universities and the economic ministries – who focussed on the “prospects for growth” dimension of the mandate. They used the commission’s resources to enhance their fine-tuning and forecasting capacities while also heightening public awareness of the potentialities of their policy science. They accepted the employment and stabilization goals of the postwar model, and the related technocratic view that their policy realization depended on the meshing of private market transactions and public sector expertise. In relation to trade and industrial policy, the reference points for this project were international – the institutions of the General Agreement on Trade and Tariffs, the principles of multilateralism, and the doctrines of free trade. National governments were assumed to have minimal leverage over economic flows, or policy autonomy within the international division of labour. Guided by these assumptions, this project embraced the neo-classical premise that the laws of economic progress are universal and that a single model, using statistical projections of purported behavioural regularities, could predict patterns and guide policy formation across all countries.<sup>96</sup> It shared, then, the rationalist assumptions of the Keynesian techno-bureaucracy. Using trends in per capita income and aggregate growth since the Depression as its empirical benchmark, this project was

optimistic in its estimation of Canadian economic prospects. The policy model it advocated can be described as **market-continentalist**; faith was placed in the private economy, fine tuned by officials, and support was offered for foreign investment and tariff reduction.

The second of these projects, by contrast, gravitated to the mandate's "problems" pole. Its advocates were dissenting voices within that same techno-bureaucratic idea network. They saw the commission as an opportunity to better understand Canada's specificity as an economic unit with particular historical weaknesses and imbalances, the redress of which presupposed substantial independence from the universalistic categories underpinning the prevailing policy approaches. In this case, the reference points for economic policy making were national: specifically, the federal government, and financial institutions – both private and public – for domestic capital formation. Space did exist for national governments to 'renegotiate' the relationship between their economies and the international system. On this basis, the second project questioned neo-classical premises, emphasizing instead Canada's historical situation. It sought a framework more sensitive to specificity and more helpful in guiding policy change than revealing general laws to forecast the future. This project, with its focus on Canadian institutional factors, introduced new economic ideas pointing toward an alternative discourse properly labelled as **statist-nationalist**; statist because the range of policy instruments envisioned went well beyond technocratic fine tuning and nationalist because its execution required political mobilization of domestic support behind developmental goals.

This division was most evident in the research program. To clarify and elaborate, brief consideration of the commission's four most encompassing monographs is helpful: *Output, Labour and Capital in the Canadian Economy*, by W.C. Hood and A. Scott; J.H. Young's *Canadian Commercial Policy; Canadian Secondary Manufacturing Industry* by D.H. Fullerton and H.A. Hampson; *Certain Aspects of Taxation Relating to Investment in Canada by Non-Residents* by J.G. Glasco; and finally, *Canada-United States Economic Relations* by I. Brecher and S. Reisman. The monographs from Hood and Scott and Young provided the framework for the market-continentalist project. Hood and Scott's work compiled the statistical forecasts for the Canadian economy. It displayed the policy insights from Canada's new econometricians, offering twenty-five year aggregate estimates of population, labour force, capital requirements, consumer expenditure and gross national product, and specialized evaluation of prospects in individual sectors. This monograph predicted continued rapid growth for the Canadian economy and foresaw little change in its basic structure. Market forces would affect the marginal adjustments between sectors, such as from agriculture to manufacturing and service industries, accompanying steady growth. This optimism was echoed in Young's monograph on Canadian commercial policy. Arguing from the international body of economic theory, Young demonstrated the losses to consumers of protection, and recommended substantial Canadian tariff reduction and intensified global specialization in production.<sup>97</sup>

These two monographs covering core areas in domestic and international economic management formed the heart of the Gordon Commission's market-continentalist discourse. They reinforced a well-established policy framework with new information to

enable governments to 'stay the course'. These monographs spoke with one voice. They were showcase products of the postwar idea network, each reflecting collaborative research and writing on the part of professional economists inside and outside government. However, the announcement prefacing the Young monograph is revealing of the more complicated internal dynamics of the Gordon Commission:

... most experts in tariff matters have decided views not only about theory but also about the way in which theory should be translated into policy, and these views are perhaps bound to be reflected in their writings. The study (by Dr. John H. Young) makes a more abstract case for free trade – and does so more explicitly – than perhaps some people would expect or think justified in a staff study for a Royal Commission.

... Understandably, the Commissioners have been more concerned with tariff and commercial policy **in light of the existing structure of the Canadian economy** under the conditions and circumstances of today and of those which we foresee in the future than we have been with theories which in themselves involve certain assumptions and preconceptions and which are, therefore, subject to different interpretations when applied in practice. [Emphasis added]<sup>98</sup>

The commissioners' unease with this repackaging of postwar conventional wisdom acquired shape in the other key monographs mentioned above. It was reflected in the analysis of secondary manufacturing by Hampson and Fullerton, and Glassco's interpretation of taxation and capital formation. Here were the rudiments of the Gordon Commission's statist-nationalist discourse: attention shifted from the economy's postwar growth successes to the accompanying international imbalances and regional unevenness. From this perspective, standard topics of stabilization were not narrowly conceived in relation to the pulling of a few fiscal policy levers. The economic downturn of the mid-1950s was now seen as rooted in specific features of Canadian development, calling for intensified intervention to address rigidities on the supply-side of the economy.



Hampson and Fullerton explored these themes.<sup>99</sup> They recorded the growth of Canadian industry but emphasized the specific competitive difficulties of Canadian secondary manufacturing (as distinct from primary industry), situated between low wage production overseas and high American productivity. They then introduced the argument that these problems were deepened by a continental production structure ensuring that "Canadian secondary industry is a good deal less specialized and concentrated than considerations of productive efficiency alone would appear to warrant". Closing the productivity gap between the Canadian and American secondary industry, which Hampson and Fullerton estimated at 35% to 40%, required changing Canada's "artificial corporate structure" to realize economies of scale and mobilize new technologies. This analysis of the inefficiencies of industrial organization – too many firms and too short production runs given the size of the market – pointed to unconventional policy measures regarding corporate concentration and the role of foreign-owned subsidiaries in the Canadian market.

Fullerton and Hampson did not pursue the full implications of their prescriptions in terms of state-economy relations. However, inquiry along these lines was picked up by Glassco in his discussion of federal taxation policy and its effects on Canadian industrial structure and capital formation.<sup>100</sup> This monograph shifted the fiscal policy debate away from a short-run stabilization context to a more long term regulatory context. The taxation system, the monograph effectively reminded, should not be considered only in relation to inter-governmental financing of welfare programs and the management of aggregate demand. It should be treated as the federal government's central instrument for

influencing national economic development and mobilizing domestic investment capital. Using comparisons with American and British legislation, he detailed how Canada's tax laws both encouraged foreign ownership and restricted contributions from venture capital institutions in Canada. Glassco's monograph shed light on unexamined aspects and effects of the postwar tax regime underpinning the 1945-55 economic growth.

The final key monograph came from Brecher and Reisman.<sup>101</sup> It basically straddled the two projects. On the one hand, following the market-continentalist discourse, its orientating assumptions were decidedly internationalist: "obviously ... the dominant direction of impact is from the world inward, not from Canada outward; nor is this pattern likely to be reversed in the foreseeable future". On this basis, the authors offered a favourable review of the historic and contemporary role played by foreign investment in the Canadian economy. They argued that the shift in the form and identity of non-resident holdings from British portfolio to American equity investment was a sign of Canada's economic maturity, moving from government-sponsored infrastructure undertakings to market-organized industrialization. From this perspective, Brecher and Reisman dismissed policy measures "to weaken Canada's economic links with the United States". Arguing that a "young country" must rely on non-residents for "an indivisible package of money, technology, skills and markets" to stimulate and sustain growth, they concluded that "cases of divergence of interest" between foreign controlled enterprises and the Canadian national interest were "few in both number and variety".

On the other hand, Brecher and Reisman's monograph – their own conclusions and interpretations notwithstanding – linked up with the concerns informing the second

project. First, the monograph provided the commissioners (and all policy actors for that matter) with the most extensive empirical documentation of the degree and nature of foreign investment, mapping its increasing concentration in resource and manufacturing sectors. Second, it revealed the limits of the Keynesian tool kit under such conditions of external penetration and sensitivity to cyclical movements in the United States. Third, it confirmed the presentation from Glassco connecting postwar patterns of capital formation in Canada to certain institutional deficiencies and tax policy anomalies.

Finally, and perhaps most significantly, the monograph was innovative as a piece of public policy analysis. Its rigorous treatment of Canadian-American economic relations clarified, as no other monograph had, the key issue in the emerging debate – is there room for Canada to pursue nationalistic policies? And it also elaborated a policy research agenda, in effect a set of empirical categories, to structure further inquiry around that central question from both sides. This monograph pioneered analysis of the implications for Canadian public policy and economic growth of interlocking continental corporate and trade union structures, and interdependent private investment flows. Each of these arrangements was treated as a “channel for transmission” of international forces into Canada and studied in separate chapters by Reisman and Brecher. Their work offered a way to translate diffuse concerns about ‘Americanization’ into a systematic assessment of its effects across various institutional settings. As we shall see, the Brecher and Reisman agenda acquired a longer-term significance as the intellectual conflict opened up by the Gordon Commission became institutionalized in the idea network in the 1960s and 1970s.<sup>102</sup>

Of course, the Gordon Commission tried (unsuccessfully) to merge these discordant voices. The twisting and turning was nowhere more evident than in the 509 page Final Report which incorporated the full range of the research program. Simply put, contained within the *Final Report's* 20 chapters was an elaborate statement of the ongoing relevance of resource exporting, continental integration, and state intervention limited to macro fine-tuning and modest social redistribution; **and** second, a conceptual map for a quite different and more ambitious role for the federal government in economic matters. In the former case, the familiar guideposts to Canadian postwar economic management were eloquently reaffirmed in the introductory chapters, and subsequently expanded in the ten chapters of industry and sector study constituting the core of the *Final Report*. Specifically, the context-elaborating initial chapters dispensed with arguments for protectionism, highlighted the limits to resource processing prior to export, cautioned about the pitfalls of the emerging economic nationalism in the developing world, and celebrated the role of the United States in liberalizing global trade. Subsequent chapters on industries and sectors, relying on the forecasts from the econometricians with their assumptions of long term stability, were optimistic about Canada's growth prospects and thus limited in their discussion of any obstacles to prosperity or possible adjustments to policy routines. Adhering to the scientific claims organizing Canada's technocratic idea network, this introductory section conceded that the real locale of economic policy decision making was gravitating to Washington; fortunate' enough, the commissioners reported "the experts charged with such responsibilities in the United States, aided as they are by particularly full and prompt statistics, would seem to be as skilful and successful

as any in the world..."

However, faith in market processes supplemented by arms-length technocratic expertise was not sustained throughout the entire *Final Report*. Here the transitional chapter was number 17, entitled "The Changing Structure of the Canadian Economy". It duly synthesized the analytic and policy implications of the previous chapters, reminding Canadians that their "economic system has a high capacity for successful adjustment". It then recast the discussion away from policy continuity and basically self-correcting market processes, announcing instead another direction for the report's final chapters dealing with spatial economic relations and the role of government. Departing from the market-continentalist discourse, the commissioners summarized this transition chapter with these announcements:

We may simply note here that while we have been extremely prosperous in recent years, to some extent at least our good fortune is being paid for not in terms of exports; nor through a reduction in exchange reserves; nor by a drop in the exchange rate; nor by a shortage for capital investment; but in the increased ownership and control of Canadian resources by residents of other countries ... Canadians may follow an aggressive policy of stabilization of income, employment and prices ... however, if the Canadian policy of stabilization is much more vigorous than that of our major trading partners, it would tend to produce balance-of-payments deficits in periods of declining exports. This is but one more example of the way in which the structure of the Canadian economy can raise economic problems and imposes some limitations on Canadian economic policy.

From this beginning, the *Final Report* pursued an alternative vision across the three closing chapters. Overall, it amounted to a multi-faceted reevaluation of the principles and practices of the postwar policy model. This challenge moved at different levels: policy problems and goals, state-economy relations, and policy instruments. First, and most generally, it amended the goals of postwar federal economic policy by adding to the basic

employment and stability package a concern with the spatial implications for Canada national and regional – of the continental production structure. These goals brought into focus previously uncharted areas of government activism in relation to economic development and capital formation, areas which could relaunch Ottawa's policy pre-eminence in national governance even as the Keynesian-driven tax rental era of provincial quiescence was winding down. Second, the achievement of these goals necessitated new instruments for federal intervention redrawing the postwar decade's boundary line between state and economy. Accordingly, the state's capacity for satisfactory economic management – now linking stability to correcting rigidities on the supply-side – called for more than what Keynes, Mackintosh and others had celebrated as the "scientific spirit ... the best technical advice".<sup>103</sup>

Questions about economic control and ownership, the distribution of activity, and the economy's structural integrity were not politically located in the 'data-driven automatic stabilization' ideal central to the technocratic view of state capacity prevailing in postwar Canada. But these were the very questions broached in the last chapters of the *Final Report*. Answering them meant combining anew the market and political spheres while reinventing important policy instruments: strategic or discretionary corporate taxation, relaxed anti-combines regulations, quid pro quo bargaining and selective protection in foreign economic relations. In these fundamental matters of economic strategy the commission recommended a series of interconnected departures. On the problems of resource and manufacturing, it proposed accelerated depreciation allowances, access to which would be conditional for foreign firms depending on their compliance

with regulations stipulating Canadian participation in equity stock and senior management; and disclosure of financial details pertaining to branch plant-parent company operations principally to open a window to government on critical pricing and export practices of the continental corporations. A similar quid pro quo regime was proposed for lowering the rate of withholding tax on dividends paid to non-resident investors. It also recommended measures to ensure further processing of mineral and energy staples in Canada, in effect, asking exporting firms to meet domestic valued-added requirements. Finally, it argued for the rationalization of the industrial structure through relaxed competition policy and the build-up of domestic capital to replace foreign holdings by substantially modifying restrictions on Canadian banks and insurance companies.

To enhance the state's capacity to direct rather than simply stabilize or balance economic forces, the commission recommended new forms of intervention to coordinate private and public "capital expenditure programmes".<sup>104</sup> In this context, the commission was forthright in its rejection of continental free trade, and in its defense of the tariff as a legitimate instrument of economic development. In emphasizing the "short-term dislocations and upheavals" of free trade and the "diversification and thus ... greater stability" from tariff protection, the commission was questioning a key principle of Canada's postwar foreign economic policy regime.

As for spatial economic relationships within Canada, the commission also broke new ground. Focussing on the Atlantic provinces and the North, it identified limitations in the postwar transfer payment system which stabilized per capita incomes in these regions, but contributed little to local development. Reflecting on the existing federal equalization

program, the commission wrote that the policy objective "should be to integrate and improve the basic economic framework ... not likely to be accomplished by a multiplicity of unco-ordinated measures providing aid on an ad hoc basis". What was required was a new approach spearheaded by Ottawa based on an offensive regional capital formation strategy supplemented by an offensive labour market strategy. The latter was premised on relocation and retraining in the event of ongoing developmental problems, despite greater government-industry planning.

In introducing this package, the commissioners mapped a strategy for the federal government distinct from the welfarist-redistributive innovations first tabled in the Rowell-Sirois Report and incorporated into Canada's postwar Keynesianism. But the *Final Report* argued two cases: first, for policy continuity in reaffirmation of basic postwar market-continentalist premises, and second, for policy change in its introduction of the statist-nationalist project. Expressing a new conflict within the economic policy idea network, the Gordon Commission was an important moment in postwar economic policy making in Canada – as contemporary observers anticipated it would be. Of course, its final offering was not what those early enthusiasts expected from the commission process in Canada: the clarification by professional experts of a policy model crystallizing another bureaucratic-political consensus, where "the area of agreement will be readily reached and well defined". With its competing intellectual projects, and uneasy mix of orthodox analysis and heterodox recommendations, the Gordon Commission departed from the rationalist vision inspiring the Keynesian policy scientists of the 1940s. The publication of the commission reports foreshadowed new lines of division within the previously



united technocratic community dominating postwar Canada's economic policy idea network.

In fact, the Gordon Commission triggered an extended period of economic policy experimentation. What kind of adjustments were made to the federal government's overall economic approach in the wake of the reevaluation of the postwar policy consensus announced by the commission? How did the Canadian political system 'process' these competing economic idea systems? If the Gordon Commission had not forged a consensus inside the idea network, what of its longer-run prospects in the partisan-political arena?

The answers to these questions are complex: complete resistance from the Liberal Cabinet in 1957 soon gave way to a more experimental attitude on the part of subsequent governing parties, facing an intensification of the shocks which had triggered the commission's appointment in the first place. Early rejection by the St. Laurent government was followed by a haphazard pattern of advance and retreat around the commission's recommendations, encompassing both the Diefenbaker and Pearson governments. The cumulative result was a more limited and sporadic incorporation of commission-generated projects that contrasts with the gradual institutionalization of new ideas in the earlier period.

The following two sections trace the policy legacy of the Royal Commission on Canada's Economic Prospects. We will highlight the fate of its idea system(s) in relation to the two governments touched most directly by the Gordon Commission's work. The first section discusses the Diefenbaker years while the next analyses the first Pearson administration when the ex-chairman became federal Finance Minister.

### **3.6 Revolution into Interlude: Ideas, Politics and Policy in the Diefenbaker Years<sup>105</sup>**

From 1958 to 1961, the statist-nationalist economic ideas hung suspended above the political system, lacking an organizational vehicle to move them from the Diefenbaker campaign trail into governing circles. To become an innovation in practice, Diefenbaker's "New National Policy" required a Cabinet and party effort to merge its aims with a supportive coalition of private interests and with the administrative know-how of a still unconvinced bureaucracy. This was a tall political order. And here Diefenbaker's initial two years in power were revealing of how economic governance in Canada's brokerage system deviated from patterns followed in political systems of organizational exchange or party government. In the latter, the first years of a mandate, particularly in moments of flux like the late 1950s in Canada, are often times of policy realignment, when party (or interest group) generated initiatives ratified by the electorate and understood by key societal actors are consolidated in significant reorientations. In sharp contrast, the Diefenbaker government's 'window of political opportunity' closed with no policy revolutions underway. Robert Campbell has concluded that "development policies in the late 1950s were piecemeal, despite the government's commitment to a policy of planning national development".<sup>106</sup>

In some degree, the new government's hesitancy can be explained by steadily deteriorating economic conditions, with employment and investment plummeting below levels reached in the 1953-54 downturn. The government was immediately confronted with deficit problems greater than anything experienced since the war. In 1958, the

combination of recession-induced revenue shortfalls and the weight of accumulated public debt certainly made counter-cyclical government expenditures, or Keynesian stimulation, more difficult. Nonetheless, the Conservatives had accepted the Gordon Commission's questioning of Keynesianism, and historically economic crises created a political climate more open to policy experimentation. Indeed, Diefenbaker's "vision" suggested that the solution to Canada's economic problems lay not with continued demand management spending, but bold development departures and institutional changes to address structural problems. In this context, however, the observations of one contemporary observer of the 1958 election are instructive. According to Pauline Jewett, Diefenbaker did little to clarify the meaning of his "vision" or how it differed from established ideas and practices:

Elections in this country have never been very helpful in clarifying the issues of the day but it is difficult to recall an election in the past fifteen years in which the main issue has been so completely blurred. ... The voter can, of course, listen to the promises of the various parties on the hustings, but since the parties are all promising similar bundles of goodies from the public treasury he is not much further ahead here, either. ... It is a most unsatisfactory situation from the point of view of furthering our knowledge and understanding of complex governmental problems.<sup>107</sup>

In other words, the Diefenbaker campaign had been a remarkable electoral success, but far more limited in its cultivation of public and private support for significant policy change. The consequences of this intensely personalized style of campaign and form of victory were amply evident in the pivotal first two years of the government. There was no coherent mobilization of intellectual, bureaucratic and political forces behind a new economic strategy. Policy initiatives beyond the Keynesian model – principally the overarching goal of regionally-balanced industrial development – were "operationalized" with old policy instruments and practices.<sup>108</sup> Instead of a new federal commitment to

regional capital formation, for example, the Conservatives extended the very kind of ad hoc concessions and welfare transfers rejected by the Gordon Commission. Similarly the more encompassing shift away from managing short-run economic flows to intervening for long term sectoral integration was lost in a series of unimaginative budgets, where fiscal and monetary policy were unified in a focus on deflation and restraint. No objectives related to longer-term national economic development could be seriously argued to have been supported by Conservative budgetary policy from 1958 to 1960.<sup>109</sup>

Some steps were taken toward implementing the natural resource development emphasis of the campaign. Under the direction of Northern Affairs Minister Alvin Hamilton and political advisor Roy Faibish, "roads to resources" were constructed in British Columbia, Nova Scotia and Saskatchewan.<sup>110</sup> The federal-provincial co-operation required for this transportation mega project was sustained through the 1961 Resources for Tomorrow Conference. However, this developmental thrust was not integrated into a broader economic strategy, as Hamilton and Faibish both recognized. Hamilton later recalled that the government "couldn't do anything about unemployment with the weapons that we used from 1957 to 1960".<sup>111</sup> Faibish described the government's more general failure to focus and respond:

Unemployment got worse, and a kind of panic developed, and it spread right into the early '60s. It was never effectively coped with ... on a broad approach, there wasn't a coordinated fiscal, monetary, and general economic policy. It wasn't coordinated, it wasn't well thought through, and it didn't effectively meet the problems of the time.<sup>112</sup>

From 1957 to 1960, the Progressive Conservative government was divided into two economic policy factions. In this period, the debate that had been launched in the idea

network by the Gordon Commission moved into the political and administrative arenas. One faction supported the developmental objectives mapped by dissident policy intellectuals such as Walter Gordon and Merrill Menzies. Ministers such as Alvin Hamilton, Gordon Churchill, and Michael Starr were prepared to deploy statist instruments and institutions to implement nationalist goals. The other camp was opposed to such experimentation and remained wedded to the market-continentalist premises of the postwar model. In the late 1950s, the bureaucrats within the Department of Finance counselled a very restrictive fiscal and monetary policy that focused on inflation and government debt rather than unemployment and capital formation, despite recessionary conditions.<sup>113</sup> The deflationary macro economic approach found a powerful spokesperson in Finance Minister Donald Fleming.

Both of these factions, then, adopted positions that challenged orthodox Keynesianism. The statist-nationalists were oriented to the long term and the micro-economy's structure. The other group was practising a precocious postwar version of what later would be widely known as monetarism. Between these two poles, the period's two most visible economic policy figures moved – Prime Minister Diefenbaker and Bank of Canada Governor James Coyne. Diefenbaker favoured the activism of the statist-nationalists but he was inconsistent. For example, his speech to the Canadian Labour Congress left Eugene Forsey wondering whether in Diefenbaker's "list of priorities pure 1850 Manchester liberal free enterprise was right up at the top and the unemployed were way down at the bottom".<sup>114</sup> For his part, Coyne rigorously implemented a deflationary monetary policy while at the same time advocating support for nationalist interventions

into the supply side of the economy, ranging from import controls and tourist expenditure restrictions to investment steering. Coyne later referred to himself as a "premature anti-Keynesian revisionist".<sup>115</sup>

In sum, these intellectual divisions and administrative-ministerial factions prevented the Conservative government from establishing an economic direction, much less implementing innovative policies. Merill Menzies placed the blame for the indecision on "the establishment's attack on the policies of the progressive wing, which were expansionist and with long-term implications of establishing priorities and goals".<sup>116</sup> The result, he argued, was support in the critical first years of the government for "disastrous short-term economic policies which were getting in the way of developing the long-term policies that were needed".

In fact, it was fully three years into the term before the Conservatives introduced policy changes matching the new ideas first taken on board by Diefenbaker in 1957.<sup>117</sup> The official shift came in the form of a special supplementary budget delivered in late December of 1960. As we will see later, this budget contained many of the unorthodox taxation and commercial policies introduced by the Gordon Commission. In accounting for this shift, described as marking "the official rejection of Keynesian-type" fiscal policies, a number of factors must be considered.<sup>118</sup> Most fundamentally, the sustained economic downturn discredited Donald Fleming's single-minded drive to balance the federal budget, a goal which shaped the government's overall economic approach. Balancing the annual budget in March 1960 had done nothing to arrest rising unemployment and declining growth levels, nor to relieve the political pressure for

alternatives to the Finance Department's deflationary form of demand management.

Menzies described the events:

Fleming brought down his budget in the spring of 1960 ... based on principles he'd held all along, that the problems facing Canada were problems of inflation ... the second-quarter DBS review of the economy came out ... And it showed really exactly the contrary ... Diefenbaker ... picked up this DBS report, and tossed it over his desk at Fleming, and said, 'There goes your damned budget'.<sup>119</sup>

The opposition in Parliament was relentless in blaming the Conservatives for the recession and unemployment. The opinion polls were clearly turning against the government: "The rising Liberal graph and the falling Conservative graph at last crossed in the early fall of 1960".<sup>120</sup> Haunted by the Depression era refrain "Tory times are Tough Times", Diefenbaker and the ministers closest to him were acutely aware of the price to be paid for 'staying the course' in the face of worsening economic conditions.<sup>121</sup> Evidence of both policy failure and electoral slippage intensified the demands within Cabinet for a new or at least different economic approach.

Against this backdrop, Diefenbaker in August of 1960 started the process leading to the policy shift announced in the supplementary budget. Bypassing his ministers and the party, he met in private retreat with officials from the departments of Trade and Commerce, Finance, and Labour. He asked them to devise a new framework for federal economic policy. In September the *Financial Post* described these behind-the-scenes bureaucratic deliberations as involving "nothing less than a re-appraisal of monetary, fiscal, taxation, trade, tariff and immigration policies with the idea of producing the best possible new 'mix' of fundamental policies."<sup>122</sup> In early fall, an inter-departmental committee, expanded to include 14 deputy ministers, presented 30 proposals to the Prime

Minister who then referred them for approval to a Cabinet committee led by long-time Diefenbaker allies (conspicuous by his absence was the Finance Minister who threatened resignation when the committee "commenced giving orders to the officers of my department").<sup>123</sup>

On December 20 1960, then, a reluctant Finance Minister introduced "a striking group of fiscal proposals" which gave "coherence, unity, logic, synthesis and credibility to the entire economic program of the government".<sup>124</sup> The package was striking in its similarity to the general diagnosis and specific remedies supplied by the Gordon Commission's dissenting technocrats.<sup>125</sup> Recall there the argument that Canada's employment and growth problems were structural in nature, rooted in the continental system of production and therefore superficially addressed by aggregate demand manipulations, winter works programs and the like. The 1960 supplementary budget used this reasoning in introducing a number of changes to the principles of federal fiscal and foreign economic policy. Virtually all the amendments and new measures corresponded directly to aspects of the commission's economic blueprint: accelerated capital cost allowances selectively available for raw material processing, modernized manufacturing production, and investment in high unemployment regions; expanded tariff protection for "goods of a class or kind made in Canada"; repeal of the investment income surtax and measures to induce domestic pension and mutual fund investment; and the imposition of a 15% withholding tax on payments of interests and dividends to non-resident investors.

In 1961 and 1962 the government followed up this initial departure from the postwar economic policy with a number of other initiatives reflecting the statist-nationalist model.



The Finance Minister intervened in the exchange market to lower the value of the Canadian dollar to spur exports. In relation to industrial development, tax concessions for scientific research were expanded, resources for the Industrial Development Bank were increased, a Productivity Council was created, and legislation for a National Economic Development Board died on the Parliamentary Order Paper. In the field of regional development, the government passed the Agricultural and Rural Development Act in 1961 which focussed on the plight of struggling farmers, and in 1962 launched the Atlantic Development Board which met the Gordon Commission's case for institutional innovation to permit sustained federal leadership in regional capital formation.

In short, the government's twilight years became a period of sudden activism. However, these measures could not be administratively integrated or politically sustained in any meaningful way. A recognizable economic policy shift was evident by the final year of the Diefenbaker 'mandate', but it was an innovation of political desperation rather than political design. New economic ideas and instruments were introduced in an ad hoc and belated fashion. They were not integrated into any political strategy or governing project:

The change of direction of government came too late ... They could develop expansionary fiscal policy, but if monetary policy was working against it, which it was, then it not only cancelled out but confounded the existing confusion ... Diefenbaker went to the country with many regions and groups and interests confused, some extremely hostile.<sup>126</sup>

The Revolution had become an Interlude – a time of economic policy transition but without the political mobilization and channelling of administrative resources necessary for ensuring consolidation of a national policy model.<sup>127</sup>

In this context, it is important to note that the Gordon Commission agenda on which Diefenbaker drew to defeat the Liberals placed intensive demands on parties and politicians in the translation of ideas into policy. We saw that the established postwar framework, based on macro-economic policies respecting company-autonomy and continental flows, was gradually embedded in a process largely removed from party and interest group channels. From the Gordon Commission (and its Conservative interlocutors) however, came ideas for sectoral planning and institutional reform. Their full implementation presupposed new modes of intervention, more coercive and intrusive than that contemplated in the rationalist discourse of Canadian Keynesianism. This required ongoing concertation between producer groups and the state, mediated politically by the governing party and administratively by an integrated bureaucracy.<sup>128</sup> Elected with the largest and most representative parliamentary majority in Canadian history, the Progressive Conservative Party and its vision of a “New National Policy” raised expectations. They appeared to be an intellectual-political force well-positioned to orchestrate policy innovation in the face of widespread discontent over economic conditions.

However, the 1958 victory was an overwhelming personal triumph for the leader rather than an organizational victory for the party. This had two important consequences for the government’s subsequent economic policy capacities: first the wide electoral

coalition ignited by Diefenbaker's populist appeal was unrelated to any deep social coalition mobilized by the party integrating producer groups around clearly announced policy goals. Second, the momentum behind the personality or image based victory diverted attention from the important task of resolving differences within the bureaucracy and Cabinet over substantive policy direction.

The latter feature of the Diefenbaker sweep was revealed in immediate and rather spectacular fashion when the Prime Minister placed an ardent economic conservative in the pivotal Finance ministry. Fleming's orthodoxy was such that he later recalled that he was wary of both the "strong traces of Keynesian thinking among economic advisors in the Department of Finance" and the "populism" of his Prime Minister because "the burden of his promises was heavy for me to bear".<sup>129</sup> Moreover, this appointment ensured that bureaucratic forces unsympathetic to the "vision" of national development would play a central role in the formulation of the government's economic approach. With such divisions finding full expression among bureaucratic and political elites, it was hardly surprising that the Diefenbaker Conservatives failed to use their electoral mandate to mobilize support for a new national policy model. However their belated groping toward a new federal economic strategy cleared the path for the ex-commission chairman to enter the political fray. In 1963 the Liberal Party won a minority government and Walter Gordon was appointed Finance Minister.

### **3.7 “Sixty Days of Decision”: Ideas, Politics and Policy in the Pearson Years**

Despite their unprecedented parliamentary majority and their interest in unorthodox economic ideas, the Progressive Conservatives failed as policy innovators. Diefenbaker's personal victory did not translate in any direct way into organized support for policy change amongst critical decision makers: bureaucrats, producer groups, professional experts, provincial politicians (not to mention the federal Cabinet itself). The Conservatives' political failure cut in two directions. Unable to construct an alliance of relevant social groups and administrative elites around its “New National Policy”, the governing party floundered in the face of a rising unemployment and stalled investment; at critical moments, disputes within Cabinet and the civil service blocked change. Combining “vision and indecision” at the policy level, the Progressive Conservatives presided over the disintegration of the Diefenbaker electoral coalition, leading to the return to power of the Liberals in 1963.

As many have observed, the Liberal Party which contested the elections of the early 1960s was not the same party which had been decimated in 1958.<sup>140</sup> Immediately following the defeat, renewal began, most obviously at the leadership level where L.B. Pearson replaced Louis St. Laurent, but also in organizational and policy contexts. In this regard, activists agreed on the goal of winning urban, middle class electoral support. This goal, it was generally recognized, presupposed replacement of “ministerialism”: the institutional arrangement for Cabinet government during the St. Laurent years which made patronage the primary concern of the party (and even ministers) while placing control

over policy making in the closed networks of the bureaucracy. For the Liberals losing power in 1958 meant losing the right to draw on the political system's main idea bank – the civil service – and losing the right to the 'spoils' whose sharing contributed mightily to whatever organizational life the party sustained.

After the 1958 leadership convention, the 1960 Kingston Thinkers Conference and the 1961 Liberal Rally became occasions for the party to confirm its distance from the organizational decay and policy torpor associated with ministerialism's decade-long reign. And here Walter Gordon's presence loomed large. The royal commission – and Gordon's subsequent monographs – became a point of intellectual departure for the party's economic policy debate, which Gordon himself dominated.<sup>131</sup> As a close confidant of Pearson, he was positioned to ensure that his perspectives would be heard in key circles. Gordon described the conditions associated with his becoming chairman of the party's policy and election planning committees:

Some time during 1960 I started to think out my views on a lot of subjects, including the Canadian independence issue, and I made three or four speeches. I think they were more in the form of essays than speeches. I went to a lot of trouble over them, and I remember saying to Pearson, "Now it would be fatal if I got involved and you and I then didn't agree. I want to know if you agree with these views." He said he did, and he convinced me that he did.<sup>132</sup>

However, the extent of Gordon's control over the party's deliberations in this period of renewal must not be exaggerated. While agreement on the limits of ministerialism was easily reached, on the matter of economic policy direction, old disagreements persisted and new differences came to light. Fundamentally, there was no consensus emerging around either of the two policy models associated with Gordon and his royal commission. Obvious here was the lingering bitterness felt by the "old guard" Liberals at Gordon's

disloyalty in authoring such a report during the 1957 pre-election period; and related to this resentment, there was the ideological resistance to the statist-nationalist recommendations carried by Liberals such as Mitchell Sharp and C.M. Drury who had moved from the federal bureaucracy into the party. Sharp, the former senior official under C.D. Howe who left the civil service after the St. Laurent defeat to become the vice-president of an American corporation, emerged as a significant player in the party's overhaul.<sup>133</sup> He was involved with Gordon in organizing the Thinkers Conference in 1960. Liberals of Sharp's ilk never endorsed the Gordon Commission recommendations nor defended them against charges of discrimination, even socialism, levelled by business groups and economists.

Alongside this rather clear-cut split, there were also divisions within the party's emergent progressive wing. Here, Tom Kent, another Pearson insider, spearheaded a movement to extend Canada's Keynesian model to include more comprehensive forms of social security and income redistribution.<sup>134</sup> The economic thinking behind this thrust was closer to postwar demand management than the critique formulated by the Gordon Commission. In fact, early evidence of this tension within the post 1958 progressive wing of the party was provided by Kent's uncompromising critique of the Gordon Commission's interventionist, nationalist blueprint. Addressing himself to "younger Liberals", Kent ended his dismissal of the commission's key fiscal, trade, and competition policy proposals with a plea that the party "reject such ideas, consciously and finally ... [so that] the field is clear to get on, by other means, with the task which is even more important now than when the Commission was set up: to establish the ideas and policies

that will, in this generation, relate the abiding principles of Liberalism to the developing needs of the new Canada."<sup>135</sup> At the 1960 Kingston Thinkers Conference Kent prescribed such a strategy, organized around "a new philosophy of social security for the 1960s" which, in its concern with redistribution and collective consumption, involved no "change in the organization of production".<sup>136</sup> And following the 1961 Liberal Rally, he concluded that Gordon's economic agenda had not been seriously engaged by the Liberal Party. In particular, the nationalist perspective, Kent recalled, "was never joined":

it was never officially the Liberal Party policy. It was Walter's view. It was an issue on which there would have been quite deep division within the Liberal Party and the government.<sup>137</sup>

Keith Davey, the newly appointed director of the party, elaborated on the Kent's observation about the Rally where Gordon presented his ideas:

There were several dichotomies in the party. There clearly was a left wing, which was Tom Kent and Walter Gordon; there clearly was a right wing, which was Bruce Matthews and John Connolly, and so on. There clearly was an Old Guard, which was Martin and Pickersgill; there clearly was a New Guard, which was Sharp and Gordon. And so we had all kinds of combinations. We had Old Guard right wing, we had Old Guard left wing, New Guard right wing, New Guard left wing, and so on.<sup>138</sup>

In sum, the demise of ministerialism left room for varying interpretations of Canadian economic affairs, each potentially anchoring a distinct analysis and strategy for the revamped Liberals. Gordon, armed with his commission blueprint, was an authoritative voice but his intellectual influence was far from complete.

Therefore, as the Diefenbaker government unravelled, the Liberals compromised on an electoral platform for 1962 and 1963 featuring both the welfarist-Keynesian ideas of Kent and the statist-nationalist ideas of Gordon. The market-continentalist perspective of

Sharp and others receded temporarily into the background.<sup>139</sup> In a striking break with traditional Liberal habits, candidate and campaign chairman Gordon interrupted the party's listless, rather contentless 1963 campaign in the final weeks by announcing (through Pearson) that "more constructive things will be done in the first sixty days of a new Liberal Government than in any similar period of Canadian history."<sup>140</sup> The upshot of the "Sixty Days of Decision" campaign conversion was to underscore the boldness of the political leadership over policy making which would directly follow the Liberal victory. In April 1963, the Liberals won a minority government.

The pivotal event in the Sixty Day experiment came in the form of Finance Minister Gordon's budget, delivered two months after the election. The budget was advertised by the new Finance Minister as the economic framework integrating the governing party's various legislative proposals announced from April to June 1963. The timing, construction, and substance of this budget was revealing of how initiative over economic policy in the early Pearson government had in fact passed to the ex-royal commissioner.<sup>141</sup> In preparing the budget regular bureaucratic channels were bypassed. Gordon returned to ideas originating in the royal commission, as refined across five years of further essays and speeches. He was about to launch a new federal economic policy framework that was developmental and nationalist in its goals, deploying a range of statist instruments and vehicles for implementation: a department of industry; an economic advisory council; public institutions to guide national, regional and municipal capital formation; and technical training schemes for workers.



An historical parallel to the 1945 federal budget following the White Paper and Green Book policy papers would not be entirely misplaced. In their ideas and commitments, each had characteristics of statements of a new national policy model. Prime Minister Pearson is reported to have told a Cabinet colleague that Gordon's budget would be "the most original budget" since the 1940s.<sup>142</sup> Unlike 1945, of course, the proposed reorientation was neither authored nor supported by the established techno-bureaucracy. The Finance department, we have seen, spent the Diefenbaker years rallying around Donald Fleming's conservative instincts – confronting mounting economic problems with fiscal rectitude, domestic credit control, and reluctant forays into supply-side intervention. Overall, the officials had shown themselves to be mild Keynesians in good times, manipulating fiscal policy to stabilize and perhaps redistribute income; but in hard times showing a clear pre-Keynesian disposition. As an influential dissenter within the economic idea network, Walter Gordon was acutely sensitive to what he termed "the Finance mind". In a bold move he transferred authority over the budget's construction away from permanent officials to outsiders: four "action-oriented economists" whose views on tax and investment matters coincided with his own thinking.<sup>143</sup>

In fact, these outsiders, by professional training and policy outlook, were dissenting technocrats created very much in Gordon's own image. By training, all were investment analysts rather than professional economists. They were not steeped in the Keynesian teachings and organizational culture that shaped Canada's postwar economic idea network. They shared the critique of postwar Canadian fiscal policy first elaborated in the Gordon Commission by their professional associates – former President of Canadian Institute of

Chartered Accountants, J. Grant Glasco and business consultant D. H. Fullerton. Gordon assigned to each of these "interloping technicians"<sup>144</sup> responsibility over one of the budget's main innovations. Finance and Bank of Canada bureaucrats were marginalized, and Gordon's own Cabinet colleagues "didn't really know what was in the budget until either that morning or the night before, so they never had a chance to think about it much".<sup>145</sup>

From this extraordinary process, Gordon delivered a budget whose adjustments were not incremental. In the sweep of postwar economic policy statements, it resembled only the 1960 supplementary budget which had incorporated some of the new ideas circulating in the post-commission period. But the 1963 budget was different: the federal government now proposed changes in the nature of its economic intervention and situated this shift in a budget speech amounting to a new official policy discourse locating Canada's economic problems in manufacturing impotence, regional underdevelopment, sectoral disarticulation, and foreign ownership. Selective intervention and discriminatory taxation were now recognized as legitimate instruments available to decision makers to redress longstanding market-organized imbalances. In these terms, the budget's distinguishing features were many and varied. It established an accelerated depreciation scheme for new manufacturing and processing available only to firms at least 25% Canadian-owned. It imposed a 30% takeover tax on certain business sales by Canadians to non-residents. It changed the withholding tax on dividends paid to non-residents, establishing a sliding scale related to Canadian ownership. It offered a three-year tax exemption for firms which made capital expenditures in manufacturing and processing activities in designated areas

of slow growth.

Taken together the Throne Speech and the budget mapped a different and expanded role for Ottawa, one which challenged established conceptions of state-economy relations (and arguably inter-governmental relations as some critics claimed the tax provisions invaded provincial responsibility over property and civil rights). New ideas on economic management had been announced at the highest level of government. In contrast to the Diefenbaker temporizing, the Liberals moved decisively once in power. But the state's capacity to translate these ideas into policy depended much less on the administrative openness to novel scientific procedures which had marked Keynesianism's institutionalization; more decisive were political strategies capable of mobilizing support from those business, labour, and provincial representatives with the power to frustrate or facilitate the proposed realignment. As Denis Smith wrote, Gordon's "objective was both nationalist and dirigiste, and it raised complex questions of administration and sustained political will".<sup>146</sup> And here Walter Gordon and the Liberal Party proved as 'unfit to govern' as their Conservative predecessors.

As an attempt at economic policy innovation, the 1963 budget was a kind of **doomed unilateralism**. As mentioned above, Tom Kent felt Gordon's economic ideas had not been directly discussed, much less endorsed through party debate at the 1961 Liberal Rally. Moreover, there was an immediate backlash to the budget measures from almost all key economic groups, among whom some form of strategic accommodation was needed to sustain the new policy direction. For example, domestic business elites and organized labour, whatever their organizational handicaps as policy initiators, were each

potential supporters of nationalist and interventionist policy departures. Yet both attacked the budget initiatives and contributed to the discrediting of the Finance Minister.<sup>147</sup> The minister and his personal advisors had not taken the political offensive to confirm support within the Liberal caucus, much less to cultivate broader societal support before launching their policy. When it was evident in the immediate aftermath of the budget speech that Gordon's ideas had little resonance amongst organized interests, it became equally obvious that he had few allies in Cabinet and in the party. Paul Hellyer, a ministerial colleague, recalled:

The Cabinet didn't know about the budget until the morning it was brought down. ... So that it was a *fait accompli* and consequently there was no sense, really, in trying to do anything. We were accused later of not having come to Gordon's rescue in the shambles, but I think a lot of us felt that if we had any direct responsibility for what happened, we would have been more than pleased to.<sup>148</sup>

Within a month Gordon was forced to retract many of the budget's core provisions (and his subsequent two budgets confirmed the trend away from 1963). In the wake of this spectacular unravelling of the Liberal's alternative economic strategy, the Prime Minister began a formal retreat away from the "Sixty Day" experiment in policy innovation. This retreat was carried out in two contexts: policy development and party strategy.

On policy, authority over economic decision making was returned to the permanent officials in the Finance department with clear signals that a new like-minded minister would be appointed. The emergence of former bureaucrats Mitchell Sharp and C.M. Drury, and Robert Winters – all "business Liberals" from the St. Laurent era – as the party's spokespersons in economic policy signalled a resurgence of orthodox ideas and

practices. In the end, the Auto Pact was the one initiative from this period overseen by the business Liberals such as Industry Minister Drury and senior official Simon Reisman that Gordon found compatible with his own approach to Canadian economic development. Despite reservations about the elimination of any prospects for a domestically owned automobile industry, Gordon supported the continental rationalization program that was based on politically bargained trade-offs with multi-national corporations between free market access and production guarantees. A strategic approach to foreign investment was used that focused on maximizing benefits rather than ownership. Gordon acknowledged its appropriateness in the auto sector where Canada had virtually no presence, but cautioned that he did not believe that such accommodation to the branch plant structure was a constructive model. "It is not", he once wrote, "a pattern that should be adopted to other industries".<sup>14</sup>

At the same time, Gordon's sudden fall in the economic policy hierarchy of the Pearson government created space for the party's other progressive wing – the social policy activists associated with Tom Kent – to advance its concerns and legislative claims. Indeed, as generally buoyant conditions of world trade in the mid-1960s provided the Canadian economy temporary respite from the employment and growth problems of the Diefenbaker-Gordon eras, the Liberal Party adopted a policy package based on principles reaching back to the commissions of the 1930s and the 1945 White Paper: economic openness, macro fine-tuning for income stabilization and national growth, regional equalization and welfarist redistribution. Under Tom Kent's direction from the Privy Council Office, the social welfare program was packaged as Canada's version of the

American-inspired "War on Poverty".

The second context of retreat related to the Prime Minister's clear desire to distance himself not just from Gordon's economic thinking but from the "Sixty Day" process that is, the attempt to usher coherent ideas into the political process through electoral politics. Settling back into more familiar policy grooves carved out by the bureaucracy, the economic conservatives and social policy activists ascendent in the post-1963 Liberal Party rediscovered personality politics and issue vagueness. For the 1965 election, discussion of economic policy options and Liberal campaign strategy were once again decoupled. It was observed at the time that "Liberals staged what amounted to a national plebiscite with one question on the ballot: Pearson or chaos?"<sup>150</sup> One Cabinet Minister wrote later that after the 1963 budget, "things were never the same ... Pearson leant less on Walter and more on the old style politicians, Pickersgill and Martin".<sup>151</sup> By 1965, the Gordon agenda was politically marginalized while an effective merger of the party's Kent and Sharp factions reaffirmed the power of the established postwar economic ideas for the second Pearson government, where the government's focus shifted to the issue of national unity as reflected in the flag debate and concerns about policies on language and culture.

## Conclusion

After 1965, the Gordon Commission debate over long term government strategy faded from the partisan arena, only to acquire new significance in the techno-bureaucratic idea network. Beginning in the mid-1960s the competing policy models launched by the Gordon Commission were institutionalized in an expanding range of statist agencies of economic policy interpretation and formulation. These included the Economic Council of Canada, the Science Council, the central agencies attached to the Prime Minister's Office, and various coordinating Ministries of State. As well, the competing economic models were explored further in a number of well-publicized government sponsored inquiries, which took the form in the late 1960s and 1970s of Task Forces rather than full-scale Royal Commissions.

Thus as the governing Liberal and Conservative parties returned to personality-based politics and cultural issues, the techno-bureaucracy debated the meaning of the Diefenbaker-Gordon interludes for Canada's economic future. Initiative in the realm of economic ideas shifted decisively back to the techno-bureaucracy, where experts and officials lined up behind one of the two policy models on offer. Although central issues of economic strategy in Canada were, in the words of Glen Williams, "banished from the arena of partisan political discussion", there continued "a fierce debate amongst Canada's intellectuals ... reflected within the state and in the formation of state policy."<sup>152</sup> This debate over long-run economic policy within the techno-bureaucracy persisted across the 1970s, with the beginnings of a resolution only apparent in the mid-1980s following the appointment of Canada's third major Royal Commission since the Depression: the Royal

Commission on the Canadian Economic Union and Development Prospects (the Macdonald Commission). The next two chapters investigate the political dynamics of this extended period of technocratic competition 'from Gordon to Watkins to Macdonald'.



## Notes

1. See Regenstrief, The Diefenbaker Interlude, pp. 16-25.
2. As quoted in Pickersgill and Forster, The Mackenzie King Record Volume 3, p. 261.
3. *Ibid.*, p. 203.
4. W. A. Mackintosh, "Trade and Fiscal Policy," in Canada Looks Ahead (Ottawa: Tower Books, 1948), pp. 15-16.
5. Mitchell Sharp, one of the new entrants into the postwar economic idea network, recalled the Department of Finance entrenching itself as the "central idea-generating" institution in the Canadian policy community. See Sharp, "Mitchell Sharp's CS Reflections".
6. See D. Winch, "Keynes, Keynesianism and State Intervention," in P. Hall, ed., Political Power, p. 111.
7. Mackintosh, "Trade and Fiscal Policy," pgs. 6, 16.
8. A. Hirschman, "How the Keynesian Revolution was Exported from the United States, and Other Comments," in P. Hall, ed., Political Power, pp. 356-357.
9. *Ibid.*, p. 350.
10. Bryce was a student of Keynes recruited into the federal bureaucracy in the late 1930s. In 1947, he became Secretary of the Treasury Board. Under his direction the Board's operational procedures were overhauled to facilitate implementation of Keynesian budgetary policy. See W.L. White and J.C. Strick, Policy, Politics and the Treasury Board in Canadian Government (Don Mills: S.R.A., 1970), pp. 34-45.
11. David Slater, "Canadian Economic Policy in the 1960s," in H.S. Gordon, ed., Canadian Economic Policy Since the War (Ottawa: Carleton University, 1965), p. 99.
12. See M. Daub's discussion of the role of economic forecasting technology in the postwar bureaucracy: M. Daub, "A History of Canadian Economic Forecasting," Journal of Business Administration, 15 (1984-85), and M. Daub, "Some Reflections on the Importance of Forecasting to Policy-Making," Canadian Public Policy, 10:4, (1984). A similar process is described for France in Pierre Rosanvallon, "The Development of Keynesianism in France," in Hall, ed., Political Power, pp. 171-193.
13. In its second brief to the Rowell-Sirois Commission, the CMA explained the broad benefits of the federal bureaucracy's new capacity for data gathering and analysis. The bureaucracy was recognized as the creative center of Canada's economic idea network:

While it would be desirable, or indeed, essential that not only the Federal but all public authorities should subscribe to the policy of advisedly regulating their public works, it would not be necessary for each of them to possess the required statistical machinery, if the Dominion Government were to establish a national co-ordinating bureau to centralize the collection, study and circulation of the basic information. The existence of this body, in conjunction

with the practical example of regulated Federal works, would be a powerful incentive to other authorities to place their works expenditures upon a similar rational and self-protective basis. It is in fact conceivable that many private organizations, appreciating the benefits of a premeditated long-term policy, would avail themselves of the opportunity which the existence of a source of relevant and authoritative information would afford. If the stabilizing influence of planned public works were to be reinforced at least partially by the construction expenditures of such quasi-public institutions as the chartered banks, insurance companies and other nation-wide organizations, the results would immeasurably transcend the cost of any exploratory or permanent organization which might be required.

Canadian Manufacturers' Association, Inc., Submissions, reprinted in Industrial Canada (May 1938), p. 70.

14. See R. Bryce, "Public Servants As Economic Advisers" in D.C. Smith, ed., Economic Policy Advising, p. 68.
15. Organization for Economic Co-operation and Development, Techniques of Economic Forecasting (Paris: OECD, 1965), p. 38.
16. R. Phidd and B. Doern, The Politics and Management of Economic Policy (Toronto: Macmillan, 1978), p. 170.
17. *Ibid.*, pp. 167-169.
18. Two recent analysts have summarized the distinguishing characteristics of this consultative arrangement in the decade following the war:

While these exercises are historically significant, they cannot be regarded as business-labour consultation in the way that the term is now understood. None of them involved equal representation of business and labour. Government controlled the agenda and directed the staff. Government's motive in launching these consultations was to secure the willing cooperation of private sector decision makers, who for the most part, were corporate leaders.

Central labour organizations were slower to gain broad acceptance as having a mandate to speak for any broad section of Canada's workers. Labour's participation in such consultative bodies was sought as a means of forestalling the disruption which otherwise might be caused by labour disputes. As a result, labour was not given equal representation with business. And, the consultative agenda was under the control of government.

Ken Waldie and Jan Fedorowicz, "Business-Labour Consultation in Canada: Economy-Wide Institutions" Background Paper prepared for the Canadian Labour Market and Productivity Centre (April 1992), p. 1.

19. Mackintosh, "Trade and Fiscal Policy," p. 16.

20. See Rosanvallon, "The Development of Keynesianism in France," p. 192. Rosanvallon writes that France's postwar generation of "high-ranking civil servants ... felt themselves in a certain sense above society, which they judged as obsolete and archaic; they assumed the roles of guides and pedagogues".
21. S.S. Reisman, "Managing the Economy: Reflections on Some Practical Problems," in Smith, ed., Economic Policy Advising, p. 192.
22. M. Lamontagne, "The Role of Government," in G.P. Gilmour, ed., Canada's Tomorrow (Toronto: Macmillan, 1954), pp. 151-152.
23. See W. D. Coleman, "Macroeconomic Policy: Dwindling Options," in M. Atkinson, ed., Governing Canada, pp. 212-216; J. Jenson, "Representations in Crisis: The Roots of Canada's Permeable Fordism," Canadian Journal of Political Science, 23:4, pp. 653-683.
24. Beck, Pendulum of Power, p. 276.
25. *Ibid.*, p. 277.
26. See Whitaker, The Government Party, *passim*.
27. Beck, The Pendulum of Power, pgs. 265, 285.
28. *Ibid.*, p. 266.
29. *Ibid.*, p. 266.
30. W.R. Graham, "Can the Conservatives Come Back?," Queen's Quarterly, (Winter 1955-56), p. 478.
31. F. H. Underhill, "Vox Populi," Canadian Forum, XXIX (June 1949), p. 77.
32. L. Zakuta, A Protest Movement Becalmed: A Study of Change in the C.C.F. (Toronto: U. of T. Press, 1964), p. 83.
33. B. Hutchison, "The Search for an Idea," Financial Post, April 23, 1955.
34. P. Jewett, "Political and Administrative Aspects of Policy Formation," in T. Brewis et al., eds., Canadian Economic Policy (Toronto: Macmillan, 1965), p. 357.
35. See B. Palmer, Working Class Experience (Toronto: Butterworth, 1983), pp. 245-298; D. Kwavnick, "Interest Group Demands and the Federal Political System: Two Canadian Case Studies," in P. Pross, ed., Pressure Group Behaviour in Canadian Politics, (Toronto: McGraw-Hill Ryerson, 1975) especially pp. 77-84; Brodie and Jenson, Crisis, Challenge and Change, pp. 227-230.
36. D. Wayne Taylor, Business and Government Relations (Toronto: Gage, 1991), p. 26.
37. Coleman, Business and Politics, *passim*.
38. Campbell, Grand Illusions, p. 68.

39. See H.S. Gordon, ed., Canadian Economic Policy Since the War for an early discussion of this matter, and Campbell, Grand Illusions for a more recent presentation.
40. Granatstein, The Ottawa Men, p. 168.
41. Campbell, Grand Illusions, pp. 69-70.
42. *Ibid.*, pp. 103-105.
43. A highly publicized example of this uncertainty was the so-called "Hidden Report" controversy in 1957 and 1958. The Department of Trade and Commerce's analysis, Canadian Economic Outlook (March 1957), predicted an economic downturn. The Department of Finance contradicted this assessment and counselled the Liberal government to follow a restrictive budgetary policy. After coming to power, John Diefenbaker used the bureaucratic confusion to blame the Liberals for deteriorating economic conditions. See, P. Nicholson, Vision and Indecision, (Don Mills: Longman's, 1968), pp. 67-68.
44. Organization for Economic Cooperation and Development, Techniques, p. 40.
45. Canada's International Investment Position, 1926-54, Dominion Bureau of Statistics, (Ottawa: 1956).
46. M. Barkway, "Dependency on U.S. Goes on Growing," Financial Post, March 17, 1956, p. 1.
47. Campbell, Grand Illusions, p. 108.
48. Brodie and Jenson, Crisis, Challenge and Change, p. 246.
49. As the "Government Party", the Liberals had evolved an organizational structure which excluded the parliamentary caucus, the enfeebled extra-parliamentary network, and even ministers from substantive participation in the flow of policy ideas. Beck described the party's situation in the mid 1950s:

Years of office had left its mark on the Liberal party. Its top policy-making committee – the Advisory Council of 236 members – had met only once between the 1953 and 1957 elections: evidence of the enormous gulf separating fact from fiction concerning the locus of decision-making authority.

See Beck, The Pendulum of Power, p. 292. The pitfalls for the party of this closed arrangement became clear when unfamiliar economic problems called for innovative responses. As Whitaker concluded, the Cabinet's only link to "any new ideas was the senior bureaucracy, which obviously had its own problems of ossification after twenty-two years of symbiotic relations with these same Liberals." See Whitaker, The Government Party, p. 209.

50. As quoted in P. Stursberg, Diefenbaker: Leadership Gained, 1956-62, (Toronto: U. of T. Press, 1975), pp. 108-109. The oral history series prepared by Stursberg offers a useful source of commentaries and reflections from key decision makers on economic policy formation in the decade following the Gordon Commission.
51. B. Hutchison, "Confusion in the Capital," Financial Post, February 25, 1956, p. 7. Hutchison noted that:

Until that report is filed neither party feels inclined to take a clear stand on the

tariff issue. Both are waiting hopefully for some easier issue to turn-up and Parliament is only sparring on the perimeter of things.

52. "Foundation Already Laid," Financial Post, January 1, 1956. The Trades and Labour Congress added its voice to the expectations surrounding the Gordon Commission. Eugene Forsey, TLC research director, told the commissioners:

We think the national stocktaking you are engaged in can be of great value. The first of all royal commissions in British history produced the Domesday Book. You may produce a Domesday Book, and something more for Canada: not merely a renewal of what is, but a prevision of what can be, what may be, and perhaps of what should be.

Hearings, Gordon Commission, p. 7447.

53. B. Hutchison, "Confusion in the Capital".
54. House of Commons, Debates, April 19, 1955, p. 2951.
55. House of Commons, Debates, February 20, 1956, pp. 1369-1370.
56. House of Commons, Debates, April 20, 1955, p. 3102.
57. T. Kent, "Mr. Howe Hot, Civil Servants Cold," Winnipeg Free Press, April 21, 1958.
58. "Basic Problems Need Thorough Probing," Financial Post, April 23, 1955.
59. Financial Post, May 14, 1955. It was reported that the government "has been disappointed that W. A. Mackintosh, principal of Queen's University, is unable to serve. He was pressed to be one of the commissioners, but it is understood he had to decline because of his duties at Queen's".
60. W.L. Gordon, A Political Memoir (Halifax: Goodread Biographies, 1983), p. 46.
61. *Ibid.*, pp. 59-70.
62. P.C. 1955-909, as published in Appendix A, Royal Commission on Canada's Economic Prospects, Final Report: November 1957 (Ottawa: Queen's Printer, 1958), pp. 471-72.
63. Financial Post, May 14, 1956. The newspaper described the official view of representation on commissions, and the commitment to technocratic leadership: "If, for example, labour and agriculture were to be represented in the Commission's membership, it is feared that it might be too unwieldy; and pressure would inevitably start for representation of other special interests." The contrast with the political dynamics of the commission process in countries such as Sweden, where a representative cross-section of parties and interest organizations play the central role, is striking. See Chapter 1 above.
64. W.L. Gordon, A Political Memoir, p. 62
65. *Ibid.*, p. 62.

66. S. Kuznets, "Canada's Economic Prospects," American Economic Review, June 1959, pp. 359-85.
67. A useful compendium of these submissions is Canada's Economic Future (Toronto: Cockfield, Brown & Company, 1957).
68. Hearings, Gordon Commission, pp. 7942-44. The exchange continued between the commissioners and the Chamber representative. It is revealing of the degree to which societal organizations remained limited in their capacity to generate and present independent analyses of long-term public policy issues:

Commissioner Gushue: You think the government ought to do something, whatever is the right thing?

Mr. Crean [Canadian Chamber of Commerce]: The government should have a good look at it now and keep having a good look at it.

Commissioner Gushue: Give it the best thinking?

Mr. Crean: And if I might just digress for a moment, that is one of the things I have tried to stress in the opportunities I have had to speak in different communities as Canadians have a job to do, to think about, if these trends continue, where that is going to land us. It is the same kind of thing I was trying to point out, there should be an increase in informed opinion on that subject.

Chairman Gordon: We have to do some specific thinking on the subject, that is why Dr. Gushue was hoping you would be able to be more specific.

Mr. Crean: As a national organization you can therefore maybe understand why we cannot.

Hearings, Gordon Commission, pp. 7942-44.

A similar exchange took place between Walter Gordon and the Canadian Manufacturers' Association representative on the subject of trade and industrial policy:

Chairman Gordon: ... On page 28 of your summary you make some remarks about non-resident control of Canadian industry. In your main brief certain objectives or advantages are set forth. You say you hope these things will happen. I recognize that the association includes in its membership many firms that are subsidiaries of foreign companies, and it may be difficult for you to express a policy on which everybody would agree on this point; but it seemed to me that just leaving it in the realm of hope was pretty hopeful, to put it mildly. Is that as far as you feel you should go?

Mr. Crombie [Canadian Manufacturers Association]: Yes, I think I have to agree with you that we cannot go much beyond a pious hope.

Hearings, Gordon Commission, 7534-35.

69. Hearings, Gordon Commission, p. 4835.

70. T. Kent, "The Commission With Two Purposes," Winnipeg Free Press, April 18, 1958.
71. W.T. Easterbrook, "Trends in Canadian Economic Thought," in J. Deutsch, B. Kierstead, K. Levitt, R. Will, eds., The Canadian Economy Selected Readings (Toronto: Macmillan, 1961), pp. 20-21.
72. "Suggestions Irritate As Well As Please Everyone at Ottawa," Toronto Daily Star, January 11, 1957.
73. "Gordon Report Delights Opposition," Toronto Daily Star, January 12, 1957.
74. G. Mowbray, "Sober Reflections," Commentator, April 1957, p. 15.
75. "Suggestions Irritate," Toronto Daily Star.
76. J. Bird, "A Prophet in Ottawa," Commentator, February 1957, p. 1.
77. T. Kent, "Mr. Howe Hot".
78. *Ibid.*
79. "Suspect Gordon Report Ammunition for Tories," Toronto Daily Star, January 10, 1957.
80. J. Meisel, The Canadian General Election of 1957 (Toronto: U. of T. Press, 1962), p. 24
81. Meisel, The Canadian General Election, p. 169.
82. Financial Post, April 14, 1956.
83. Meisel, The Canadian General Election, pp. 169-171, p. 51.
84. *Ibid.*, p. 43
85. *Ibid.*, p. 24.
86. Nicholson, Vision and Indecision, p. 46.
87. For details on Menzies' work, see, Meisel, The Canadian General Election, Chapter 3.
88. See Stursberg. Diefenbaker: Leadership Gained, pp. 110-111, and Meisel, The Canadian General Election, p. 44.
89. Diefenbaker's 1957 campaign was criticized by some commentators for not providing a clear presentation of new economic ideas. In the final weeks of the campaign Denis Smith wrote:

The hope of a free ride on Mr. Diefenbaker's reputation has guided the Progressive Conservative Party in its election strategy. ... Does the Conservative leader present a program that is reasonable and consistent, that seized the opportunities open to Canada in 1957, and that accepts the government's responsibilities? He has a handy stockpile of phrases, and repeats them in varying order, as is to be expected of all politicians in election campaigns. But Mr. Diefenbaker's favorite phrases are not illuminating. They are, on the contrary, often obscure, superficial, contradictory, or meaningless.

- Denis Smith, "The Conservatives are Confused," Commentator, May 1957, p. 3.
90. T. Kent, "Canada as a New China," Winnipeg Free Press, April 24, 1958.
  91. Representative reviews were: S. Stykolt and H.C. Eastman, "Disturbing Prospects," Canadian Forum (February 1957); J.H. Dales, "The Royal Commission and the Gordon Commission," Canadian Forum (February 1957); J. Viner, "The Gordon Commission Report," Queen's Quarterly LXIV (Autumn 1957); and H.G. Johnson, "Canada's Economic Prospects," Canadian Journal of Economics and Political Science 24:1 (February 1958).
  92. T. Kent, "Mr. Howe Hot."
  93. "How Ottawa, Washington See Report," Financial Post, January 19, 1957.
  94. G. Dexter, Winnipeg Free Press, January 24, 1957.
  95. This argument about intellectual division is supported by contemporary commentaries on the Gordon Commission. For example, see, T. Kent's editorial series in the Winnipeg Free Press (April-May 1958), and S. Kuznets, "Canada's Economic Prospects".
  96. Albert Hirschman has labelled this approach "monoeconomics" in his studies of developing countries. Monoeconomics, Hirschman explains, rejects the view that some countries may have "specific economic characteristics" requiring "that traditional economic analysis ... be recast in significant respects". See A. Hirschman, "The Rise and Decline of Development Economics," in Essays in Trespassing (Cambridge: Cambridge University Press, 1981), p. 3.
  97. J.H. Young, Canadian Commercial Policy (Ottawa: Queen's Printer, 1957).
  98. Ibid. This commentary, signed by the commissioners, appeared on the opening page of the Young monograph.
  99. D.H. Fullerton and H.A. Hampson, Canadian Secondary Manufacturing Industry (Ottawa: Queen's Printer, 1957).
  100. J.G. Glassco, Certain Aspects of Taxation Relating to Investment in Canada by Non-Residents (Ottawa: Queen's Printer, 1956).
  101. I. Brecher and S.S. Reisman, Canada-United States Economic Relations (Ottawa: Queen's Printer, 1957).
  102. This connection to further developments in Canada's idea network will be explored in our next chapters. For now, we can simply list leading contributors to applied policy analysis who used categories introduced by Brecher and Reisman: A.E. Safarian, Foreign Ownership of Canadian Industry (Toronto: McGraw-Hill, 1966); J. Dales, The Protective Tariff in Canada's Development (Toronto: University of Toronto Press, 1966); Report of the Task Force on the Structure of Canadian Industry, Foreign Ownership and Canadian Industry (Ottawa: Queen's Printer, 1968). As well, the intellectual legacy is evident in the research projects organized through new technocratic agencies such as the Economic Council of Canada, the Science Council of Canada, and the Private Planning Association. Of course, Simon Reisman, following his work at the Gordon Commission entered the



- senior ranks of the civil service. From the 1960s to the 1980s, he remained one of the most influential bureaucrats shaping Canadian economic policy, particularly in relation to the United States.
103. Cited in D. Winch, "Keynes, Keynesianism, and State Intervention," in Hall, ed., Political Power, p. 111.
  104. Proposals here included new bureaucratic structures for industrial and regional development, energy exploration and marketing, and agricultural stabilization. See Final Report, Chapters 17-20.
  105. The concept of 'revolution into interlude' is drawn from the work of two authoritative commentators on John Diefenbaker's impact on Canadian politics. John Meisel used the term "revolution" to describe the rise of Diefenbaker to power in the party and then in government. Peter Regenstreif concluded that "interlude" best captured the achievements and legacy of the Diefenbaker government. See Meisel, The Canadian General Election and Regenstreif, The Diefenbaker Interlude.
  106. Campbell, Grand Illusions, p.224.
  107. P. Jewett, "The Major Issues Are Blurred," Commentator, March 1958, p. 3.
  108. For a cataloguing of these retreats on regional and industrial policy, see J. Bickerton, "Nova Scotia, Ottawa and the Politics of Regional Development," (Carleton University, Phd. Dissertation, 1988), pp. 208-216.
  109. See Donald Fleming, So Very Near, Volume Two: The Summit Years (Toronto: McClelland and Stewart, 1985).
  110. Stursberg, Diefenbaker: Leadership Gained, p. 112.
  111. As quoted in *ibid.*, p. 214.
  112. *ibid.*, p. 211.
  113. This policy was interpreted in some quarters as an abandonment of Keynesianism, and in 1960, a group of university-based economists wrote a widely publicized "Open Letter" reminding that "the primary emphasis in economic policy should be upon measures that will most readily and effectively stimulate the demand of residents and non-residents alike for Canadian output". See "Oust Coyne as Head of Bank, Economists Urge Government," Globe and Mail, December 8, 1960, p. 1.
  114. As quoted in Stursberg, Diefenbaker: Leadership Gained, p. 216.
  115. J. Granatstein, Canada 1957-67: The Years of Uncertainty and Innovation (Toronto: McClelland and Stewart, 1986), p. 64. The nature of Coyne's position and the controversy his policy interventions fuelled is reflected in the following: "Ottawa Turning to Coyne Views," Globe and Mail, December 1, 1960; "Oust Coyne as Head of Bank, Economists Urge Government," Globe and Mail, December 8, 1960; "More Economists Expected to Join in Demand for Bank Governor's Ouster," and "Expand Money Supply. Professor's Answer," Globe and Mail, December 9, 1960. See also, Walter Gordon, "Free Nation or Satellite of U.S.?", Financial Post, September 3, 1960.
  116. As quoted in Stursberg, Diefenbaker: Leadership Gained, p. 125.

117. "Major Policy Shifts Coming," Financial Post, September 17, 1960.
118. H. S. Gordon, Canadian Economic Policy Since the War, p. 104.
119. As quoted in Stursberg, Diefenbaker: Leadership Gained, p. 124.
120. Nicholson, Vision and Indecision, p. 106
121. Stursberg, Diefenbaker: Leadership Gained, p. 123.
122. "Major Policy Shifts Coming," Financial Post, September 17, 1960.
123. Fleming, So Very Near, p. 223.
124. *Ibid.*, p. 246.
125. An editorial in the Toronto Daily Star in 1962 reflected on this intellectual connection:

The truth is, of course, that Mr. Diefenbaker and his Cabinet, lacking a "braintrust" of their own, have had to go to a somewhat dated study fathered by a Liberal braintruster for many of their ideas. To date, they have purloined more than a dozen of the 57 legislative proposals spelled out in Mr. Walter Gordon's 1956 Royal Commission on Canada's Economic Prospects. Proposals to preserve Canada's Arctic oil resources for Canadian Chartered companies, measures to guard Canadian control of life insurance companies, a National Energy Board, and to vocational training schools, a system of agricultural price supports, enforced publication of financial statistics and data by Canadian subsidiaries of U.S. companies – they're all in the Gordon Report.

See Toronto Daily Star, June 7, 1962.

126. M. Menzies quoted in Stursberg, Diefenbaker: Leadership Gained, p. 253.
127. See Regenstrief, The Diefenbaker Interlude, *passim*.
128. See Coleman, Business and Politics, especially Chapter 13.
129. Fleming, So Very Near, p. 146.
130. See David Smith, The Regional Decline of a National Party (Toronto: U. of T. Press, 1981); J. Wearing, The L-Shaped Party (Toronto: McGraw-Hill Ryerson, 1981); P.C. Newman, The Distemper of Our Times (Toronto: Mclelland and Stewart, 1978).
131. See W. L. Gordon, Troubled Canada (Toronto: Mclelland and Stewart, 1961). In his memoirs, Gordon offered his view of the connections:

The Final Report of the Commission ... contained more than fifty proposals and suggestions. Many of these reflected in the policies approved by the Rally of Liberal Party held in January 1961 and influenced the thinking of the Liberal government that was elected.

- See W. L. Gordon, A Political Memoir, p. 66.
132. As quoted in P. Stursberg, Lester Pearson and the Dream of Unity (Toronto: Doubleday, 1978), p. 65.
  133. Sharp's support for the Keynesian postwar economic policy model was evident in his 1958 article "Mitchell Sharp's CS Recollections".
  134. T. Kent, "Social Security: A New Program for the 60s," Toronto Daily Star, September 14, 1960.
  135. T. Kent, "How Liberalism Didn't Become Conservative," Winnipeg Free Press, May 15, 1958.
  136. T. Kent, "Social Security".
  137. As quoted in Stursberg, Lester Pearson and the Dream of Unity, pp. 65-65.
  138. *Ibid.*, p. 67.
  139. Newman, The Distemper of Our Times, Chapters 1-2, 5.
  140. *Ibid.*, p. 6.
  141. One Cabinet colleague wrote: "Walter Gordon was the only member of the Cabinet to have an overall view of where we were intending to go – the rest just saw their own narrow area of activity". See Judy LaMarsh, Memoirs of a bird in a gilded cage, (Toronto: McClelland and Stewart, 1968), p. 66.
  142. As quoted in Stursberg, Lester Pearson and the Dream of Unity, p. 124.
  143. Newman, The Distemper of Our Times, p. 14.
  144. Denis Smith, Gentle Patriot (Edmonton: Hurtig Publishers, 1973), p. 148
  145. W. L. Gordon quoted in Stursberg, Lester Pearson and the Dream of Unity, p. 126.
  146. Smith, Gentle Patriot, p. 148.
  147. *Ibid.*, pp. 162-163; P. Newman, The Distemper of the Times, p. 148.
  148. As quoted in Stursberg, Lester Pearson and the Dream of Unity, p. 136.
  149. W. L. Gordon, A Political Memoir, p. 69.
  150. Newman, The Distemper of Our Times, p. 369.
  151. LaMarsh, Memoirs, p. 66.
  152. G. Williams, "Symbols, Economic Logic and Political Conflict in the Canada-U.S.A. Free-Trade Negotiations," Queen's Quarterly, 92:4 (Winter, 1985), p. 666.

## **CHAPTER 4**

### **The Search for Alternatives: 1965-1975**

#### **Introduction**

The previous chapter argued that the Gordon Commission was an intellectual watershed in postwar Canadian economic policy making. Its packaging of two national policy models announced the dissolution of consensus within Canada's techno-bureaucratic idea network based on Keynesian objectives and instruments. The 1960s introduced an era of conflict and competition inside the idea network as the alternative conceptual frameworks and development strategies launched by the Gordon Commission each engaged their own communities of economic policy intellectuals. These new recruits advanced their projects through an expanding statist network of agencies, departments, and councils that came to house the competing schools of thought launched by the royal commission.

This chapter follows Canada's political search for a new economic strategy into the 1980s. It investigates the dynamics of innovation, probing the significant agents of policy learning, locales of decision making, and the organizational processes driving policy making over time. The chapter argues that understanding economic policy making in this period marked by Pierre Trudeau's political ascendancy requires tracing the circulation of ideas 'from Gordon to Watkins' through the techno-bureaucratic idea network. Actual

policy choices in Canada – specifically the peculiar pattern of compromise and inconsistency that characterized initiatives throughout the early Trudeau years – reflected ad hoc ministerial and bureaucratic alliances formed around various combinations of the statist-nationalist and market-continentalist model. Across the period, neither electoral politics nor cabinet planning systems resolved the policy divisions that became institutionalized in the administrative machinery of the federal state.

The chapter begins with a discussion of two developments in the second half of the 1960s that were critical in shaping Canadian economic policy making in the 1970s. Walter Gordon's appointment of the Task Force on the Structure of Canadian Industry (the Watkins Committee) in 1967; and the arrival in Ottawa in 1968 of a new government committed to deepening the political system's reliance on enlightened administration and rationalist techniques of policy making. The Watkins Committee carried the economic debate launched by the Gordon Commission into the 1970s. The 'knowledge is power' technocrats coalescing around Trudeau's successful bid for the leadership of the Liberal Party created new structures and procedures for channelling such substantive policy alternatives into decision making circles. The intellectual momentum that gathered behind Canada's two national development strategies in the 1960s and their political fate within this techno-bureaucratic decision making network in the 1970s are the main subjects of this chapter.

#### **4.1 Modernizing the Techno-Bureaucracy: "Knowledge is Power"**

During the mid 1960s a number of influential commentators began to express dissatisfaction with the workings of the Canadian political system. In particular, national parties and the party system were criticized. The steady unravelling of the "Diefenbaker Revolution" and the sudden collapse of the Pearson "Sixty Days of Decision" project underlined the limitations of Canada's governing parties as agents of political choice and policy renewal. The decade of the 1960s, critics argued, was bringing profound social changes, combining rapid scientific and technological advance with renewed political activism. The Canadian political system required fundamental reform if it was to make national politics and government relevant to these emerging challenges and aspirations. Rejection of brokerage politics unified the three reform movements of the period — the 'creative politics' social democrats; the 'participatory democracy' Liberals; and the 'knowledge is power' technocrats.<sup>1</sup> They all disparaged political leadership that substituted vague appeals to a hodge-podge of narrow interests for policy coherence.

In their prescriptions for change, however, significant differences were evident. From the 'creative politics' social democrats came a presentation very much reminiscent of Frank Underhill's polemic from the 1930s against the 'old line parties'.<sup>2</sup> These activists argued that Canadian parties should abandon their elite-brokering around regional and cultural differences in favour of a genuine public debate launched through a class-based polarization of economic interests and issues. The result would generate long term projects understood by the public and carried politically to the state by principled parties using elections to translate ideas into policy through supportive societal coalitions.

Offering a more circumspect version of the same theme was the 'participatory democracy' movement which surfaced inside the Liberal Party as an internal critique of ministerialism. It sought to increase citizen involvement in the government's policy making structure. New mechanisms for consultation and dialogue between the party leadership and membership were proposed. Grass-roots advisory groups feeding into national policy conferences were the principal organizational reforms suggested in the late 1960s to facilitate rank and file input into the decision making processes of the country's dominant governing party.

Each of these reform projects shared concern over the quality of interest representation in the Canadian political system as it had evolved in the postwar period. Revitalization of party politics was central to both movements. The 'creative politics' advocates foresaw a new party system aligned around division between conservatives and social democrats, shifting the terms of political discourse to the policy concerns of economic non-elites. For their part, the 'participatory democracy' enthusiasts aimed to create space in the caucus and Cabinet deliberations of the Liberal Party for a range of previously excluded popular voices. Such critiques of the brokerage political system concentrated on its closed nature, its dependence on techno-bureaucratic policy ideas, and its distance from the "latent, unexpressed, unarticulated needs of the masses."<sup>3</sup>

However, in the 1960s, any influence exercised by these reformers on Canadian political practices was overtaken by the momentum of the third project – the 'knowledge is power' movement galvanized by Pierre Trudeau's ascendancy in the Liberal Party.<sup>4</sup> In this critique of the brokerage system – and the overhaul of governing processes derived

from it – little was expected from party politics.<sup>5</sup> Attention focused squarely on deepening the analytical capacity of the state apparatus. The challenge was to encase government decision making within an elaborate techno-bureaucratic infrastructure of expert research and policy analysis. From this vantage point, problems with the Canadian political system were not related to any representative shortcomings but to an outmoded “decisional technology”<sup>6</sup> leaving governments “in this age of scientific sophistication and technological wonders still making critical decisions on the basis of good will, intuition, and hope.”<sup>7</sup>

The relationship of this ‘knowledge is power’ reform movement to its mid 1960s competitors and to broader inheritances from the Canadian past is complex. Surveying the post 1957 record, the ‘knowledge is power’ and ‘creative politics’ critics agreed that Canada’s difficulties in policy innovation stemmed largely from brokerage politics with its incessant multiplication of the lines of division in society and opportunistic forms of conciliation. The Diefenbaker and Pearson governments had muddled through their mandates, lurching from statist-nationalist policies to market-continentalist policies. Far from demonstrating mastery of their environment, they seemed controlled by events. Advocates of ‘creative politics’ responded by calling for party mobilization around a single cleavage. Policy coherence would flow from the fixed ideological referents supplied by class-based political debate. In contrast, the ‘knowledge is power’ project reasoned along lines similar to the earlier generation of policy intellectuals in Canada, such as W.A. Mackintosh. A full-scale mobilization of scientific expertise inside the state could progressively overcome social division and political vascillation by specifying, on the



basis of full information about alternatives, the rational course of policy action. Public policy was a technical not political matter.

In this regard, two core assumptions about the nature of politics and public policy making were critical. Both reflected the 'knowledge is power' project's essential continuity with thought and behaviour rooted in Canada's techno-bureaucratic passage from the Great Depression into the postwar era. First, governing politicians' task was to harness experts minds in managing the affairs of state rather than "getting large segments of the population identified with the goals of the political system and in recruiting their energies and skills to political ends."<sup>8</sup> Second, the institutional vehicle for this technocratic mobilization would not be parties or legislatures (decentralizing, amateurish and short term in their operations, the argument went), but a reconstituted executive-bureaucratic relationship turning on the formalization of a policy process supervised by Prime Ministerial central agencies coordinating the flow of scientific blueprints from commissions, task forces, advisory councils and so forth to Cabinet. As one observer put it, revamping the machinery of the state in this way would transform the political system "into a goal-seeking and error-correcting information system that will 'learn how to learn'."<sup>9</sup>

Thus, the 'knowledge is power' response to the shortcomings of brokerage politics was administrative reform enhancing the managerial capacities of the federal state. It extended ideological and institutional developments rooted in earlier periods. Canada's Keynesian revolution had been made by economists working through state institutions to embed in policy practice their doctrinal breakthroughs. That national project began to

unravel in the Diefenbaker and Pearson years as scientific divisions first revealed by the Gordon Commission became translated into uncertainty in economic policy making. Beginning in the 1960s, a renewed push for technocratic renewal was underway similar in many ways to the bureaucratic transformation of the Canadian policy process consolidated in the 1940s. The underlying premise was the same: the drift and indecision of the political system could be arrested by modernizing the federal state's analytical capacity to permit the "allocation of resources to goals on the basis of supra-policies arrived at without bargaining and negotiation."<sup>10</sup>

In the 1960s, this vision of institutionalizing the 'smart state', focusing on the organized provision of expertise in the policy process was reflected in the establishment of two permanent expert bodies – the Economic Council of Canada and the Science Council of Canada – to study public policy questions and advise the government. Each of these agencies was mandated to identify underlying economic problems and, on the basis of ongoing research programs, devise long term solutions for policy makers. Complementing these departures in substantive policy development were the new techniques for processing policy information unveiled by the Diefenbaker-appointed Royal Commission on Government Organization reporting in 1962 (the Glassco Commission).<sup>11</sup> That Commission argued for the rationalization and centralization of government decision making, along the lines suggested by American advocates of the Planning, Programming and Budgeting System (PPBS). Such techniques for allocating resources and evaluating alternative courses of action provided the knowledge base for comprehensive integration of costs, programs, and goals. In this way, creators of the PPBS framework saw it

providing a vital information base for the determination and coordination of organizational priorities in the public sector.

Richard French has described the dynamics resulting from the injection into the Canadian policy process of this new conceptual apparatus: "The social science disciplines traditionally relevant to government, such as economics and political science, grew apace, and they were joined in the Sixties by an overlapping group of "horizontal disciplines" - cybernetics and modelling, systems analysis, technological forecasting and futurology' - which attempted to knit together the concerns of the traditional disciplines".<sup>12</sup> Beginning in the mid 1960s, these integrative frameworks for policy formulation found homes in the expanded operations of the Prime Ministerial bureaucracy - the Privy Council Office (PCO) and the Prime Minister's Office (PMO). As such, occupiers of those central agencies (much more than parties, politicians, or departmental officials) became crucial 'input aggregators' in the Canadian political system, acquiring the power to "knit together" the ideas and proposals flowing from the various expert arenas of policy generation.

The innovative dynamic of the policy process would rest on the competition between information systems within the techno-bureaucracy over alternative courses of action. This internal clash of research-based theories rather than ideological competition in the public world of parties and elections would drive the policy process. It is, then, rather ironic that Pierre Trudeau celebrated the revitalized technocratic approach to governance at a 1969 party gathering convened to advance the lay member's role in policy formation. In fact, he was announcing the effective end to the party's initiatives around 'participatory

democracy' as a means for policy formulation:

We ... are aware that the many techniques of cybernetics by transforming the control function and the manipulation of information, will transform our whole society. With this knowledge we are wide awake, alert, capable of action; no longer are we blind, inert, pawns of fate.<sup>13</sup>

To summarize: the failures of the Diefenbaker and Pearson governments provided the backdrop for three sweeping critiques of Canada's brokerage political practices and ad hoc policy making: first, 'knowledge is power' technocrats; second, 'participatory democracy' Liberals; third, 'creative politics' social democrats. The 'creative politics' group allied with the New Democratic Party and remained a somewhat marginalized political force. At the same time, within the Liberal Party, advocates of more participative decision making were overtaken by the techno-bureaucratic renewal that underpinned Pierre Trudeau's rise to the leadership of the party and the state. Trudeau subscribed to "functionalist thinking about the control structure of society ... in the direction of the rational structuring of economic and political organization".<sup>14</sup>

Thus, the most influential reformers of the mid 1960s concentrated not on energizing the representative channels linking the electorate to the government but on refurbishing the channels drawing expert knowledge to the bureaucracy. By the late 1960s an elaborate techno-bureaucratic network for policy formation had been created, substantially insulated from parties and legislatures. It was comprised of new institutions like the Economic Council and the Science Council, new approaches such as the PPBS, redesigned agencies like the PMO and PMO, and new mechanisms for policy idea generation like task forces. In summarizing this period Peter Aucoin observed:

the traditional Canadian practice of periodic royal commissions of enquiry, which although ad hoc were an important catalyst to much public policy research in this country, has given way to on-going agencies of this kind of research enterprise. Royal commissions and their modern variation, task forces, still are important vehicles for enquiry and analysis, but ... the public sector establishment is now littered with permanent organizations for the performance of these functions.<sup>15</sup>

That this form of planning – centered on the state and preoccupied with decision making procedures – might be insufficiently informed by a political intelligence and therefore liable to the very policy drift it lamented, was argued at the time by various commentators. J. E. Hodgetts warned that while it was “obviously essential to pay unremitting attention to the techniques for improving the output procedures of the system ... this activity should not become an introverted absorption in techniques that distracts attention from the equally important task of considering the content of the output.”<sup>16</sup> Hodgetts went on to emphasize the importance of the new cabinet supervised task force approach in ensuring that substantive, long term policy challenges were subject to expert analysis and political assessment of the supportive societal coalitions necessary for innovation.

In the development of Canadian economic policy in the early Trudeau years, one such task force – the one chaired by M. H. Watkins on industry structure and national economic policy – played the kind of role envisioned by Hodgetts.<sup>17</sup> It drew on substantive theoretical research to define basic economic problems and offered comprehensive policy solutions for subsequent processing by the political system’s new “decisional technology”. As well, the task force was overseen by a committee of Cabinet Ministers and a committee of senior officials from the economic Departments. In the end,

however, the process reconfirmed the limitations of the Canadian political system in relation to economic policy innovation. Like the Gordon Commission, the Watkins Task Force demonstrated the intellectual division inside the economic policy idea network and confirmed the inability of politicians in power to make fundamental choices and mobilize strategic support for coherent projects.

The next section resumes consideration of Canadian economic policy formation examining the Watkins Committee in relation both to the Gordon Commission and the changed intellectual-political environment of the late 1960s.

## **4.2 From Gordon to Watkins: Reconvening the Economic Experts**

In the course of the second Pearson minority government, running from 1965 to 1968, a consensus of sorts emerged amongst politicians and officials around the notion that the Keynesian fine tuning project, supplemented by tariff protection and extraordinary reliance on foreign direct investment in production, was a limited macro-economic and industrial policy framework for Canadian decision making.<sup>18</sup> Despite evidence of substantial division over the shape of any departures beyond Keynesianism, there was widening agreement about the limits of the postwar strategy in maintaining employment and stability.

Two developments contributed to this consensus. First, foreign economic policy measures taken by the United States starkly revealed the international constraints on Canadian fiscal and monetary instruments. The vicious circle within Canada's 'continental account' remained unbroken. Capital inflows were required to offset the interest and

dividend outflows from accumulated foreign investments. Between 1965 and 1968 the United States introduced defensive measures to close its own chronic balance of payments deficit in relation to the world economy, making an already rather desperate Canadian situation even less manageable. Two of these were widely viewed as precipitating sharp crises in Canadian economic management and underscoring the need for fundamental reorientation in policy outlook. The Interest Equalization Tax limited the outward flow of American capital, with an exemption for Canada resulting in the establishment of a continental interest rate that compromised domestic monetary policy.<sup>19</sup> Subsequent political controls placed on direct investment abroad refocused concern over the general business practices of the subsidiaries dominating the Canadian manufacturing sector and specifically their responsiveness to Washington's regulatory regime.

Second, and obviously related to the above, was mounting evidence of policy failure in the form of persistent inflation and unemployment that undermined the viability of the most fundamental trade-off between goals in the Keynesian balancing schema. The generally buoyant conditions of world trade evident since 1963 began to wind down and the Canadian economy by 1967 saw unemployment return to late 1950s levels, now accompanied by the postwar period's highest cost and price increases. Grappling with the intertwining of these two problems -- American belligerence and stagflation -- became the defining feature of Mitchell Sharp's three year tenure as Finance Minister. As disputes over the effects of foreign investment acquired greater visibility, the question of domestic state capacity in economic policy making became linked with concern about Canada's political sovereignty in the international environment.

In the face of these converging pressures – unemployment, inflation, and international imbalance – conventional demand management solutions appeared increasingly beside the point. The economic problems hardly seemed transitory in nature, as predictable and passing phases of a domestic business cycle. The basic Keynesian faith – that Canada’s economic problems were cyclical rather than structural in origin – had been forcefully defended as part of the professional economists’ critique of the Gordon Commission’s supply side recommendations.<sup>20</sup> In the new round of policy debate the demand management approach found fewer defenders. The premise that short term stabilization questions had to be located within broader consideration of development strategies to correct supply side bottlenecks and sectoral rigidities acquired wider currency. Mitchell Sharp used this reasoning in rationalizing both his ad hoc introduction of anti-inflationary measures throughout 1966-68, and his pleas for “good corporate citizenship” from foreign investors. His real hopes resided in the full development of a long range policy framework addressing the underlying “institutional and historical” sources of Canada’s deteriorating economic situation.<sup>21</sup> In the meantime, Sharp announced in 1966 that implementation of social welfare programs in the areas of health care and poverty – survivors from the burst of activism associated with “Sixty Days of Decision” campaign – would have to be postponed in the context of escalating uncertainty about economic conditions and policy relationships.<sup>22</sup>

This course of events set the stage for Walter Gordon’s return to the Cabinet to become once again a major protagonist in the struggle to shift federal economic policy. In the face of ongoing Keynesian failures, the political demand intensified for new trade



and industrial policy options, different from the discredited continental "special relationship" and tariff-induced direct foreign investment orientation. Some Liberal caucus and Cabinet members were alarmed by the government's defensive retreat in the challenging and unfamiliar environment of American unilateralism and stagflation.<sup>23</sup> Pointing to Gordon's long preoccupation with such developmental alternatives, they petitioned the Prime Minister to appoint him a Minister without Portfolio. Free from any specific line department responsibilities, Gordon could oversee formulation of a new national economic policy model that might rescue the governing party from its intellectual-political impasse, expressed in policies combining the suspension of electorally attractive social programs with statements admitting the limitations of such restrictive measures in solving Canada's underlying economic problems.

Prime Minister Pearson invited Gordon to return to Cabinet in December 1966. In January 1967, Gordon took on a variety of responsibilities, the most prominent of which was chairing a Cabinet subcommittee mandated to make sense of the underlying problems of the Canadian economy. Not surprisingly, given the controversy generated within his own party by Gordon's previous professional reflections and actions in the field of economic policy his visibility brought simmering tensions to the fore. Industry, Trade, and Commerce Minister Winters, for example, refused to participate in the subcommittee's work. However, Mitchell Sharp, despite reservations over Gordon's intellectual leadership, agreed to membership.<sup>24</sup> As Finance Minister, Sharp was most sensitive to how new conditions had transformed a once confident Keynesian fine tuning project into an increasingly ad hoc operation of 'stop-go' expansion and contraction. From this

perspective, concerted efforts to bring fresh perspectives into the policy process seemed worthwhile, even necessary. Thus, with both the current and previous Liberal Finance Ministers involved, the subcommittee became the government's focal point in the renewed political search for better economic understandings and policy approaches. Attached to the Cabinet subcommittee was a group of senior economic officials, led by Deputy Minister of Finance Robert Bryce, Deputy Minister of Trade and Commerce, and Deputy Industry Minister, Simon Reisman. However, at the center of the action was a task force of professional experts appointed by the Cabinet subcommittee to address long term economic strategy. As one opposition Member of Parliament, critical of the government's preference for expert study rather than political action, put it, "now that we are faced with a crisis, a task force is being set up."<sup>25</sup>

The Task Force on the Structure of Canadian Industry in 1967 was comprised of eight academic economists, chaired by M.H. Watkins.<sup>26</sup> Each cabinet subcommittee member had particular views on the composition of the task force, and in the process it was staffed by a representative mix of the post-Gordon Commission generation of Canadian economic policy intellectuals. This generation responded to the Gordon Commission's concern with the long-run, integrating questions about capital formation, industrial organization and international relations into the standard macro-economic preoccupations of the earlier postwar research community. The commission's exposing of weaknesses in Canadian economic development and its controversial critique of federal policy had prompted an academic rediscovery of these areas of policy inquiry. The Watkins Committee was born in this intellectual context and its membership featured

leading scholars in the field.

In these terms, the agenda set for the 1967 task force was really an inheritance from the recent past: the disputed claims, unanswered questions, and suggestive leads contained in the Gordon Report's initial reassessment of Keynesian economic management. As one commentator suggested, the government recognized the need to appoint "'An Inquiry into the Nature and the Causes of the Wealth of Canada,' to fill the policy vacuum of the Gordon Report."<sup>27</sup> The Watkins Committee would reflect anew on Canada's problems in a changing world economy, incorporating the expert perspectives and findings that had evolved since 1957. The aim was to draft a new economic blueprint for policy makers baffled by the most recent dislocations of the mid 1960s, but now inclined to believe that the remedies tabled in 1957 were more relevant to the problems at hand than those unveiled in 1940. At this point, it is necessary to consider the Gordon Commission's legacy in the realm of economic thought in the decade following its release.<sup>28</sup>

### **4.3 Carrying the Debate: Two Schools of Economic Policy Thought**

By drawing attention to the Canadian economy's structural weaknesses the Gordon Commission had altered the terms of debate about employment and stabilization policy in Canada. To explain the specificity of Canada's structural weakness (low manufacturing productivity and exports, high foreign ownership) and to prescribe a corrective became the preoccupation of policy intellectuals in the 1960s. Here the cleavage expressed in the writing of the Gordon reports became formalized into two schools of policy-relevant economic thought: the market-continentalist school and the statist-nationalist school. They

converged on intellectual terrain beyond Keynesianism, no longer prescribing minor adjustments within a stable monetary and fiscal mix but rather engaged in a much larger revision of established thinking about Canadian economic development. Each laid claim to intellectual rigour through evolving theoretical argument; each jostled for political representation as experts from each school acquired influence in various locales of federal economic decision making. In this process the Watkins Committee engaged new intellectual leadership for an extended competition between idea systems within the techno-bureaucracy over the design of a "New National Policy" for Canada.<sup>29</sup>

The market-continentalist school of thought took shape immediately following publication of the Gordon reports. Under the auspices of the Canadian-American Committee of the North American research organization (known in Canada as the Private Planning Association (PPA), a number of studies were commissioned to pursue contentious issues raised by the Gordon Commission. In effect, the PPA began the empirical follow-up on the arguments introduced by the 1957 commission about the economic effects and policy implications of foreign ownership. Two of these studies provided the analytical core of the PPA research project – *Policies and Practices of United States Subsidiaries in Canada*, co-authored in 1960 by John Lindeman and Donald Armstrong, and H.E. English's 1964 monograph, *Industrial Structure in Canada's International Competitive Position*.<sup>30</sup>

Lindeman and Armstrong returned to the Reisman-Brecher discussion of the organization and behaviour of branch plants in Canada. From their interviews with senior management of primarily American-owned companies operating in Canada on issues

ranging from export policy to charitable contributions, Lindeman and Armstrong concluded that performance was related less to nationality of ownership and more to "the obligation of management to operate its business, wherever located, in the broad interest of its stockholders". The evidence they uncovered of "sub-standard performance" was not dismissed, but rather justified in terms of the "great complexities and diversities in business organization and motivations". On this basis the authors disputed the assertion that regulation of the investment process addressing corporate organization would strengthen the Canadian economy.

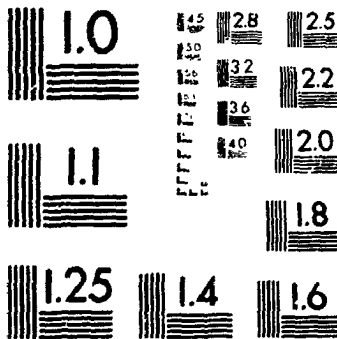
This sampling of branch plant decision making was complemented by English's *Industrial Structure in Canada's International Competitive Position*. English used case studies of three key manufacturing sectors – chemicals, machinery and equipment, consumer durables – to reconsider the critique of Canadian secondary manufacturing offered first in the Gordon Commission's monographs by Fullerton and Hampson. English introduced the concept of the "minature replica effect" to capture the peculiarities of the Canadian manufacturing structure: too many firms producing too many models, and duplicating the American pattern of industrial organization in a much smaller market. Canadian consumers bore the burden of the attendant efficiency losses and scale distortions. The roots of this dilemma, English suggested, resided in a domestic policy commitment to protection which not only encouraged American plants but prevented competitive rationalization of the industrial structure along lines more suited to Canadian capacities and requirements.

These early contributions to Canada's emerging post-Keynesian debate revealed a consistent line of argument. The performance of manufacturing subsidiaries was not a significant economic problem and any federal strategies for change should concentrate on market-enhancing trade and competition policy. This position was buttressed in 1966 with the publication of two major research efforts by economists at the University of Toronto – A. E. Safarian and J. H. Dales.<sup>31</sup> With the Lindeman and Armstrong study as his departure point, Safarian extended the empirical base for assessing the consequences of foreign ownership, and fleshed out the policy conclusions. Safarian surveyed both foreign and resident-owned firms in Canada using the Lindeman and Armstrong categories. His findings followed the earlier work, repackaging them, first, to highlight the essential similarity in performance of comparable firms in the Canadian market, and second, to stress that Canada's future industrial prospects hinged on domestic tariff reduction as the necessary and sufficient catalyst for improved performance in all relevant criteria. Diplomatic overtures urging the United States to refrain from extending its laws and policies across borders would complete the attack on the causes of inferior subsidiary performance.

More original in its contribution to the market-continentalist school was Dales' *The Protective Tariff in Canada's Development*. This was an ambitious attempt to capture the benefits and costs of tariff protection for manufacturing – an analytical exercise not undertaken by the Gordon Commission in its partial defense of the tariff as a useful and misunderstood instrument of postwar economic policy. Dales advanced the view that Canada's century-old tariff policy sacrificed efficiency and per capita income for an

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essentially artificial package of higher national income, larger population and greater industrial employment. To the reevaluation of Keynesianism underway in the 1960s, Dales added a novel critique of the historic role of federal economic policy in nation building. Canada's contemporary economic failures arose from the fact that at crucial moments of policy choice, decision makers consistently "opted for Bigness, at the expense of the quality of national life". Dales' views were rapidly disseminated in the community of economic professionals.<sup>32</sup> They provided the market-continentalist school with an historically-informed, theoretical rationale for urging governing elites in the 1960s to reject the statist-nationalist alternative since it embraced the costly and divisive goal of extensive growth instead of maximizing efficiency. To do otherwise meant that contemporary politicians were choosing once again to lower the standard of living for individual Canadians.

These four studies – merging original research and policy advocacy – provided the cornerstones for a robust market-continentalist school of thought. They aimed to refute the charge first heard at the Gordon Commission that the postwar economics profession in its full Keynesian flowering had little to say about long term strategies related to structural rather than cyclical employment and stabilization problems. This work from Dales, Safarian, English and others made clear that intellectual initiative in the design of a new policy regime would not remain solely with the small band of heretics sympathetic to the departures associated with Walter Gordon. Market-continentalist theory related Canada's economic prospects to changes in trade and industrial policy pivoting around tariff reduction and anti-combines enforcement. Leading the political offensive behind this



policy package was the school of thought's titular head, the brilliant proselytizer and polemicist, H. G. Johnson. In the early and mid 1960s, Johnson drew on this new research to reinforce his widely publicized blasts against the "economic idiocy" of the ideas associated with Walter Gordon the royal commissioner.<sup>33</sup> Beginning with the Fleming supplementary budget of 1960, when these notions began their haphazard march into both Conservative and Liberal policy circles, Johnson's wide ranging writings became an intellectual rallying point for business and academic opposition to federal economic policy. In 1961, for example, he made headlines at the Liberal Party's Thinkers Conference in Kingston by calling on the federal government to embrace "the trend toward closer integration with the U.S. and (make) a definite move to confirm and accelerate it."<sup>34</sup>

Just as the market-continentalist school of thought was putting its intellectual house in order, seeking political interlocutors and bureaucratic representation, the concerns of the Gordon Commission's second project began to draw more attention from university-based economists. Throughout the first half of the 1960s it had been left largely to Gordon himself, through his pamphlets and budgetary efforts, to sustain interest in devising strategies for expanding the federal state's role in capital formation and supply side development. Supportive research and commentary from the experts was in fact sparse. Roger Dehem wrote an unusual analysis of Canada's "stunted growth", linking it to "the satellitic nature of most of our important firms", but his prescription was actually dismissive of the statist-nationalist thrust associated with Gordon.<sup>35</sup> In the *Toronto Daily Star* in 1962, Clarence Barber presented a five part series detailing the international

constraints on Keynesian economic management in Canada.<sup>36</sup> He emphasized domestic capital formation and the federal government's indispensable role in deploying a host of policy instruments behind this goal. Yet, such voices were isolated — outside the mainstream of the economics profession, unable to generate wider interest in consolidating an alternative national policy model.

By mid-decade, however, the appearance of two books by non-economists, George Grant's *Lament for a Nation* and John Porter's *The Vertical Mosaic*, signalled the dawn of a new era of engagement.<sup>37</sup> The significance of these books stemmed from the way in which they introduced sociological and institutional factors into what had hitherto been a rather specialized discussion about Canada's economic drift. The result was a new perspective on Canadian-American economic relations (investment flows, tariffs, payment imbalances, and so forth) which saw Canada's fate enmeshed in a wider global dynamic mediated politically by continental elite formations, multi-national corporations, and technological monopolies. Grant's sympathetic review of Diefenbaker's and Gordon's nationalist economic policy experimentation was encased in a philosophical argument about the limits of such voluntarism in the face of the encompassing power of global technology. This arresting but speculative commentary on the relationship between political sovereignty and economic modernization was highly suggestive for economists more institutionally-sensitive and policy-focused than the philosopher George Grant.

From Porter came the first comprehensive empirical map of the Canadian social structure. The data provided the basis for an original argument about the peculiar weaknesses of the Canadian corporate elite as a national capitalist class. Porter

documented the historic absence of a “middle investing class of any size” and the concentration of equity capital in elite networks unmoved by concerns about national industrial competitiveness. Operating within this specific context, the Canadian economic elite “only wants to cash in on some of the high returns ... any feelings about having a share in his country’s economic development are weakened in the face of attractive takeover offers from foreign countries”. Porter’s detailed brief against the Canadian economic elite – exploring both the causes and consequences of its enfeebled entrepreneurial capacity – supplied a new rationale for using the levers of the state in forging industrial change.

It was in fact the ideas of Grant and Porter that framed an emerging statist-nationalist school of economic thought. Early and original entrants in the field were Abraham Rotstein and Stephen Hymer.<sup>38</sup> Rotstein’s entry into the Canadian debate had been shaped by earlier contact with Karl Polanyi’s interpretation of the space for politics in building institutional counterweights limiting the socially corrosive effects of market relationships. The multi-national corporation, Rotstein argued, had displaced the market as the central institutional matrix “capable of affecting decisively the character of our collective existence.” The nation-state required reinventing as an agent of social solidarity in the post-industrial era, exercising its sovereignty over the “large economic institutions which are aggregates of substantial decision-making power ...” Transposing the logic of Polanyi’s argument to the world of the 1960s, then, Rotstein developed a political theory of state-led economic nationalism disputing Grant’s deterministic reasoning.<sup>39</sup>

This theoretical re-centering of the state as a strategic actor destined to confront the multi-national corporation intersected with S. Hymer's concrete description of a new industrial policy regime for "host countries" responding to the practices of multi-national corporations. Canadian policy formation, he argued, must start by acknowledging the multi-corporation as an organizational entity with strategic motivations and preferences guiding its behaviour. Foreign direct investment was integral to the profit maximizing goals of the globally-focused corporation, and Hymer detailed the "market imperfections" resulting from the power of multi-national corporations. "Horizontal integration" of operations at the international level permitted oligopolistic division of national markets; "vertical integration" within firms facilitated price fixing arrangements on transactions between parent and subsidiary plants. These practices, Hymer concluded, were organizing forces in the new global economy. They were manifest in changing corporate strategies for "efficient monopolization" of markets. Whereas the market-continentalist school had stressed the tariff as the cause of Canada's problems and its removal as the solution, Hymer saw "market imperfections" created and sustained by the multi-national corporations. He disputed deep-seated economic assumptions equating private interests with the public good, arguing that the government could "increase the level of income by interfering with the decisions of private corporations". The problem, Hymer concluded, lay "in too little nationalism rather than too much".<sup>40</sup>

As this brief survey of seminal writings suggests, from 1960 to 1967 two distinctive schools of economic policy thought matured, consolidating the divergent perspectives on Canada's post-Keynesian future unveiled during the Gordon Commission Concerned with

Canada's industrial prospects in a changing international environment, both began with productivity problems in manufacturing, an issue remote from demand management thinking. The market-continentalist approach had its disciplinary base in neo-classical economics. Adherents condemned Canadian trade policy and advised market-based reform. Policy intellectuals drawn to the statist-nationalist perspective, with its sociological understanding of political power and institutional conception of economic relations, crossed disciplinary lines to advise experimentation with a range of policy instruments oriented toward microeconomic intervention in industries and investment processes.

It is important to stress that both of these policy projects emerged and evolved in the 1960s as schools of thought *per se*. That is, the positions were the product of a policy-focused academic debate amongst professional researchers and theorists. They were not driven by any coherent policy reassessments undertaken by political parties (or the regular state bureaucracy) and presented to the electorate by politicians. The improbable and quixotic Liberal "Sixty Days of Decision" experiment was in many ways the exception that proved the rule. Moreover, the Liberal policy convention in 1966, for example, had confirmed the party's unease with Gordon's economic ideas, but neither the rank and file nor parliamentary elite had coalesced around any alternative.<sup>41</sup>

Likewise this debate progressed independently from any formulations by business or labour on long term strategic interests in relation to national economic policy. Each of these groups maintained their essentially reactive role in discussions of policy innovation.<sup>42</sup> The search for new economic understandings, like the earlier invention and

confirmation of the Keynesian approach, was being led by non-partisan policy intellectuals. With national parties and economic actors basically on the sidelines, the competing positions advanced by the technocrats were not effectively mediated by the political process – neither taken up by politicians as visions of a desirable future nor promoted by interest organizations as the basis for collective action.

Consequently, when these policy projects from the intellectuals were organized into governing circles they entered through the technocratic channel of the task force mechanism rather than through partisan struggle in the political arena over the country's economic future. Hence, the content of Canadian responses to the Keynesian impasse must be understood in relation to learning processes insulated from conventional liberal democratic channels: the intellectual dynamics of the post-Gordon Commission expert debate, and its articulation with state institutions beginning with the Task Force on the Structure of Canadian Industry in 1967-68.

#### **4.4 “A New National Policy” ?**

For its ideas and personnel the Watkins Committee turned to the intellectual architects of each school of thought: A. Safarian, A. Rotstein, and S. Hymer. Completed in less than a year, the final product from the eight member team made bold recommendations for a “New National Policy” transcending the postwar macro-economic and industrial policy framework. The basic rationale for such a departure was clear – to end the ad hoc incrementalism of the 1960s, to integrate domestic and external economic policy instruments around the goal of development, and to reconfirm federal leadership

in Canadian economic life.

Underlying all of this was the Watkins Committee's unifying assumption that its work move beyond established traditions of applied Keynesian policy analysis. The Keynesian agenda sought data to refine forecasting models guiding budget judgements about cyclical upturns and downturns. Against that preoccupation, the Watkins Committee's concern was with the organization of production and the financing of investment in the Canadian economy. Attention shifted to supply side factors, to the virtual exclusion of interest in the theoretical status or empirical applications of demand management prescriptions. The historical-institutional approach to economic policy analysis assumed that country-specific study necessarily preceded application of international theories and policy frameworks. A celebrated procedure of the postwar Keynesian policy scientist was thus fundamentally questioned: that mastery of an universal model provided the knowledge base for directing politicians in their management of any national economy.

The implications of this assumption was evident in the "Introduction" to the Watkins Report. There the parameters of the economic problems to be addressed and policy gaps were set out. What distinguished the Canadian economic experience, it was announced, were the manifold effects on the productive system of foreign direct investment. The Watkins Committee's point of departure was to assert that such investment was "a fact of life" from which it was neither economically desirable nor politically feasible to escape. Still misunderstood by policy makers in the world beyond the Keynesian formula, however, was the nature of the trade-offs between fundamental goals: growth or

independence, resource exploitation or industrial innovation, marketplace competition or concentration, and so forth. Clarifying these relationships provided the Watkins Committee with its core analytical project: to bring together the rapid evolving body of Canadian economic research on supply side conditions in the form of a cost-benefit analysis of foreign investment that would clarify the optimal mix. Such an empirical investigation of capital formation processes in Canada would structure a new policy framework allowing decision makers to “increase the benefits and decrease the costs of foreign investment” creating “a *national* economy that functions efficiently within the world economy.” (emphasis in original).

To carry out its examination, the Watkins Committee identified six areas for analysing the effects of foreign direct investment: economic growth, industry structure, the performance of firms, balance of payments, the Canadian capital market, and political problems. Each of these subjects formed a chapter in the report. And here the basic divergence in outlook between the two schools of policy thought represented on the task force became visible. Most obvious was the market-continentalist domination of the discussion of firm behaviour and industrial structure, and the statist-nationalist school’s control over the chapters on capital markets and the politics of foreign investment.<sup>45</sup>

In the former case, arguments from Dales, English, and Safarian were substantially reproduced. The task force explained that the benefits from foreign investment were historically compromised by inappropriate domestic policy which perpetuated a non-competitive business structure and secretive corporate culture. Findings from a comparative survey of corporate behaviour reported little difference in performance



between subsidiaries and Canadian firms, but a substantial gap between subsidiaries and foreign parents. Arguing that this pattern arose because the "Canadian environment is not conducive to extracting the maximum benefit from foreign firms", the conclusion was drawn that "heavy reliance must be placed on private decision-making to implement the necessary restructuring in an economy like Canada's." Three specific proposals dominated the market-continentalist chapters of the report: tariff reduction, anti-combines enforcement, greater disclosure of information of all firms to permit better awareness of good corporate citizenship.

Counterposed to these arguments and reforms was the analysis contained in the chapters on capital markets and political dynamics. Here the operative discourse came from the statist-nationalist school. Front and center was the multi-national corporation, now conceptualized as a strategic organizational actor in the Canadian polity and economy. At issue was its role in Canadian industrial change and its influence on the federal government's capacity to manage renewal and restructuring. The Watkins Committee now argued that insufficient benefits from foreign direct investment followed from the power of the multi-national corporation in its relationship with the host state and society. In these terms, Porter's critique of the Canadian corporate elite organized the discussion of the capital market which began from the statist-nationalist premise that "something is needed in Canada to fill the function performed by the corporate structure of the multi-national enterprise". Technological and managerial gaps in the machinery for mobilizing Canadian savings were traced to the "nature of the Canadian social structure". The creation of a public holding company was necessary to reorganize industrial

investment in accordance with state-elaborated priorities.

This particular problem and the line of argument informing its presentation were fully explored in the report's final substantive chapter, entitled "Politics of Private Foreign Investment". Combining the ideas of Rotstein and Hymer, this chapter crystallized the differences between the market-continentalist and statist-nationalist schools. In what amounted to an extended critique of much of the report's earlier formulations, the analytical focus shifted to external political relations and institutional economic forces. Domestic policy reform of the kind recommended throughout the report's opening chapters was now seen as heavily constrained by the fact that subsidiary firms were "parts of the American industrial state influenced by, if not directly subject to, American law and policy formulated in the pursuit of American objectives". Such American "extraterritoriality", manifest in the areas of anti-trust, balance of payments, and export regulations, had profound implications for independent Canadian policy making. Loss of sovereignty was foreign ownership's ultimate cost, and alterations to domestic tariff, competition and disclosure policies was a misconceived response. Warning that "the Canadian 'hand' is substantially devoid of any cards but that of the long tradition of goodwill", the chapter summarized:

The inference for Canadian national policy is that a strong government presence is needed to countervail both foreign private economic power and foreign government power.

... The fact that the economic horizons of the multi-national firm are wider geographically and often longer in time may reduce its susceptibility to some conventional policies and require new approaches to achieve given objectives.

In sum, two national policy models – each with its own construction of the economic universe and hence categories for interpreting empirical processes like foreign investment

were brought into focus in the Watkins Committee. In the final recommendations six main remedies were offered: disclosure of information from corporations; intensified anti-combines policing; tariff reduction; the creation of a state development corporation to facilitate 'Canadianization' and merger of firms in "key sectors"; a state trading agency to combat extraterritorial restrictions; and finally, a kind of super ministry to integrate Canada's new national policy by coordinating foreign and domestic economic policy. What is obvious is that the first three recommendations **only** made sense in terms of a market-continentalist analysis. Yet this thrust had been disputed across much of the later parts of the report. Hence, the final three recommendations expressed the alternative to Keynesianism as conceptualized by the statist-nationalist school.

Of course, there was no logical way to merge such interventionist ideas with the report's discussion of economic growth, industrial structure, and firm performance. Since each school of thought exercised conceptual authority over different aspects of the report's cost-benefit analysis of foreign investment, the task force process never really confronted, much less resolved, the battle of economic ideas. Accordingly, its recommendations were inclusive and therefore inconsistent, rather than exclusive and consistent: both schools of thought could recognize core features of their policy models in the task force report. In the end, the Watkins Committee did manage to highlight the differences between two coherent policy projects that both shifted national economic decision making away from demand management and Keynesian fine-tuning. But this product was different in its political implications from the presentation of a single, internally consistent blueprint for the "New National Policy". The Watkins Committee,

like the Gordon Commission, handed the challenge to politicians and parties to make fundamental policy choices: that is, to scrutinize the alternatives, to announce a direction, and to construct supportive coalitions permitting renewal in the face of economic challenges. A major consequence of Canada's decades-long reliance on technocratic expertise for economic direction was that divisions in the expert community produced a kind of political paralysis, compounded by the institutionalization of competing schools of thought inside the state bureaucracy. Serious barriers to coherent, durable innovation remained despite mounting evidence of policy failure.

#### **4.5 From Watkins to Gray: Ideas, Politics and Policy in the Trudeau Years**

In the 1960s, task forces were introduced into the Canadian policy process to perform functions broadly similar to those of royal commissions.<sup>44</sup> That is, they were idea generating mechanisms incorporating interpretations of the past and information about the future into the policy process. In contrast to the typically unbounded mandates and encompassing deliberations associated with royal commissions, however, task forces worked under formal ministerial direction. They provided expert guidance in specific problem areas. A premium was placed on the expeditious filing of an 'actionable' report. Public hearings and elaborate programs of original research — the hallmarks of the innovative royal commission in the Canadian political system — were peripheral to the task force procedure. Constrained by mandate, time, and resources, the task force approach involved synthesizing and packaging existing policy-relevant knowledge about

problems and solutions.

In these terms, the Watkins Task Force cannot be conceptualized as an economic policy switchpoint mechanism in the Canadian political system, launching new categories of policy thought and action. Rather it was viewed by the Cabinet committee as a device for clarifying the course of action within the parameters of an existing debate about long term development strategies. In the 1960s, such task forces emerged to monitor ongoing relationships within the economic policy models elaborated by earlier royal commissions, proposing adjustments as anomalies began to appear. Task forces, unlike royal commissions, did not initiate major research projects or extensive public consultations. As the Chairman of the Watkins Committee explained following the release of its report in February 1968: "Much of the Report is based on existing knowledge, and properly so".<sup>45</sup> Walter Gordon's "interest was to keep the inquiry as small as possible and get it done as quickly as possible and not launch it into some huge public inquiry that would hear evidence, not become a royal commission and not launch large research projects which couldn't be finished in any short period of time, which would take two or three years".<sup>46</sup>

Despite Walter Gordon's plans, senior officials from the Finance Department advised the Cabinet to delay the issue of the report on the grounds that certain of its arguments could increase pressure on the Canadian dollar and frighten foreign investors.<sup>47</sup> When the Watkins Report was finally made public two months after its completion, in February 1968, it became headline news across the country, inspiring a flood of commentary from editorialists, academics and a range of responses from organized labour (mostly

favourable) and business spokespersons (mostly unfavourable). "From now on," *The Toronto Daily Star* proclaimed, "responsible leaders in Canada will be unable to ignore the question of foreign ownership of Canadian industry and resources".<sup>48</sup> But the government had already retreated from its initial commitment to incorporate the report's recommendations into a White Paper for legislative action. The report's internal divisions had complicated any such immediate translation since this would have required decisive political leadership and substantive intervention in controversial policy areas. And the prospects for such action from the brokerage parties and politicians in concerns long given over to the professional experts remained remote in early 1968. A lame duck Prime Minister, preparing more for his retirement than any concerted policy departure, allowed ongoing quarrels within his Cabinet to serve as the pretext for deferring any response.<sup>49</sup> Of course, with the country poised to begin two basic exercises in democratic politics - the leadership convention of the governing party and a general election - this inaction was defensible. After all, as one Liberal Party activist later reflected, "policy and politics should intersect most dramatically at election time".<sup>50</sup> Decisions about official responses to the fundamental issues analysed by the Watkins Committee would follow from the contest first among prominent Liberals vying for leadership and then among the parties in the general election.

However, there was scant evidence in either the leadership process or the June 1968 election of any political campaigns mobilized around either of the long range economic programs formalized in the Watkins Committee. The alternatives were not systematically brought before the governing party rank and file, nor were the choices debated during the

election. Indeed, both the leadership convention and the election were dominated not by concern over national economic development strategies but by the charismatic personality and constitutional preoccupations of relative political newcomer, Pierre Trudeau. Trudeau was described as “pragmatic on everything but the constitution”.<sup>51</sup> His meteoric rise in federal politics contributed to a focusing of the national political agenda on matters quite distant from the economic and industrial renewal issues debated by the Watkins Committee. Under his leadership the government began to concentrate on developing a federal strategy to defeat Quebec nationalism and redesign the cultural identity and political unity of the country. Denis Smith noted that the “issue of foreign ownership and control ... was ignored at the leadership convention and the new government came out of it – and the subsequent election – with no perceptible commitment to any program on foreign investment.”<sup>52</sup>

Thus by the time of Trudeau’s selection as Liberal leader, there “was a growing impression that within the official establishment that most if not all the recommendations (of the Watkins Committee) might be quietly buried”.<sup>53</sup> The federal election called immediately after the Liberal leadership convention “revolved around Trudeau, with few issues capturing the electorate’s attention other than his leadership and ability to defend federalism in the face of growing demands for greater autonomy in Quebec ...”<sup>54</sup> Despite the media and public interest generated by the Watkins Committee, its arguments did not trigger much political discussion by the main contenders for power, the Liberals and Conservatives, in the 1968 election.

However, the Watkins Report influenced federal economic policy making in the 1969-75 period through representative processes largely bypassing the federal party system. The economic ideas packaged by the Watkins Committee were taken up in a variety of other institutional-political contexts, amongst which two stand out: first, the statist-nationalist outlook became the catalyst for a mobilization of oppositional social movements challenging the traditional parties and interest groups (including the NDP and organized labour); second, the presence in one form or another of both schools of economic thought inside the federal bureaucracy gave rise to a protracted organizational struggle between departments and agencies. In effect, the Watkins Report became the departure point for the complicated patchwork of social movements and bureaucratic machinations that shaped the federal government's attempts in the first half of the 1970s to articulate and implement a long term economic development strategy.

Of course, the most dramatic (and immediate) consequence of the government's reluctance to engage the Watkins Committee recommendations was a new political formation, the Waffle, led by the Task Force Chairman himself. Waffle activists galvanized around a full-blown elaboration of the statist-nationalist position. This elaboration had both an intellectual and political component. The critique of federal development strategy was amended to reject the premise that an independent capitalist economy could be engineered by enlightened officials armed with new policy instruments. Canadian business and political elites (and labour elites ensconced in the structures of international trade unionism) shared the spoils of continental capitalism while lower and middle class workers bore its special burdens – unstable employment prospects and



constrained advancement possibilities. From this controversial interpretation came a new political strategy for policy reform, premised on a popular alliance of nationalists and socialists created and mobilized by a mass-based programmatic party.<sup>55</sup>

In 1969, this social movement gravitated to the one federal party which had been open to the general message of the Watkins Report and already taken aboard certain of its recommendations, the New Democratic Party. The transmission (and transformation) of Task Force ideas from the expert world to party politics worked directly through the ex-chairman:

Since the Watkins report was issued ... (the Chairman) has been emerging as a central figure in the New Democratic Party's present and future course. At first, it was just seminars on the report, speeches about it, and suggestions from it for NDP policy. Recently, however, he's begun to become the main spokesperson for a major shift in whole NDP approach ... to reconstruct the party ... to reclaim it for those seeking an independent and socialist Canada.<sup>56</sup>

This exchange of ideas and resources was reflected in developments at the NDP's 1969 Federal Convention. Following a series of disappointing elections in the 1960s, the party concluded that its time-honoured identification with pushing the postwar Keynesian agenda to its limits was in need of renewal, perhaps even replacement. The 1969 meeting was designated as the mechanism for such an internal review, not of leadership or mobilizational strategy, but of ideology and policy. With this opening from the party leadership, Watkins, now joined by a number of academics subscribing to his radical version of the statist nationalist critique, began to organize support within the rank and file for a "Manifesto for an Independent Socialist Canada". When these ideas attracted an unexpected level of support at the Convention, the so-called Waffle faction managed to place its stamp on the party's new policy visage and elect Watkins to the vice-presidency

of the party.<sup>57</sup>

In effect, the party leadership, housed in the parliamentary caucus and the labour movement, had lost control over the direction of the review process it had instigated. The convention provided ample evidence of its discomfort with the Waffle ideas and it was this resistance that mattered most in determining the party's post-convention behaviour. Once back in the House of Commons the caucus basically ignored the critical thrust of the Waffle economic policy analysis – to build support for public ownership to replace continental elites – in its legislative work. Equally significant was the party's disassociation from the Waffle's strategic position that continental trade union structures and practices constituted a key barrier to the implementation of the new national economic project. Here, the party leadership moved to pre-empt any mobilization from below against established constituencies.

Faced with this resistance in the realms of economic thought and political strategy, the Waffle offered its own candidate for party leadership in 1971. Generating widespread media interest in an insurgency campaign based on the 1969 Manifesto, the Waffle candidate ran a strong second to the NDP stalwart, David Lewis. The defeat effectively ended the political mobilization within the NDP around radical economic ideas inspired by the Watkins Task Force. Though marginalized once again in the arena of partisan politics, these ideas, and indeed their market continentalist competitors, by 1970 were embarking on a long march through the statist institutional network of economic policy generation in Canada – professional research communities, technocratic advisory bodies, parliamentary committees, and government departments.<sup>58</sup>

Particularly interested in the progress of the statist-nationalist ideas inside the techno-bureaucratic network was Watkins's Task Force colleague, A. Rotstein. He too was involved in the organization of a popular movement based on the task force findings and interpretations.<sup>59</sup> Distancing himself from Watkins' socialist extension, however, Rotstein's concern centered on improving the prospects for bureaucratic incorporation of the statist-nationalist proposals as set out in the original Watkins Committee. Here Rotstein developed a theoretical rationale for a selective approach to controlling foreign investment, emphasizing strategic benefits rather than wholesale ownership. In 1972, Rotstein introduced the notion of "functional socialism" into Canadian debates about national economic strategy: "It is essentially a theory which separates title to property from the functions or powers of this property".<sup>60</sup>

Where Watkins converted to the principle of public ownership, Rotstein took the position that the state should deploy pragmatically a variety of measures – legislation, regulations, incentives, direct bargaining – to exercise control over the various powers and privileges associated with property. As editor of *Canadian Forum*, he provided an outlet for supportive expert commentary and generated greater public awareness of its rationale and feasibility. While Watkins mobilized within the NDP, Rotstein sought allies among public and private sector elites. He was instrumental in launching the Committee for an Independent Canada, a bi-partisan grouping (largely Liberal and Conservative in affiliation) of private and public sector notables now sympathetic to arguments from the economic nationalist camp. In political terms such an elite-level nationalist alliance would facilitate policy 'reform from above', forcing federal state managers into the

administrative reorganization necessary to implement the nationalist economic agenda.

From this vantage point, Rotstein and his Committee concentrated their energies on the Trudeau government's only tangible response to the interest and activity generated by the Watkins Task Force – the formation in 1969 of another techno-bureaucratic “working group” to study foreign investment and national economic policy.<sup>61</sup> This internal inquiry, not unlike the reasoning behind the Gordon and Watkins committee, found its inspiration in concerns from Ministers and certain officials about the limits of Canadian economic management, given prevailing policy outlooks and instruments.<sup>62</sup>

The analysis was carried out within the government economic ministries, with the report's drafting overseen by H. Gray, ex-Chairman of the House of Commons Finance Committee. When the Prime Minister hinted that the report submitted to Cabinet in May 1971 would remain a private document, a leaked copy was subsequently published by Rotstein in the *Canadian Forum*. The Gray Report was a Cabinet level document, although not an official policy statement of the government. Looking for solutions to the same problems, the Gray Report was aptly described as “up-dated Watkins”.<sup>63</sup> In the absence of any clear direction from parties in these controversial matters of public policy, opportunities for political leadership in the search for solutions was seized by the authors of the task force report responsible for packaging the new policy discourses, in particular Watkins and Rotstein. The subsequent activism of these policy entrepreneurs in relation to the statist-nationalist school of thought in arenas outside established party and bureaucratic systems had contributed much more to shifting orientations than any reactions from Cabinet ministers or societal organizations.

Unlike the earlier economic policy inquiries, the Gray Report was more consistent in its analysis and recommendations to Cabinet. The statist-nationalist conceptualization of the multi-national corporation as a complex organizational entity with interests typically diverging from any host state and society informed the presentation. Following arguments traceable to the work of Rotstein and Hymer in the mid 1960s, the Canadian economy was now diagnosed as "truncated" by foreign direct investment. Branch plant manufacturing firms, as satellites within a global corporate constellation, were not positioned to export or initiate research and development; operating within a similar organizational context, foreign-owned resource companies avoided both value-added production and taxation. To overcome such constraints on "Canadian options in industrial and related aspects of economic policy", the Gray Report isolated the Watkins Committee proposal for a screening agency empowering the federal government to monitor the performance of foreign firms, bargain for domestic benefits, and impose conditions on new investors. Following Rotstein's functional approach to the problem of foreign investment, the Gray Report argued that it was not practical for the state to attempt to repatriate any substantial degree of ownership of multi-national corporations. It stressed that in matters such as research and development, exports, and the like, ownership was not the critical factor affecting performance. Instead, the Gray Report recommended that host countries influence the operations and behaviour of foreign firms through strategic bargaining supported by use of specific policy instruments. Two basic concepts undergirded the Gray approach: maximizing national economic benefits from foreign investment and a selective approach to control as opposed to repatriation and ownership.

As the Gray Report put it, the state's "major function would be to negotiate ... with a view to increasing the level of efficient economic activity and improving Canada's industrial structure ..."

Exercise of this discretionary power by bureaucratic officials would be guided by an encompassing, politically-forged "industrial development strategy" providing the "framework which made clear the ultimate purposes of these instruments". The Gray Report called for a new national economic strategy, with politicians clarifying its overall design to ensure integration of sub-policy fields (trade, competition, capital formation, foreign investment etc.) and allow for concerted implementation. Indeed, action on the Gray Report required, first, that the government focus bureaucratic resources behind the statist-nationalist discourse, thereby marginalizing the market-continentalist school of thought; and second, mobilize a new public-private partnership behind an industrial strategy. Our next section explores these issues.

#### **4.6 The Search for an Industrial Strategy: Techno-Bureaucratic Competition**

In August 1971, immediately following completion of the Gray Report, circumstances in the United States once again conspired to confirm the relevance of the debate carried on by experts since the Gordon Commission. Introducing a package of nationalist fiscal measures involving import surcharges and export incentives designed to strengthen American manufacturing, the Nixon administration forced Canadian decision makers to face the limits of their postwar economic discourse. "At one stroke", T.

Axworthy wrote, "the 'Nixon shock' transferred the largely academic debate about foreign investment and Canada's independence into a pressing economic crisis".<sup>64</sup>

If the "interaction of concept and circumstance ... drives policy innovation", then conditions by 1971 in Canada for government leadership were propitious indeed.<sup>65</sup> Conservative spokespersons in the House of Commons supported the need for an industrial strategy to supplement the foreign investment screening activities contemplated by the Liberals. The NDP criticized the Liberals for not moving far enough and called for greater repatriation of foreign firms and stronger nationalist direction of the economy, although stopping short of the Waffle proposals for public ownership of the commanding heights of the economy. What remained, of course, was for the political system to marry concept and circumstance in the form of a new policy practice. Still required was political choice between alternative scientific conceptions and political resolve in mobilizing support from groups and voters for that choice. It is "the duty of the party", Axworthy also observed, "to define problems and find answers".<sup>66</sup>

However, from 1971 to 1975, the project of economic policy innovation – conforming to time honoured practices in the Canadian political system – was translated into a **priority problem** for the bureaucracy, rather than a **political priority** for the governing party. The new dynamic behind this familiar movement of ideas from the "outside experts to inside administrators" was the profoundly technocratic conception of governance held by the "knowledge is power" reformers accompanying Pierre Trudeau to power. The consequences for federal economic innovation in the first half of the 1970s of this depoliticization of long term policy choices are explored below.

In the first term of the Trudeau government the operating principles of the 'knowledge is power' approach to governance resulted in the formalization of an effective division of labour between partisan and bureaucratic politics in relation to economic policy formation. The public world of representative politics - parties, elections and the like - remained defined by brokerage practices. Politicians discussed issues in vague and superficial terms, with the image of leaders providing the focal point for electoral strategies permitting parties "to represent all things to all people for as long as possible."<sup>67</sup> For the backroom professionals influential in the Liberal Party such as Senator Keith Davey, the popular excitement generated by Pierre Trudeau's personality opened new possibilities for the brokerage electoral formula. Complementing this political world of images and symbols directed from the PMO would be the expert world of the techno-bureaucracy. Coordinated through the centralized decision making structures of the PCO, this world of intensive analysis and rational debate would produce fundamental policy departures for the government.

This separation of party politics from the policy process, as close observers of the early Trudeau years remarked, followed the "idea that the activities of research and policy analysis can provide an adequate basis for successful policy formulation and coordination."<sup>68</sup> The division of labour, then, was the product of deliberate design rather than historical accident or simple accommodation to embedded practices in the federal political system: the Trudeau government was determined to make policy more rational and comprehensive through administrative reform centering on creation of an elaborate organizational apparatus anchored in the PCO to facilitate innovative thinking. Policy



formulation was to be insulated from the expedient world of party politics. Executive control over the traditional line departments would be strengthened by the mobilization through the PCO of alternative viewpoints, presenting the Cabinet with competing options thoroughly analysed by different bureaucratic formations. Indeed, one of the basic assumptions of the 'knowledge is power' approach to governance (embodied in the "agency philosophy" of the PCO) was its encouragement of countervailing ideas inside the policy machinery. As Bruce Doern described, emphasis was placed on "confrontation and conflict, either between structures (e.g. the Economic Council "prodding" the Department of Finance) or between kinds of information (e.g. in the P.P.B. system, one program competing against another as to which is the best way to achieve a given goal)."<sup>69</sup>

In this context, the search for a new federal economic strategy entered as an obvious area of interest for the prime ministerial techno-bureaucracy.<sup>70</sup> Not only was there a battle of ideas between two coherent schools of thought, but each was proactive in its orientation to the long term and critical of the government's existing approach confined to ad hoc reactions to unforeseen events and misunderstood processes. Hence, by 1971, the notion of an industrial development strategy" was a "priority problem" for the PCO Planning Secretariat. As such, the relevant departments and Ministers were challenged by the PCO – with the backing of the Prime Minister – to assess past practices, identify future objectives, and generate new approaches or "policy thrusts" in an area where no single viewpoint or entrenched bureaucratic interest could claim proprietary rights. From the clash of competing perspectives on policy interrelationships would emerge

comprehensive proposals for long term innovation that would be channelled into ministerial decision making. This was the promise of the 'knowledge is power' framework.

In practice, the PCO's evident target for its "decisional technology" was ITC. Whereas Finance officials remained committed to the goals and instruments of demand management fine tuning through the annual budget, ITC was concerned with the structural and supply side problems made visible by dislocations since the 1950s. In Finance skepticism ran deep in relation to the more ambitious programs of intervention elaborated by the Gordon, Watkins, and Gray inquiries. By contrast, ITC held out the prospect of change, offering room for reevaluation and experimentation. The Minister at this time was sympathetic to arguments for federal leadership in the economic development field.<sup>21</sup> Moreover, in its very organization the Department incorporated thinking from Canada's competing post-Keynesian schools of thought. In its trade promotion activities the Department relied on the framework policies designed by the market-continentalists while in industrial development matters it was drawn to the more intrusive, micro-economic measures of the statist-nationalists. In its existing policies and programs, then, the Department was an unwieldy conglomerate, but from the perspective of the PCO the circumstances were favourable for triggering the cybernetic decisional procedures that would integrate activities behind strategic priorities. Thus the Department was instructed to undertake a searching internal review aimed at rationalizing its operations "within a single industrial development framework".

As Richard French has detailed, from this point forward the limitations of the 'knowledge is power' perspective in relation to defining (not even to speak of implementing) an "industrial strategy" began to surface. Simply stated, the substantive arguments between the two schools of thought could be neither submerged nor resolved by technocratically orchestrated modifications to the state's internal decision making process.<sup>72</sup> Arguably, the PCO "agency philosophy" of intellectual competition and confrontation invited the full expression of such differences, rather than encouraging any integration or choice. Successive overview reports from senior ITC officials failed to deliver the kind of long run strategic reassessments anticipated by the PCO. Instead they confirmed the Department's conceptual ambiguity about problems and priorities, and actually brought forth a full-scale defense of the prevailing policy approach from its most articulate spokespersons inside the Department of Finance.

It was soon apparent that the formal introduction of a systems approach to policy formation had not enhanced the innovative capacity of the Canadian political system in regard to economic management. What was clear was that the "priority problem" initiative had focused the internal policy division and in this way simply reinforced the need for some kind of political intervention to break the stalemate rooted in bureaucratic housing of the competing expert analyses of Canada's economic situation. Without such resolution the likelihood of an extended period of inconsistent, even contradictory economic policy making was greatly increased, as half-measures from both schools would mix with the demand management orthodoxy still dominant inside the Finance Department. The Trudeau government, with its purposely constructed division of labour separating partisan

politics and economic policy making, failed to see that priority formation in the 1970s meant support for and rejection of particular perspectives. In short, political decisions were necessary for the victory of one set of objectives over the other, leading to "the use of one or more instruments over other instruments, and the relative triumph of one department over another and of one or more ministers over others".<sup>73</sup>

The divisions undermined the prospects for the enunciation of a coherent industrial strategy. The ITC Minister began to say that there would be no single framework but rather a modest role for government in a number of strategies.

The government's decision making process was incremental — muddling through alternatives because the political system did not close down bureaucratic competition. Decision making was tentative and policy was disjointed. The brokerage character of the Canadian political process continued to impede consolidation of new directions in economic policy circulating in federal administrative structures. Partisan leadership in closing down disputes at the bureaucratic level was unlikely. In the specific cases of the governing Liberals and opposition Conservatives, mobilization behind one of the two alternatives was fraught with risks. Relevant social groups, most obviously business and labour organizations, had not yet defined their organizational interests nor clarified their preferences in relation to the policy proposals carried in the evolving techno-bureaucratic debate. Any party seeking to identify a programmatic coalition in Canadian society remained without much meaningful guidance from economic actors. Of course, this barrier to partisan mobilization around economic policy choices was reinforced by the politicians' preference for "mouthing generalities", which safeguarded the "rolling

compromises” viewed as crucial to Cabinet unity, electoral success, and national unity.<sup>74</sup> Such compromises historically rolled in directions determined by the appeal of individual party leaders. As such, they were fluid and wide rather than stable and deep. Such rolling compromises did not signal any meaningful agreement on policy direction amongst the diverse followers.

In this context, the 1972 election, which returned the Liberals to power with a Parliamentary minority, featured little debate over strategies for economic development. The Gray Report argued that the screening mechanism had to work in the context of a politically-forged industrial strategy. However, the wider strategy never materialized and legislation to create a foreign investment review agency was conceived in a policy vacuum.<sup>75</sup> The Cabinet Minister publicly identified with the government’s ruminations on these problems, Jean-Luc Pepin from ITC, was “not prepared to talk about industrial strategy during the campaign, at least not its specifics”.<sup>76</sup> Overall, the election campaign was dominated by the theme tailored to brokerage politics – national unity (made more compelling to the Liberals in the wake of the 1970 “October crisis”). The campaign also witnessed the introduction by the NDP of a populist critique of the distributive implications of the Liberals’ Keynesianism, following a pre-election budget which offered a grab-bag of tax concessions to the corporate sector. The government avoided discussion of the longer-term economic debates underway in the bureaucracy: “The Liberal Party did not press foreign investment policy in the 1972 campaign, evidently satisfied to rest on its record with no verbal development of its position”.<sup>77</sup>

This pattern of disengagement by the Liberals from internal state debates over long range economic alternatives during elections was replayed in the election held eighteen months later when the Liberals regained majority power. Following the international oil shock of 1973 there was heightened public awareness and concern over Canada's economic prospects. The parties responded to this rising anxiety, and economic issues acquired prominence in the 1974 election campaign. But they did so in a way that concentrated attention on short term symptoms rather than long term causes of Canada's economic insecurities and political discontents.<sup>78</sup> In this case, enduring problems of industrial weakness were never directly confronted by the parties; strategies for structural adjustment were never presented to voters or key economic actors seeking direction in the new and more difficult environment. Instead, the parties framed the public debate as the "fight against inflation", obscuring the complex policy questions of enhancing national productivity and maintaining international competitiveness in calls for wage restraint. In the 1974 campaign, the preoccupation with inflation was not linked to implementation of either of the industrial strategies on offer. The Liberals and Conservatives clashed over whether an incomes policy should be mandatory or voluntary in application.

In sum, from 1968 to 1975, despite three federal elections, the Canadian political system failed to debate solutions, present visions, and define directions in the search for economic strategies first mapped by experts outside the state and now taken up by permanent officials inside the bureaucracy. While recognition of the need for something new was expanding from the expert domain to the general public, neither the analytical substance nor the means of implementation of such innovation had been clarified. The

consequences for national economic policy were threefold: the piecemeal introduction of particular industrial initiatives uninformed by coherent policy thinking; the abrupt imposition of a mandatory three year wage and price control regime in 1975, Liberal election promises notwithstanding; and finally, the intensification of techno-bureaucratic leadership in policy formulation, beginning with an expanded PCO "Priorities Exercise" in 1974 and continuing across the government's entire mandate. As the Liberal Party backed into wage and price controls, a new deputy ministerial committee, "DM-10", was created to find an economic and industrial framework for the post-controls period. Each of these outcomes will now be described briefly.

Surveying the record of the federal government in economic management across this period, W. Coleman observed that the Liberals "tried a little bit of everything: devising an industrial strategy, cutting back government expenditures, pursuing economically liberal policies, and following a nationalist program."<sup>79</sup> Evidence of these oscillations (and the conceptual ambiguity behind them) can be found in various policy initiatives launched by the early Trudeau governments of the 1970s. The most prominent departures of this period, in the fields of foreign investment, capital formation, trade and technology often worked at cross-purposes, and in some cases not at all.

In 1973, for example, a screening mechanism, the Foreign Investment Review Agency (FIRA), was set up to secure through bargaining greater domestic benefits and to provide strategic advice on industrial policy.<sup>80</sup> In practice, however, administrative resistance was allowed to undermine the agency's effectiveness, and when Ministers sympathetic to the market-continentalist school of thought came forward, this statist-

nationalist instrument “even became an agency to solicit rather than screen new foreign direct investment.”<sup>81</sup> Moreover, in commercial policy, specifically in relation to the General Agreement on Tariffs and Trade, federal negotiators pursued a market-driven free trade environment agenda at odds with the interventionist thinking shaping domestic investment and industrial policy – thinking supported by the Canadianization thrust outlined in the “Third Option” formulated by the Department of External Affairs.<sup>82</sup> Similar tensions were embedded in the design of the long awaited Canadian Development Corporation (CDC), established in 1971 to pool industrial capital and to assist in strengthening domestic manufacturing capacity. In its operation the CDC was hobbled by an ambiguous mandate – was it to be a tool of statist investment policy or an autonomous state enterprise governed by commercial criteria? The government was uncertain. In the event, the CDC’s management and shareholder structure effectively foreclosed strategic state participation in the public company’s activity, despite references to such objectives in the enabling legislation. In science and technology areas, the government established a new Ministry of State for Science and Technology to coordinate a new R&D policy thrust. This Ministry was given a policy mission but not the program capability or budgetary authority to instigate change. In the judgement of sympathetic observers, this Ministry soon began to “wither on the organizational vine”.<sup>83</sup> The political will necessary to transform the MOSST from exhorter to catalyst never materialized. Despite isolated successes, very little progress was made in the 1970s in moving Canada’s poor R&D performance toward levels in other industrialized economies.



Throughout this period, then, the unresolved competition between opposed schools of thought represented within the federal bureaucracy forced compromise after compromise in the design and implementation of new economic development policies. The result was an ambiguous mix of structural measures alienating supporters of consistent reforms from both camps. The Liberals' failure to provide leadership in these matters simply compounded the intellectual uncertainty inside the state. Moreover, the limits of their commitment to vagueness in matters of long term policy direction were at hand. In Stephen Clarkson's judgement, the party's failure to "develop a comprehensive industrial strategy for the economy" led directly to "the decline in the late Seventies of the federal Liberals' capacity to govern".<sup>84</sup>

This disintegration of Liberal authority actually began in earnest in the period immediately following the 1974 election. An impressive Parliamentary majority had been won, largely on the basis of the Prime Minister's opposition to the Conservative proposal for mandatory wage and price controls. Certain only of what they would not do, the Liberals had sown "the seeds of the next defeat ... in a moment of a seeming triumph".<sup>85</sup> The campaign returned them to power without any discernable mandate for policy action. Once again initiative passed to the central agencies and departments of the state.

Throughout 1974 and 1975, the Prime Minister publicly declared that his new government had formally launched an elaborate techno-bureaucratic search for new policy ideas and priorities. This bigger and better "Priorities Exercise" would deliver what the election obviously had not – the "big picture" necessary to give shape and structure to a five year term in office. Under the direction of PCO officials, all line departments were

asked to identify their long term priorities, specifying how each could contribute to the formation of a strategic governing framework for Cabinet. Emphasis was placed on innovation: departments were encouraged to generate proposals and thrusts questioning existing routines. This bureaucratically-driven attempt at policy innovation from the 'bottom-up' unravelled for the same basic reasons that the earlier effort to discover through the clash of ideas a coherent industrial strategy fizzled. Priorities multiplied as various departments, logically enough, pursued their own conceptions of the governing interest, conceptions tied to long standing departmental procedures and constituency relationships. Operating in a political vacuum, the PCO officials charged with translating departmental "wish lists" into Cabinet memoranda were unable to impose order on the process. Ultimately, they took refuge in reciting to Ministers the kinds of mal-integrated generalities usually reserved for the politicians themselves.<sup>86</sup>

With this latest attempt at "rational planning" by the Trudeau central agencies collapsing, the government one year into its mandate was adrift. Internal divisions between schools of policy thought continued to paralyse any strategic economic departures. By late 1975, authority over economic policy moved decisively back to officials from the Department of Finance. In fact, they were involved in their own revisionist exercise. Finance officials now argued that combatting inflationary pressures required extending the instruments available for short term economic stabilization to include wage and price controls. Beached by the failure of the Priorities Exercise, the governing party had no counter arguments nor policy alternatives. In 1975, the Prime Minister announced the political about-face and created the Anti-Inflation Board to

enforce a three year program of controls.

In rationalizing this flip-flop, the Liberals emphasized that they "found controls unpalatable and that they were imposed only to provide the breathing space within which structural solutions to the problem would be found and launched".<sup>87</sup> At this juncture, the DM-10 committee of senior line department officials emerged as the government's mechanism for charting economic development policy in the period after controls. Organizationally distinct from the somewhat discredited PCO technocracy, the DM-10 committee drew on the expertise of policy advisors not associated with the Priorities Exercise.<sup>88</sup> In 1976, this committee authored its own discussion paper, *The Way Ahead* which introduced subtle but significant shifts in the terms for Canada's debate over post-Keynesianism.<sup>89</sup> Two explicit lessons were drawn from the 1971- 1975 period of economic policy experimentation, and incorporated into the committee's published report.

The first of these lessons was expressed as a substantive critique of previous failures not simply to resolve internal policy tensions but to link long term economic strategy with social policy reform to facilitate adaptation of domestic factors of production to continental shocks and ongoing international change.<sup>90</sup> The second lesson took the form of a critique of the government's approach to policy making. In effect, *The Way Ahead* rejected the insulated nature of the techno-bureaucratic debate over the "New National Policy".<sup>91</sup> Here the DM-10 committee was challenging Canada's evolving division of labour in policy formation, between representative channels of public debate and 'behind the scenes' locales of technocratic expertise, dominated by economists, cyberneticians and the like. *The Way Ahead* responded to the impasse in national economic policy making

signalled by wage and price controls, proposing a departure from embedded practices in generating policy ideas:

The further elaboration of these new directions cannot and should not take place without a focussed public dialogue. What is at issue is nothing less than the nature of Canada's social and economic future and the role that government will play in that future. The government believes that a concerted and coordinated process of responsible consultation with all segments of Canadian society will enhance our understanding of the options available to us and directions in which we must move.<sup>92</sup>

At the same time that this internal committee was acknowledging the need for more systematic political input into policy creation, a range of new societal actors were poised to enter Canada's economic idea network to influence official discourse and state behaviour. Indeed, the discrediting of the technocratic regime brought on by more than a decade of confused policy experimentation triggered new forms of organizational activity in Canadian society. The next chapter explores these changes in the idea network, and the undiminished role of the royal commission process in economic policy innovation.

## Conclusion

This chapter has analysed the competition between two schools of economic policy thought that surfaced in the 1960s in the wake of the Gordon Commission's intellectual breakthroughs. By the mid 1970s, the fundamental policy debate sustained through the Watkins Task Force (and Gray Report) acquired participants outside the techno-bureaucracy. In the wake of popular dissatisfaction with the Liberal embrace of wage and price controls (and the internal critique of the policy formation process announced by *The Way Ahead*) Canada's post-Keynesian debate began to move beyond the statist idea network to become a more socio-political search for a "New National Policy".

Most prominent here, as the next chapter will show, was the proactive, increasingly coherent intervention from business and labour groups into policy debates beginning in 1975. And by the decade's end, within the institutions of federalism, disputes erupted over Canada's post-Keynesian future. Several provincial governments contested the design and jurisdictional implications of any federally developed national policy model. Also significant was the emergence of new research institutes, some attached to the state, others private, providing sustained commentary on economic policy. By the late 1970s, for example, the Economic Council of Canada and the Science Council of Canada assumed well-publicized leadership roles in defining policy options. Relatedly, a sweeping theoretical critique of the capacity of politicians and bureaucrats to define or serve the public interest was introduced into the policy process through economic professionals affiliated with think tanks. The public choice model questioned Canada's most basic postwar assumptions about the role of the state in economic life, and formulated its own

assault on the claims for expert knowledge in guiding public decision making. The reformulation would not go unnoticed by policy elites in the 1980s.

This wider struggle over economic strategy would not find its substantive resolution in representative politics – electoral competition, corporatist consultation, or inter-governmental bargaining. Modern Canada's third great royal commission on the economy intervened in the mid 1980s to function as the key policy switchpoint mechanism for the political system. It is to this most recent era of economic ideas, politics and policy that we now turn.

## Notes

1. For examples of the creative politics school see, Porter, The Vertical Mosaic, especially Chapter XI1; Horowitz, "Towards the Democratic Class Struggle,"; C. Taylor, The Pattern of Politics (Toronto: McClelland and Stewart, 1970). For descriptions of the participatory democracy Liberals see, Wearing, The L-Shaped Party, pp. 46-51, pp. 141-172; Smith, The Regional Decline of a National Party, pp. 72-82. For similar commentary on the knowledge is power movement see, P. Aucoin and R. French, Knowledge, Power and Public Policy (Ottawa: Information Canada, 1974). For a statement from leading advocates of this approach to governance, including Pierre Trudeau and others who would play an influential role in his government see, "An Appeal for Realism in Politics", Canadian Forum (May 1964), pp. 29-33.
2. See, for example, Underhill, "The Party System in Canada."
3. Horowitz, "Towards the Democratic Class Struggle," p. 245.
4. See Smith The Regional Decline of a National Party, pp. 82-83, and Wearing, The L-Shaped Party, p. 172. Wearing explained that by the early 1970s, the "steam had gone out of the participatory experiment in its various manifestations ... the viewpoint of the PMO and most of the cabinet was that the quality of advice which they got in Ottawa was superb and that to get a lot of people with inexpert opinions involved in policy making was simply confusing and unproductive."
5. One observer offered an apt description of developments in the first Trudeau administration:
 

The swirl and confusion of the Pearson period was an anathema to Mr. Trudeau. Of course, the senior officials also disliked it and the accompanying "ad hocery." At first their appreciation of the comforts of the majority won in 1968 was marred by an apprehension ... that a whole new top bureaucracy and policy group was being developed in the Prime Minister's Office and a much enlarged Privy Council Office. But they soon saw that this meant more bureaucracy, more opportunities.

... The leading men of influence in the administration are mostly officials, not politicians. When they are preoccupied with planning the economy, and bilingualizing and multiculturalizing the country, they haven't time to be calculating for or against either business or labour.

Douglas Fisher, "The Secret Flowering of the Mandarins of Ottawa," Executive (March 1972), p. 70.
6. G. Szablowski, "The Optimal Policy-Making System: Implications for the Canadian Political Process", in T. Hockin, ed., Apex of Power (Toronto: Prentice Hall, 1977), p. 198.
7. R. Ritchie, An Institute for Research on Public Policy, (Ottawa: Privy Council Office, 1969), p. 3.
8. Porter, The Vertical Mosaic, p. 369.
9. B. Doern, "Policy Organizations in the Executive Arena", in B. Doern and P. Aucoin, eds., The Structures of Policy-Making in Canada, (Toronto: Macmillan, 1971), p. 7.
10. Szablowski, "The Optimal Policy-Making System," p. 201.

11. Royal Commission on Government Organization, Report (Ottawa: Queen's Printer, 1963).
12. French, How Ottawa Decides, (Toronto: Lorimer, 1980), p. 19.
13. See Doern and Aucoin, eds., Structures of Policy-Making, p. 65.
14. Fayerweather, Foreign Investment, p. 33.
15. P. Aucoin, "Public-Policy Theory and Analysis," in Doern and Aucoin, eds., Public Policy in Canada, p. 1.
16. J. Hodgetts, "Public Power and Ivory Power", in T. Lloyd and J. McLeod, eds., Agenda 1970, p. 262.
17. Foreign Ownership and Canadian Industry: Report of the Task Force on the Structure of Canadian Industry, (Ottawa: Queen's Printer, 1968).
18. Campbell, Grand Illusions, especially Chapters 5, 6.
19. Webb, "Canada and the International Monetary Regime," pp. 162-163.
20. See H. S. Gordon, Canadian Economic Policy Since the War, *passim*.
21. M. Sharp quoted in Campbell, Grand Illusions, p. 161.
22. Newman, The Distemper of Our Times, pp. 412-416.
23. Smith, Gentle Patriot, pp. 294-308.
24. *Ibid.*, p. 308.
25. Max Saltsman, New Democratic Party, House of Commons, Debates, February 6, 1967, p. 12717.
26. Joining Watkins were: Laval University economist, Claude Masson; University of Toronto economists, A. E. Safarian and A. Rostein; University of British Columbia economist, G. Rosenbluth; St. Francis Xavier University economist, W. Woodfine; University of Montreal economist, B. Bonn; Yale University economist, S. Hymer.
27. Roger Dehem, "The Tariff, Foreign Investment and Stunted Growth," in M.H. Watkins and D.E. Forster, eds., Economics: Canada (Toronto: McGraw Hill, 1962) p. 204. The continuities between the Gordon Commission and the Watkins Task Force were recognized by the leader of the New Democratic Party. He challenged the government's inability to establish an economic direction in the late 1960s:

The government says there will be a task force to prepare a white paper and that it will be headed by the President of the Privy Council (Walter Gordon). The President of the Privy Council was appointed by a previous Liberal government to head up a royal commission on Canada's economic prospects. He made a full report in that regard. He also wrote a book entitled "Whither Canada". He is supposed to be an authority. Why do we need another study and another white paper? Does the government not have a policy?



- T. C. Douglas, House of Commons, Debates, May 11, 1967, p. 73.
28. For a concise discussion of leading contributors to industrial and trade policy debates see, Williams, Not for Export, pp. 137-150.
  29. The concept of a "New National Policy" organized the Task Force's presentation. See the "Conclusion", pp. 415-417.
  30. Published through the Canadian-American Committee, January 1961.
  31. J. H. Dales, The Protective Tariff in Canada's Development: Eight Essays on Trade and Tariffs When Factors Move With Special Reference to Canadian Protectionism, 1870-1955; A. E. Safarian, Foreign Ownership of Canadian Industry, (Toronto: McGraw-Hill, 1966).
  32. Examples include: H. Johnson, The Canadian Quandary, (Toronto: McGraw Hill, 1963); I. Macdonald, "Foreign Ownership: Villain or Scapegoat," in P. Russell, ed., Nationalism in Canada (Toronto: McGraw Hill, 1966); M. H. Watkins, "Technology and Nationalism," in P. Russell, ed., Nationalism in Canada.
  33. M. H. Watkins, "The Canadian Quandary: Two Reviews" Canadian Forum (July 1964), pp. 79-80.
  34. J. Robinson, The Pearson Phenomenon (Toronto: Beal Longmans, 1964), p. 165.
  35. Dehem, "The Tariff, Foreign Investment," p. 202.
  36. C. Barber, Toronto Daily Star, September 15-20, 1962. See also, C. Barber, "Austerity 1962," in M. H. Watkins and D. F. Forster, eds., Economics: Canada, pp. 148-160.
  37. G. Grant, Lament for A Nation: The Defeat of Canadian Nationalism (Toronto: McClelland and Stewart, 1965).
  38. Stephen Hymer, "Direct Foreign Investment and the National Economic Interest," in P. Russell, ed., Nationalism in Canada; Abraham Rotstein, "The 20th Century Prospect: Nationalism in a Technological Society," in P. Russell, ed., Nationalism in Canada. Also relevant here is Kari Levitt's influential work published four years later, Silent Surrender: The Multinational Corporation in Canada (Toronto: Macmillan, 1970).
  39. Rotstein, "The 20th Century Prospect: Nationalism in a Technological Society," pp. 351-357.
  40. Hymer, "Direct Foreign Investment and the National Economic Interest," pp. 191-202.
  41. Newman, The Distemper of Our Times, especially Chapter 29.
  42. See P. Resnick, The Land of Cain: Class and Nationalism in English Canada, 1945-1976. (Vancouver: New Star Books, 1977), especially Chapter 4. Resnick elaborates on the limited role played by business and labour groups in the reassessment of economic strategy in the 1960s that was triggered by the Gordon Commission.
  43. This internal tension did not pass unnoticed by reviewers of the Watkins Report. For discussion of the Task Force's competing discourses see: David Slater, "The Watkins Report," The Canadian Banker 75:2 (Summer 1968), pp. 5-16; H.E. English, "Foreign Ownership Reviewed," The Canadian

- Banker 77:1 (January/February 1970), pp. 13-14; H. Thorburn, "Mr. Gordon's Questions Answered," Canadian Forum (March 1968), pp. 269-270; H. G. Johnson, "Towards a New National Policy?" International Journal 23:4, pp. 615-622.
44. V. Wilson, "The Role of Royal Commissions and Task Forces," in Doern and Aucoin, eds., Structures of Policy-Making, pp. 113-130; F. Schindler and C. M. Lanphier, "Social Science Research and Participatory Democracy in Canada," Canadian Public Administration 12:4 (Winter 1969), pp. 481-498.
  45. M.H. Watkins, Statement before the Standing Committee on Finance, Trade and Economic Affairs, March 14, 1968, p. 753.
  46. As quoted in P. Stursberg, Lester Pearson and the American Dilemma, (Toronto: Doubleday, 1980), p. 244.
  47. *Ibid.*, p. 249.
  48. "Make Foreign Capital Serve Canada," The Toronto Daily Star, February 16, 1968.
  49. Stursberg, Lester Pearson and the American Dilemma, pp. 402-403.
  50. Axworthy, "The Essentials of Strategic Policy Making," p. 491. Axworthy further observed that:
 

in Canada the conduct of modern campaigns is invariably a record of opportunities lost. The duty of the party is to define problems and find answers. In Great Britain political parties issue detailed manifestos outlining their vision of the future. In Canada personal image rather than policy substance drives the race. Policy announcements are too often viewed as tactical devices to be dropped whenever media attention is flagging. The press, which must be fed, is daily doled out a policy Gainsburger....
  51. Beck, Pendulum of Power, p. 417.
  52. Smith, Gentle Patriot, pp. 350-351.
  53. "Gordon Makes it Leadership Issue," Toronto Daily Star February 16, 1968.
  54. Brodie and Jenson, Crisis, Challenge and Change, p. 282.
  55. D. Godfrey and M. Watkins, Gordon to Watkins to You (Toronto: New Press, 1970), *passim*.
  56. S. Langdon in Toronto Daily Star, August 11, 1969, reprinted in Godfrey and Watkins, eds., Gordon to Watkins to You, p. 102.
  57. R. Hackett, "Pie in the Sky: A History of the Ontario Waffle," Canadian Dimension (November 1980); Brodie and Jenson, Crisis, Challenge and Change, pp. 273-281.
  58. Examples include: Foreign Direct Investment in Canada (Ottawa: Information Canada, 1972); A Science Policy for Canada, Report of the Special Senate Committee on Science Policy (Ottawa: Government of Canada, 1972); Report of the House of Commons Standing Committee on External Affairs and National Defense (Wahn Report, 1970); Innovation in a Cold Climate (Ottawa: Science Council of Canada, Report # 15, 1971).

59. See Resnick, Land of Cain, pp. 224-228 (Appendix II), for a description of the Committee for an Independent Canada.
60. A. Rotstein, The Precarious Homestead (Toronto: New Press, 1973), pp. 58-68.
61. This group's product was Foreign Direct Investment in Canada (Ottawa: Information Canada, 1972), also known as the Gray Report.
62. "A Citizen's Guide to the Herb Gray Report," Canadiar Forum, (December 1971), pp. 6-9.
63. "Three Socialists Look at the Gray Report," Canadian Dimension 8: 4-5 (January, 1972), p. 6.
64. T. Axworthy, "To Stand Not So High Perhaps but Always Alone," in P. Trudeau and T. Axworthy, eds., Towards a Just Society (Markham: Viking, 1990), p. 32.
65. Bradford Lee, "The Miscarriage of Necessity and Invention," in P. Hall, ed., Political Power, p. 130.
66. Axworthy, "The Essentials of Strategic Policy Making," p. 491.
67. Bickerton, "Nova Scotia, Ottawa, and the Politics of Regional Development," p. 298.
68. Aucoin and French, Knowledge, Power and Public Policy, p. 78.
69. B. Doern, "Policy Organizations in the Executive Arena," in Doern and Aucoin, eds., The Structures of Policy-Making, p. 78.
70. The potential of the concept of an industrial strategy to anchor a new national economic policy model was evident. An industrial strategy as defined through the Gordon-Waktins idea network was meant to integrate a series of economic policy goals (beyond the announced postwar goals of high employment and growth) including balance of international payments, price stability, regional and technological development. In pursuit of these objectives, an industrial strategy implied new approaches to research and development, capital formation and investment financing and so forth, in both resource and manufacturing sectors. New instruments would be deployed in areas such as competition policy, foreign investment regulation, tariff policy, and fiscal policy to support rationalization and high value-added production. On these operational questions of policy approach and instrument choice, of course, the market-confederalist and statist-nationalist prescriptions diverged.
71. D. Fisher, "Jean-Luc Pepin: The Man and his Plan," Executive (June 1972), p. 64.
72. Douglas Fisher offered the following observation:

The nicest irony of the first Trudeau administration is that it represents the apotheosis of the senior civil service, what I call the secret flowering of the mandarins. This ... after a campaign in '68 with few promises and much stress on freshness, on participation or plugging in the people, and on strong, dynamic leadership. Few of us then foresaw the flood of task forces, white papers, conferences and "further studies." Experts and consultants under contract proliferate. Agencies multiply and divide. Nothing of the federal past has respectability if it has not been reorganized.

- See Fisher, "The Secret Flowering of the mandarins of Ottawa".
73. B. Doern and R. Phidd, The Politics and Management of Economic Policy, p. 25.
  74. French, How Ottawa Decides, especially Chapter 8.
  75. See A. Abonyi, "Government Participation in Investment Development," in A. Gollner and D. Salee, eds., Canada Under Mulroney (Montreal: Vehicule Press, 1988), p. 159.
  76. J. Meyer, "One Issue never did surface in the election campaign," Executive (December, 1972), p. 15.
  77. Fayerweather, Foreign Investment, p. 181.
  78. W. Irvine, "An Overview of the 1974 Federal Election in Canada", in H. Penniman, ed., Canada at the Polls: The General Election of 1974 (Washington: AEI), p. 42.
  79. Coleman, Business and Politics, p. 263.
  80. This paragraph draws on a variety of sources including, French, How Ottawa Decides, pp. 105-129; J. Bell, "Canadian Industrial Policy in a Changing World," in P. Trudeau and T. Axworthy, eds., Towards a Just Society, pp. 78-106; Aucoin and French, Knowledge, Power and Public Policy, passim; Fayerweather, Foreign Investment, passim; S. Clarkson, Canada and the Reagan Challenge (Ottawa: Canadian Institute for Economic Policy, 1982); Chapter 4; Williams, Not for Export, pp. 161-167.
  81. Clarkson, Canada and the Reagan Challenge, p. 18.
  82. In 1972, External Affairs Minister Mitchell Sharp introduced the Third Option that was generally critical of continentalism. "The object is essentially to create a sounder, less vulnerable economic base for competing in the domestic and world markets and deliberately to broaden the spectrum of markets in which Canadians can and will compete". See Fayerweather, Foreign Investment, p. 123.
  83. Aucoin and French, Knowledge, Power and Policy, p. 30.
  84. Clarkson, Canada and the Reagan Challenge, p. 3; See also, Clarkson, "Pierre Trudeau and the Liberal Party: The Jockey and the Horse," in H. Penniman (ed.), Canada at the Polls: The General Election of 1974 (Washington: AEI, 1975), p. 77. Clarkson wrote about Pierre Trudeau: "The Wunderkind, the apostle of rationalism in politics, who had come to power declaring the need to reassess and review all areas of public life, before taking on in new directions, had, in fact, accomplished remarkably little during his four years of unchallenged power."
  85. Axworthy, "The Essentials of Strategic Policy Making," p. 491.
  86. French, How Ottawa Decides, pp. 116-119. See also, Bickerton, "Nova Scotia, Ottawa, and the Politics of Regional Development". As Bickerton put it:

The 1970-75 period offers a good example of the pitfalls of leaving policy development to the "experts" in the bureaucracy, a common outcome of party politics in Canada. It would appear to be highly unlikely that new policy directions will "emerge" from bureaucratic overviews of existing departmental

priorities and policies; nor is it probable that a "consensus" on policy will be reached by merely aggregating and distilling the internally-generated opinions of the various departments of the bureaucracy.

See Bickerton, p. 406.

87. J. Meisel, "The Larger Context: The Period Preceding the 1979 Election," in H. Penniman, ed., Canada at the Polls, 1979 and 1980 (Washington: AEI, 1981), p. 38.
88. French, How Ottawa Decides, pp. 120-132; Stewart, "Global Transformation and Economic Policy," in P. Trudeau and T. Axworthy, eds., Toward a Just Society, pp. 116-117.
89. Government of Canada, The Way Ahead: A Framework for Discussion, October, 1976.
90. *Ibid.*, pp. 23-24.
91. *Ibid.*, pp. 31-32.
92. *Ibid.*, p. 32.

## CHAPTER 5

### The Road to a New Economic Policy Model: 1975-1990

#### Introduction

From 1975 to 1979 a range of new actors became visible within Canada's economic policy idea network. These mobilizations responded to the discrediting of federal policy authorities which accompanied the imposition of wage and price controls. The previous chapter argued that the controls regime undermined faith in the particular Canadian form of institutionalization of Keynesian economic ideas, rooted in highly rationalist assumptions about knowledge and power and organized around the expert deliberations of an insulated techno-bureaucracy expressing the public interest through scientific management of the private economy. The dynamics of economic decision making in the 1970s were at odds with all of this.

During the last half of the 1970s and the first half of the 1980s, the Canadian economy experienced serious structural difficulties. The American 'Nixonomics' actions of 1971 were only the first in a series of destabilizing international pressures on the domestic economy. In 1973 and 1979, the Organization of Petroleum Exporting Countries introduced dramatic oil price increases that contributed, along with wage pressures, to an inflationary spiral. Also in these years, multi-national corporations began in earnest to rationalize production and investment on a global scale. As a result the newly

industrialized countries of the third world became home bases for a variety of secondary and resource industries exporting products back to OECD markets. By the mid 1970s, the international economic regime anchored in the GATT and IMF was unravelling. Protectionism and managed trade became the preferred national response to the changing international investment flows; and all countries opted for the domestic flexibility allowed by fluctuating exchange rates.

As described in our previous chapter, wage and price controls, expenditure restraint, and tight control over the money supply was the basic policy package introduced in the late 1970s by many countries, including Canada, to cope with the pressures. However, at the end of the decade the deflationary effects of these measures led to the most severe recession since the 1930s. In 1981-82, interest rates crippled investment and job creation, resulting in extraordinary unemployment and bankruptcy levels.<sup>1</sup> In the wake of this economic collapse, debate intensified between advocates of the statist-nationalist and market-continentalist development strategies. The entrenched techno-bureaucratic capacity for leadership was paralyzed in the face of ongoing conceptual disputes amongst policy intellectuals about long term alternatives.

Faced with that stalemate, the parties and politicians were left to improvise. Political responses to what many now termed an economic crisis took the form of an ignominious retreat by the government into the controls regime peddled by the official opposition and factions within a divided bureaucracy. Bearing the stamp of political desperation rather than technocratic rationality, this departure was accompanied by a novel plea from officials for societal input and guidance in mapping new directions for Canadian

economic policy. At this juncture, three alternative locales of idea generation emerged in the widening national debate over economic futures: provincial governments, organized economic interests, and various research institutes and think tanks. Each of these actors engaged the debate between statist-nationalist and market-continentalist schools of thought on its own terms, lending support to divergent prescriptions for fundamental policy reorientation and economic restructuring. By the late 1970s these mobilizations and the visions that underpinned them acquired a certain resonance within the federal party system, allowing for "an uncharacteristic, if incomplete, polarization" between the Liberals and Conservatives in the 1980 election.<sup>2</sup>

This polarization was short-lived. In the 1984 election, two new leaders arrived on the scene to frame a campaign with little policy discussion of (or partisan division over) the major economic restructuring projects on offer. Beginning in 1985, however, the federal government suddenly coalesced around the market-continentalist economic strategy, and moved to implement a new national policy model. This chapter follows the twists and turns of economic policy choice and change in the Canadian political system in the 1980s.

It begins by examining the idea network's new entrants visible from the mid 1970s onward. The next section considers the effects of this unfamiliar 'policy advocacy from below' on electoral politics, particularly in relation to the 1980 campaign and its immediate aftermath. The final two sections provide an overview of economic ideas, politics, and policy making in the Mulroney era. This discussion is anchored around an analysis of the Royal Commission on the Economic Union and Development Prospects



for Canada (Macdonald Commission). Appointed in 1982 by the Trudeau Liberals, this commission reported three years later, offering a policy blueprint to the sputtering new Conservative government. In the process, it became a representational focal point for a wide variety of actors competing to influence the design of an economic policy model that would conclude Canada's thirty-year search for post-Keynesian direction. With their arguments for continental free trade, a "normal" rate of unemployment, and social adjustment (not welfare), Donald Macdonald and his colleagues took their place in the Canadian political tradition of economic policy innovation by royal commission.

This chapter argues that in the 1980s, despite the entry of new actors into the economic debate, commissions continued to function as authoritative creators of the national policy models that frame the federal government's economic agenda. In the years marking the transition from the Trudeau to the Mulroney era in federal politics, the Macdonald Commission passed judgement on the competing projects of various societal groups and created an integrative model for national economic policy making. Accordingly, this chapter describes the new actors in the economic idea network, but also highlights the political system's continued reliance on the techno-bureaucracy for critical representational and policy innovation functions. As at earlier critical junctures, parties remained basically election machines removed from policy development, and political leaders remained preoccupied with "rolling compromises" tied to the vagaries of personality politics.

## 5.1 Responding to Ottawa's Impasse, 1975-79

### *i) Provincial Governments*

As discussed in the previous chapter, one of the critical motives organizing Canada's search for new economic policy directions underway since the mid 1950s was the desire to define a new discourse of leadership for Ottawa<sup>22</sup> within Canada's federal system. The limits of Canadian Keynesianism surfaced in two contexts: first, policy failures were evident as short term demand adjustments did not stabilize key indicators; second, constitutional challenges arose over whether Ottawa had the jurisdictional authority to sustain such a policy project, regardless of its efficacy. Indeed, toward the end of the St. Laurent years it became apparent that Ottawa's economic policy leadership could not continue on the foundations of its postwar Keynesian discourse – that national problems required national solutions created and controlled by the "Ottawa men".

In fact, the federal government's preeminence had rested on the centralized fiscal system of expenditure and revenue management forged by lessons drawn from the Depression and wartime crises. Inter-governmental negotiations in the late 1950s signalled that this arrangement would give way to a new era of greater provincial power. Throughout the 1960s, a significant degree of control over the social policy expenditures important to the Keynesian equilibrating technique was transferred selectively but steadily to the provinces. Of course, the focal point for this initial provincial drive for taxing powers and autonomy in social welfare and cultural policy was Quebec. Beginning with the Duplessis regime and carrying through to the Quiet Revolution of the 1960s, successive Quebec governments contested the constitutional underpinnings of Ottawa's

Keynesian capacity.

In the context of this challenge to federal fiscal authority, our previous chapters argued that both the Gordon and Watkins reports attempted to formulate an alternative rationale for the federal state's economic leadership. Matters of welfarist and regionalist redistribution were not ignored by Gordon and Watkins, but they were displaced as organizing principles for a New National Policy. Here, the focus for innovation shifted from social policy and demand side management to economic development policy and supply side reorganization. The Gordon and Watkins reports reconceptualized the economic role of the federal government, emphasizing national responsibility for Canada's industrial fate in a changing international economy, introducing – and arguing over – various instruments for ensuring federal control over domestic capital formation.

That any extension of the Keynesian blueprint for economic development policy being drafted inside the techno-bureaucracy might be as centralizing in its implications for policy making within Canadian federalism as the earlier stabilization package did not pass unnoticed in the provincial capitals. On these developmental policy questions, Quebec once again led the provincial offensive. Indeed, the critical difference between the Duplessis protest in the 1950s and the dynamics of the 1960s Quiet Revolution was the latter's push to link fiscal autonomy not only with the preservation of cultural or social distinctiveness, but with the creation of a new provincial economic order modernizing factors of production under state leadership. In fact, from 1960 onward, something very close to the Gordon Commission's statist-nationalist policy discourse was used by provincial parties in Quebec to forge a new cross-class strategic alliance of

economic actors interested in more local (francophone) control over resource and manufacturing development.<sup>3</sup>

With the onset of global economic restructuring in the 1970s, this initial Quebec mobilization within Canada's federal system for control over post-Keynesian policy instruments became more the rule than the exception. Several basic factors were critical to escalating inter-governmental tensions from relatively narrow Keynesian bargaining over ceding 'tax room to a province unlike the others' to generalized conflict over competing visions of long term economic development. The first factor here was international economic shocks which greatly increased the price of energy resources, especially oil and gas. Drawing on their entrenched constitutional position in relation to crown lands and their sudden market power, various resource-rich provincial governments by the mid 1970s were following Quebec's lead. "Province-building" campaigns were mounted in Canada's hinterlands to capitalize on the resource boom. Regional coalitions of public and private sector elites fought for greatly expanded provincial taxing and regulatory power to facilitate transformations of provincial economic structures.<sup>4</sup>

In addition to international economic disturbances, the other key factor giving momentum to this provincial mobilization was the policy paralysis of the federal government. As one observer wrote, "policy drift in Ottawa has encouraged the development of provincial industrial strategies based on provincial or regional solutions to industrial problems".<sup>5</sup> Political conflict within Canadian federalism became organized around competition between the same statist-nationalist and market-continentalist discourses that divided the techno-bureaucracy. Moving to fill the void left by the federal

government's economic policy confusion, the premiers now called on Ottawa to embrace the market-continentalist discourse, leaving provincial states to oversee introduction of elements of the statist-nationalist instruments for capital formation, including market intrusive policies for sectoral restructuring, resource processing, and technological innovation. As Peter Leslie put it, the province-builders entered national policy debates in the 1970s unified around the position that in economic development "the framework is federal, the context is continental, and the agents are private industry and the provincial governments".<sup>6</sup>

By the late 1970s, Canada's search for a new national policy was characterized by unprecedented levels of inter-governmental conflict as provincial governments advanced their projects and federal officials attempted to respond. As international economic change altered circumstances across a number of Canadian resource and manufacturing sectors, the two levels of government became locked in a struggle to deploy policy instruments to direct domestic responses to the new global conditions. In effect, the federal government's search for a viable long term solution was stalled not only for reasons related to an internal competition of idea systems, but also because of an external political challenge to its authority, resulting from aggressive provincial mobilization. Premiers became increasingly vocal in calling for Ottawa to adhere to market-continentalist thought, while they would explore more interventionist development projects as prescribed by the statist-nationalist school.

*ii) Organized Interests*

In these years, the entry of the provinces into the national policy debate paralleled the mobilization of organized economic interests, specifically business and labour. Across the postwar period these societal actors (like the provinces) had been content to allow policy intellectuals and federal officials to monopolize national policy formulation and implementation. Business and labour had not played important roles in the Keynesian era either as proposers of ideas or coalition builders to drive policy innovation. The historical reasons – structural and organizational -- behind this Canadian pattern of 'collective inaction' have already been explored. As with the resource-rich provinces, however, the mid 1970s' combination of international economic pressure and national policy drift led to alterations in business and labour behaviour. Among the new challenges faced by all national labour movements and business communities were: heightened competition from rebuilt European and Japanese economies and from low-wage newly industrializing countries; the diffusion of new production technologies and labour processes; and the escalating economic nationalism of the United States. The evident failures of the original postwar policy model and the related paralysis of its state managers in the face of these pressures created a vacuum in Canada's economic policy formation process. Following the government's 'stop-gap' wage and price controls announcement, business and labour began to move. For both, the ensuing reevaluation of established practices in relation to the policy process had an ideological and organizational dimension.

For business in Canada, this overhauling of past practices found its most significant expression in the formation of the Business Council on National Issues (BCNI) in 1976.

The BCNI was created to “strengthen the voice of business on issues of national importance and put forward constructive courses of action for the country”.<sup>7</sup> Behind this initiative was recognition from certain business elites that their representative associations were ill-suited to the tasks of long term policy formulation and national consultation:

They recognized that existing business organizations had acquired a reputation for carping and special pleading about narrow questions of self-interest. ... Canadian business interests had only appeared capable of reacting negatively and ‘after the fact’ to government policies and programs. Their protests weren’t of much use, especially if government had stopped listening. ... Rather than merely reacting to government initiatives, the Business Council is beginning to take pre-emptive or pro-active positions on upcoming issues. Council members are sufficiently concerned about long-term planning that they want to address national public policy issues well before they reach public consciousness. ... With adequate foreknowledge, they are able not only to arrive at a suitable consensus within their own constituency, but to anticipate the positions of other groups and ‘suggest’ satisfactory compromises.<sup>8</sup>

The BCNI’s formation signalled a shift in the role of business in the Canadian policy process away from private concession lobbying punctuated by ad hoc public protest, toward long-range agenda setting involving visible economic “policy advocacy” propelled by expert analysis. To this end, the BCNI recruited a professional research staff coordinating specialized Task Forces – “a virtual shadow Cabinet” – drawing on the resources of member companies to express the business interest across all major areas of national economic policy.<sup>9</sup> Given these general characteristics, it remains to consider the BCNI membership profile and its positioning in relation to Canada’s post-Keynesian division between market-continentalists and statist-nationalist schools of policy thought.

The BCNI has been described as “an integrating force for big capital in Canada”.<sup>10</sup> Drawing its membership from major corporations (mostly American-based) across the manufacturing and resource sectors, as well as financial institutions (particularly banks)

the 'big business' label attached to the BCNI obviously fits. But there were gaps in the BCNI profile, most strikingly the exclusion of public corporations, and relatedly, some of the major Canadian entrants into the energy field in the 1970s. William Coleman emphasized that the BCNI's 'coverage' was also limited in an organizational sense by the absence of internal representative structures to "integrate systematically business interests across sector and territory".<sup>11</sup> He concluded that the BCNI was not created to facilitate business participation in a new policy structure based on corporatist-style negotiation. Such a process placed demands beyond the BCNI's organizational capacity: ongoing orchestration of internal compromises within a nationally integrated, sectorally encompassing membership that would arrange "deals" with other social partners and governing parties.

Nonetheless, the BCNI was prepared to inject long-range policy proposals into the economic debate. And in the late 1970s it went on the offensive. The BCNI embraced the market-continentalist discourse, using it to embellish the fundamental call for framework policies allowing corporate flexibility in adjusting to new conditions. At issue was the concern that Canada's post-Keynesian restructuring not institutionalize mechanisms providing for state or labour input into production decision making (the location, content, and form of investment). The BCNI repeated, in the context of abiding business hostility to the market-intrusive wage and price controls regime, familiar declarations in favour of generalized state retrenchment vis a vis the economy. More pointedly, the BCNI substantiated its call for "the free flow of goods, capital, services and people" by merging arguments for national and continental rationalization of policy approaches and production



processes.<sup>12</sup> It argued first for a Canadian common market – thereby limiting provincial state initiatives – and second for North American integration – thereby limiting the federal state to the kind of framework economic policies specified by the market-continentalist school. To disseminate these ideas, the BCNI moved to coordinate the presentation of expert critiques inside key networks of policy learning in Canada – bureaucratic committees, task forces, commissions of inquiry and the like – as well as providing for their wider distribution in outside research bodies and the media.

At the same time that business sought to establish an organized, co-ordinated and permanent presence in economic debates, the labour movement was also reexamining its orientation to the policy process. Within the techno-bureaucratic politics shaping Canada's 1940s postwar compromise, as earlier chapters described, organized labour had evolved a two-track strategy for protecting its interests. Economic questions were defined rather narrowly, confined to the private collective bargaining process where unions pushed for wage increases. In this representational context, political action was equally bounded, primarily taking the form of defensive lobbying efforts by disparate labour elites seeking relief for particular sectors or firms.<sup>13</sup> As with the provinces and business interests, however, developments in the 1970s posed a fundamental challenge to embedded postwar practices. First, wage and price controls suspended free collective bargaining and threatened a massive transfer of income from wage earners to corporations. Second, the business call for flexible adjustment in the face of international competition raised the spectre of large job losses through shutdowns, relocations and labour process innovations. Finally, the ongoing American economic policy belligerence had its staunchest domestic

backer in the leadership of American organized labour. In sum, by the mid 1970s Canadian labour found itself stripped of what arguably had become its postwar 'allies': the federal government, American manufacturing capital, and international union brothers and sisters.<sup>14</sup>

These new circumstances prompted a series of strategic shifts by the Canadian Labour Congress (CLC). In organizational terms, an attempt was made to redress internal fragmentation. This would facilitate generation of a coherent economic program and allow mobilization around such a policy framework. Beginning in 1976, CLC conventions featured discussion of broad economic policy strategies addressing the labour movement's long term interests, and debate over alternative approaches to political representation (beyond defensive lobbying of state officials). In the former case, the CLC developed through an expanded and centralized research structure, its own version of the statist-nationalist project. Rianne Mahon has identified the key areas of convergence (as well as differing points of emphasis) between the late 1970s CLC initiative and the school of thought evolved through the Gordon-Watkins commission network. Mahon summarized the labour-based appropriation of the statist-nationalist policy discourse occurring in the early 1980s :

The CLC's program implies that industrial restructuring should not take place at the expense of social consumption; it envisions a stronger role for the state in regulating the investment decisions of Canadian as well as foreign capital; it implies the extension of the scope of collective bargaining in a way that could involve locals in the struggle to define the pace and direction of the restructuring process.<sup>15</sup>

This foray into the world of economic ideas – basically a conversion by labour to the statist-nationalist agenda for the reasons cited above – by the CLC went hand-in-hand with new thinking about labour's political capacity to influence official policy understandings. Here two options were proposed and debated through the CLC. The first of these departures was "social corporatism". It followed from the overtures for tripartite consultation about the federal government's "way ahead" coming from the inter-departmental committee charged with elaborating a post-wage and price controls economic strategy. The second initiative looked beyond state and business bargaining to party politics: specifically, to pushing the NDP, under Ed Broadbent's leadership, to use the statist-nationalist discourse for a refurbished labour-first industrial strategy electoral offensive. In this context, the CLC would dedicate substantial financial and organizational resources to the party which, in the wake of the Liberal government's floundering and betrayal, was being reconceptualized by the CLC as a highly relevant political arm of the Canadian labour movement. Both these options figured prominently in the general reorientation of labour strategy in the late 1970s.

### *iii) Research Institutes*

Before focusing on such political dynamics, it is necessary to complete our description of Canada's expanding economic idea network by situating the final set of entrants in the 1970s: private research institutes, think tanks, and federal advisory councils. While the Canadian party system submerged constructive public discussion of the strategies for economic renewal set out in the Gordon and Watkins reports, a new

community of organized policy expertise was moving to the forefront in analyzing options and clarifying choices.

In fact, the two schools of policy thought acquired institutionalized expression in the research programmes launched and sustained by the two federal economic advisory bodies created in the 1960s, the Economic Council of Canada (ECC) and the Science Council of Canada (SCC). Both institutions commissioned professional economists variously located in Canada's techno-bureaucracy to produce 'advocacy monographs' amplifying and substantiating one of the two basic frameworks. Cumulatively, each series of publications amounted to a comprehensive brief in favour of a distinctive economic development policy.

Crucial in the development of the inter-council debate were two benchmark reports. From the ECC in 1975 came *Looking Outward: A New Trade Strategy for Canada* which made the case for "continental rationalization" involving branch plant closures supported by adjustment assistance to workers and communities.<sup>16</sup> Three years later the SCC released *The Weakest Link: A Technological Perspective on Canadian Industrial Underdevelopment* which countered with an agenda for "technological sovereignty", imposing exporting mandates on branch plants and performance criteria for global corporations in the domestic market.<sup>17</sup>

Not surprisingly, each council's work received widespread attention from other actors in the Canadian policy process. Such was their presence in carrying the public debate and defining options that close observers of the political system described Canada's searching process in the following terms:

In the 1970s the Economic Council of Canada faced off against the Science Council in a contest to define an economic future for Canada. At issue was whether an industrial strategy could be found which would push the country towards a more autonomous development strategy. Since both these bodies were part of the federal bureaucracy, the debate, while animated, was also necessarily quite isolated from the realm of partisan politics.<sup>18</sup>

For the federal government, then, these new locales of technocratic expertise in the Canadian political system provided leadership in the evolving post-Keynesian debate about development strategy, maintaining some momentum and direction in the face of Cabinet and party system drift.

However, there was another dimension to the influence on Canadian public policy exercised by the burgeoning research institute community in the mid 1970s that warrants attention. This relates to the dissemination (through, for example, the Ontario Economic Council (OEC) and the Economic Council of Canada) of the profoundly revisionist view of policy making put forward by economists adopting the public choice perspective on politics and the state. In Canada the pivotal figure in this movement was Douglas Hartle, formerly a senior federal official intimately associated with efforts to rationalize public policy on the basis of systems decisional technology.<sup>19</sup> Hartle had resigned in the mid 1970s from the Treasury Board in protest against what he saw as the irrationalities and inefficiencies of the Trudeau planning system. In 1976, the Ontario Economic Council published his critique, *A Theory of the Expenditure Budgetary Process*. In R. French's words it contained a "full-blown alternative" conception of the policy and planning process.<sup>20</sup> Drawing on the pioneering theoretical work undertaken by American economists from the public choice "Virginia school", Hartle presented an uncompromising critique of postwar Canada's techno-bureaucratic policy formation network.<sup>21</sup>

Recall that this techno-bureaucratic leadership rested on a number of specific assumptions about economic governance rooted in Canada's policy culture and institutional-political practices. Prominent here was the belief that social scientific expertise could progressively overcome 'politics' in guiding the affairs of state, and that economic science with its empirical specification of welfare trade-offs held out the greatest promise for using policy to achieve and maintain socially optimal outcomes. In short, Canada's policy scientists (W. A. Mackintosh was the prototype) "saw clearly, thought rationally, acted disinterestedly and benevolently". Guided by "intelligent goodwill" they expressed the public interest, acquiring in the process a legitimacy and an autonomy in collective goal formation for the political community.

It was these assumptions and the practices built on them that became the object of Hartle's counter attack. The public choice theory of politics proceeded from radically different understandings of public service. Crucial here was the view that bureaucrats and politicians operated within an incentive structure that systematically divided rational self-interest from any known definition of the public interest. And relatedly, this critique emphasized that government decision makers always offered solutions in the context of incomplete information and inadequate knowledge about cause-effect relationships. From these assumptions, public choice theorists saw a policy universe where bureaucrats maximized budgets and politicians pandered to swing voters and special interests. The result was predictable enough: spiralling expenditures and inefficient regulations imposed on society by state officials who not only did not know how to redesign the economy but whose motives were suspect in any case.<sup>22</sup> The public choice perspective thus traced the

origins of the economic dislocations of the 1970s to the cumulative effects of unproductive interventions in the private sector from politicians and bureaucrats. In these terms, it intersected with the existing market-continentalist prescription for Canadian development. Both shared the rejection of discretionary or intrusive government policy. Supporters of both perspectives found national distribution for their new synthesis in the Economic Council of Canada as it carried the battle of policy ideas with the Science Council of Canada into the 1980s.

Supporting the anti-interventionist advocates mobilizing in the latter half of the 1970s was the theoretical critique of Keynesian fiscal reasoning formulated by the monetarists. The monetarist school of macro-economic thought, associated with American economist Milton Friedman, argued that stabilization could only be achieved through strict management of the money supply, restraining government spending and borrowing. Keynesian assumptions and fiscal instruments, the monetarists professed, were invalidated by the stagflation of the 1970s which demonstrated that there was no reliable trade off between price stability and unemployment. Intense inflationary pressures were embedded in the workings of the Keynesian economy because wage earners rationally based their income claims in relation to expectations about the effects of government policy on the economy's direction. As such, Keynesian expansionary measures from government would result in inflation, not increased demand for labour or higher real incomes.<sup>23</sup> In 1975, this critique was taken up by the Bank of Canada, where a restrictive monetary policy was designed to limit fiscal policy expenditures and break the inflationary expectations of private economic actors. In this move, the Bank of Canada's thinking was close to the

analysis and prescription of the above described public choice theory. As we will see later, these policy currents – monetarism, continentalism, and public choice theory – were eventually drawn together in the Canadian political system through the work of the Macdonald Royal Commission.

To conclude this section: the combination of intensified international economic pressure and federal policy failures provided the context for a new form of societal-level initiative in the generation and dissemination of economic ideas. Debates previously confined to federal techno-bureaucratic expert factions and carried out within a statist institutional network now were joined by various socio-political groupings – provincial political elites, national business and labour organizations, and research institutes. In this process the competing post-Keynesian idea systems supplied the common understandings necessary for alliance formation amongst the newly mobilized policy advocates. Hence, core elements of the market-continentalist discourse, elaborated through the BCC, the OEC and other private think tanks such as the Fraser Institute and the C.D. Howe Institute, crystallized the shared interests of the BCNI constituency and province-building politicians. Similarly, the statist-nationalist policy model, its theoretical evolution overseen by experts based at the Science Council and the Canadian Institute for Economic Policy, framed the new interventions from the CLC (and, as described below, from selected nationalist industrial interests within the business community in Canada, concentrated in the energy and technology sectors).

In the second half of the 1970s, then, the Canadian economic policy community and idea network was in flux. Societal actors had entered the fray, rethinking past approaches,



moving to the offensive behind one of the two post-Keynesian national policy models launched through the earlier Gordon and Watkins inquiries. The next section discusses the initial federal political mediation of these unfamiliar mobilizations, as manifest in two key representative contexts – the state-interest group consultations orchestrated by the bureaucracy during the wage and price control period, and party politics in the 1979 and 1980 elections.

## **5.2 Into the 1980s: Bureaucratic Consultation and the Third National Policy**

To what extent were the mobilizations taking shape within the national political system in the late 1970s consolidated through partisan leadership into durable support bases for policy innovation? Answering this question requires consideration of economic ideas and coalition building, first, in relation to the tri-partite consultative arrangements for policy making introduced in 1977, and second, the federal elections of 1979 and 1980.

As described in the previous chapter, federal officials announced in their 1976 statement *The Way Ahead* that the government “sought to consult with the labour and business communities and with the provinces ... both to discuss the mechanisms and the conditions for the exit from wage and price controls and to seek greater agreement on appropriate structures of economic policy”.<sup>24</sup> This document was authored by the deputy ministerial committee moving into the policy authority vacuum resulting from the demise of the PCO planning system. Known originally as “DM-10”, this group was headed by ITC deputy G. Osbaldeston and assumed a leadership role in federal economic policy in

the late 1970s. It directed first the external consultative process and second an internal reorganization of administrative machinery to support "a concertation of industrial policy and a co-ordination of industrial development programs which might open the door to a more focussed federal intervention in structural factors".<sup>25</sup>

In operational terms there were three phases to the exercise: 'Enterprise 77', involving 5000 general interviews with relevant actors; 'Tier 1' task forces, convening participants from 23 sectors; and finally, 'Tier 2' committees, integrating the interviews and task force findings. Each successive stage sought to elaborate a more focused and encompassing policy direction. The Tier 2 synthesis would be channelled into a new inter-departmental bureaucratic structure – a central agency for economic restructuring policy – the Ministry of State for Economic Development (MSED) acting as an official secretariat to a Cabinet committee of Ministers concerned with economic development.<sup>26</sup>

In assessing the impact of these departures from the conventional policy process, it is instructive to recall the assumptions and expectations of the senior officials responsible. The consultative process, in particular, was modestly conceived; and in relation to the larger political questions of coalition formation around the long term policy alternatives it delivered very modest returns. Consultations never took on the characteristics of corporatist negotiation integrating organized interests into long term policy development and implementation. Rather they were conducted at the level of sectors and firms, becoming in the process more a stock-taking of business requests and labour anxieties than any state-level co-ordination of organizational exchange around economic policy goals.<sup>27</sup> At its best, this process greatly improved the state's data base on the structural

characteristics of Canadian industry. More problematical was the related generation of "a wish list from each sector for the support the government might give it to do more and for the ways in which government might reduce the constraints its various policies imposed on the freedom and action of business".

Accordingly, the bureaucratic process of external consultation and internal reorganization of the late 1970s made little progress in arranging societal support for a coherent post-Keynesian policy model. In a few isolated industrial sectors, concrete steps were taken in 1978 under the MSED leadership to coalesce the interests of provincial governments, business, and labour, around industry-wide modernization initiatives.<sup>28</sup> Overall, however, the consultations were conceived as an "incrementalist expedient to maintain a degree of movement in industrial policy".<sup>29</sup> Given the absence of political vision and strategy on economic development from the governing party and unresolved disagreements among the techno-bureaucrats over the state's proper role, they never took on features of a concerted political-administrative response to national economic problems. The architect of these initiatives in the 1975 to 1979 period, G. Osbaldeston underscored their limits:

I don't want to suggest for a moment that the process we now [1978] have in play is suitable for seeking consensus on broad national goals. It is not. It is not intended to. It may shed a little background information for people attacking these problems, and indeed, it may not give rise to an industrial strategy. It may point a direction. It may raise some interesting background material for those who want to tackle those marshy problems.<sup>30</sup>

In the late 1970s and early 1980s, these "marshy problems" of strategic economic policy innovation deliberately set aside in the bureaucratic round of public consultations found some expression in partisan politics, making the 1979 and 1980 elections rather

different from the postwar norm in Canada. In these years all three federal parties looked to make accommodations with the organized interest groups now mobilizing around the two schools of policy thought.

Most obvious here was the programmatic interaction and organizational exchanges between the NDP and the CLC around the labour-focused version of the statist-nationalist agenda. More significant, however, both in terms of its relevance for governance and its departure from past practices, was the apparent polarization between the Conservatives and the Liberals in the face of the unprecedented level of economic policy activism from social groupings. Here the Conservatives were the first to reposition themselves. With the leadership election of Joe Clark in 1976, the party sought to identify itself as the national political voice for the province-building premiers and the continentally-oriented BCNI constituencies. Working jointly with a number of Conservative provincial premiers on policy proposals formalized by the new research institutes, the federal party embraced key elements of the market-continentalist prescription — limitations on federal policy discretion, expenditure restraint and privatization, and increased foreign investment.<sup>31</sup>

At the same time, Liberal politicians sympathetic to statist-nationalist ideas began to pressure the Prime Minister and the Cabinet to distinguish their party from the revamped Conservatives. Here, S. Clarkson has related this Liberal departure in the late 1970s to its interest in a new form of alliance politics incorporating “corporate nationalists” (organizationally distinct from the BCNI), energy consuming provinces (opposed to the notion of province-building), and labour leaders (building on the MSED consultation process).<sup>32</sup> Clarkson wrote that by the decade’s end, “nationalist refrains,

which decade previously had only been sounded by dissident academic choruses, were now being heard from some of the most successful and aggressive business leaders in the country".<sup>33</sup> Specifically, he pointed to sectors and firms connected with the energy industry or with dependence on government procurement. Indeed, the energy sector became an important initial arena for this unusual party division on major questions of development strategy. The Conservatives put together an alternative energy policy to the federal government's interventionism in oil and gas production through the publicly-owned corporation, Petr. Canada. The Conservatives promised to reduce the federal presence in the industry. They proposed a generous fiscal accommodation with provincial interests and less regulation of the foreign corporations dominating the industry.<sup>34</sup>

These divergent policy approaches were first expressed in the 1979 election which gave the Conservatives a parliamentary minority. However, in this election, the parties offered little sustained debate over post-Keynesian alternatives, and a limited form of engagement with the socio-economic actors mobilizing (and dividing) around them. Despite signs in the pre-election period that programmatic coalitions in economic policy were being linked with the shifting patterns of partisan competition, the campaign itself fit well within Canada's brokerage practices. W. Irvine's assessment of that particular electoral process is telling:

The election campaign did little to clarify the issues. The federal stance had not been articulated, and no group of voters were mobilized behind any settlement. ... No party sought any particular mandate, and there was none to be claimed when the election was over.<sup>35</sup>

The NDP with its CLC-industrial strategy thrust, remained, as always, a partial exception to the general pattern. However, it also remained a distant competitor for power, overshadowed on the national stage by the other two parties.<sup>36</sup> The Liberals, for their part, "failed to generate a coherent message that could correct the confused image of the outgoing government ... (the electorate) had been given no clear diagnosis of Canada's problems or blueprint that the Liberals undertook to implement if elected."<sup>37</sup> The campaign was planned entirely around the personality of the Prime Minister who "appeared to have no idea to sell other than leadership as a blank check that he would himself fill in as he wished upon reelection."<sup>38</sup> Meanwhile, the Conservatives chose not to incorporate in any meaningful way their recent flirtation with the market-continentalist ideas and forces in Canadian society. Thus their campaign, while broadly critical of the government's role in the economy, "appeared excessively negative and seemingly unable or unwilling to state with any precision how they would cope with the country's problems".<sup>39</sup>

Given that partisan competition muddled rather than clarified the economic policy choices and the interest alignments associated with them, it is not surprising that the outcome of the 1979 election was ambiguous. This ambiguity expressed itself in the obvious sense that no party was able to win a parliamentary majority. Equally evident was the fact that the new Conservative government could find in its victory neither a policy mandate nor a supportive coalition behind clear goals. The public had been presented with a choice between two leadership personalities and the outcome reflected growing dissatisfaction with Pierre Trudeau. The rapid demise of the Clark government, then, must

be understood against this electoral backdrop. On the heels of its negative campaign, the government's rather bold economic policy initiatives fell flat, unable to rally critical support amongst key actors in the economic policy community or within the electorate at large. Thus, its market-continentalist notions could not be translated into sustainable economic policy departures in the energy sector (for example, revamping inter-governmental pricing arrangements and legislating privatization) or in relation to financial policy (transferring resources from collective consumption to private investment).<sup>40</sup> Six months after the election, the government fell when it lost a confidence vote on its first major initiative – a budget whose austerity thrust required far greater cultivation of political support (inside and outside Parliament) than the Conservative strategists apparently understood.

The Conservative collapse set the stage for a remarkable two year interlude in postwar Canadian economic policy and party politics, reminiscent in many ways of what was earlier analyzed as the “doomed unilateralism” of the 1963-65 economic departures attempted by Finance Minister Walter Gordon. From 1980 to 1982 the Liberals attempted the “most coherent assertion of political belief and principle ... since the early years of the Pearson Government”.<sup>41</sup> In these years, the federal party system became central to the sudden rise and demise of a “Third National Policy”, built around the various components of the statist-nationalist discourse.<sup>42</sup> A number of factors must be considered in understanding how this “coherent assertion” of policy ideas unravelled to become, in the words of later analysts, little more than a “spasmodic outburst” of federal government activism.<sup>43</sup>

To begin, the loss of power in the 1979 election had a number of important effects on the Liberal Party. In the immediate post-election period politicians and party officials began to reflect on the defeat, its causes and its lessons for the party in the 1980s. From this process it became clear that the widespread dissatisfaction with the election campaign was rooted in a deeper concern that the Liberals had very little to say on the major policy questions of the day, particularly in economic areas.<sup>44</sup> The vacuous campaign relying on the leader's 'gunslinger image' was the logical outgrowth of a five year stay in power memorable mostly for its lack of political initiative and coherent economic direction. In the face of profound economic changes – triggering long term policy reevaluation from business and labour groups, and providing the context for new provincial policy strategies – the governing Liberals had not introduced any credible national project to meet the new conditions. Marc Lalonde, the former Cabinet minister, recalled that the Liberals:

had lacked a sense of direction and had tried to accommodate too many contradictory positions. The government had ended up projecting an image of fuzziness and aimlessness. They were determined that if they came back to office, they would make sure that kind of reproach could not be addressed to them.<sup>45</sup>

On the basis of this post-election indictment of the party's fitness to govern it was obvious that much greater attention to policy renewal was required. Here, a stay in opposition might well serve the party's needs. First, a process of policy idea generation could be launched free from the pressures of governing that had long overwhelmed the Liberals' capacity to devise solutions and mobilize support. Second, the defeat had diminished at least momentarily the temptations of personality politics based on Trudeau's charismatic qualities. With his resignation imminent, an opening was available to those



activists arguing for substantive examination of the party's location: its ideological relationship to the new Conservative government, its strategic relationship to shifting business and labour viewpoints, and its progress on the unresolved policy questions that had been so poorly addressed by the Liberals in the 1970s. Furthermore, Trudeau's personal dominance of – and defeat in – the 1979 campaign underscored the need for the party to balance its preoccupation with his language and cultural agenda by sustained consideration of economic problems.

In this context, then, the parliamentary party showed signs of change in the six months after the 1979 election. As Clarkson emphasized, this renewal process was orchestrated 'from above' by party professionals and ex-Cabinet ministers. It never really incorporated any extra-parliamentary forces – either lay members or societal groupings.<sup>46</sup> Despite the participatory limits, progress in terms of economic policy clarification was notable. Beginning with the critical areas of energy and industrial policy, the opposition caucus organized working committees headed by prominent figures from previous governments who now closed ranks around the statist-nationalist discourse of economic development. Such a move it was reasoned not only would distinguish the Liberals from the Conservative government, but allow the party under new leadership to pursue strategic engagement with nationalist economic interests (for example, the so-called corporate nationalists) and provincial elites particularly in central and eastern Canada. This marriage of policy ideas and political strategy had been contemplated in the late 1970s but never seriously pursued by the party.

Of course, in the midst of the Liberal refurbishing the Conservative government fell and another election campaign was suddenly underway. The opposition Liberals may have progressed in overhauling their policy, but they were leaderless. With the frantic return of Pierre Trudeau, the economic ideas from the renewal process were not discarded but rather tacked onto the leader's overriding constitutional agenda. The result was that the Liberals joined the 1980 campaign with priorities in three major public policy fields: energy, industry, and the constitution. In fact, the statist-nationalist discourse now framed an ambitious party policy for economic development and constitutional change. That these were priorities endorsed by activists at the party's summit was indisputable.<sup>47</sup> The muddle, confusion and abdication that characterized the politics of priority formation in the governments of the 1970s was apparently overcome in the brief opposition and pre-election period. What remained was for the Liberals to use the coming campaign to consolidate support for these integrated ideas – in effect, mobilizing democratic consent and societal alliances for policy innovation should power be regained. Would the revitalized Liberals recognize, as Irvine put it, that what “is needed in Canada ... is election campaigns in which parties articulate economic and social strategies and explain to various groups precisely where they fit and how much they can hope to attain in any area” ?<sup>48</sup>

The unusually rich endowment of economic-constitutional ideas notwithstanding, the Liberal campaign itself was not conceived in strategic-policy terms. Instead, it found its basic logic in the thoroughly electoralist arguments of top organizers who suggested that the Conservatives were self-destructing and that the Liberals should facilitate that process.

rather than pursue their own policy project. Thus, the “cardboard campaign” was dominated by Trudeau delivering one scripted speech at every opportunity, a speech devoid of alternatives, but “mocking the obvious ineptitude of the short-lived Clark government”.<sup>49</sup> The party chose neither to participate in formal debates nor to issue policy discussion papers. Only in the dying weeks of the campaign did the pre-election policy rethinking receive any meaningful attention from the leadership.<sup>50</sup>

In other words, the Liberals ran a brilliant brokerage campaign, highlighting the shortcomings of Prime Minister Clark, obscuring public understandings of their own recently made nationalist and interventionist policy commitments in the areas of energy, industry, and the constitution. They neither sought nor cultivated support for a mandate for policy change. In 1980 the Liberals under Pierre Trudeau formed their third majority government. Given the disjuncture between the clearly directed development of policy ideas in the pre-election period and the campaign itself, it was far from clear whether the new government would assert policy priorities. More clear, of course, was the fact that in the event that the governing party moved decisively to embed its pre-election ideas it had “failed to develop an effective strategy for mobilizing elite and mass opinion behind these policies ... (showing) ... neither the taste nor talent for mobilizing popular opinion in support of its policies”.<sup>51</sup>

In fact, the new government went straight to the offensive, launching in its first Throne Speech plans for a national energy program, an agenda for constitutional renewal, and a national economic development policy. Each of these initiatives was packaged as part of a political project to assert a commanding federal presence in major policy fields,

promoting Ottawa's visibility in Canadian society against the aspirations of the province-builders and the Quebec sovereigntists. As close observers of its construction have concluded, this "new national policy" (known as Canada's Third National Policy) was an "**internal strategy**", plotted by selected party and bureaucratic elites (my emphasis); and it remained little more than that until its formal introduction in Parliament.<sup>52</sup> As such, the politics surrounding the design and implementation of the "Third National Policy" never encompassed an external strategy for integrating public and private objectives around announced policy goals. William Coleman and Michael Atkinson have aptly described the political approach to policy innovation followed by the 1980 Liberals:

'the fait accompli takes its place in the arsenal of democratic statecraft.' Launched from the highest political levels, such unilateral strikes destroy civility and invite retaliation. They are the antithesis of consensus building.<sup>53</sup>

The crucial pretext for the Liberal national development strategy of 1980 was not long-range economic restructuring but rather immediate triumph in the increasingly zero-sum conflict within the institutions of federalism for political visibility and policy control. The former goal depended for its success on the capacity of the political system to identify supportive interest coalitions and organize consensual solutions. The latter objective – the conquering of provincialism – was rightly viewed by its Liberal architects as "high risk and conflict-ridden".<sup>54</sup> Secretive in its formulation and confrontational by design, this Liberal project courted the kind of backlash that reduced the likelihood of creating the understandings within the public and between relevant groups necessary for economic policy innovation. Noting that the statist-nationalist ideas were suddenly grafted on "too fragile a political and philosophical base", Bruce Doern concluded that the

“problems of economic development ... require a level of social co-operation and understanding that is not evident in the current Liberal view.”<sup>55</sup>

The fact that the Liberal commitment to the statist-nationalist discourse rested on a unilateral federal visibility campaign (as opposed to a coalitional post-Keynesian economic vision) is important in deciphering the fate of the three pillars of the new national policy. In this context, energy and constitutional reform took precedence over any new industrial strategy. Within six months of taking office the Liberals introduced ambitious legislative commitments in these areas – the National Energy Program, and the Patriation Package. In proceeding with its energy plans and Charter of Rights and Freedoms, the federal government relied on diffuse public support for political nationalism in the 1979\80 period to turn back provincial claims in managing both natural resources and cultural definitions of the political community.

In marked contrast to these bold departures, the Third National Policy economic ideas remained in the shadows despite the appointment of well-known advocate of the statist-nationalist school, Herb Gray, to the Department of Industry, Trade and Commerce. Indeed, he made a series of speeches hinting that the unorthodox policy ideas and instruments generated through the Gordon-Watkins-Gray network were about to find the light of day.<sup>56</sup> Gray offered a comprehensive treatment of these issues in the House of Commons in July 1980. He began by distinguishing the Liberal economic approach from that of the Conservatives:

... unlike the Conservative government which preceded us, this government has adopted an approach to national economic development which is activist. In other words, we are not operating as a passive bystander in the industrial development of Canada but rather as an active player.

... And there was the Conservative intention to cede essential jurisdiction with regard to resources and the economy through which the federal government, and in my view only the federal government, can ensure that Canada works well for all its people.

... there is for the Canadian government an especially formidable responsibility to be an energetic participant in the economy and to vigorously promote and support optimal development and utilization of the country's human, natural and capital resources.<sup>57</sup>

Gray went on to identify the economic development principles that the government was now committed to: "to capitalize on our energy base to build an industrial sector that is competitive world wide; to ensure that the federal government is an active player in industrial development; to strengthen our research and technology capacity; to encourage independent Canadian-owned enterprise; and to expand Canadian control of our economy and at the same time increase the benefits to Canadians from the foreign investment that is already here". He concluded by informing the House that he would be "presenting to cabinet very shortly a proposal for implementing these principles and for giving Canada a far more comprehensive and integrated framework for industrial development policy than we have had in the past".

These views were formalized in a Cabinet memorandum systematizing the statist nationalist critique of postwar Canadian economic policy and justifying its interventionist prescriptions and institutional reforms.<sup>58</sup> Entering the decision making hierarchy at the same time as the energy and constitutional proposals, however, Gray's plan for action was derailed, largely because it was not as immediately relevant to the overriding federal visibility objective of the government. A political strategy based on 'province bashing', as the Liberal government's was, could not initiate, negotiate, nor manage the trade-offs

necessary to implement Gray's version of Canadian economic restructuring. As discussed above, the 1979 party rethinking and the 1980 election victory had done little to create the political conditions necessary to implement this policy model. It required construction of new cross-class and inter-regional understandings – beginning in liberal democratic channels of political representation and dialogue. But within the Liberal elite, the zero-sum logic of the unilateral strike against provincialism continued to bound strategic thinking and therefore viable governing options.

Consequently, the forward momentum of the industrial strategy thrust within the "Third National Policy" was halted, peaking with the statements of intent from the ITC Minister. Yet another round of intensive intra-bureaucratic debate over federal economic strategy was resumed.<sup>59</sup> Here the statist-nationalist formulation, languishing in the absence of any viable political strategy, was quickly challenged by the policy alternative being organized within the MSED bureaucracy. Since the DM-10 committee of 1976, the MSED had been evolving its own post-controls (and post-Keynesian) economic project. Finding their initial inspiration in the policy paralysis and cabinet drift of the mid 1970s, these senior officials shared a scepticism about public planning and a preference for market-led economic change.<sup>60</sup> In July 1980, the MSED had forwarded its own agenda for economic development, an agenda which clashed with Gray's. The statist-nationalist market-continentalist ideological struggle inside the executive and bureaucracy was restarted. According to Doern, the dispute sparked an eighteen month internal debate "around two competing policy documents and sets of policy ideas". Once again, "the Liberal cabinet, at a time of great economic uncertainty and political malaise, did not

want to risk a full and open debate on the future direction of Canada's economic development".<sup>61</sup>

The results of this latest round of internal competition between the schools of thought surfaced in November 1981 when the government produced its *Statement on Economic Development for Canada in the 1980s*.<sup>62</sup> This statement specified the terms of the compromise arrived at with respect to economic development strategy. Basically, it confirmed the marginalization of the Gray initiative while announcing the ascendancy of the MSED discourse. Against the statist-nationalist position the statement made two key points: first, that the goals and instruments recently introduced in the oil and gas sector would not be applied in manufacturing; second, that the activities of FIRA would not be extended, and more generally that investment regulations would be relaxed providing the business community more room to manoeuvre in the Canadian market. Replacing this industrial strategy discourse was a resources-first conception closer to the neo-classical trade theory underpinning the market-continentalist school. Here, the 1981 document reasserted the relevance of this prescription based on an analysis of changes in the international economy which made it desirable that Canadian economic policy makers redouble their efforts to maximize natural resource exploitation. This background analysis had been elaborated in earlier MSED documents suggesting that Canadian policy must respond to two long term international developments – favourable movements in the terms of trade for such commodities since the OPEC price shocks, and the accelerating decline of secondary manufacturing capacity in the industrialized world due to low wage competitors. Accepting these purported global trends, the federal government would



intervene in continental market processes to forge east-west inter-sectoral linkages. Its primary goal would be mobilization of funds for large scale investment in natural resources. Such "mega-projects" could become the engine of growth for domestic manufacturing industries called on to supply inputs for resource exploitation and processing. The federal government could use procurement policy and subcontracting arrangements to consolidate support for this resources-first industrial strategy.

The immediate origins of these ideas can be traced to the public consultations over economic development that followed in the wake of the wage and price controls announcement. As part of their leadership role in this process, MSED officials had overseen a final task force mandating domestic business and labour elites to explore a capital formation strategy privileging natural resources but also promoting Canadian industrial benefits.<sup>64</sup> The mega-project compromise was developed through this process and it emerged from the eighteen month internal debate as the new Liberal government's official economic development strategy in 1981, overtaking the statist-nationalist conception which had been packaged as an integral part of the Liberal's Third National Policy.

Shortly after ratifying this compromise economic strategy, the Liberal government found itself struggling to manage the consequences of its post-1980 activism. Here political and economic factors combined to undermine the government. In economic terms, the plummeting of commodity prices in international markets in 1982 exposed the risks inherent in both the energy policy focus of 1980 and the mega-project compromise. Various high profile investments crucial to both strategies suddenly collapsed. In political

terms, when the predictable opposition to the Liberal activism erupted across a range of sectors and regions in 1981, the costs of the Liberals' restricted policy formulation process and aggressive unilateralism became all too evident. The government was isolated, completely incapable of mobilizing either supportive organized interests or public opinion to withstand the backlash from foreign business, the resource producing provinces, the American government and so forth.<sup>64</sup>

By mid 1982, it was clearly on the defensive on the economic front. Indeed, the retreat from the 1980 program was definitive rather than tactical. With no prospect of generating political support for any version of the statist-nationalist industrial strategy, the Liberal government from 1982 onward offered nothing coherent in the area of economic management or development. Scrambling to make conciliatory statements to business interests, it appeared to give up entirely on the economic policy model it embraced in 1979. At this point, the government:

seems to have run out of ideas ... apparently incapable of devising a development strategy that gave reasonable promise of working, had the necessary political backing, and could be implemented under the existing or slightly modified Constitution.<sup>65</sup>

In the final year of the government's mandate, elements within the bureaucracy gave some attention to the notion of sectoral trade agreements with the United States. In 1983, the Ministry of State for International Trade released a discussion paper that reviewed options for Canadian-American economic relations, including continental free trade. The paper looked unfavourably on free trade and suggested instead the more limited strategy of sectoral integration. In 1984, a tired Liberal government explored in a preliminary way the prospects for limited sectoral integration in four product areas. However, conflicts

persisted between economic Departments such as Regional and Industrial Expansion, External Affairs, and Finance over industrial and trade strategy. In short, there remained insufficient bureaucratic consensus and political direction to carry the sectoral proposal forward. Nothing had come of the initiative when the Liberal government went to the polls in July 1984.<sup>66</sup>

By way of summary, it is fair to say that the 1980 election was a kind of policy mandate election, albeit one fatally compromised by the traditions of Canada's brokerage political system.<sup>67</sup> The party with the best chance of forming the government had taken aboard an integrated set of policy ideas apparently to guide purposeful legislative action. Moreover, within the historically fragmented and complex mosaic of economic interests in Canadian society, conditions in the mid 1970s had triggered a new form of collective action by business and labour that presented strategic opportunities for federal parties to construct interest coalitions supportive of bold solutions. Thus, there were grounds for believing that the 1980 campaign would see forthright partisan mobilization around coherent alternatives. In short, policy could meet politics through the economic ideas contained in the Third National Policy.

But the key vehicle of change – the Liberal party – was evidently thinking along other lines. Recollections from one of the principal architects of the Third National Policy, Thomas Axworthy, are revealing here:

Policies that ignore politics quickly come to grief. Ukases that come down from on high with neither public support nor a plan to garner any are more commonly a **failure of government than an administration with few ideas.** (my emphasis)<sup>68</sup>

In relation to implementing their Third National Policy, the Liberals campaigned in a non-strategic fashion. They cultivated no supportive network of organized interests, and relied almost exclusively on a top down, unilateralist approach to policy formulation and execution. Dropped on the complex political terrain of the Canadian policy system **after the election**, the project was unlikely to survive in recognizable form. As we have seen, its main industrial development thrust was the first casualty. Brodie and Jenson summarized the breakdown and the government's next move:

The Liberals' Third National Policy thus resembled a "shooting star," visible at one moment but gone the next, as the global economy entered the recession of 1981. Not only had the Liberals failed to imprint an overarching national design on the balkanized provincial economies of the country, but they had alienated significant elements of the electorate and the capitalist class in the process. The government had run out of ideas and options to cope with the growing economic crisis. Thus, in the fall of 1982, it appointed Donald Macdonald to head the Royal Commission on the Economic Union and Development Prospects for Canada and charged it to recommend "appropriate national goals and policies for economic development."<sup>9</sup>

The next section focuses on modern Canada's third great Royal Commission on the economy and public policy.

### **5.3 Out of the Impasse: The Royal Commission on the Economic Union and Development Prospects for Canada**

The Macdonald Commission was established in November, 1982. At the time of its appointment, the Liberal government's mounting problems, stemming from the political implosion of the Third National Policy, were compounded by the onset of the worst recession since the 1930s. The policy coherence and political aggressiveness associated with the renewed Liberal Party of 1980 had all but vanished two years later. Could a

package of policy ideas be articulated that would arrest Canada's economic decline and draw the support of organized interests, provinces, and the public? To that urgent political question the Trudeau Liberals in 1982, isolated and exhausted by their spasmodic outburst of policy activism, had very little to offer Canadians. The task of finding a viable solution was transferred, as it had been in earlier moments of crisis in national economic policy making, to a royal commission. In terms of its broad mandate and the expectations from the government surrounding its contribution to the future direction of Canadian public policy, the Macdonald Commission resembled the Rowell-Sirois and Gordon Commissions. Like these commissions, it was appointed in the midst of a protracted economic downturn, when the regular channels of political representation were unable to generate, or build support for, new understandings. During previous periods of economic crisis (the 1930s) and uncertainty (the mid 1950s), royal commissions had provided the Canadian political system with innovative discourses that became the basis for significant and in some instances lasting policy change. The establishment of the Macdonald Commission then must be located within this specific Canadian practice. What the government asked it to do "was nothing short of proposing a new social consensus on economic policy".<sup>70</sup>

The Prime Minister described the terms of reference for the inquiry as "perhaps the most important and far-reaching" in Canada's history.<sup>71</sup> The commission was charged "to inquire into and report upon the long-term economic potential, prospects and challenges facing the Canadian federation and its respective regions, as well as the implications that such prospects and challenges have for Canada's economic and

governmental institutions and for the management of Canada's economic affairs."<sup>72</sup> Overall, the commission was to recommend "the appropriate national goals and policies for economic development." In this way, Canada's search for a new national policy model to organize the activities of the federal government was resumed. The unresolved debate within the techno-bureaucracy between competing schools of thought launched by the Gordon Commission in the 1960s, carried into the 1970s by the Watkins Committee, and fitfully engaged by the parties in the early 1980s, would now be settled in the depoliticized world of the royal commission. Once again, economic policy intellectuals were mandated to interpret the past and settle debates about future economic policy.

In terms of its composition and organization, the Macdonald Commission certainly supported the Prime Minister's lavish claim about its significance. The chairman, Donald Macdonald, was a former Liberal finance minister, widely rumoured to be the next party leader. A high profile politician, Macdonald – like most of his former Liberal Cabinet colleagues – was not identified publicly as a reliable advocate of either of the two schools of thought debated in the techno-bureaucracy across the 1960s and 1970s. Nonetheless, if there were predispositions they seemed to lean in the direction of the statist-nationalist school. Macdonald had been closer to Walter Gordon than Mitchell Sharp in the 1960s, and in the 1970s had supported the thrust of the Gray Report when he stated that foreign investment had "the onus of demonstrating its contributions to our Canadian well-being and to the aspirations of Canadians".<sup>73</sup> Accompanying Macdonald were twelve other commissioners, nine men and three women.<sup>74</sup> As with the Rowell-Sirois and Gordon Commissions, the Macdonald Commission membership provided for regional

representation, but was far from diverse in socio-economic terms. Only two of the thirteen commissioners were drawn from outside the established techno-bureaucratic network of senior academics, former civil servants and governing federal politicians, and business people. The two outsiders were from the labour movement, one from the United Steelworkers of America and one from the New Democratic Party.

The Macdonald Commission had a large budget and a three year timetable to fulfil its "almost boundless mandate".<sup>75</sup> It undertook public hearings, private consultations and initiated an extensive research program to develop the theoretical and empirical basis for an ambitious policy critique and set of recommendations. The consultation process was organized in two rounds, punctuated by the release of an interim report or discussion paper. It was unprecedented in the number of briefs brought before the commissioners, and in the range of actors heard from. The extent and diversity of this participation reflected the widening array of interests now mobilized – alongside the various business, labour and expert communities described in our previous section – to contest official definitions of the national economic policy model.<sup>76</sup> The research program was similarly massive – 300 studies in 19 policy areas, ultimately published in 72 volumes.

The Macdonald Commission produced its interim report, *Challenges and Choices*, in May 1984.<sup>77</sup> In contrast to the Gordon Commission's interim report which foreshadowed the substance of the final product, *Challenges and Choices* offered little indication of the Macdonald Commission's thinking or of the lessons that the commissioners would draw from the hundreds of public submissions. More an attempt to focus the original mandate than a statement of policy direction, the interim report was

widely criticized, crystallizing fears both inside and outside the commission that the inquiry was adrift. However, at the same time that the aimless interim report was released the chairman himself was offering his own reassurances to the public that the commission was neither in disarray nor without its own coherent policy thinking.<sup>78</sup> Months before the commission was scheduled to file its report with the government, Macdonald spoke publicly about his general belief in market-driven policies and his specific support for global trade liberalization and continental free trade. In a speech in November 1984, he urged Canadians to take the "leap of faith" to embrace a long-range policy very different from the Third National Policy, or even the subsequent mega-project compromise. Indeed, it was such notions that organized the critique of Canadian public policy and associated agenda for change contained in the Macdonald Commission's 1985 Report. The analysis and conclusions were presented in three Volumes. Volumes 1 and 2 addressed broad economic questions, focusing on industrial, trade and social policy. Volume 3 shifted attention to the institutional structures of the Canadian constitutional system, specifically parliamentary government, federalism, and the Charter of Rights and Freedoms.

Most strikingly, the economic policy analysis and recommendations contained in the Report suffered from none of the basic inconsistencies which distinguished the Gordon and Watkins offerings. Dissenting opinions were not allowed to diminish the Report's internal coherence and all commissioners signed the final product.<sup>79</sup> Thus, competing conceptions of the relationship between the state and economy or the roots of Canadian discontents were not expressed in different sections of the Report. To the contrary, the Report's opening chapter "Canada: State, Society and Economy", in Volume 1, Part 1



entitled "A New Perspective" presented the core argument in the commissioners' conceptual orientation, showing clearly the logical relationship between the Report's analysis and policy recommendations.

The unifying presupposition was straightforward: Canada's developmental prospects were jeopardized by "big government". The rigid world of politics and the state system was contrasted throughout with the flexible world of economics and market processes. This argument was launched from two relatively recent theoretical traditions within the disciplines of political science and economics. These theories of state-economy relations, forcefully represented in the Report, were the public choice perspective familiar to economists and the "overloaded" or "embedded state" perspective resonant amongst political scientists. Despite their different disciplinary roots, these frameworks converged around the claim that the state, seen by public choice theory as captured by special interests, and by overload theory as imprisoned by the claims of its own client groups, was not only incapable of serving the public interest but the source of Canada's economic problems. The Report elaborated the reasoning behind its market-driven approach:

From these perspectives, it is evident that the socio-political processes behind the network of programs which links citizens and governments tends to generate rigidities which are not easily overcome even when the advantages of new policy direction are clear, and the resultant contribution to the public interest may be self-evident to detached observers. Commissioners believe that these socio-political tendencies – ad hoc policy development, unintended cumulative consequences of multiple separate initiatives over time, and resultant rigidity – characterize many policy areas.<sup>80</sup>

Anchored by this theoretical critique of the economic efficiency and democratic accountability of the modern state, the Report set forth sweeping proposals for Canadian economic policy change. Asserting as the Watkins Committee had done two decades

earlier that Canada's "National Policy of 1879 has played itself out", and citing "the declining effectiveness of short-term macro-economic policy" as the Gordon Commission had done three decades earlier, the Report specified its own new objectives for federal economic policy makers.<sup>81</sup> Rapid adaptation of domestic factors of production (labour, capital, natural resources) to global market forces was the overriding policy goal, argued to unlock the door to output and employment growth. Such flexible adjustment displaced the attention given variously in previous postwar policy inquiries to the national economy's industrial diversification, self-reliance, and regional and social redistribution.

Of course, central to the Macdonald Commission's overall macro-economic interpretation was a rejection of Keynesianism, its demand management policy analysis and associated high employment policy goal. Accepting the basic thrust of the monetarist critique of the Keynesian fiscal approach, the commissioners urged policy makers to focus on preserving Canada's "natural" rate of non-accelerating inflationary rate of unemployment, which they estimated to hover between 6.5% and 8%.<sup>82</sup> Citing "structural and institutional" factors in the Canadian economy that rendered this figure "natural" and therefore not changeable through counter-cyclical instruments, the commissioners argued for the replacement of Keynesian thinking with a "framework policy approach" that helped "the private sector to adapt to change and the efficient allocation of Canada's human, capital and natural resources".<sup>83</sup> The message was clear: governments should not use fiscal policy either to balance the economy in the short run or steer its development in the long run.

In these terms, the Report re-cast the discourse of Canadian industrial and social policy around the adjustment theme. There were two interrelated components to the presentation which, the commission noted, addressed "the very fabric of our nation" encompassing "trade policy, regional policy, education and training, labour-management relations, the regulatory framework, the taxation system, treatment of foreign investment."<sup>84</sup> The centrepiece was a recommendation that the federal government initiate free trade negotiations with the United States. "Free trade" it was stated "is the main instrument in this Commission's approach to industrial policy".<sup>85</sup> The state should aspire to a "neutral" role in economic development, avoiding "targeted" interventions in the process of capital formation either to rationalize declining industries or to steer investment toward high technology (and high risk) sectors or selected locations. Forfeiting leadership in economic development to the global and continental market relations, the Canadian state's long-range economic policy focus would shift to "the operation of labour markets and their institutional characteristics".<sup>86</sup>

This introduced the second core element in the commission's revaluation of public policy, linked with the central proposal for continental free trade. The state still had a positive role in assisting individual Canadians (rather than firms, sectors, or regions) "to adjust to new realities" and "to undertake adaptive behaviour."<sup>87</sup> To this end, public policy would be confined to neutral forms of market-confirming assistance (in particular, incentives to adapt) for workers rendered obsolete by corporate strategies. Thus, the Report recommended replacing existing approaches to income security, shifting resources behind a new conception of social (and regional) policy expressed in creation of a

“Transitional Adjustment Assistance Program”, emphasizing skills upgrading and mobility allowances for displaced workers.<sup>88</sup> It would offer “adjustment assistance for Canadians, provided that they are willing to move or to undertake retraining to improve their employment prospects”. The realignment of federal economic policy goals and instruments envisioned in this free trade\adjustment framework was summarized:

Much of the Commission’s Report ... seeks to ... reassess the relations between state and market, both domestically and internationally. ... The explicit premise behind our free-trade proposals is that the Canadian economy must be made more competitive, and that domestic adjustment-retarding policies must be replaced with adjustment-facilitating strategies. Our basic international stance complements our domestic stance. We must seek an end to those patterns of government involvement in the economy which may generate disincentives, retard flexibility, and work against the desired allocation of resources.<sup>89</sup>

In number of critical areas of public policy, then, the Macdonald Commission blueprint departed from the postwar National Policy federal discourse first packaged by the Rowell-Sirois Commission and later revised through the Gordon and Watkins inquiries. First, it did not share the commitment of its predecessors to the objective of sustaining Ottawa’s economic policy preeminence, even dominance, in relation to the provinces. The economic development strategy that saw the federal government attempt to combine regional and nationalist industrial policy goals was abandoned. Indeed, a case could be made that the discourse of free markets and individual incentives informing the 1985 Report envisioned a relative strengthening of the provincial policy role in development strategy. Of course, the federal government was to oversee the functioning of the economic union and to coordinate the continental trade negotiations. Its legitimacy might even be enhanced through the Macdonald Commission’s call for reform of the Houses of Parliament to facilitate better regional representation, and through formal

recognition of Quebec's distinctiveness within the federation.<sup>90</sup> And, in industrial policy matters, the provincial governments would be as constrained as their federal counterparts since continental integration would limit the procurement policies and subsidies historically central to province building. However, it was provincial governments with important constitutional responsibilities in the adjustment policy as conceived by the Macdonald Commission which would manoeuvre at the market's margin. Any room for discretionary political intervention would likely be occupied by the provinces as they revamped existing strategies in education, retraining, industrial relations, and social services more generally to meet globalization.

Of course, the other part of the commission's unprecedented brief against federal activism arose in relation to the free trade recommendation. The Gordon and Watkins inquiries had divided over the issue of whether the Canadian state system commanded sufficient autonomy in its international setting to permit significant political mediation of global market signals. These inquiries documented structural deficiencies of the national economy in technological capacity, manufacturing exports and so forth, and debated reform alternatives. The Macdonald Commission began from the assumption: "If you cannot change the world, you have to adapt to it."<sup>91</sup> That this adaptation to market forces would eventually render debates within Canada about federal or provincial economic policy leadership essentially beside the point was a conclusion not lost on the commissioners. New demands from business for a "level policy playing field" in a continental economy, they concluded, "would bring Canadian taxation and industrial regulation much closer to the American pattern than they are at present".<sup>92</sup> With free

trade and welfare state reform structuring its generalized call for domestic adjustment to globalization, the Macdonald Commission had formulated a new economic policy model.

How had the commission arrived at this formulation? Obviously, this question cannot be answered in full certainty, but judgements can be made by considering the analytic categories we have used in our previous interpretations of 'commission politics': the consultation process, the research structure, and the predispositions of the commissioners themselves.

The commission launched an elaborate series of consultations which elicited contributions from hundreds of groups in the Canadian policy community. As with earlier major commissions, business interests were the most visible force at this stage of the process. Business briefs greatly outnumbered those from labour and the so-called popular sector – social policy activists, church groups, native groups, radical research professionals and the like – fully engaged for the first time in an official state economic policy inquiry.<sup>93</sup> In the end, it was apparent to all participants that the commission was moving in harmony with the broad orientations of the business community in Canada. This perception (hardened into reality when Chairman Macdonald suddenly announced his support for a free trade proposal in 1984) prompted publication of *The Other Macdonald Report*, formulating an alternative economic strategy on the basis of ideas presented in briefs formally received by the commission but not substantively integrated into the policy formation process. Compounding this concern about exclusion was the fact that no organizational mechanism was in place to provide that any of the massive public input would inform the crucial work of the researchers hired to frame and deepen the

commissioners' thinking about federal policy and institutions.<sup>94</sup>

This formalistic public representation in the commission's deliberations led advocates of the popular sector's "counter-discourse" to dismiss the entire exercise as one convened by the capitalist state to crystallize and legitimate an emerging corporate policy consensus.<sup>95</sup> But such a conclusion requires more nuanced argumentation. In the first place, the mandate given the commission by the government actually underscored the federal state's large and ongoing role in structuring the national economy, reminding commissioners that "Canadian economic policy must be assessed in the context of its relationships to Canadian political and economic independence and to the broader aspirations of Canadians as must be reflected in the responsibilities of governments".<sup>96</sup> Peter Leslie has correctly pointed out that the government appointing the Macdonald Commission was hardly predetermining a market-continentalist outcome.<sup>97</sup> Moreover, as reviews of the briefs have revealed, the multi-national industries – the moving force behind the free trade position – devoted little attention or resources to the commission.<sup>98</sup> Consequently, on vital questions of state-economy relations and industrial policy no single, coherent business position was conveyed to the commissioners. Of course, all business briefs were unified in their general call for governments to facilitate the private accumulation of capital; but on the specifics of federal policy changes the commissioners were substantially on their own with their huge research staff, facing intellectual and interest divisions hardened by more than twenty years of post-Keynesian debate over alternative strategies for national economic renewal. Corporate advocates for each of the two key policy discourses were heard. There was no hegemonic class position to dominate

the commissioners' imagination.

In this sense, explanations for Macdonald Commission's choices and discourse production must grant greater autonomy to the commissioners themselves and to the research structure. As regards the former, the reflections of one of the more prominent members, Clarence Barber, were suggestive of commission reasoning.<sup>100</sup> Barber had long been sceptical of the policy directions peddled by the market-confederalist school of thought. However, by 1982 he revised his opposition to free trade for pragmatic reasons that were broadly endorsed by the great majority of Macdonald Commission members: first, the fear of rising American protectionism, given the business community's undiminished reliance on that market despite a decade of experimentation with other trading options; second, the inter-regional coalition that could form around this economic innovation intersected with the evident desire to contribute something positive to the country's intensified political disunity; and third, the belief that interventionist economic ideas had become a 'spent force' in the Canadian policy context given the popular perception that the Third National Policy and Canada's worst recession since the 1930s existed in some kind of cause and effect relationship.

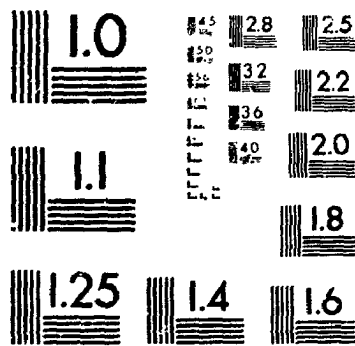
In sum, from the commissioners' perspective, the unravelling of that project from the final Trudeau years provided not only the political rationale for their own appointment but equally the intellectual departure point for their deliberations. As such, it was unlikely also to be their final destination.

Further insight into this decision process can be gathered from considering the organization of the research program. It was built around the disciplines of economics



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political science, and law. Richard Simeon, a participant in the process, has argued that the commission's research strategy significantly influenced the final product. He makes two basic points, the first concerning the recruitment strategy within the pivotal economics profession, and the second concerning the "disciplinary division of labour" which matched expertise with problem areas. Concerning the former, the 'institutional political economy' approach to economic policy crystallized in the Watkins inquiry and refined by the Science Council of Canada amongst others in the 1970s had no audible voice in the Macdonald Commission research. The nearly thirty background volumes compiled by the economists used the market-continentalist trade and industrial policy framework (buttressed by the public choice theory of politics) to critique Canada's socio-economic competitiveness, productivity, and adaptability in light of international imperatives. They argued that successive governments had attempted to defy such constraints by seeking unnatural Canadian comparative advantages in technology and manufacturing. In dismissing this experience, the neo-classical researchers argued that the problem was government involvement in capital formation per se, rather than the particularly ad hoc nature of the Canadian pattern where the brokerage political system failed to resolve internal disputes over policy approaches or mobilize support for any strategic choice. As Simeon observed, this perspective was marginalized:

Historical and institutional economists – who might have focused more on comparative questions or questions about the institutional requirements for innovation and growth – are not in the mainstream. Few of them were recruited. So, in the event, disciplinary norms turned out to have major policy consequences.<sup>100</sup>

The “disciplinary division of labour” noted by Simeon also reinforced the hegemony of the neo-classical practitioners in economic policy. A number of the political science contributions did explore the relationship between the state’s capacity for productive economic intervention and institutional-political arrangements.<sup>101</sup> Indeed, the institutional political economy tradition of policy analysis represented in the Watkins Report had acquired an important disciplinary base in political science by the 1980s. These research efforts departed from the commission’s two dominant political frameworks – the public choice and overloaded government perspectives. They offered an economic policy analysis that suggested institutional-political reforms facilitating design and implementation of a viable interventionist development strategy. These political analyses paralleled the economic argument made by dissenting research economist, Richard Harris, that increased openness heightened rather than reduced the need for small and medium sized states to target specialized high value-added niches in a globalizing economy.<sup>102</sup> However, like the fate suffered by Harris’s dissent, the economically-inclined political scientists failed to influence the Report’s policy critique. The “disciplinary division of labour” meant that political science contributions were confined to sections dealing with federalism and Parliamentary government, dedicated to enhancing the legitimacy of such constitutional structures. Accordingly, their participation in crafting the final product was “driven by political values such as ‘accountability’ rather than by questions about the institutional requirements of the economic agenda ...”<sup>103</sup> The distance between economists and political scientists evident in the research organization and problem definition process, logically enough, was faithfully reproduced in the Report’s abiding concern to isolate

market processes from democratic politics.

There is no gainsaying the fact that the Macdonald Commission's discursive package coincided with the corporate interests represented by the BCNI. However, understanding the logic of this intersection requires analysis of how the range of outside interests and expert ideas were 'processed' inside the commission. Organizational factors specific to the workings of the Macdonald Commission cannot be overlooked. Furthermore, to understand how such commission-generated models actually affect the making of state economic policy in Canada, the dynamic interplay of interests and ideas within the wider political system must once again be considered. The next section explores these processes in the second half of the 1980s.

#### **5.4 Ideas, Politics and Policy in the Mulroney Years**

During the three years that the Macdonald Commission conducted its inquiry there were leadership changes in both the Liberal and Conservative parties as well as a federal election. The demise of the Liberals' Third National Policy set the stage for these events, as it had for the decision to establish the commission in 1982. Trying to distance themselves from the controversial interventionism of the Trudeau years, each party selected leaders known to be business-oriented, sympathetic to foreign economic interests in Canada, and suspicious, if not hostile, to the notion of a state-led development strategy. The 1984 election provided the first opportunity for the Conservatives under Brian Mulroney and the Liberals under John Turner to mobilize support for their vision of the country's future. While the similar positioning of the two main parties limited the

prospects of electoral debate over policy options, it held the promise of at least clarifying the plans of the next government.

There is agreement among scholars of parties and elections in Canada that the "1984 campaign, like the 1980 one before it, had not telegraphed the agenda and policies of the government".<sup>104</sup> Turner and Mulroney exchanged barbs over symbolic issues such as the nature of patronage appointments, effectively submerging substantive discussion of the altered views of state-economy relations that had figured prominently in their recently successful campaigns for party leadership. Clearly besting Turner in these skirmishes and reaping the benefits from an unspecified but potent "Time for Change" theme, Mulroney led the Conservatives to the greatest parliamentary majority in Canadian history. Presumably the federal government was about to shift its policy orientation in line with the market-continentalist discourse. But in specific terms the only clear policy message from the new Prime Minister was that any such shift would not entail implementation of either of the central economic proposals being formulated in the Macdonald Commission: overhauling the welfare system and creating a free trade arrangement. Canada's social policies were described by the Conservatives as a "sacred trust". Continental free trade, Mulroney reminded his supporters in 1983, "affects Canadian sovereignty and we will have none of it, not during leadership campaigns or at any time".<sup>105</sup> True to his word, the electorate heard nothing from the Conservatives – or any of the parties – on the subjects of free trade or welfare state reform in the 1984 campaign. Conservative platitudes of "economic renewal" and "national reconciliation" were not located within any strategic framework.

Far from articulating an agenda for change, then, Mulroney elevated brokerage practices to new heights.<sup>106</sup> He reminded voters of his professional background as a mediator, championing the Conservatives as the conciliator of all interests, the party not of policy innovation but of national reconciliation. As G. Perlin concluded the election victory had:

contributed no sense of vision and found no dramatic policy initiative around which to mobilize national commitment. There was no common goal (the party) could use to build support across the diverse range of specific interests embraced by its broad social base.<sup>107</sup>

Given the nature of its overwhelming victory – rich in elected members but poor in policy ideas and governing strategy – it was understandable that the new government immediately groped for direction. In this vacuum, Donald Macdonald made his unexpected personal declaration of support for Canadian-American free trade as the centrepiece of a new national policy model, months before the completion of the commission. Just weeks after their election, the Conservatives were challenged by the commission chairman to take the “leap of faith” necessary to initiate formal negotiations with the Americans. The federal government, however, was not yet ready to move. In his November 1984 economic statement, Finance Minister Wilson made no mention of free trade.<sup>108</sup> Moreover, Conservative Industry and Energy Ministers were ‘undoing’ the Foreign Investment Review Agency and the National Energy Program in the early months of power. As Bruce Doern and Brian Tomlin have pointed out, any government intending to pursue free trade with the United States presumably would have used the prospect of such reforms as bargaining chips in the negotiations since they were statist-nationalist legacies of particular concern to American business.<sup>109</sup> Throughout 1984 and early 1985,

then, neither the International Trade Minister, James Kelleher, nor the Prime Minister had suggested that free trade would be part of the government's economic renewal strategy.

By the summer of 1985, the Conservatives were coming under increasing criticism for their failure to articulate an economic policy direction. Janine Brodie summarized:

The Conservatives soon found themselves in a crisis of confidence which threatened their reelection. In effect their ability to manoeuvre had been constrained by their electoral expediency. The release of the Macdonald Commission in 1985 ... provided the bridge over the impasse.<sup>110</sup>

At this juncture, the Macdonald Commission's work was coming to a close and its policy director, Alan Nymark, began to brief the Finance Department and the Privy Council Office on its conclusions. Prime Minister Mulroney was informed of the key findings and recommendations and was reported to be "impressed by the Commission's work and its line of argument".<sup>111</sup>

On September 5 1984, the three volume Macdonald Commission Report was presented to the public. Within days, Prime Minister Mulroney announced in the House of Commons that his government would invite the Americans to enter into a comprehensive free trade arrangement with Canada that would seek to eliminate tariff and non-tariff barriers. Doern and Tomlin have described the scene: "The volumes of the report arranged on his desk, Mulroney spread his hands over them and told officials present in his office that summer day that he would use the report to beat John Turner in the next election".<sup>112</sup> The Prime Minister's conversion to free trade was reached without input from the Conservative caucus or party, or even much guidance from the Cabinet. The new economic strategy had been delivered to the government from the techno-bureaucratic idea network. A newspaper editorial described the general setting:

Ironically, the commission may also prove to be a godsend for the Progressive Conservative government in Ottawa, which seems to have run out of ideas as to where to take the country. While in opposition, the Tories loudly denounced the establishment of the commission and the appointment of its head, former Liberal minister Donald Macdonald. Now they may have to turn to it for an agenda. That would be easy because it is not incompatible with their own, market-driven approach to government.<sup>113</sup>

For the new Conservative government, the Report elaborated a comprehensive agenda for action. While it presented the market-continentalist economic ideas specifically the free trade centrepiece – as demanding a “leap of faith” from politicians and the public, the Report actually outlined both a political rationale and bureaucratic strategy for implementation that defended the feasibility of the innovation.<sup>114</sup> The political rationale underscored how the free trade initiative could consolidate a new coalition of interests within Canadian federalism and society that spoke directly to the regional and class profile of the Mulroney Conservatives’ electoral base. In these terms, the Macdonald Commission emphasized how their consultations had revealed support from nine of the ten provincial governments, especially in the West but also Quebec and the East. This unique level of inter-provincial support, then, could be linked by politicians to the equally unusual inter-regional support from the business community in Canada around free trade.

Similarly, with the bureaucratic strategy to address the mechanics of implementing free trade, the Report offered a detailed outline of the administrative steps facilitating the movement from proposed idea to a new international economic regime. Here the Report drew on its research staff to shed light on the various stages in the process: the creation of the office of the special trade negotiator who would report directly to the Prime



Minister, the requirements for a legally-enforceable dispute-settlement mechanism, and the workings of the "fast track" treaty ratification procedure in the American political system. One of the commissioners later concluded that this "thorough research undoubtedly helped give the Canadian government the confidence it needed to initiate the negotiations and carry them to a successful conclusion".<sup>115</sup>

The shift to free trade in 1985 constituted an about-face for the Prime Minister and an important turning-point for his new government. The Cabinet suddenly discovered what the party leadership campaign and the general election had not generated: a unifying project to focus the government for the duration of its electoral mandate. Following the Macdonald Commission's recommendation, a new Trade Negotiation Office (TNO) was created separate from the existing departmental structure, ensuring that the negotiations would not be hobbled by any lingering bureaucratic conflicts over trade and industrial policy.<sup>116</sup> Simon Reisman, a veteran techno-bureaucrat whose career dated back to the Gordon Commission when he co-authored an influential monograph on Canadian-American economic relations, was appointed head of the TNO and Canada's chief negotiator. With this bureaucratic structure in place, the Mulroney government spent the rest of its term waiting to reap the electoral benefits from the unexpected decision to pursue the Canada-United States free trade deal.

The Macdonald Commission was the decisive policy event of the 1980s. Described as using "its unrestricted mandate to formulate a more detailed and sweeping blueprint for change than any royal commission in modern times", the commission constructed a new economic policy model from the ashes of the "Third National Policy".<sup>117</sup> The

commission found itself the arbiter in Canada's thirty year intellectual-political search for a new discourse of economic development. It articulated a conceptually integrated and politically attractive rationale for burying the statist-nationalist discourse that had waged war inside the state with market-continentalist thought. In so doing, it effectively set the terms for national political debate about the economic future, first by offering the new majority government a viable strategic policy framework when it had none; and second, by drawing attention to (although not giving voice to) the new coalition of popular forces contesting the market-continentalist conceptualization with their own "counter-discourse of political economy".<sup>118</sup> The Macdonald Commission had generated an idea system that defined the official policy agenda and shaped new political alignments in relation to it, thereby playing a central role in redefining the relationship between state, society and economy in Canada.

Of course, the impact of the Macdonald Commission's free trade recommendation on Canadian politics was most visible in the 1988 election, retrospectively labelled the 'Free Trade Election'. Conforming to the Canadian tradition rendering electoral politics peripheral to innovation, the Conservatives intended to sign the trade deal before calling the election.<sup>119</sup> That familiar way of proceeding (policy projects generated by the technocrats, ratified by the politicians, and implemented by the bureaucracy) was derailed in 1988 when John Turner instructed the Liberal opposition in the Senate to block passage of the legislation. Cornered in this way by parliamentary manoeuvring, the Conservatives backed into an election, still hoping to avoid debate with the other parties on the centrepiece of its new-found economic development strategy. Their campaign plan was

reminiscent in many ways of the vague "Time for Change" slogan that organized the successful 1984 effort. For 1988, the theme would be "Managing Change", an equally unhelpful catch-phrase providing no guidance on the free trade decision, or any other adjustment policy proposals for that matter.

But the Conservatives were not alone in opting for silence on fundamental problems and controversial choices. Joining the brokerage game, the NDP chose in this election not to represent the interests of its traditional labour constituency, nor of the popular coalition of oppositional groups galvanized through the Macdonald Commission.<sup>120</sup> Instead, the NDP, relying on polling data showing its leader's popularity and its image problem in economic management, launched their campaign in the so-called Free Trade Election with no mention of the issue. Thus with the two parties logically at the center of the political debate over the new economic policy model both mute (the Conservatives since they sponsored the proposal, and the NDP since it had been the only party to oppose consistently the entire market-continentalist discourse), any campaign attention would have to be generated by the Liberals. This prospect was dubious on a number of grounds: the thrust of Turner's leadership had been to draw the party closer to the position set forth in the Macdonald Commission; the caucus was divided on many of the core questions of state-economy relations addressed by the commission; with its long tradition of success in brokerage campaigning the party was not disposed in any case to announce a coherent policy alternative; and unlike the NDP's unqualified rejection of free trade, the Liberals were united only in their opposition to the specific deal negotiated by the Mulroney Conservatives. As events unfolded, the Liberals did manage to find their critical voice.

At the midway point in the campaign, following a pointed exchange between Turner and Mulroney in a televised debate, the Liberals fastened on to free trade opposition in the context of cultural nationalism to draw out the other two parties.

Yet this irresponsible party behaviour, in an election where public expectations ran high for partisan direction on the agenda framed by the Macdonald Commission, meant that leadership roles in the public debate were assumed by societal economic groups both those who had first entered the policy debates through the Macdonald Commission and those who had surfaced in the mid 1970s in response to the federal policy breakdown.<sup>121</sup> Thus, while the NDP remained on the ideological sidelines for most of the campaign, organized labour and the popular sector worked with the Pro-Canada Network to advance their alternative vision. Similarly, the business community in Canada used its considerable resources to lead the public offensive behind the government's agenda. Even ex-commissioner Donald Macdonald entered the fray as co-chair, along with former Premier of Alberta Peter Lougheed, of a pro-free trade coalition. That the politicians and parties had been substantively irrelevant in the formulation of the new official policy model was clear. Now they were effectively opting out of the democratic exercise designed to confirm its political viability.

In November 1988, the Conservatives' second consecutive majority victory removed any remaining obstacles to Canadian confirmation of the free trade agreement. Since 1985 the federal government has followed the Macdonald Commission trade and industrial policy agenda. In 1989, the government extended its borrowing to encompass the labour and social policy dimensions of the commission's discourse. A federal advisory

committee, headed by businessman Jean de Grandpré, was appointed to recommend a specific course of action in labour force development policy within the Macdonald adjustment framework. The committee's 1990 report, *Adjusting to Win*, endorsed the commission's call for dedicating new funds to a program of "active" adjustment assistance that would shift the policy emphasis away from the "passive" unemployment insurance program.<sup>122</sup> In response to the de Grandpré report, the federal government directed a bipartite institution, the Canadian Labour Market and Productivity Center, to provide leadership in putting the new adjustment strategy in place. The argument for greater attention to active labour market measures – formally introduced in the Macdonald Commission's adjustment and mobility discourse – implemented through institutions at arms length from government gathered support from business, labour, and the provinces. In Ontario, for example, this vision was taken up and refined through the Premier's Council on Economic Renewal in the late 1980s. It became the basis for a new training and adjustment board led by business and labour, with representation from other societal groups.<sup>123</sup>

However, the nature of the policy consensus emerging in relation to the adjustment agenda should not be overstated. Beyond acknowledgement of the need for Canada to devote resources to skills upgrading, there remain important disputes about the financing and design of such labour market programs. In fact, the federal government has brought these divisions to the forefront by choosing to cut its contributions to unemployment insurance and then to divert part of the diminished fund to adjustment and training of displaced workers. In this decision, the government departed from the recommendations

made by the Macdonald Commission and de Grandpré committee for incremental increases in overall labour adjustment funding.<sup>124</sup> At the same time, the labour movement's proposal for using the taxation system to force firms to contribute to sectoral training funds has apparently been rejected. Since 1988 the federal government has shifted its social policy thrust from stabilization and the social safety net to the "new reality" of incentives to force adjustment to globalization scripted by the Macdonald Commission. Yet, the federal government's funding cutbacks in the face of intensified adjustment pressures resulting from free trade restructuring has compromised any notion of a comprehensive skills-based adjustment approach envisioned in the commission's Transitional Adjustment Assistance Program. With national unemployment levels in the Mulroney government's second term in office approaching levels not seen since the Great Depression, the Prime Minister rushed to extend the Macdonald trade and industrial policy agenda through the North American Free Trade Agreement while adopting half measures in labour market policy that left workers to bear the burdens of economic restructuring.

## Conclusion

This chapter completes our historical study of the role of economic ideas in the Canadian political system. In this final period, the idea network expanded to include a range of new actors, most prominently, representatives from interest groups and the provinces. However, the essential continuity with established postwar policy practices was revealed when the Macdonald Commission became the switchpoint mechanism in Canada's search for a new national economic framework. Like earlier era-defining state inquiries, the Macdonald Commission intervened as partisan channels of political representation and policy decision making were unable to devise or sustain solutions to protracted economic problems. Since 1985, the market-continentalist agenda has been translated into a new national policy model. This chapter has revealed the commission's role to have been decisive in the innovation process. It packaged economic ideas into an action framework that enabled a divided federal state and rudderless governing party to coalesce around a long term policy project.

## Notes

1. See Coleman and Atkinson, The State and Business Interests, pp. 15-23. Also see, Brodie and Jenson, Crisis, Challenge and Change, pp. 293-297.
2. Brodie and Jenson, Crisis, Challenge and Change, p. 313.
3. See W. Coleman, The Independence Movement in Quebec, (Toronto: U. of T. Press, 1984), especially Chapter 4.
4. See J. Richards and L. Pratt, Prairie Capitalism (Toronto: McClelland and Stewart, 1979).
5. M. Atkinson, "On the prospects for industrial policy in Canada," Canadian Public Administration (Fall 1984), p. 460.
6. P. Leslie, Federal State, National Economy (Toronto: U. of T. Press, 1987), p. 171.
7. D. Langille, From Consultation to Corporatism (Master's Thesis, Carleton University, 1982), p. 111.
8. *Ibid.*, pgs. 111, 112, pp. 123-124.
9. *Ibid.*, p. 123.
10. Coleman, The Independence Movement, p. 6.
11. *Ibid.*, p. 86.
12. Langille, "From Consultation to Corporatism," pgs. 120, 127.
13. See, L. Panitch, "Corporatism in Canada," pp. 62-69; R. Mahon, "Canadian Labour in the Battle of the Eighties," Studies in Political Economy, 11 (Summer 1983), p. 156; Mahon, The Politics of Industrial Restructuring, especially Chapter 4; C. Lipton, The Trade Union Movement of Canada, 1927-1959 (Toronto: NC Press, 1967), pp. 339-349.
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15. Mahon, "Canadian Labour in the Battle of the Eighties," p. 168.
16. Economic Council of Canada, Looking Outward: A New Trade Strategy for Canada, (Ottawa: Information Canada, 1975).
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24. Stewart, "Global Transformation and Economic Policy," pp. 117-18.
25. J. Bell, "Canadian Industrial Policy in a Changing World," p. 102.
26. French, How Ottawa Decides, pp. 120-131.
27. Bell, "Canadian Industrial Policy in a Changing World," p. 102. Bell observed: "Mobilizing a national will and effort for industrial objectives would have to proceed any dramatic advance, however, and that national will simply was not strong enough or stimulated sufficiently for that kind of advance to occur."
28. See M. Jenkin, The Challenge of Diversity, (Ottawa: Science Council of Canada, 1983).
29. French, How Ottawa Decides, p. 129.
30. *Ibid.*, pg. 130.
31. Meisel, "The Larger Context: The Period Preceding the 1979 Election," in H. Penniman, ed., Canada at the Polls, 1979 and 1980 (Washington: AEI, 1981), pp. 50-51.
32. Clarkson, Canada and the Reagan Challenge, p. 19.
33. *Ibid.*, p. 18.
34. J. Laxer, Canada's Economic Strategy (Toronto: McClelland and Stewart, 1981), pp. 147-202.
35. W. Irvine, "The Canadian Voter," in H. Penniman, ed., Canada at the Polls, 1979 and 1980, p. 84.
36. For an interpretation of the NDP's ongoing difficulties in federal politics see, N. Bradford and J. Jenson, "Facing Economic Restructuring and Constitutional Renewal: Social Democracy Adrift in Canada," in F. Fox Piven, ed., Labor Parties in Postindustrial Societies (London: Polity Press, 1991).
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38. *Ibid.*, p. 185.
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41. B. Doern, "Liberal Priorities 1982: The Limits of Scheming Virtuously" in B. Doern, ed., How Ottawa Spends Your Tax Dollars: National Policy and Economic Development, 1982 (Toronto: Lorimer), p. 1.
42. Smiley, The Federal Condition in Canada, Chapter 8.
43. Coleman and Atkinson, The State and Business Interests, p. 187.
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48. Irvine, "The Canadian Voter," p. 70.
49. Brodie and Jenson, Crisis, Challenge and Change, p. 315.
50. W. Irvine "Epilogue: The 1980 Election," in H. Penniman, Canada at the Polls, 1979 and 1980, p. 363.
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60. S. Borins, "Ottawa's Expenditure Envelopes: Workable Rationality at Last," in Doern, ed., How Ottawa Spends, 1983, pp. 66-69.
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62. Government of Canada, Statement on Economic Development for Canada in the 1980s (Ottawa: November 1981)
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67. Clarke et al., Absent Mandate, *passim*.
68. Axworthy, "Strategic Prime Ministership," p. 490.
69. Brodie and Jenson, Crisis, Challenge and Change, p. 318.
70. D. Drache and D. Cameron, eds., The Other Macdonald Report: The Consensus on Canada's Future that the Macdonald Commission Left Out (Toronto: Lorimer, 1985), pg. ix.
71. P. Trudeau in R. Watts "The Macdonald Commission and Canadian federalism" in M. Burgess, ed., Canadian Federalism: Past, Present and Future (Leicester: Leicester U. Press, 1990), p. 156.
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74. In addition to Donald Macdonald, the commissioners: Clarence Barber, economist; Albert Breton, economist; Jean Casselman-Wadds, former parliamentarian and diplomat; William Hamilton, former parliamentarian and business person; Angela Cantwell Peters, business person; Laurent Picard, former Canadian Broadcasting Corporation President; Michel Robert, constitutional lawyer; Thomas Shoyama, former deputy minister of finance and energy, mines and resources; Daryl Seaman, business person; Catherine Wallace, educator; John Messer, former parliamentarian; Gerard Docquier, trade union vice-president.
75. Macdonald Report, Vol. 1, p. 5.
76. H. Thorburn, Interest Groups in the Canadian Federal System (Toronto: U. of T. Press, 1985).
77. Royal Commission on the Economic Union and Development Prospects for Canada, A Commission on Canada's Future: Challenges and Choices (Ottawa: 1984).
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79. Dissenting commentaries were presented at the end of the three volumes as "Supplementary Statements". See Macdonald Report, Vol. 3, pp. 483-555.
80. Macdonald Report, Vol. 1, p. 57.
81. *Ibid.*, pgs. 63, 53.
82. *Ibid.*, p. 269
83. Macdonald Report, Vol. 2, pp. 383-384.
84. Macdonald Report, Vol. 1, p. 53.
85. *Ibid.*, p. 54.
86. *Ibid.*, p. 54.
87. *Ibid.*, p. 54.
88. *Ibid.*, Vol. 1, p. 54 and Vol. 2, Part V.
89. *Ibid.*, Vol. 1, p. 50.
90. The Macdonald Report's relationship to the 1987 Meech Lake constitutional amendment proposal is explored in Watts, "The Macdonald Commission".
91. This is Richard Simeon's phrase. See R. Simeon, "Inside the Macdonald Commission," Studies in Political Economy, (Spring 1987), p. 174.
92. Macdonald Report, Vol. 1, pp. 357-367.
93. See Thorburn, Interest Groups in the Canadian Federal System, Chapter 5, pp. 87-114.
94. David Yudelman, "The Practice of Consensus" Policy Options (October 1985), pp. 6-7.
95. Drache and Cameron, The Other Macdonald Report, p. ix.
96. Macdonald Report, Vol. 3, Appendix.
97. Leslie goes so far as to argue that the Macdonald Commission "inverted the suppositions that seemed to have informed its mandate ... (putting forward) the most comprehensive condemnation of the very idea of a national policy ever contained in Canadian public document." See Leslie, Federal State, National Economy, p. 23.
98. Thorburn, Interest Groups in the Canadian Federal System, Chapter 5, pp. 87-114.
99. Clarence Barber, "Research aided foreign trade pact proposals," The Financial Post, December 14, 1989.
100. Simeon, "Inside the Macdonald Commission," p. 171.

101. See selections in K. Banting, ed., State and Society: Canada in Comparative Perspective (Toronto: U. of T. Press, 1985), and in B. Doern, ed., The Politics of Economic Policy (Toronto: U. of T. Press, 1985).
102. R. Harris, Trade, Industrial Policy and International Competition, (Toronto: U. of T. Press, 1985).
103. Simeon, "Inside the Macdonald Commission," p. 172.
104. Brodie and Jenson, Crisis, Challenge and Change, p. 320.
105. *Ibid.*, p. 324.
106. For an unsympathetic review of Mulroney's approach to governance, see Colin Campbell, "Mulroney's Broker Politics: The Ultimate in Politicized Incompetence." in A. Gollner and D. Salce, eds., Canada Under Mulroney, pp. 309-334.
107. G. Perlin, "Opportunity Regained: The Tory Victory in 1984" in H. Penniman, ed., Canada at the Polls, 1984: A Study of the Federal General Election (Durham: Duke University Press, 1988) p. 93. For an analysis of the 1984 election, see also A. Frizzell and A. Westell, The Canadian General Election of 1984: Politicians, Parties, Press and Polls (Ottawa: Carleton U. Press, 1985).
108. Government of Canada, A New Direction for Canada (Ottawa: Department of Finance, 1984).
109. B. Doern and B. Tomlin, Faith and Fear (Toronto: Stoddart, 1991), p. 31.
110. J. Brodie, "The Free Trade Election," Studies in Political Economy (1989), p. 178.
111. Doern and Tomlin, Faith and Fear, p. 275.
112. *Ibid.*, p. 291.
113. "Macdonald's challenging ideas," in Toronto Star, September 6, 1985.
114. Macdonald Report, Vol. 1, Part II
115. C. Barber, "Research aided foreign trade pact," p. 12.
116. D. Leyton-Brown, "The Canada-U.S. Free Trade Agreement," pp. 108-109.
117. Bob Hepburn, "Canada gets blueprint for future," Toronto Star, September 6 1985.
118. Drache and Cameron, The Other Macdonald Report, p. ix.
119. Clarke, et al., Absent Mandate, p. 7. For an account of the 1988 election see, A. Frizzell, J. Pammett, and A. Westell, eds., The Canadian General Election of 1988.
120. Bradford and Jenson, Facing Economic Restructuring and Constitutional Renewal, pp. 206-211.
121. H. Clarke, et al., Absent Mandate, Chapter 1.
122. Report of the Advisory Council on Adjustment (Ottawa: Minister of Supply and Services, 1989).

123. Premier's Council on Economic Renewal, People and Skills in the New Global Economy (Toronto: Queen's Printer, 1990). See also, Skills to Meet the Challenge: A Training Partnership for Ontario (Government of Ontario, 1991).
124. For an overview of labour market policy in the post-Macdonald Commission era see, R. Mahon, "Adjusting to Win: The New Tory Training Initiative," in K. Graham, ed., How Ottawa Spends 1990-91 (Ottawa: Carleton University Press, 1990).

## CONCLUSION

### **Economic Ideas and Policy Innovation in the Canadian Political System**

This study began by taking issue with various traditions of political analysis that downplay or disregard the creative role played by ideas in political life and public policy. We proposed that the influence of economic ideas – defined as policy models that explain problems and prescribe solutions – can be analyzed at three inter-related levels. At the societal level, such ideas help individuals and organizations interpret their interests and define friends and enemies. At the political level, they supply the terms for policy entrepreneurs to forge coalitions of economic groups and secure popular support behind projects. Finally, at the administrative level, models provide technical guidance to state managers in devising and deploying policy instruments to meet objectives. This study has tracked the progress of economic ideas – from generation and dissemination to implementation – in Canada across these three dimensions of influence.

To carry out the empirical-historical analysis, the concepts of the national policy model and the idea network were used to develop an institutional-interpretive understanding of strategic choice and historical change. Here, the proposition was advanced that the power of economic ideas is mediated in political systems by institutional relationships and organizational factors. We suggested that national policy models are formulated in idea networks whose relevant actors, learning dynamics, and

innovative capacities reflect historically-evolved patterns of state-society relations. Therefore cross-national study of political systems and their representational arrangements was likely to reveal substantial variation in the idea networks producing national policy models.

The four previous chapters have described the course of the postwar Canadian national economic policy model. This model was launched in the last half of the 1940s, when a market-oriented variant of Keynesianism took hold in Ottawa, viewing the state as the “balance wheel” for private production and consumption. The federal government’s role in the economy was an indirect one, relying primarily on “automatic stabilizers” such as unemployment insurance and tax revisions to manipulate aggregate demand and sustain high employment. In addition, the model offered support for international liberalization and incorporated attention to issues of regional fiscal equity to provide national standards in social services.

In the 1960s and 1970s, this model was expanded and revised to include questions about the structure of the economy – who produces what and where. Here issues of foreign ownership, regional capital formation, industrial development, and technological upgrading became the subject of attention within the federal bureaucracy. In the 1980s, Canada’s postwar national policy model was rethought along two key dimensions: first, the multilateral international trade and national industrial strategy axis was displaced by a bilateral focus linked to a new adjustment policy approach that concentrated on labour mobility as opposed to regional or national industrial development. Second, the postwar understanding of high employment levels was formally redefined and adjusted downward



through the concept of the “non-accelerating inflationary rate of unemployment”. Each of these shifts, put in place during the second half of the 1980s, mapped the outlines of a new national policy model that substantially reduced the role of the federal government in the economy.

Our comparative survey and Canadian case study demonstrated that similar internationally-current policy models acquire political support and exert policy influence through different networks. Two broad patterns of economic policy innovation were highlighted: first, a socio-political route to change, institutionally mediated by the political strategies of parties and interest groups and driven by broad-based coalitions mobilized to support major policy shifts; second, a techno-bureaucratic route to change, institutionally mediated by the doctrinal debates of a community of non-partisan policy intellectuals and driven by ad hoc alliances made in the corridors of power between expert advisors and individual ministers gradually shifting the premises underlying policy.

Of course, the problem of which logic of policy innovation and which institutional arrangements prevail is an historical one. Here, the concepts of policy model and idea network captured significant national differences in political actors and institutional locales critical to learning processes. This line of argument speaks directly to problems in recent neo-institutionalist attempts to introduce ideas into theoretical models of policy innovation. On the one hand, a decidedly state-centered approach has been developed by followers of Hugh Hecló’s original formulation of the social learning argument. These writers attach special significance in determining outcomes to civil servant and expert interpretations of past policies and existing administrative capacities. In countries where

state structures facilitate engagement with policy intellectuals, innovative capacity is likely to be high. As Skocpol put it:

As for who, exactly, is more likely to act in such circumstances, it seems that organizationally coherent collectivities of state officials, especially collectivities of career officials relatively insulated from ties to currently dominant socioeconomic interests, are likely to launch distinctive new state strategies in times of crisis. Likewise, collectivities of officials may elaborate already established public policies in distinctive ways, acting relatively continuously over long stretches of time.<sup>1</sup>

On the other hand, these same questions have been tackled from a society-centered perspective. Taking its cue from Samuel Beer's influential interpretation of political development stressing the modernizing role of ideological parties, this view assigns causal primacy to politicians. Innovation flows from the vision of party leaders who create or package new policy ideas, merging them with established party doctrine to engineer political realignments. In his comparative study of economic policy innovations, Peter Gourevitch elaborated:

In exploring the politics of choosing an economic policy to respond to international economic crisis, I have put particular emphasis on the political problem of mobilizing support. Politicians sitting at the center of state decision making must find support for policies from a number of actors who have varying modes of resistance or assistance at their disposal.

... Politicians have goals and look for policies that suit them; societal actors have goals and look for the politics that suit them. Stitching these elements together is the task of politics, the creative construction of choices of value and the authority to realize these choices ...<sup>2</sup>

This debate is off the mark because there is no single or stable division of labour between individuals and organizations mobilized to define alternatives and shift the orientations of policy makers. Imposing a statist analytical grid over the Swedish, British or American experience seriously underplays the importance of politicians, political

parties and interest groups in driving the movement from one line of policy to another. Far from simply ratifying choices based on expert findings, these political actors have been integral to the generation of new ideas and the consolidation of new policies. By the same token, the Canadian case reveals the limits of the society-centered model. There techno-bureaucratic policy intellectuals have been prime agents of change. Accounts of the interwar crisis, wartime settlement, and postwar reassessments which disregard the commission process – its mediation of competing societal claims and its doctrinal breakthroughs – in favour of a focus on conventional channels of political representation miss central elements in the specifically Canadian pattern of innovation. Royal Commission politics and their relationship to intra-bureaucratic forms of policy entrepreneurship have been critical to Canadian transformations.

This study has investigated economic thought and political strategy in moments of crisis in Canada to explicate processes of policy innovation. It addressed two key questions about strategic policy choice and historical change: who generates policy ideas and translates them into governing practices, and why have some models moved from conception to implementation while others have been more limited in their progress? The latter concern raises the issue of the congruence or lack thereof between particular economic ideas and the Canadian political system.<sup>3</sup>

In Canada, we found that techno-bureaucrats have been critical agents of change. Unlike patterns in many other countries, in times of crisis politicians and parties remained on the sidelines as policy takers. The search for new models was not propelled by direct bargaining among representatives of societal interests nor by mandate elections framed

by parties seeking consent and support for their projects. In all of this, historical and organizational factors shaping representational practices in the Canadian political system loomed large: brokerage politics and a fragmented interest group system left parties and politicians unable or unwilling to provide leadership in long term economic policy debate.

Crystallized in the 1930s and 1940s watershed, the Canadian political system's reliance on techno-bureaucratic policy leadership persisted across the postwar period. At subsequent critical decision points in the 1950s and 1980s, the commission process provided the institutional setting for policy intellectuals to take the offensive in defining problems and mapping new directions. Parties, politicians, and interest organizations all found themselves reacting to these blueprints. In the wake of such inquiries, the terms of political conflict and policy discourse shifted, and the ideas generated by the techno-bureaucracy were, in varying degrees, put into practice. In Canadian economic policy making, techno-bureaucrats have not been dutiful administrators of politically-forged projects; and royal commissions have not provided convenient stalling mechanisms for politicians either to cultivate greater support for their policy projects or to discredit those of their opponents. In fact, politicians have consistently relied on them for economic policy models and strategic direction. Commissions have functioned as policy switchpoint mechanisms in the political system.

However, we also found that not all commissions and idea systems achieved success as measured by consolidation of a national policy model. In this regard, the Rowell Sirois Commission and the Macdonald Commission succeeded where the Gordon Commission's (and its associated Watkins Task Force) legacy was more ambiguous.

Accounting for this difference raises complex questions, but leverage can be gained through consideration of Peter Hall's criteria for understanding the influence of economic ideas in political systems.<sup>4</sup> Hall proposes that learning and innovation processes can be studied through consideration of three factors critical to the adoption of new policies: economic viability (the theoretical appeal and problem-solving ability of a set of ideas for economic professionals), administrative viability (the degree to which a set of ideas conforms to existing bureaucratic practices and appears feasible to implement) and political viability (the degree to which a doctrine can be used to build coalitions and speaks to the goals of the governing party). With these categories, Hall has provided systematic criteria for interpreting the relative acceptance or rejection of economic ideas across nations and over time.

The three historical conjunctures in our study demonstrate the utility of Hall's approach to explaining the diffusion of economic ideas within political systems. In the 1930s and 1940s, an expert consensus emerged around the Keynesian style prescription for economic and social management. The National Employment Commission and the Rowell-Sirois Commission became vehicles for invention and dissemination of models, as politicians floundered. Galvanized through the commission process, a unified techno-bureaucratic community moved into the state apparatus, drawing influential ministers into an informal alliance supporting implementation – Labour Minister Norman Rogers in the 1930s, and in the 1940s, Finance Minister J. Ilesley, Health and Welfare Minister Brooke Claxton, and to a certain extent, Reconstruction Minister C.D. Howe. All of this intellectual creativity and policy activity took place without the participation (or even

support) of the Prime Minister and the Liberal party. In private, Mackenzie King did not hesitate throughout the 1940s to express his resistance to Keynesian ideas and his resentment of their bureaucratic sponsors. At the same time, members of his personal office, in particular Jack Pickersgill, saw the political potential in the techno-bureaucratic recommendations and facilitated passage of their ideas into the Liberal policy platform.

The result was a gradual embedding of the Keynesian model across the late 1940s and early 1950s, as leadership passed to a second generation of economic professionals recruited to the federal bureaucracy by policy intellectuals first engaged by the commission process of the 1930s. A coherent set of economic ideas were translated into policy – not in all their ambitions nor in all their details, but in their essential logic – by a unified techno-bureaucracy. This policy model undergirding federal economic policy leadership combined macro-stabilization, regional equalization and social redistribution. It became the basis for successful Liberal election campaigns based on the politics of national unity and technocratic administration.

These economic ideas fared well in each of Hall's three categories: they inspired consensus among intellectuals, conformed to the practices of risk-averse politicians, and appealed to the administrative ambitions of a bureaucracy flooded with new policy scientists. The technocratic form of Keynesianism was a particularly good match for the Canadian political system's innovative mechanisms. Gourevitch has made a general point that applies to Canadian policy and politics in the decade following the war:

Demand stimulus, interestingly, does not require a very high capacity for intervention. Rather, it may require a high capacity for analysis. Pump priming supposes rather good information and a high level of analytic capacity. But it does not require ample capability of policing, enforcement, supervision, and

administration, at least compared to industrial policy, nationalization, or even tariffs. Because demand stimulus requires a relatively low level of intervention, it may well have been easier to introduce without the kind of political controversy that the development of more extensive techniques of government control has generated.<sup>5</sup>

As Gourevitch suggests, the same cannot be said for the economic ideas that surfaced in Canada in the mid 1950s and the ensuing policy making process. In these years, the established postwar model came under pressure as unemployment, regional disparities and social inequities became visible. The Liberal government of the day had little new to offer, and the permanent civil service was anchored to doctrinal breakthroughs from the earlier crisis period. They counselled 'stay the course', promising ministers better fine tuning of the macro-economy's flows.

In this context, a major commission of inquiry was appointed to investigate the underlying problems and long term prospects of the Canadian economy. The Gordon Commission engaged the expertise of Canada's 'second generation' Keynesian economists, just as the Rowell-Sirois Commission had mobilized the ideas of the original architects of the postwar policy model. However, these parallels – drawn by many contemporary observers at the time of the Gordon appointment – required significant qualification because of the important differences in the nature of the products delivered by the commission and their subsequent influence on public policy. The Gordon Commission divided on substantive issues and presented politicians and civil servants with an analysis and action framework that contained two quite distinct economic approaches. On the one hand, the Commission argued for essential continuity with the postwar fine tuning approach, and on the other hand, suggested rather major departures

in new areas of industrial and regional development policy that demanded experimentation with a variety of unfamiliar instruments and administrative measures beyond the Keynesian economic balancing achieved through the annual budget cycle.

In short, two national policy models were tabled by the Gordon Commission: a statist-nationalist and a market-continentalist version. The technocrats were unable to coalesce around a framework for action that would sustain the federal intellectual-political consensus rooted in the commissions of the 1930s. As such, two competing schools of thought attracted their own adherents within different branches of the state apparatus to supply distinctive policy frameworks for particular economic departments and agencies. The result was a competitive struggle quite unlike the normal give and take of bureaucratic politics where influential advisors and their organizations jockey for position within a stable policy consensus. This was conflict over basic orientations to national economic development. Moreover, each school gathered support inside the Cabinet giving rise to a kind of ministerial factionalism in successive federal governments from the late 1950s into the early 1980s. Federal economic policy making was characterized by protracted stalemate where basic choices framed at the bureaucratic level were avoided and deferred at the political level. Initiatives were not coherently related to one another, and popular support was not mobilized for any specific direction as no such unifying focus ever materialized.

The division announced by the Gordon Commission was confirmed in the Watkins Task Force appointed in the late 1960s to revisit questions about the long term problems and prospects of the Canadian economy. In these years, a new Liberal government, led



by Pierre Trudeau, extended the policy uncertainty and political drift by cloaking its reluctance to make fundamental economic choices in a 'knowledge is power' technocratic discourse that encouraged the bureaucratic competition of ideas. Throughout the 1970s, macro-economic and industrial policy remained ad hoc and inconsistent as ministries embodying different schools of thought worked at cross-purposes without the political mediation necessary for coherent action. In these years, it appeared that the Liberal government was inclined toward the statist-nationalist approach, but found implementation of these ideas a challenge beyond their capacity to mobilize and channel political-administrative resources.

In Peter Hall's terms, the viability of these economic ideas was far less than that of the project designed by the National Employment and Rowell-Sirois Commissions. Economically, there was no agreement among experts on key problems and relevant solutions, and therefore no commitment to refine a single policy model and oversee implementation. In an administrative context, the statist-nationalist approach called for deep intervention in the micro-economy to steer investment, select winning activities, bargain deals with foreign investors, and target support to particular firms and sectors. Certainly, this was a more complex bureaucratic exercise in policy design and implementation than Keynesian efforts to exercise general control over the macro-economic environment. More importantly, its viability presumed a level of political engagement sufficient to manage trade-offs between economic (and regional) interests and sustain popular support for long term goals. Politically, then, these economic ideas were out of step with deep-seated brokerage practices that accommodated rolling compromises

based on vague electoral appeals instead of creating strategic coalitions linked to policy departures. The sudden launching of the "Third National Policy" by the Liberals in 1980, followed by its rapid demise two years later, underscored the degree to which these economic ideas lacked viability, given the workings of the Canadian political system. No coalitions were cultivated among potentially supportive economic interests or provincial elites, no mandate for change was generated through electoral politics, and no consensus on goals was forced on the bureaucracy.

In the end, the Liberals asked the Macdonald Royal Commission to resolve the impasse and shut-down the thirty year old debate within the techno-bureaucracy on Canada's "Third National Policy." The commission closed ranks around the market-continentalist agenda, emphasizing its modest administrative demands, its preference for market incentives, and its political attractiveness to a new government seeking to confirm support from the multi-national business community and the provinces of Alberta and Quebec, all strong advocates of free trade and federal retrenchment. After 1985, domestic adjustment to international market signals became the cornerstone of Progressive Conservative economic and social policy governance. This conversion by the government to the "new reality" scripted by the Macdonald Commission was ratified in the 1988 election, although the evidence suggests strongly that the parties and their leaders intended to submerge discussion of long term economic directions and choices. Canada entered the 1990s with its own version of the post-Keynesian national economic policy model. Yet, it did so without the political leadership and partisan debate provided in many other liberal democracies at such moments of strategic choice and historical change.

Royal commissions have played an important policy role in the Canadian political system. Fundamentally, this importance is rooted in the characteristics of Canadian state and society that in turn are reflected in the representational system. Divided jurisdiction, regional economies, religious and cultural diversity, have all contributed to the creation of a party and interest group system that fails to develop long term economic policy strategies. These regular political channels have not generated or sponsored new ideas, nor provided leadership in building alliances supporting change. The core elements of policy innovation have not been institutionalized in the Canadian political system, either through electoral party competition or corporatist interest group negotiation. Instead, Canada's route to new economic policy models has been charted by a techno-bureaucratic community, with royal commissions functioning as institutional mechanisms for non-partisan experts to reflect on policy failures, pool technical knowledge, and coalesce around new directions. Royal commissions acquired legitimacy in the eyes of politicians, the public, and interest groups, as central fora for generating authoritative responses to economic distress and policy failure.

The commissions provided some 'openness', or space for democratic input, in a policy learning process that has been largely controlled by bureaucratic elites in government departments and advisory councils. Given the weaknesses of parties in devising economic policy options and debating strategies, there is a case to be made that commissions have supplied access points for substantive public participation in policy development. Yet, our analysis suggests that the predispositions of commissioners themselves and especially the arguments of the research staff have been critical inputs in

shaping the final products.

The strategic significance of technocratic ideas in Canadian economic governance stems from the historic failure of other socio-political organizations to assert proactive leadership roles in generating frameworks and defining policy options. In effect, commissions have provided a process for policy renewal within a techno-bureaucratic learning regime. In the Canadian political system commissions have functioned as instruments of change during periods of great uncertainty. In countries such as Britain, where parties have campaigned and governed on the basis of public manifestos, this same process of renewal can occur through elections. In countries such as Sweden, where interest groups generate and sponsor coherent policy projects, renewal often takes place through forms of political exchange where 'private deals' are subject to public scrutiny through electoral politics. In Canada, the Rowell-Sirois, Gordon, and Macdonald Commissions recruited new technocratic policy experts into the idea network who constructed economic models that became the basis for policy entrepreneurship within the bureaucracy. In this way, royal commissions in Canada have not so much launched public debate on long term policy choices as they have given direction to senior officials casting about for new ideas to close off internal disputes and to permit coherent long term decision making.

Arguably, events in the early 1990s suggest that this techno-bureaucratic learning regime may be unravelling. Rising popular distrust of elites, related to the inability of experts to solve major policy problems, has been reflected in a series of high profile policy debacles in the area of constitutional reform. In fact, Canada's most recent royal

commission on broad national questions – *The Citizen's Forum on Canada's Future* (the Spicer Commission) – was explicitly designed to shut out the experts and let in the public. Following the commission report, the government convened a further series of public meetings to decide new directions. The resultant compromise package was then subject to a national referendum. The contrast is sharp with the techno-bureaucratic Macdonald Commission of the 1980s, and the 'behind the scenes' implementation of many of its key economic recommendations.

Indeed, it remains to be seen whether the economic policy learning regime will undergo a transition similar to that apparently redefining processes for constitutional decision making. One cautionary note here is the recent experience with the North American Free Trade Agreement that reveals continuity with, rather than departure from, past policy practices. The government negotiated and passed a significant extension and deepening of the earlier agreement at the end of its mandate. The public input and substantive debate on major policy issues that elections can provide was once again avoided.

At the same time, however, the collapse of the postwar constitutional decision making process has inspired new social and party movements to enter the brokerage system as principled adherents to coherent policy ideas. It is possible that these protest voices, the loudest of which is undoubtedly the Reform Party, will succeed in forcing the governing parties to abandon past practices and reinvent themselves as parties of innovation and ideas.<sup>6</sup> In short, the combination of public cynicism about "the system" and the various political expressions that have mobilized around this sentiment, may

reconfigure Canada's economic idea network away from its longstanding technobureaucratic form. The content of the national economic policy model would then be debated and defined through a far more socio-political decision making process than has been the case in the past.

## Notes

1. Skocpol, "Bringing the State Back In," in T. Skocpol, et al., eds. Bringing the State Back In, p. 9.
2. Gourevitch, Politics in Hard Times, pp. 238-239.
3. For a treatment of similar issues in a different setting, see M. Kahler, "Orthodoxy and Its Alternatives: Explaining Approaches to Stabilization and Adjustment," in J. Nelson, ed., Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World (Princeton: Princeton University Press, 1990), pp. 56-61.
4. Hall, "Conclusion," in Hall, ed., Political Power, pp 370-376. See also, Kahler, "Orthodoxy and its Alternatives," p. 58.
5. Gourevitch, "Keynesian Politics," in Hall, ed., Political Power, p. 101
6. During the 1993 election campaign, Conservative Prime Minister Kim Campbell was taken to task for 'practising brokerage politics as usual'. When she explained -- in the best tradition of all her predecessors -- that elections are not the time for serious discussion about new economic and social policy plans, the opposition leaders and the media challenged her for an anti-democratic attitude that was, in the words of Liberal leader Jean Chretien, "contemptuous of the citizenry". To some extent, the Liberals did practice a different -- and arguably more substantial -- kind of politics during the early days of the 1993 campaign. In the first week, they released a detailed economic policy strategy book, which the party leader said was the product of more than two years of expert and public consultation. Jean Chretien announced that these policy ideas would form the basis for his government's action. He even invited the electorate to hold him accountable for progress made in relation to the proposals in the "Red Book". See "Election not time to debate cuts: PM" Toronto Star (September 24, 1993) p. 1.

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