The Federal Dimension of Canadian Economic Nationalism

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Economic nationalism is the subordination of economic structures and processes to political considerations. More specifically, economic nationalism includes: (i) actions by governments, whether of sovereign states or otherwise, to preserve and/or enhance their powers in respect to the production, distribution and exchange of goods and services against the influence of other governments and of non-national individuals and business groups. (ii) actions by governments to effect or sustain material distributions favouring national as against non-national individuals or groups. (iii) actions by governments to effect or sustain particular distributions of material benefits and burdens among their own nationals as these distributions are believed to be necessary to the integrity and survival of the political community. (iv) actions by governments to facilitate the movement of goods and people within national boundaries and to impede movement across such boundaries. (v) the sentiments and the ideological and other justifications supporting the governmental policies outlined above.

Within the framework of federalism, economic nationalism is always at least a potential focus for conflict between the central and regional governments. The most dramatic of such clashes in Canadian history between federal and provincial economic nationalisms occurred in respect to the chartering of railways by the Manitoba government in the 1880s and the Alberta attempts to control monetary institutions in the latter half of the 1930s. The focus of this paper is the emergent conflict between federal and provincial economic policies which has followed the piecemeal disintegration of what is designed as the "new national policy" formulated by the government of Canada during and just at the end of the Second World War and implemented during the next decade.

I. The Old and the New National Policies

The objectives of what the late Vernon Fowke called the "old
national policy""-the trilogy of tariffs and government support for immigration and the building of east-west railways—had in the main been completed by the beginning of the First World War. The 1920s saw Ottawa pursuing few important national goals but rather undertaking "a number of comparatively minor chores so that the economy might operate satisfactorily within its existing limits." According to Fowke's analysis, Confederation and the establishment of political nationhood were integral parts of the fulfilment of the earlier decisions of the business interests of the St. Lawrence to pursue a policy confined to the British North American colonies after they had been precluded from furthering their objectives within either continental or imperial frameworks by actions of the American and British governments. "The federal government which was established by the BNA Act was the creature of the national policy and its most prominent instrument. After 1867 the further elaboration and pursuit of the national policy became the leading, if not the sole, objective of the national government." During the interwar years successive federal governments were remarkably insensitive to the consequences of Canada having fulfilled the former national policy without having been committed to a new set of economic goals. However, there was in those years, according to Fowke, a groping toward new national directions which he discussed under three headings: (1) most crucially, federal responsibility for social and economic conditions as manifested by the Old Age Pension Act of the 1927 and the abortive Bennett New Deal of the mid-1930s, (2) effective monetary management signalled by the establishment of the Bank of Canada, (3) new policies for agriculture devoted not as were the previous ones toward agricultural expansion but rather toward dealing with an industry which relative to the rest of the economy was growing little if at all and shielding this industry from the vagaries of the price system.

With the benefit of two decades more of hindsight than had Fowke, it seems reasonable to argue that he exaggerated the interwar period in the development of new national economic policies and underestimated the significance of federal initiatives during and immediately at the end of the Second World War. From the earliest

2. Ibid., at 279.
3. Ibid., at 276.
4. D. V. Smiley, Constitutional Adaptation and Canadian Federalism since 1945, Documents of the Royal Commission on Bilingualism and Biculturalism (Queen's Printer, Ottawa, 1970) Chapter II.
days of the War onward elected and appointed officials of both federal and provincial governments devoted considerable attention toward planning for postwar domestic reconstruction and in 1944 and 1945 these efforts were intensified. In Ottawa a sophisticated and interventionist civil service had been brought into existence and by the end of hostilities three new Departments concerned with economic and social matters established — Reconstruction, National Health and Welfare and Veterans' Affairs. During the War unemployment insurance had been brought under exclusive federal jurisdiction through constitutional amendment, a scheme of family allowances instituted and federal action taken in respect to housing and vocational training. These and other Dominion initiatives on social and economic development were joined with policies enumerated by the federal government in the White Paper on Employment and Income of April, 1945 and the "Green Book" proposals placed before the Dominion-Provincial Conference on Reconstruction convened in August of that year. Taken together, these manifestations of federal purpose and their implementation in the decade after the War are worthy of being regarded as a new national policy replacing the former national objectives of the nineteenth century whose fulfilment had been symbolized by the transfer to the Prairie provinces of the jurisdiction over their natural resources in 1930.

The new national policy had three essential elements (1) national leadership in managing the economy, particularly through the instrument of fiscal policies directed toward full employment and price stability, (2) national leadership in establishing and sustaining a Canadian welfare state, (3) Canadian policies devoted to international reconstruction, to lowering barriers to international trade and to the establishment of stability in the international monetary order. The Keynesian solution which saw the chief economic role of national governments as the management of the aggregate levels of demand through generalized fiscal and monetary policies had an immediate attraction for federal policy-makers at the end of the Second World War. As T.N. Brewis has pointed out, one of the chief attractions of the Keynesian theory "was its association with an

5. Canada, Department of Reconstruction, Employment and Income with Special Reference to the Initial Period of Reconstruction (King’s Printer, Ottawa, 1945).
6. Dominion-Provincial Conference (1945), Dominion and Provincial Submissions and Plenary Conference Sessions (King’s Printer, Ottawa, 1946). For the original Dominion proposals see pp. 55-119.
analytical formula which lent itself to ready administration.’’7 Unlike socialism, this theory did not call for the extension of either public ownership or precise public controls over particular elements of the national economy. Perhaps just as importantly, the Keynesian solution — as received in Canada — proposed an effective role for the national government in economic management without the constitutional complications of the federal division of legislative powers which had appeared so crucial an obstruction to national economic policies in the previous decade.8

The three essential elements of the new national policy — national leadership in economic management through generalized fiscal and monetary policies, the welfare state and the reconstruction of the international economic order on liberal lines — appeared in the perspective of federal policy-makers in the mid-1940s to be closely related. So far as the first two were concerned, the Keynesian analysis had been formulated in the face of the Great Depression and its thrust was toward asserting the responsibilities of the national government for making up the deficiencies of aggregate demand believed chronic in mature capitalist economies. On this basis, Ottawa officialdom anticipated that when the country adjusted itself to peace-time circumstances there would be a continuing need for the national government to ensure adequately high levels of aggregate demand if full employment was to be sustained, and public spending on income maintenance of a magnitude never before seriously considered in Canada was a crucial instrument for meeting this responsibility.9 The close connection between governmental measures of income support and full employment objectives continued in the post-war years and Fowke wrote astringently in his 1952 article ‘‘At times within the past ten years it has been a question whether all peace-time national policy might not be subsumed under the head of

8. With respect to the comprehensive proposals in relation to health services the Honourable Brooke Claxton, Minister of Health and Welfare and a distinguished constitutional lawyer, said, ‘‘It is believed that none of these proposals involves any change in the constitutional jurisdiction of federal or provincial governments under the British North America Act.’’ Dominion-Provincial Conference, op. cit., at 89. For a subsequent discussion of how Ottawa found it possible to extend its power by fiscal means see F. R. Scott’s Presidential Address to the Royal Society of Canada in 1961 ‘‘Our Changing Constitution’, reprinted in W. R. Lederman (ed.), The Courts and the Canadian Constitution (Carleton Library, No 16; McClelland and Stewart, Toronto, 1964) 19-34.
9. See Dominion-Provincial Conference on Reconstruction, op. cit., at 85.
full employment policy. When baby bonuses and agricultural price support legislation are in danger of being regarded as mere instruments for the maintenance of full employment, it is possible to suggest at least a temporary distortion of the national perspective.”

As the welfare state and full employment objectives of national policy were seen by Ottawa as being closely related, so it was asserted that these domestic goals might be effectively pursued only within the framework of a liberal international order. Canadian international economic policies at the end of the War and afterward were devoted to cooperation with the United States in the reconversion of the economy to peace-time conditions, the reconstruction of Europe and the establishment of a multilateral trading and monetary order. The White Paper on Employment and Income said with respect to trade, “The Government is looking to an expansion of total world trade within which Canada as well as other countries can increase their exports. The expansion of Canadian exports will be one phase of an expanded Canadian economy which will require for its use greatly increased imports. The expansion of exports is not looked upon as a means by which unemployment is to be transferred from this to other countries, not is the contraction of Canadian imports any part of the Government’s employment policy.”

The new formulations did not address themselves directly to the complications of making economic policy occasioned by the federal division of legislative powers or to the incidence of the new national policy on particular provinces or regions of Canada. In respect to this latter consideration Harold Innis wrote in 1943 “Each region has its conditions of equilibrium in relation to the rest of Canada and to the rest of the world, particularly in relation to Great Britain and the United States. Manipulation of a single instrument such as monetary policy implies a highly elaborate system to determine how far transfers between provinces or regions are necessary. Otherwise full employment will become a racket on the part of the central provinces for getting and keeping what they have.” Nothing was further from

11. For a valuable collection of documents on Canadian policies in international economic relations in the early post-war period see R. A. MacKay (ed.), Canadian Foreign Policy 1945-1954, Selected Speeches and Documents (Carleton Library, No. 51; McClelland and Stewart, Toronto, 1971) Section III.
the attention of those who formulated the White Paper and Green
Book proposals than the kind of considerations Innis had pointed out.
Further, the new national policy precluded the federal government
from attempting to narrow interprovincial disparities through fiscal
transfers to the provinces as had been recommended by the Rowell-
Sirois Commission. The Keynesian imperatives as interpreted by
Ottawa at the end of the War and afterward required that through
agreement with the provinces the federal authorities would have
exclusive access to the fields of individual and corporate income
taxes. To secure such agreement, it was necessary to fix the levels of
compensation to the provinces for giving up those tax fields not in
terms of revenue equalization or fiscal need but rather according to
the inducements necessary to secure the compliance of Ontario and
Quebec. Similar influences worked against interprovincial equaliza-
tion in respect to social security and health to the extent that such
measures were embodied in conditional grant arrangements. The
levels and conditions of public support had to be geared not primarily
toward achieving interprovincial equality in the range and standard of
aided services but to what inducements those provinces least eager to
cooperate required to secure their participation.

Despite the failure of the governments of Ontario and Quebec to
agree to the comprehensive federal plan put before the Dominion —
Provincial Conference on Reconstruction in 1945, the main body of
the new national policy was implemented in a piecemeal way during
the next decade.

2. The Passing of the New National Policy

The story of Canadian federalism from the late 1950s onward is
largely that of the weakening of the new national policy and the
-growing strength of the provinces in social and economic matters. It
is tempting to trace the development from the coming to power of the
Diefenbaker government in June, 1957. According to John Meisel’s
analysis of the 1957 election, "A party long in power (and therefore,
increasingly tempted by delusions of infallibility) apparently comes
to think more and more exclusively in national terms, particularly if
most of the speculation and planning is done not by the party as such
but by Ottawa-based and Ottawa-minded civil servants."14 Meisel’s

account describes how the Liberals succumbed to this weakness and how John Diefenbaker and his followers were able to exploit the cumulation of regional grievances which had developed without at the same time committing the country to a new and coherent set of national objectives. But it also seems reasonable to attribute the Liberal defeat in large part to the way federal policy-makers had continued to view the economy in terms of the formulations of the new national policy. Maurice Lamontagne in his analysis of postwar economic policy in Canada delivered to the Study Conference on National Goals convened by the federal Liberal party in 1960 said this:

Stagnation, inflation and unemployment have a very important regional and industrial incidence, especially in Canada. Certain regions or industries grow rapidly while others are depressed. Certain industries may enjoy rising prices while others, at the same time, suffer from relatively low prices. Some industries or regions may experience heavy unemployment while others suffer from a scarcity of labour. Our national aggregates, such as the gross national product, the cost of living index and the national percentage of unemployment, are frequently the result of conflicting tendencies prevailing in different industries and different regions. It is always unrealistic and dangerous to interpret these national aggregates without taking their regional and industrial components into account. It is even more dangerous to attempt to solve such economic problems as unemployment as if they had the same causes and intensity throughout the country and as if they could be effectively met by the same policies in all industries and all regions.  

Lamontagne's evaluation was significant not only because of his influence then and later on the policies of his party but because as recently as 1954 he had published a book-length rationale of the new national policy in Keynesian terms, by a very wide margin the most coherent analysis of this policy that was ever made.

The impact on Canadian federalism of the piecemeal disintegration of the new national policy can perhaps best be analyzed in terms of the challenges by the provinces to the dominance of the federal government in respect to each of the essential elements of this policy — economic management, the welfare state and international economic relations.

A. Economic Management

Apart perhaps from price stability where in comparison with other

western nations the Canadian record is favourable, the performance of the Canadian economy since the late 1950s has been unsatisfactory in terms of employment, economic growth and the narrowing of regional disparities. These failures have in a broad sense dissipated the dominance in the federal system that Ottawa established during the earlier years and projected the provinces into a more active role in economic management.

The prevailing view among professional economists has been that the inadequate performance of the Canadian economy during the past 15 years has resulted almost entirely from inappropriate actions by the federal government in respect to monetary, fiscal and commercial policies. Robin Neill has pointed out that by the 1950s Canadian economic thought had come to be dominated by "the soft money Keynesian group and the continentalist free traders" and that the formulation of Harold Innis and his followers which was essentially a defence of the old national policy had been pushed aside. Most of the liberal economists were at one and the same time Keynesians and free traders, and in the early 1960s found a focus for their discontent in James Coyne, Governor of the Bank of Canada, who supported both tight money and restrictions on foreign investment in Canada.

Whatever the merits of the liberal economists' support for generalized fiscal and monetary policies as the primary instruments of economic management, the Keynesian analysis did not take into account the institutional circumstances of federalism and the new national policy proved inadequate to Canadian needs in three ways: First, heavy and continuing public expenditures on social services were not as effective a counter-cyclical device as had been believed at the end of the Second World War. Second, Ottawa demonstrated that it did not have the ability and/or the will to retain exclusive access to the major fields of direct taxation. Third, generalized fiscal and monetary policies did not take into account the incidence of these

policies on particular regions, industries or other groupings or provide compensation for those who were in a relative sense so disadvantaged.

Spending for social security is a less effective counter-cyclical instrument than was believed at the end of the Second World War. As we have seen, the Keynesian prescription anticipated that in peacetime capitalist economies there would be a chronic deficiency of aggregate demand. Inflation, however, later appeared to be the chronic circumstance of such economies, although this has often been accompanied in Canada and elsewhere by less than what economists and policymakers have from time to time defined as full employment. Further, many income maintenance programmes involve semi-contractual obligations which cannot in practical terms be altered to meet short-run exigencies of fiscal policy and under Canadian circumstances social security is shared between the federal and provincial governments.

It was a crucial element of the new national policy that the federal government should have exclusive access to the taxation of individual and corporate incomes so that full employment with relative price stability could be maintained through discretionary changes in the rates of these taxes. The centralized fiscal regime which had been established during the Second World War was effectively challenged in 1954 when Quebec began to tax individual incomes. The protracted dispute between the Quebec and federal governments which resulted from this measure ended by the divorcing of tax rentals from equalization payments to the provinces in the tax agreements of 1957-62. In the latter year the tax rental system was ended and Ottawa began a process of abating its own tax rates on individual and corporate incomes so that the provinces could move into these fields. The pressures of the provinces for "tax room" in a period of rapidly rising provincial and local expenditures caused Ottawa to lower its rates of income taxation on several occasions between 1962 and the fall of 1966, at which latter date the federal authorities announced their intention not to yield further. The abatement system was ended in 1972, as well as the federal estate tax which had been an

integral though not an essential element of federal fiscal dominance under the new national policy.

During the mid 1960s the question arose as to what role, if any, the provinces could or should play in designing their own independent fiscal policies as instruments of full employment, price stability and economic growth. The answer of the federal Royal Commission on Taxation in 1966 was clear — the only effective procedure was federal-provincial coordination in fiscal policy of a more formalized kind than had hitherto existed.22 The recommendation was for "binding agreements" about taxation and expenditure and it was quite inappropriate for the provinces to design or implement independent fiscal policies. The government of Ontario received contrary advice from its Committee on Taxation in 196723 and in subsequent years has formulated its own fiscal policy around the concept of the "full-employment budget" in the direction of mitigating the allegedly contractionary effects of federal policies on the Ontario economy.24

Harold Innis was characteristically prescient in understanding that exclusive reliance on a small range of policy instruments would disturb the equilibrium of each of the Canadian provinces and regions in respect both to the rest of the country and the outside world. The same might be said of the insensitivity of the generalized instruments of fiscal and monetary policies on other equilibria of Canadian society — of industries, occupational groupings, age groups etc. So far as the territorial incidence of the new national policy was concerned, the disparities in large part inherited from the operation of the old national policy were perpetuated or even exaggerated and the Fifth Annual Report of the Economic Council of Canada published in 1968 concluded:

Differences in both the levels of economic and social well-being and in economic opportunity among the various regions and provinces of Canada are large, and have persisted with only modest change for over 40 years. This persistence has been

23. See particularly the study done for the Commission by Clarence L. Barber whose prescriptions were in general accepted in the Commission's Report, Theory of Fiscal Policy as Applied to a Province (Queen's Printer, Toronto, 1967) Chapter 3.
24. See the 1971 and 1972 Budget Speeches of the Treasurer of Ontario. The 1973 Budget Speech dealt with federal policies in a more conciliatory way to the general effect that both governments were moving in the appropriate expansionist direction but that, so far as Ontario was concerned, provincial policies had been more effective than federal.
remarkable; neither strong national economic growth nor the strains and turbulences of depression and war have had lasting effects on the basic pattern of regional disparities. There is little reason to suppose that the historical mix of market forces and public policy is likely to lead in good time to a significant reduction in those disparities.  

It remains a matter of contention whether federal fiscal and monetary policies can be effectively tailored to the particular needs of provinces and regions. The Bank of Canada has apparently exercised some "moral suasion" in recent years to encourage the chartered banks to take a particularly favourable view of requests for loans in slow-growth areas. The federal government has also pursued a policy of decentralizing its purchasing policies and of locating an increasing number of its headquarters and other facilities outside the Ottawa-Hull Region. However, the possibilities of such policies seem somewhat limited.

Many professional economists have continued to emphasize the securing of appropriate levels of aggregate demand through generalized fiscal and monetary policies as the crucial instrument of economic management and on this basis have been critical of more selective economic measures taken by the federal and provincial governments. However, even within this Keynesian perspective Ottawa has to a significant degree relinquished the dominance over both taxation and expenditures which was established during the Second World War and perpetuated for a decade afterward, and little progress has been made in harmonizing the fiscal policies of the two levels of government. But despite the claims of liberal economists, the makers of public policy and the influential public of Canada have come to perceive effective economic management as a much more complex matter than was projected by the new national policy in the mid-1940s. The operative beliefs suggested that in addition to the effective use of generalized fiscal and monetary instruments there is a need for policies sensitive to the needs of particular regions, industries and groupings in the population. Some of the directions in these more selective federal policies may be noted briefly: (i) in 1963 a Department of Industry was established to give leadership and assistance to Canadian manufacturing. (ii) the Agricultural and Rural

Development Assistance Programme was begun in 1961 as the first of several efforts later initiated in rural development. (iii) beginning in 1963 tax incentives and direct federal grants were given to industry locating in depressed areas and in 1969 the Department of Regional Economic Expansion established to coordinate various federal assistance programmes in a vastly extended effort to narrow regional economic disparities. (iv) the federal authorities have extended their efforts in manpower development and from 1966 have assumed the exclusive financial and administrative responsibility for the occupational retraining of adults. (v) the Ministry of State for Science and Technology was established in 1971 with broad responsibilities for relating federal responsibilities in respect to science and technology to national objectives. (vi) in the Opportunities for Youth and Local Initiative Programme of the early 1970s the federal government attempted to deal with certain aspects of shortrun unemployment by supporting group activities initiated by the unemployed.

The relatively unsatisfactory performance of the Canadian economy from the late 1950s onward projected the provinces in widely varying degrees into a more active role in economic management than ever before. As we have seen, the federal authorities responded to these circumstances with measures sensitive to the needs of particular regions, industries and other groupings. But once federal policies moved on from the management of levels of aggregate demand to these more specific measures, the provinces almost inevitably became more influential in economic matters than before both because of their constitutional responsibilities and because of their claims to greater responsiveness than Ottawa to particularized needs and interests. To take a crucial example, to the extent that unemployment was attributed in significant measure to structural factors rather than almost entirely to deficiencies in aggregate demand the provinces were involved in such matters as vocational retraining, industrial incentive programmes, the rationalization of particular industries, etc.

Space precludes more than brief mention of the kinds of economic policies adapted by the provinces from the late 1950s onward. In the early part of the next decade there was some enthusiasm for provincial economic councils of representatives of agriculture, business, labour and government and several provinces — notably Nova Scotia, Quebec and Ontario — made some attempts at indicative economic planning. To widely varying degrees, the provinces undertook economic assistance programmes through indus-
trial incentives. Part of the redefinition of Quebec which took place from 1960 onward was manifested in the efforts of the province to reshape the Quebec economy. As we shall see later, the provinces have become much more active than before in soliciting markets and capital outside Canada. The provinces have become vastly more sophisticated than before in designing and implementing comprehensive policies in relation to such matters as transportation and communications and the development of natural resources.

Several interrelated factors have thus progressively weakened the dominance of the federal government in economic matters which was the central element of the new national policy. In response to the failure of generalized fiscal and monetary policies to ensure effective levels of employment and growth the provinces have taken defensive measures to integrate and develop their own economies while demanding, as yet with little success, an institutionalized influence over the processes of national decision in economic matters.

**B. The Welfare State**

Part of the thrust of the humanitarian and nationalistic sentiments which emerged from the Second World War was the widespread conviction that Canadians as an incidence of citizenship should have access to minimum standards of public services. The need for federal leadership in establishing and sustaining such standards was taken for granted by the national government. As we have seen, heavy and continuing spending on income maintenance was judged a necessary element of full employment policy. These circumstances have changed. Inflation, albeit accompanied by what are regarded as unacceptably high levels of unemployment, appears to be a continuing problem and in practical terms social security rates cannot be adjusted as instruments of stabilization policy. Also, it has been a widespread if not prevailing belief that considerable differences among provinces in respect to health, welfare and education are not only tolerable but desirable manifestations of the cultural and other particularisms which it has become fashionable to regard as the distinguishing feature of Canadian life.

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28. See Final Report of the Special Joint Committee of the Senate and House of Commons of Canada on the Constitution of Canada (Queen's Printer, Ottawa, 1972). The master-solution of the Report is to vest exclusive or paramount powers on
From the mid 1960s onward Ottawa has both increased its relative financial contributions to health, welfare and education and relinquished some of its former powers to determine the specific conditions under which services were provided. The contraction of federal powers over the Canadian welfare state has admittedly been somewhat uneven and has been accompanied by several new initiatives by the national government. The Canada Pension Plan came into effect in 1965 in all the provinces except Quebec with the condition that future federal legislation in respect to the Plan should be enacted only after the consent of two-thirds of the included provinces having at least two-thirds of the total population of the included provinces had been secured. From late 1966 onward the federal government assumed the exclusive financial and administrative responsibility for the occupational retraining of adults. Parliament in 1968 enacted medical insurance legislation and by the end of 1970 all provinces had plans conforming to the conditions of federal financial assistance. In the early 1970s Ottawa established the Opportunities for Youth and Local Initiative Programme.

Despite the federal initiatives mentioned above, there were from 1965 onward counteracting measures and the thrust of these and new arrangements still in the making are in the direction of Ottawa withdrawing its leadership in determining the specific content and conditions of the Canadian welfare state: (i) under the Established Programs (Interim Arrangements) Act of 1965 the provinces were given the option of contracting-out of several established shared-cost programmes and to receiving fiscal equivalents in terms of a combination of abatements in the federal individual income tax and cash adjustments. Only Quebec has taken this option, although more recently both Ontario and Alberta have indicated their desire to do so if satisfactory levels of financial compensation can be negotiated. (ii) in 1966 the Canada Assistance Act provided for federal contributions of half the provincial costs of social assistance. Under the Act five categorical public assistance programmes were replaced by one consolidated arrangement. (iii) the Technical and Vocational Training

Ottawa for economic control and the exclusive or paramount powers on the provinces for health, welfare and education. See particularly Part V, "Social Policy" and Part VI, "The Regulation of the Economy".

29. The negotiations surrounding the original CPP made its benefits and those of the Quebec plan easily transferable when Canadians moved in and out of that province. It can plausibly be argued that to maintain such transferability the CPP will be subject to the changes the Quebec authorities make in their plan.
Assistance Act of 1960 which provided several specific grants-in-aid for various programmes and facilities was not renewed when its terms expired in 1967. It was replaced by a new arrangement in which Ottawa pays half the operating costs of post-secondary education without the former differentiation between the financial treatment of universities and vocational training institutions and without determining the conditions by which the latter are operated. As this is written in June 1973, the federal government and the provinces are engaged in intensive negotiation when conclusion will almost inevitably be a weakening of federal powers and an enhancement of those of the provinces in respect to the Canadian welfare state.

In their *Working Paper on Social Security in Canada* published in April 1973\(^3\) the federal authorities suggested to the provinces a joint strategy for rationalizing the entire complex of social security which had developed in a piecemeal fashion in the past. The most radical of Ottawa's proposals would allow individual provinces to determine the levels of income guarantees and supplements in federal income-support programmes. Such provincial discretion in transferring federal funds among such federal programmes as Old Age Security and family allowances and to set the conditions of federal programmes would be subject to minimum standards set by the national government but not spelled out in the White Paper.

Intensive federal-provincial negotiations are also taking place in respect to the financing of health services and post-secondary education. Ottawa is now committed to reimbursing the provinces for roughly half the expenses defined as sharable which the latter incur in respect to these services and facilities. The federal authorities have become increasingly restive about the open-ended nature of these arrangements in a situation where costs are increasing rapidly. The provinces are understandably unwilling to accept prior limitations on federal financial liabilities. In terms of recent federal proposals the result of this bargaining is likely to be a transfer of points of federal income tax combined with cash payments to the provinces. Apart from fiscal transfers, federal participation will be "deconditionalized"\(^3\) and the provinces given more discretion than they now have to expend funds on those services and facilities without incurring financial penalties.

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30. (Queen's Printer, Ottawa, 1973).
31. This term has been attributed to Premier Davis of Ontario, a new addition to the grotesque and esoteric vocabulary of federal-provincial relations.
In general terms, the federal authorities are now acting as if the second element of the new national policy — national leadership in establishing the Canadian welfare state — had been achieved. The incumbent Trudeau government at least is committed to "no more medicares", to refrain from initiating new shared-cost programmes without some form of prior consensus among the provinces. The new proposal to allow the provinces to vary the limits of federal income-support programmes is a retreat from previous federal positions maintained up to and through the Victoria Conference on the Constitution in June 1971. So far as health services are concerned, Ottawa is now proceeding on the assumption that "deconditionalization" will not result in any lowering of standards in respect to those services. Thus the range and specificity of federal influence over the Canadian welfare state has been steadily reduced.

C. International Economic Relations

At the end of the Second World War international economic relations were seen in Canada almost entirely in terms of tariff and exchange rate policy and of efforts to reconstruct a new world economic order on liberal lines. Those responsibilities, it goes almost without saying, involved Ottawa alone without significant participation by the provincial governments.

Because of the dependent nature of the Canadian economy, it is inevitable that so far as the provinces are involved in significant aspects of economic policy at all this involvement will extend to international economic relations. In the 1960s there was a very rapid development of the economic activities of the provinces abroad consequent on the failure of national economic policy to secure adequate conditions of employment and growth. One of the earliest of such initiatives was the Ontario Trade Crusade begun in 1962. This programme was centred on the need to provide 60,000 new jobs in

33. Recent federal statements imply that federal fiscal transfers for health services are conditional on the provinces continuing to adhere to the basic principles embodied in existing legislation. These principles according to the federal Minister of Finance relate to "the universality and comprehensiveness of services; the accessibility of these services to the Canadian people; their public non-profit nature; and the portability of coverage for individual Canadians moving from one province to another". However, it appears unlikely that if a province should move away from those principles the federal authorities could or would apply fiscal penalties.
Ontario each year during the succeeding decade. This objective was to be furthered by the stimulation of Ontario exports, particularly of manufactured products, and the encouragement of the residents of the province to buy Canadian goods of comparable prices rather than imports. To this end, sales missions of Ontario manufacturers to the United States and Europe were sponsored by the province, arrangements made to have foreign sales representatives act for small Ontario firms, several new trade offices opened outside Canada and an aggressive campaign mounted to encourage consumers to buy Canadian goods. From the early 1960s onward it has become common for provincial premiers and their cabinet colleagues to travel outside Canada soliciting capital and markets and in June, 1972 Thomas Levy reported that only Newfoundland, Prince Edward Island and Manitoba had no trade offices abroad.\textsuperscript{34} Ontario’s involvement in this respect was more extensive than that of the other provinces with offices in Dusseldorf, Brussels, Vienna, London, Stockholm, Tokyo, New York, Boston, Atlanta, Cleveland, Minneapolis and Los Angeles. In the wake of President Nixon’s new economic policies announced in August 1971 both Alberta and Ontario showed a disposition to establish some sort of missions in Washington to safeguard their respective economic interests. Alberta has not followed through with this and would prefer, it seems, some sort of institutionalized influence over national economic policies, particularly as these relate to the export of resources to the United States. So far as Ontario is concerned, a Washington dispatch from Ross H. Munro published in the \textit{Globe and Mail} of August 12, 1972 reported that the province had been dissuaded by the federal authorities from setting up its own Washington office but that the two governments were negotiating the conditions of an Ontario official working in the Canadian Embassy.\textsuperscript{35}

The new directions in Canadian foreign policy undertaken by the Trudeau government from 1968 onward almost inevitably enhance the influence of the provinces in international relations.\textsuperscript{36} In

\textsuperscript{34} The Role of the Provinces in External Affairs: A Study in Canadian Federalism (mimeo) 18. A paper presented to the Canadian Political Science Annual Conference in Montreal, June, 1972.

\textsuperscript{35} It has been reported that at the Federal-Provincial Conference of May, 1973, the Secretary of State for External Affairs offered the provinces the co-operation of Canadian embassies abroad.

\textsuperscript{36} For this policy in general see Thorardson, Trudeau and Foreign Policy (Oxford University Press, Toronto); C. Dobell, Canada’s Search for New Roles: Foreign
broad terms, there is in these new directions a relative de-emphasis on international peace and stability as the first priority of Canadian foreign policy and a disposition to orient Canada’s international activities around the furtherance of domestic objectives, particularly but by no means exclusively those of an economic nature. But increasingly, the provinces are involved in the formulation of such objectives and thus play a larger role than before in international relations. The relation between international and domestic objectives is manifested as clearly as anywhere else in the circumstances surrounding Michelin Tire. Both Canada and the United States have responded to unemployment and unsatisfactory rates of economic growth by incentives to businesses producing for the export market. Michelin was established in Canada with generous financial incentives from both the Nova Scotia and federal governments and in late 1972 its products entering the United States were subjected to a surcharge by the American government. It is almost impossible to visualize any effective policy for narrowing regional economic disparities in Canada which will not result in part of the product resulting from such incentives being exported to the United States, and the broader implications of the American action in respect to Michelin are extremely hazardous for Canadian domestic economic policy.

From the late 1960s onward the penetration of Canada by multinational corporations has become the major concern of economic nationalists. The elements of the situation are well know. In earlier periods of Canadian history borrowing from abroad was overwhelmingly of the portfolio variety and did not confer on foreigners a continuing control over the Canadian economy. Now major investment decisions of crucial importance to Canada are increasingly taken in the global interests of multinational corporations at a time when the public authorities of the country have assumed responsibilities for narrowing interprovincial and intraprovincial dis-

Policy in the Trudeau Era (Oxford University Press, Toronto, 1972) Chapter 4 and D. C. Thomson and R. F. Swanson, Canadian Foreign Policy: Options and Perspectives (McGraw-Hill, Toronto, 1971) Chapter 9. Thomson and Swanson conclude at p. 150, “If the economic growth of Canada is the primary objective [of the Trudeau foreign policy] then much closer commercial and financial integration with the United States is indicated, or at least, primacy for relations with the more developed countries”.

parities, stimulating development in various locations and securing appropriate levels of aggregate demand. Foreign direct investment tends to be concentrated in those industries which are in the forefront of technological innovation and thus crucial in shaping economic and social development. There is the continuing problem of the extraterritorial application of United States legislation to American subsidiaries operating in Canada, and the even more difficult problem of the sensitivity of those who control these corporations to influences from the American government expressed in forms less explicit than law. From broader perspectives, the increasing power of the multinational corporation challenges not only the autonomy of host countries but the nation-state system itself. 38

The constitutional aspects of control over foreign investment in Canada has only recently received serious consideration. In the most extensive analysis of the matter yet made, E. James Arnett 39 has concluded that under Section 91(25) of the BNA Act giving Parliament exclusive jurisdiction over "Naturalization and Aliens" the federal authorities might validly establish a screening agency regulating foreign takeovers, new foreign investment, new licensing and franchise arrangements by foreign firms and the activities of existing foreign-controlled firms whether expanding their investment in Canada or otherwise. Arnett argued, however, that certain current proposals to roll back the extent of direct foreign investment in Canada were enjoined by international law.

Despite what appear to be adequate federal powers in the constitutional sense to deal decisively with direct foreign investment, both levels have been disposed to act as if this were a matter of joint federal-provincial responsibility. This topic has been on the agenda of several recent conferences of Prime Ministers and Premiers, including the most recent one of May 23-25, 1973. In Bill C-132 now before the Parliament of Canada it is asserted that one of the five factors to be taken into account by the government and the Foreign Investment Review Agency in screening projected takeovers or new foreign investment is the following: "(e) the compatibility of the acquisition or establishment with national industrial and economic policies, taking into consideration industrial and economic policy

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objectives enunciated by the government or legislature of any province significantly affected by the acquisition or establishment.' Section 14 of the Bill qualifies the privileged nature of the information supplied to the Minister by or about businesses coming under the terms of the legislation by providing in effect that he can consult with the provinces on the basis of such information. The federal government's expressed intention is to gain some experience with the review process as it relates to takeovers and to consult with all the provinces before proceeding to the registration and screening of proposals by foreigners to set up new businesses in Canada.\textsuperscript{40}

The attitudes and policies of the provinces to direct foreign investment and its regulation are in process of evolution. However, even at this stage of development crucial differences in respect to this matter have become evident: \textit{The Atlantic Provinces}. The provinces of the Atlantic region are so urgent about attracting capital that they are likely to oppose any federal measures restricting foreign investment. In its brief on the proposed federal legislation to limit takeovers to the House of Commons Committee on Finance on June 13, 1972 the Atlantic Provinces Economic Council said, "To be blunt, it seems as if certain segments of opinion in central Canada, having achieved the benefits of industrialization for themselves, now wish the Atlantic Provinces to forego the industrialization they never had, in the interests of maintaining an ill-defined Canadian economic independence".\textsuperscript{41} The A.P.E.C. statement went on to say, "We tend not to make any distinction between investment that comes from central Canada, the United States or other foreign countries, regarding it all, somehow, as foreign."\textsuperscript{42}

\textit{Quebec}. The Quebec authorities on several occasions have indicated their forthright opposition to restrictions on foreign investment which would have the effect of restricting such investment in the province. In a major policy statement made by the Quebec Minister of Finance, the Honourable Raymond Garneau, in March 1972 there was an expression of the government's hostility to the extension of limitations on foreign ownership in such fields as broadcasting and banking to other industries and to the screening of foreign

\begin{footnotesize}
\begin{enumerate}
\item At the Federal-Provincial Conference of May, 1973 the Premier of New Brunswick requested that the restrictions of the proposed legislation not be imposed in his province.
\item \textit{Brief} (mimeo).
\item \textit{Op. cit.}
\end{enumerate}
\end{footnotesize}
investment by a federal agency as recommended in the *Canadian Forum* version of the Gray Report.\(^4\) Such screening, said the Minister, was likely to increase the economic disparities between Quebec and Ontario as foreign investment was restricted without Canadian capital made available to replace it. Mr. Garneau also expressed his concern about the employment prospects of francophone graduates of universities and colleges and the use of the French language in industrial enterprises, to the general effect that his government had no conviction that Canadian-controlled enterprises would be more sensitive to the particular needs of Quebec than foreign corporations. In his address to the Economic Club of New York in January 1973 Premier Robert Bourassa spoke of the orientation of Quebec within the ‘‘North American economic community’’ and asserted that, ‘‘Although political sovereignties must be maintained, the existence of a transnational economic community that transcends national and provincial boundaries is . . . a reality that we must use to our greatest advantage.’’\(^4\)

**Ontario.** Ontario under the Davis government has itself taken several measures favouring Canadian over foreign enterprise and has pressed for more aggressive federal leadership restricting foreign control over the Canadian economy. In May, 1972 the government announced its policy of limiting to Canadian firms its programme of loans, half of which are written off if the provincial conditions are met, made to businesses in designated slow-growth areas of Ontario. Later in the year the provincial Parliament enacted legislation making it mandatory that a majority of the directors of companies incorporated under Ontario law be Canadian. The province has already taken action to prevent the publishing firm of McClelland and Stewart coming under federal control and to forestall monopoly control by an American firm in respect to the distribution of mass-market paperbacks and periodicals. It is likely that within the next year the government will act on other recommendations of its Royal Commission on Publishing appointed in 1971.\(^4\)

**Manitoba, Saskatchewan and British Columbia.** The leaders of the governments of Manitoba and Saskatchewan, perhaps because of their ideological predispositions, have expressed support for federal

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43. ‘‘Strategie industrielle et investissement étrangers’’, 27 mars, 1972 (mimeo).
44. Mimeo.
restrictions on foreign ownership. At the Federal-Provincial Conference of November, 1971, Premier Schreyer of Manitoba called for steps by which "Canada might free itself as much as possible from the restrictive ties which for decades have made our country subject to undue influence from American political decisions and economic fluctuations — steps which included "monitoring" multinational enterprises to ensure that Canadian jobs would not be lost as these corporations shifted production back to the United States to take advantage of American subsidies and using American dollar reserves of the Bank of Canada to buy Canadian control of major foreign corporations. In a speech to the Canadian Club of Toronto on January 19, 1973 the Manitoba Premier recommended joint public-private ventures in the development of Canadian natural resources and suggested a further mobilization of domestic capital, much now invested in U.S. securities, for Canadian development. Premier Alan Blakeney of Saskatchewan has also been critical of what he has regarded as the unduly cautious approach of the Trudeau government to foreign investment, and in particular of the Prime Minister's statement of May, 1972 suggesting provincial action in respect to this matter. I have not yet discovered statements of the N.D.P. government of British Columbia about foreign ownership, although its ideological predispositions would be close to those of Manitoba and Saskatchewan.

Alberta defines its interests on the foreign ownership issue largely in terms of the exploitation and development of natural resources and is likely to oppose any federal policies which are perceived as likely to decrease investment in resource development. The emergent strategy of the Lougheed government in respect to resources is in the direction of a more coherent economic nationalism than exists in any other province. Essentially, this strategy is toward the continued development of these resources and their sale outside the province at more favourable prices than have previously been obtained along with the building up of an industrial structure based on very cheap Alberta energy. The conditions imposed by the province on the Syncrude Corporation in respect to the Athabasca tar sands project attempt to protect the interests of Albertans as investors and employees.

The provinces thus vary greatly in their attitudes to foreign ownership and control and the Trudeau government is highly sensitive to their wishes. In an interview with the Toronto Star published on May 20, 1972 the Prime Minister referred to the urgency of the
provinces about economic development and the powers they had to deal with foreign investment. As we have seen, Bill C-132 gives the federal authorities discretion to take into account differing provincial policies and needs.

In his trip to provincial capitals in the early summer of 1972 the then federal Minister of Finance suggested a common information centre for the foreign borrowing of the provinces. Unlike many other nations, Canada has no restrictions on the borrowing of its constituent governments in foreign capital markets and in the months immediately preceding Mr. Turner’s visits such provincial borrowing had been particularly heavy and had thus contributed to raising the value of the Canadian dollar and complicating the exchange rate policies of the federal government. The provinces were understandably hostile to any suggestion of restrictions on their abilities to borrow abroad as they chose and in particular that they should pay more for domestic than foreign funds. In yet another dimension, Mr. Turner’s initiative revealed the dependence of effective national economic policies on appropriate action by the provinces.

D. Conclusions and Consequences

The response of the provinces to the failure of the new national policy to ensure adequate conditions of employment and growth was a new set of social and economic policies to mitigate these deficiencies. Provincial objectives are increasingly precise, increasingly comprehensive and increasingly sophisticated in their formulation and implementation. There is here the emergence of the not completely compatible economic nationalisms of the provinces and of Ottawa, with little effective machinery for giving authoritative resolution to the conflicts among the provinces or between national and provincial interests. The last part of this paper will discuss in a tentative way the consequences of these clashes of nationalisms on two interrelated aspects of Canadian policy (1) the narrowing of interprovincial economic disparities, particularly as this is affected by the external effects of provincial policies (2) the autonomy of Canadians in economic matters, and in particular whether in Canadian-American economic relations comprehensive rather than piecemeal Canadian strategies are possible.

We very badly need careful empirical studies of the impact of the economic policies of particular provinces on Canadians and their governments outside these provinces. What influence, for example, have Ontario fiscal policies toward full employment and growth in other parts of Canada? What are the consequences of provincial differentials in the rates of taxation on individual incomes and in the range and quality of public services for the decisions of Canadians to change their province of residence? When Ontario moves more decisively than does Quebec in the rationalization of local government in its metropolitan regions, what are the consequences for the levels of economic activity in the two provinces? What impact are the new Alberta industrial strategies likely to have on the distribution of people and wealth within the prairie region? In the absence of such analyses, only some of the more obvious externalities of provincial policies will be noted briefly:

(i) the English-language publishing industry is overwhelmingly concentrated in Ontario. What the government of that province has done and will in the future do to implement the recommendations of its Royal Commission on Book Publishing will have a direct effect on Canadians outside Ontario. (ii) provinces, and sometimes local governments, give preferential treatment to their own residents in respect to government purchasing and public contracts. With the magnitude of provincial and local expenditures on these matters we have here significant barriers to business activity. To take an important and recent example, a dispatch from Winnipeg by Roger Newman in the Globe and Mail of April 10, 1973 reported that the Toronto Transportation Commission had decided to give about nine-tenths of a $5.4-million contract for new buses to the General Motors London plant, although Flyer Industries of Winnipeg — a company “74 per cent owned by the Manitoba government — had tendered a significantly lower price. The dispatch suggested that the TTC decision was a result of pressure from the Ontario Department of Transportation whose Deputy Minister “told the TTC that preference should be given to Ontario-made buses because of the province’s serious unemployment.” (iii) in a brief presented in September 1972 to the Nova Scotia government Dean R. St. J. Macdonald and three of his

colleagues of the Dalhousie Law School argued that provincial actions in respect to the development of natural resources had characteristically paid little attention to environmental consequences and had made the United States the beneficiary of resources sold below their "true long term economic value". Further, in such developments, the provinces concerned had seldom taken into account the interests of other provinces or the country at large. The Macdonald brief documents this case with reference to the Columbia River Treaty, the export of natural gas from Alberta and projected plans for the export of Alberta water to the United States, the Nelson-Churchill development in Manitoba and the James Bay project. (iv) in their developmental policies, the provinces compete for investment capital with foreign corporations the usual beneficiaries of such competition. Philip Mathias has reported that prior to the establishment of three Michelin Tire plants in Nova Scotia there was "fierce competition; between the Quebec and Nova Scotia governments and that "Undoubtedly, the price Manitoba paid for the Churchill Forest Industries complex was affected by the need to attract it away from Quebec." (v) in provincial policies to encourage development, it is plausible to assume that growth may result in the less-favoured areas of prosperous provinces at the expense of depressed areas in other provinces. In respect to the extra-provincial impact of Ontario incentive programmes T.N. Brewis has printed out the superior financial resources of the province to provide industrial incentives and that "... the poorer regions of Ontario are not subject to such severe disadvantages as are some elsewhere. Eastern Ontario is, for example, much less remote from the large centres of population than is eastern Quebec or Newfoundland, and its prospects of undertaking profitable secondary manufacturing are, as a result, generally much greater. As for federal programs, they can be undermined by independent provincial action."

In broad terms — and in the absence of conclusive evidence — it seems reasonable to believe that provincial economic nationalisms work in the direction of widening regional economic disparities. The

extra-provincial effects of provincial policies obviously vary directly with the population of the provinces and in this respect the "have" jurisdictions of Ontario, British Columbia and Alberta rank first, third and fourth respectively. So far as Quebec and Ontario are concerned, aggressive provincial economic policies by the latter seem likely to widen the material disparities between the two. The federal government will no doubt retain its historical role in interregional equilization and in the past decade these national responsibilities have become more extensive and explicit than ever before. Yet, as Brewis has pointed out, provincial activities in economic development undertaken by the more favoured jurisdictions have the capacity of undermining federal action. Further, the long run effect of Ottawa relinquishing many of its former powers in social and economic matters may be to discourage federal governments from exacting tax burdens high enough to overcome intractable regional disparities. The role of the national government as paymaster of the provinces cannot be one for which federal politicians will have enthusiasm.

To turn to the second aspect of Canadian economic policies, Canadian-American relations in respect to these and other matters of mutual concern appear to have been compartmentalized. The Gray Report asserts "... both countries have tended to take a pragmatic approach to bilateral problems. There is a constituency in each country with an interest in any given issue, be it primarily a question of foreign ownership, agriculture or other trade matter. These constituencies usually prefer to see the two governments deal with each other in isolation and strike a balance in that area (a balance which normally turns out to be regarded as positive for each though perhaps not equal)".52 K. J. Holsti in analyzing the Canadian-American "diplomatic culture" has come to similar conclusions.53 There is he claims "... the relative absence of 'spillover' of conflict from one issue area into another". Thus "The extensive formal and informal communications network, bureaucratic specialization, and the sheer number of people working on Canadian-American relations help to reduce the probability that a conflict in one area will have much impact in other areas. If an issue is critical enough to reach cabinet level, disagreements between the two countries may have a cumula-

tive effect, but a lower levels, where the majority of problems are studied and resolved, the issues remain mostly isolated.'

It was perhaps the specificity and pervasiveness of Canadian-American relations which caused the Trudeau government to avoid devoting an explicit analysis to them in the foreign policy review whose results were published in 1970.

There is now a considerable body of Canadian opinion which asserts that the country's interests can only be served by a more integrated and comprehensive approach to its external economic environment. In terms of domestic policy, it is argued, the "key sector" approach by which from time to time particular kinds of economic activity are subjected to safeguards ensuring Canadian ownership and control is no longer by itself adequate.

Thus some kind of Canadian industrial strategy is required, a strategy which in most of its formulations contains prescriptions both for limiting foreign direct investment and for more coherent public policies than now exist for shaping the Canadian economy.

The industrial strategies which have been recommended vary in form and emphasis. However, almost none of them come to grips in any coherent way with the circumstances of divided jurisdiction over economic matters between the federal and provincial governments.

Apart from the domestic side of industrial strategy, it has also been recommended that Canadian economic strategies with the United States government be conducted in a more integrated way. The Report of the Standing Committee of the House of Commons on External Affairs and Defence recommended in 1970 that "... the Government should review the problem of coordinating all Canadian governmental dealings with the United States." In his paper presented

54. Ibid., at 394. Holsti also points out the rarity of spillovers "in a vertical sense" ie. "If the relations of the Prime Minister and the President are not cordial, there are few appreciable results on dealings at lower levels". Ibid., at 395.
55. For example, Direct Foreign Investment in Canada, op. cit., chapter 26.
57. For example, in the Canadian Forum symposium op. cit. there are in the eleven articles, mostly by professional economists, only three references to the federal-provincial dimension and those references are all incidental.
58. 33: 138.
on March 31, 1973 to a conference of the Association for Canadian Studies in the United States Senator Maurice Lamontagne elucidated the case for a comprehensive economic strategy toward the United States in more detail than had the Wahn Committee. The Canadian economy lacks an indigenous capacity for innovation and this must be remedied by a coherent science policy. The crucial manufacturing sector is weak and economic development has up until now been sustained largely through the exploitation by foreign capital of our natural resources. In the new circumstances Canadian and American economic strategies are in direct conflict. Canada requires "... a dynamic technological strategy based on the launching of a major industrial conversion and innovation operation aimed primarily at making the manufacturing sector more competitive on the world markets and resources industries more conscious of long-term interests and requirements." On the other hand, "The American government appears eager to secure greater access to our resources and to give, at the same time, to U.S. manufacturing interests more protection at home and more incentives to sell abroad." Senator Lamontagne argued that although the Americans "would prefer to deal with Canada about specific economic problems in a piecemeal basis" only a package deal can make sense from a Canadian point of view.

The recommendations of the Wahn Committee and Senator Lamontagne appear to overlook the federal-provincial dimension of the making of economic policy in Canada. Obviously any "package deal" between Canada and the United States would contain an agreement about the development of energy resources and access to these resources. The possibility of federal-provincial agreement on this matter seems remote. In a thoughtful editorial on January 12, 1973 the Globe and Mail committed on the expressed desire of Senator Henry Jackson of Washington and Secretary of the Interior Rogers Morton for a continental energy policy, "It takes two to make a deal . . . there is no Canadian 'one' to make a deal. Canada is so fractured among federal and provincial Governments on resource policy that it is more like a rabble than a unit."

A model of coherent external strategies is that of Quebec policies during the 1960s, particularly as these policies were formulated and implemented through the Department of Federal-Provincial

Affairs, later the Department of Intergovernmental Affairs. As analyzed retrospectively by the Department's Deputy Minister, Quebec's policies toward the federal government during this period were carried out in terms of a zero-sum game with the province's gains defined as the success of its efforts to safeguard and extend its range of autonomy. If this Quebec model were applied to Canada's relations with the United States it would be necessary for the new Department of American Affairs to be able, in the interests of broad Canadian goals, to control not only the agencies of the federal government concerned with particular aspects of economic policy but the provinces as well. This latter at least seems improbable.

In conclusion, the weakening of the new national policy from the late 1950s onward has led to conflicting federal and provincial economic nationalisms. William C. Hood in 1964 elucidated the three "distinguishing economic characteristics of a nation" in these terms. "The component parts are bound in what may best be described as a customs union, having no internal barriers to trade and a common external commercial policy . . . [The nation] has a common monetary system and policy, adequately supported by other policies . . . there exist a national dedication to the principle that common minimum standards of welfare and public services shall exist throughout the country . . ." By even the most tolerant application of Hood's criteria Canada can scarcely be called in an economic sense a nation.

60. C. Morin, "The Department of Intergovernmental Affairs" in Quebec in the Canada of Tomorrow (Ontario Advisory Committee on Confederation, Toronto, 1967) 5-1.
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