1989

What Went Wrong? Explaining Canadian Industrialization

Neil Bradford
G. Williams

Available at: https://works.bepress.com/neil_bradford/30/
The New Canadian Political Economy

Edited by
Wallace Clement and Glen Williams

McGill-Queen’s University Press
Kingston, Montreal, London
Contents

Acknowledgments vii
Contributors ix

WALLACE CLEMENT AND GLEN WILLIAMS
Introduction 3

MEIL WATKINS
1 The Political Economy of Growth 16

WALLACE CLEMENT
2 Debates and Directions:
A Political Economy of Resources 36

NEIL BRADFORD AND GLEN WILLIAMS
3 What Went Wrong?
Explaining Canadian Industrialization 54

PAUL PHILLIPS
4 Through Different Lenses:
The Political Economy of Labour 77

ISABELLA BAKKER
5 The Political Economy of Gender 99

GLEN WILLIAMS
6 Canada in the International Political Economy 116

JANINE BRODIE
7 The Political Economy of Regionalism 138

WILLIAM D. COLEMAN
8 The Political Economy of Quebec 160
CHAPTER THREE

What Went Wrong? Explaining Canadian Industrialization

Neil Bradford and Glen Williams

A centrepiece of the new Canadian political economy has been its far-ranging exploration of the origins and development of Canadian manufacturing. Although freely employing different research agendas and theoretical perspectives, most contributors to the new Canadian political economy have highlighted themes related to industrialism. This focus is scarcely surprising, given the centrality of industrial advancement, with its attendant explosion of innovation, technique, and trade, in the economic history of this century. And it is also not surprising given Canada’s unique participation in this industrial expansion: combining impressively large absolute increases in productive capacity with a warped industrial structure characterized by intense technological dependence, abysmally small exports of finished manufactures, and typically high foreign ownership spread through almost all key sectors. These distortions have given Canada virtually the poorest record among developed countries in industrial innovation and a cumulative trade deficit in highly manufactured end products significantly greater than $250 billion for the 1970s and 1980s.

While researchers have often coalesced around questions about what went wrong with Canadian manufacturing, both the ‘old’ and the ‘new’ political economies have explained in many ways the peculiar trajectory of industrialization. However, important methodological similarities distinguish these responses from mainstream Western political science and orthodox neo-classical economics. Canadian political scientists have typically organized their study of industrial policy around a rather confined examination of ‘the set of selective measures adopted by the state to alter industrial organization’,1 most Canadian economists have dogmatically stressed the role of comparative advantage based on factor endowment.

Political economy, in contrast, has projected a far broader scope of inquiry. Although individual practitioners have sometimes emphasized a single factor, Canadian political economy as a whole would suggest four interre-

lated preconditions for the successful study of Canadian industrialization. (1) Such work must incorporate a spatial dimension, relating Canadian manufacturing to manufacturing in more advanced centres and examining regional differences within Canada. (2) It must recognize that industrialization has largely been socially determined (rather than being the simple product of innate factors combining to produce a lack of comparative advantage) and is the result of a complex network of human choices made primarily by firms and the state. (3) It must proceed in a historical developmental fashion that builds explanation in any one period through analysing the implications of choices made by firms and the state in previous periods. (4) It must recognize that manufacturing and resource sectors are relationally linked: the relative weakness of manufacturing industries can in part be attributed to the relative strength of resource production.

In employing these general insights, most political economists have assumed that the limitations placed on the industrial development of “marginal” countries like Canada by the international system are not powerful enough to determine, in a straightforward fashion, the pattern of national development. To proceed from such an assumption would obviate the need to study the relationship between external forces and internal socio-political conflicts, which arise often over alternative strategies for promoting national and/or regional accumulation within the world economy. It would also obscure the mediation and direction of these social forces by state actors, whose policy decisions unfold within a complex matrix of constraints and opportunities, both domestic and international. However, if broad consensus exists around the need to analyze across time the development of linkages between the regional, national, and international political economies, important differences persist over how best to describe the manner in which these evolving relationships have affected Canadian industrialization. As we will discover, many of these differences are rooted in the distinctive characteristics and research demands of the three principal organizing concepts that have been used by political economists to examine Canadian manufacturing: the staples trade, foreign ownership, and social relations.

For the early staples writers, specifically Harold Innis, the exchange between countries at the centre and at the margin of the international industrial economy provided the essential backdrop for a sweeping historical interpretation of Canadian economic, political, and cultural development. Situated in this global context, Innis’s analysis began with detailed studies of the character of successive staple commodities, tracing their impact on the organization of industrial production. Innis highlighted both the obstacles to balanced economic development and the opportunities for rapid industrialization inherent in Canada’s situation. Recent inheritors of Innis’s staples framework, in pursuing his theme of obstacles and opportunities, have focused more on the evolving relationships of power - both political and
already had achieved substantial industrialism, could not be captured through models that attempted "to fit the phenomena of new countries to the economic theories of old countries."6

For the new country, industrialism was not so much the culmination of incremental developments, as it was a sudden wholesale arrival. "Industrialization of the new countries," Innis suggested, "given suitable political and social organizations, tends to become cumulative - the United States became industrialized more rapidly than Great Britain, and Canada more rapidly than the United States." Its effect on the new country was unknowable in advance: "We have been unable to interpret or predict the lines of Canada's development either because of its complexity or the rapidity, and magnitude of its changes."7 The "sweep of industrialism" across the northern half of the continent was "cyclical" - its intensity ebbed and flowed in different regions of the new country in accordance with the unpredictable rhythms of technological breakthroughs, emanating from the mature economies and applied holus-bolus to virgin natural resources. Under such conditions, said Innis, "the effects of capital investment differ materially from the gradual investment of labour and capital for which economic theory is accustomed to allow in a discussion of the dynamic state. Violent swings are set in motion according to the prediction of unpredictability."8

In the new country, Innis argued, industrialization occurred rapidly and its subsequent course was unpredictable. Whether its economic "storms" provided the foundations for stable, long-term development was far from certain. Balanced development presupposed containment of destructive tendencies. In this regard, Innis focused on the Canadian state, in particular the federal government, as the key institution managing the forces unleashed by industrialism. Hence, he saw Confederation and the National Policy as rational business-state collaborations designed to consolidate the gains from the burgeoning European demand for foodstuffs.9 These policies responded to the specific challenges facing Canada in its first experience with industrialism: to secure overseas wheat markets while integrating east-west trade flows and maintaining Canadian national integrity in the face of formidable continental economic pressures.10 State intervention provided the institutional basis for integrated national expansion based on wheat export, iron and coal mining for rail construction, and protected manufacturing - buttressed by American branch plans - for the domestic market. The political-economic cornerstones of Canada's initial Britain-centred staples-led industrial strategy - what Innis referred to as "the old industrialism" - were thus in place by the last decades of the nineteenth century.11

In the early twentieth century, Innis observed, the centre of gravity for Canadian industrial development began to shift. While dependence on staples exploitation continued unabated, the particular mix of resource products and markets was altered. Explicitly oriented to booming American
 industrialism, Ontario's minerals, pulp and paper, and hydroelectric power emerged as the leading sectors. Canada's place in the second industrial revolution would not be marked by extensive participation in its strategic electrical, chemical, or motorized machinery sectors, except through establishment of branch plants "fostered by government policy in tariffs and extension of imperial preferences." In the face of clearly established American leadership in these industries, "the new industrialism" meant for Canada the transition to new staples integrated into a continental production structure. Innis believed that the new staples industries would not herald a fundamental structural transformation of the economy. Rather, he argued, the sophisticated technical requirements of their production deepened Canada's established pattern of dependence on imports of capital and capital goods.

Moreover, Innis stressed that the rigidities—government debts and regional disparities—inherit from expansion in earlier periods not only hampered the progress of the new industrialism in Canada but became increasingly debilitating with the onset of a global economic downturn. The market collapse of the early 1930s exposed the special weaknesses and vulnerabilities of countries riding "the crest of modern industrialism": rapid growth without stability, and substantial industrialization without the capacity for self-sustaining development. "Industrialism," he concluded, provided Canada with "an abundance of goods but not the first luxury of security."

Thus, the movement from the National Policy's "wheat-coal economy" to the new industrialism was severely complicated by the Depression. The transition also witnessed the decline within Canada of the federally directed east-west trade geared to European markets. In its place, the development of minerals, oil, and gas called forth a continental-provincial focus that posed new problems for national integration. Innis emphasized the degree to which the new staples industries accentuated the regional unevenness of capitalist development in Canada. While they enabled Ontario to make substantial advances toward "an efficient, balanced, and relatively elastic economy," this progress was made at some cost to resource-producing regions: "The emergence of Ontario to maturity has brought problems for the province as well as for the Dominion. The elasticity of the economy of Ontario has been based on a wealth of developed natural resources and has been obtained in part through inelastic developments which bear with undue weight on less favoured areas of the Dominion. The strength of Ontario may emphasize the weakness of the federation."

By "elasticity" Innis meant the capacity, based on economic diversification, to make rapid institutional adjustments or adaptations in response to unforeseen external economic shocks. The peculiar rigidities of the Canadian economy accentuated the impact of these disturbances, as reliance on a few export commodities reduced overall resilience. At the same time, adjustment and stabilization were complicated greatly by the unequal effects of such shocks on different regions. Politics and the state system faced considerable constraints in the search for "elastic machinery by which the burdens imposed may be adjusted." A constitutional structure that combined "feudalism," in the form of provincial jurisdiction over land and resources, with "modern capitalism," in federal control of domestic and foreign commerce, involved "a drain on economic energies and inability to direct them effectively": "The advance of technology, which created paper from spruce and balsam and converted the vast waste areas of the Precambrian formation into a region with paper plants, power sites, and mines producing chiefly for the American market, accentuated the feudalistic character of feudalism.... The Canadian federal structure is wracked between the influence of British policies and their effect on wheat, and of American policies and their effect on minerals and newsprint."

Innis's economic history set out a reality quite unlike the one depicted by practitioners of orthodox trade and growth theory. Where they predicted cumulative progress sustained by diversification around the staples base, Innis admitted progress but saw it staggered by internal unevenness and external vulnerability. Where their neo-classical models of comparative advantage counselled reliance on the untapped direction of the market, Innis, despite his reticence in proffering policy-related knowledge, believed strongly that the state had a central role to play in mediating Canada's economic relations with the international system and in restructuting domestic arrangements to ensure equity across regions and sectors.

Offering a panoramic view of the broad contours of Canadian economic development, Innis's work captured the dynamic linkages between geography, foreign demand for raw materials, borrowed technologies, and rapid yet unstable forms of industrialization confined primarily to resource-related sectors. While he devoted little attention to potential problems arising from foreign ownership, Innis showed how industrialization in Canada took root within, and never really escaped, the constraints arising from initial reliance on staples production for advanced economies. Pointing to the special role assumed by the state under such conditions, he illustrated the shallowness of theorizing divorced from history.

Nevertheless, because it lacks a systematic discussion of the social determinants of state and business policies, Innis's economic history leaves many unanswered questions about the process of industrialization in Canada. Which interest coalitions and class alignments concretely express the unequal power relations implied by his discussion of Canada's place in the global political economy? As we know, mobilized around particular ideological conceptions of the Canadian "national interest," such alliances have frequently played determining roles at specific historical conjunctures. For example, how do we account for the choice of an inward-focused industrial
strategy like the late-nineteenth-century National Policy? How do we explain the persistent failure, described clearly by Innis, to recast this strategy when its considerable limitations became evident in the early twentieth century? Further, what explains the variations in policy approaches to staples industrialization in different provinces?

In sum, while laying out strong foundations, Innis failed to provide a complete map of the forces shaping Canadian industrialization because his materialism was insufficiently informed by consideration of social processes and political struggles. Speaking to Innis’s silences, we will see that all three streams addressing industrialization in the new Canadian political economy emphasize in different ways the role played by human agency in developing manufacturing in Canada.

STAPLES REVISITED: LINKAGES AND DEVELOPMENT

Mel Watkins made the pivotal contribution to the new political economy’s renovation of the staples thesis by transforming the rather diffuse writings of the earlier staples writers into more systematic propositions about economic development. In 1963, he distilled from Innis’s work the rudiments of a theory of economic growth applicable specifically to the “atypical case of the new country” like Canada. New countries, Watkins argued, were distinguished from underdeveloped nations by their “favourable man/land ratio and an absence of inhibiting traditions.” On this foundation, economic development organized around the familiar staple-exporting, technology-importing axis could be expected, under certain conditions, to produce manufacturing diversification around the staples base. These conditions reflected not only the economic considerations of investment opportunities arising from the production of staple commodities but also political or sociological factors related to the quality of local entrepreneurship. Important in this respect was the degree to which profits or surplus generated from staples exploitation were reinvested in the local economy, providing industrial linkages through machinery inputs for staples exploitation (backward linkages) or further downstream processing of the staple (forward linkages).

Assuming that the new country had specialized in an export commodity with potentially strong linkage effects, Watkins suggested that internal socio-political structures became the key to economic transformation. For the trajectory of the new country’s economy required investigation of local elite behavior, because the key variable was local retention of benefits from staples exploitation. Where these benefits flow outward, the “staple trap” is the likely outcome. As Watkins explained: “The real difficulty … is that staple exporters – specifically those exercising political control – will develop an inhibiting ‘export mentality’ resulting in an over-

concentration of resources in the export sector and a reluctance to promote domestic development.” Indeed, Watkins concluded, the source of inadequate performance by the Canadian economy was “an inhibiting export mentality the elimination of which lies within Canadian control.”

In this way, Watkins suggested the need to study the political bargaining, institutional structures, and ideological traditions shaping the new country’s prospects for transcending the initial limitations and power imbalances accompanying the staples trade. He warned that “staple economies are often believed to be much more at the mercy of destiny than they actually are.” Thus onset and consolidation of the “staple trap” were not attributable primarily to externally imposed constraints on investment choices in the new country. This recasting of Innis’s framework effectively established a research agenda for the new political economists continuing to probe relations between natural resources and industrialization. Indeed, we will see that the benchmark contributions of this approach are organized around the core assumption that forces in the marginal society may organize to renegotiate the relations of dominance initially structuring the staples trade within the international economy. In exploring the particular historical circumstances opening up such a possibility, these writers have traced the entrepreneurial strategies pursued by state and business elites in their quest to capture resource linkages.

H.V. Nelles has offered a rich historical analysis of the early-twentieth-century policies pursued by the Ontario government in addressing the leading sectors of Ontario’s “new industrialism” – forest products, minerals, and hydroelectricity. What factors account for the relative success and failure of Ontario’s commitment to the “manufacturing condition” which placed restraints on export of unprocessed lumber and minerals and fostered public ownership of hydroelectricity? From Nelles’s perspective, industrialization on a staples base was a multidimensional process. Starting from the province’s location within the continental production structure, its complex dynamics were discernible in the historically contingent, spatially specific interpenetration of economic structures, political institutions, and organized social forces. Nelles employed sectoral studies to illustrate the mix of factors facilitating and constraining the provincial state’s resource-based industrial strategy and, in the end, concluded that the manufacturing condition must be considered a “qualified failure.”

In lumber and hydroelectricity, the success of local business spokespersons in mobilizing public support behind their “home manufacturing” and “cheap power” campaigns pushed the provincial state to legislate against the interests of American capital and its continental supporters in the Canadian financial community. However, the institutions of Canadian federalism greatly complicated the implementation of the manufacturing condition. Ottawa’s free-trade commitments made it ill disposed to Ontario’s “na-
nationals' interventions and receptive to American complaints. Moreover, as long as other provincial jurisdictions—in this case, neighbouring Quebec—permitted the export of raw logs and unprocessed pulpwood, Ontario's achievements would be limited.

In the mining sector, Nelles argued, structural constraints embedded in the industry's technical and market conditions proved more forbidding than with lumber or hydroelectricity. The concentration of expertise in large American firms in conjunction with dependence on American capital markets presented immediate barriers to extending the processing regulations to include mineral resources. These factors materialized in the form of threatened capital strikes, downward credit-rating adjustments, and prohibitive American tariffs on Ontario nickel. At the same time, American mining interests were well organized and well represented in the Canadian political process—again, particularly at the federal level.

Written in the context of the 1970s oil boom, John Richards and Larry Pratt's study of post—Second World War developments in Alberta and Saskatchewan (Prairie Capitalism) examined state-led strategies for economic diversification around the "New West's" leading staples—oil, gas, and potash. Like Nelles, Richards and Pratt assumed that regional elites could shape and modify the accumulation process and that structural relations conditioning staples development in regional economies were not immutable across time. Initial resource endowments could be altered if external dominance over staples accumulation were challenged by politically mobilized entrepreneurship.

Richards and Pratt argued that a "nascent regional bourgeoisie" that coalesced around its provincial government could direct the transformation away from staples dependence by learning to "bargain for linked industrial developments" with major foreign resource companies. Over time, the provincial elite's experience in dealing with resource development can allow it to overcome an "initial imbalance in power and knowledge." If bureaucratic expertise and self-confidence are merged with the requisite political will, the state can capitalize on the region's comparative advantage in scarce natural resources. Whether following Saskatchewan's "social democratic" or Alberta's "dirigiste capitalist" path, strategic bargaining with external groups could provide for local retention of an increasing share of economic rents. Industrial development would then be predicated on reinvestment to build the kind of linkage effects described by Watkins in his staple theory of growth.

Prairie Capitalism remains the new political economy's most forceful elaboration of the position that state action can lead to a definitive break from the staple economy's structural deficiencies and dependent relationships. Indeed, this detailed study of Alberta and Saskatchewan institutions, elites, and policy capacities was cast, in part, as a critique of the reductionist and static view of political life that often characterized previous work on Canadian industrialization from both the staples and foreign-ownership perspectives. Whereas Nelles highlighted the blockages, located in both the institutions of federalism and the power exercised by transnational corporations, to full implementation of Ontario's industrial strategy, Richards and Pratt played down these issues. Concluding that "the ideas of politicians and the actions of governments . . . mattered most of all" in stimulating regional entrepreneurship, they assumed that the provincial state had considerable autonomy from any particular societal interests and stressed its administrative capacity to formulate and implement strategic goals.

Tracing economic development in nineteenth-century Quebec and Ontario, John McCauley's investigation of the wheat staple's legacy followed a different tack in pursuing the connection between natural resources and industrialization patterns. In contrast to the "politics of industrialization" focus common to both Nelles and Richards and Pratt, McCauley's primary concern was the broad economic conditions facilitating emergence of an "independent entrepreneurial class" in staple-producing regions. Assuming that natural endowments have provided the basis for a viable export product, two issues were crucial in determining whether the staple will become the "engine of industrial growth": alternative transport routes, ensuring that the producing region is not beholden to an outside monopoly; and sufficiently modest barriers to entry in staples-linked industries such that discrepancies in "initial endowments" between centre and margin do not pre-empt the latter's entrepreneurial initiative.

With Ontario's wheat staple, McCauley argued that these conditions were met on terms very favourable to local producers. Conversely, Quebec and the prairies offered examples of where the absence of a "good agricultural staple product, or external control over the benefits from a potentially powerful staple, resulted in flawed industrial growth. For the prairies, the dynamic of wheat-led industrialization was arrested. In a period when the scale and technologies of production were undergoing massive changes, Ontario's established industrial advantages were reinforced by Canadian Pacific's rail monopoly over commodity transport. By a similar logic, efforts of Montreal merchants to appropriate the linkages from Ontario's wheat-failed: "The increasing use of the American trade route [was] a means by which Ontario towns reduced their dependence on Montreal . . . The small-scale technology of the mid-nineteenth century had served to promote the local retention of staple-related linkages." Deprived by nature of an agricultural staple, Quebec's low-income subsistence farming led to "enclave industrialization" concentrated in a few urban centres. The province entered the age of industrialism along a "route founded on cheap local labour, in combination with external markets, capital, transportation facilities and raw materials." Only in Ontario, then, did agriculture provide a sound basis for
FOREIGN OWNERSHIP

Instead of elaborating the limits placed on Canadian industrialism by staples development, writers focusing on foreign ownership have explained that Canada's industrial weakness can be traced to the exploitative relations that accompany the foreign ownership of Canada's branch-plant manufacturing base. The opening salvos in this approach came at the end of the 1960s from both the report of the federal government's Task Force on Foreign Ownership, headed by Mel Watkins, and Kari Levitt's widely read *Silent Surrender*. Watkins and Levitt supplemented a common view that "the Canadian public interest would be served by new national policies which recognize the need for a stronger government presence to counteract the power of multi-national firms" with a comprehensive statistical overview of the towering extent but shallow performance of foreign direct investment in Canadian manufacturing.36

Levitt argued that a "new mercantilism" of large American-based multinational corporations had "recolonized" Canada. Lacking the capacity for either independent entrepreneurship or technological dynamism, its branch plants reduced their Canadian managers to passive overseers of foreign-controlled operations: "In key sectors of the Canadian economy, decisions concerning what is to be produced, where it is to be sold, from whom supplies are to be purchased and what funds are to be transferred in the form of interest, dividends, loans, stock-purchases, short-term balances, charges for management, research or advertising services, and so on, are made externally in accordance with considerations of global strategy of foreign corporations... "In this manner the free market is being replaced by internal transfers within multinational corporations. Correspondingly, inter-governmental relationships resemble increasingly those of the old mercantilist systems."37 Under such conditions, Canada's "rich, industrialized underdeveloped economy" maintained relatively high economic growth, per capita income, and industrialization yet remained unable to develop new technologies or compete in finished product exporting.

With her focus on how the national interest had been compromised by entrepreneurial failures, Levitt cleared the path for this genre's most ambitious attempt to explain the limitations of "hinterland" industrialization. In a sweeping critique of mainstream "colony to nation" historiography, R.T. Naylor argued forcefully that successful industrialism in Canada was undermined not by a general lack of entrepreneurship but by the overwhelming presence of a specific entrepreneurial class: powerful merchants and financiers. Instead of "creating profitable productive opportunities through various forms of innovative activity," commercial elites based in the staples trade actively opposed the consolidation of an indigenously controlled industrial capitalism in Canada.32 And the commercial elite's privileged position within the colonial state apparatus, amply supported by imperial powers, ensured the pre-eminence of its strategic interests.

Two alternative routes to industrialization were open to Canada in the formative years of the nineteenth century. Naylor believed: "Manufacturing industry can grow up 'naturally' from a small scale, even artisanal mode of production where capital accumulation is a largely internal phenomenon based on the reinvestment of the firm's own profits. A second path implies direct development to large-scale oligopolistic enterprise where outside capital is invested to facilitate its expansion and where the state takes an active, direct role in its growth. The outside capital required could come from commercial capital accumulation, from the state, or from foreign investment."33

Naylor contended that Canada's commercial-financial class fraction was able to impose its own peculiar variant of the second route. Its alliance with British financial capital at first channelled scarce investment funds into transport infrastructure for staples export; later, its support for National Policy tariffs amounted to a policy of industrialization by invitation, where American direct investment was welcomed, leading to an extensive network of branch plants. These initiatives, Naylor observed, were the legacy of an archaic mercantilist ideology still dominant within the colonial state, favouring low-risk investment outlets and maximum inflow of foreign productive factors. Starved for financing by the banking community and overwhelmed by the state's support for American branch plant industries, nascent Canadian manufacturers were marginalized in an economy increasingly oriented to large-scale, staple-related enterprises. Their stultification extinguished the possibility of independent capitalist industrialization and produced "inefficient, non-innovative, and backward industrial structure with a penchant for dependence on foreign technology, foreign capital, and state assistance."34

In his studies of elite formations within the continental political economy, Wallace Clement has followed Naylor's interpretation of the relationship between class, dependence, and industrial retardation. Accepting Naylor's historical explanation for the persistent commercial bias in Canada's capitalist development, Clement attempted to advance it by unravelling the interlocking network of corporate elites held to be responsible for diverging industrial paths of the United States and Canada. He provided documentation to update, through the post-war period, Naylor's view that transnational elite linkages forged around the staples economy undermined Canadian manufacturing. A detailed portrait was drawn of a comfortable, if unequal,
partnership between Canada's indigenous elite, concentrated in finance, transportation, and utilities, and an American-controlled comprador elite directing Canada's resource development and secondary manufacturing.  

Industrial stuffing resulting from the distorted economic management of a dominant class misshapen by imperialism is also a theme developed by Daniel Drache. Canada, he submitted, has been saddled with an incomplete form of capitalism; "advanced resource capitalism," in which government intervention has been only partially able to "offset the worst effects of profit-taking, resource exploitation and industrial retardation brought about by American domination." 36 Canadian banks have been fastened by the resource trade while hopeful Canadian manufacturers have been starved of capital. Even apparently nationalist industrial initiatives like the nineteenth-century National Policy, Drache asserted, respond to an external dynamic: "It is clear that neither the state nor the capitalist class controlled or even set the pace of Canadian development. The motor forces of development clearly lay elsewhere. State and capital could react; they could influence; they could take initiatives; but they could not control in any fundamental way what happened. They were a subservient state and bourgeoisie, continually on the defensive reacting to events over which they had no real control." 37

For Gordon Laxer, the Naylor thesis approached the question of Canada's "aborted" industrialization too narrowly. Using a "modified Gerschenkron approach," he attempted to demonstrate that Canadian manufacturing "held its own with other late follower countries at the end of the nineteenth century" and was poised with countries like Sweden and Japan to progress toward an independent, fully developed industrialism. 38 While agreeing that the early-twentieth-century rise of branch plant production sealed the unfortunate fate of Canadian manufacturing, Laxer explained that this was not the inevitable outcome of political and economic domination by a dependent commercial ruling class. "Instead of pointing a finger at Canadian capitalists for not protecting their own bailiwick," he said, "I have indicted the whole of the social formation." 39

In other "late-follower" countries, the political power of the subordinate classes had produced conditions favourable to the development of a nationalist industrial strategy often associated with the pursuit of military objectives. However, Laxer asserted, Canada's agrarian and working classes were relatively weak, sectionally divided, and generally incapable of mounting a serious challenge to "big capital." As well, military defence was left to the British and the Americans. Accordingly, "Canada did not develop a domestically-owned and innovative engineering industry under the protective care of an independent military policy." 40

A more fundamental critique of Naylor's position can be found in the work of Glen Williams. Focusing on the failure of Canadian industry to become internationally competitive, he has taken direct issue with the assumption that foreign direct investment broke the back of either an existing (as in Levitt and Gordon Laxer) or potential (as in Naylor, Clement, and Drache) class of independent Canadian manufacturers. Instead, Williams has stressed the essential continuity in the various periods of industrial expansion that followed the National Policy. This continuity stems from the logic imposed on investment decisions of firms and the state by Canada's unique location within the international political economy. 41

During the earliest period, this meant an import substitution industrial (ISI) strategy characterized by extreme technological dependence and orientation to the domestic market. Once ISI was established as the prevailing pattern, it became progressively more difficult for firms to risk capital on developing world-competitive, export-oriented manufacturing. US branch plants, whose growing dominance in Canadian manufacturing could be explained largely by their initial location in the growth industries of the twentieth century, simply reinforced and further institutionalized the earlier ISI model by becoming "Canadian regional" production centres within the continental economy.

Williams has also taken issue with the "dependent state" position typical of the foreign-ownership school, suggesting that the Canadian state system not only has the capacity to challenge branch plant production but might, under certain conditions, even use it. 42 However, in spite of sometimes detailed appreciation by our political and bureaucratic elites of the many deficiencies of the ISI model, both the power of foreign capital in the Canadian economy and the prevailing anti-imperialist orthodoxy of officials have made the state loath to implement corrective policies. Williams' most recent work has recorded the serious challenges to the ISI régime's stability caused by the economic and trade dislocations of the last decade. As well, he has surveyed the various adaptive strategies employed by firms and the state in attempting to cope with the new international environment. 43

Turning away from this approach's historical debates about the origins of Canadian industrial weakness and returning to the Watkins-Levitt call for "new national policies. . .. to counteract the power of multinational firms" in Canada's manufacturing sector, many authors have argued for a state-directed industrial strategy. The Science Council of Canada, in general, and John Britton and James Gilmour, in particular, struggled to flesh out an often elusivey imprecise slogan. 44 Because of the branch plant economy's failure to provide for "technological sovereignty," the Science Council, with others, like Abraham Rotstein, has argued that an industrial strategy must be a precondition for any move toward Canadian-US free trade. 45

James Laxer has long been a proponent of an industrial strategy. He first began to warn in the early 1970s that a declining American empire would mean deindustrialization for Canada. 46 In the 1980s, suggesting to the left
that Canada faces a greater crisis in production than in distribution, he has contended that Canadian free trade will strip Canada of the ability to mount an industrial strategy at the time it needs one most. He finds considerable irony in this situation: “The East Asian economic miracle has decidedly not been based on the individualistic model of competitive economy favoured in the United States. Rather, it has been based on the synergy between public and private sectors which takes advantage both of long-term strategic planning and of competition. . . . We will be adopting the American model in spite of the fact that our own economic history in Canada gives us a model far closer to the one that has been emerging elsewhere in the industrialized world.”

SOCIAL RELATIONS

Employing various approaches within Marxist or neo-Marxist class analysis, writers interested in social relations have sought to understand industrial development in a broader social context than can be found in the simple bipolar relationship between capital, domestic or foreign, and the state. Although the capitalist class is given a central and ultimately determining role in the growth of manufacturing, weight is also placed on the particular contribution of the working class and other subordinate classes. As we shall see, these popular social forces are seen to be an important moderating influence on the direction of industrial expansion both through the elaboration of state policies and within the accumulation process itself.

Recording the place of labour and farmers in the origins of Canadian manufacturing, H.C. Pentland and Stanley Ryerson broke ground during the 1950s for those who subsequently followed in the new political economy. The prelude to Canada’s industrial revolution, they agreed, was the 1850s. During this decade, the first explosion of railway building occurred. The railways were to become the key to consolidation of a Canadian domestic market and laid the groundwork for transformation of craft production through application of more advanced industrial techniques.

In Pentland’s view, the 1850s provided for “a mature capitalist labour market with, on the one hand, adequate supplies of skilled workers and an abundance of cheap unskilled labour, and, on the other hand, the sustained demand that would retain them in the market.” Through the free availability of skilled immigrant workers from Britain, Canadian factories enjoyed considerable savings in time and capital as they adapted to the modern technology and impersonal labour discipline of the new industrial capitalism. Ryerson stressed the manner in which the investment capital required for industrial transformation represented a social product historically accumulated from the labour of the subordinate classes. “Merchant’s capital, accumulated in the fur-trade through profit extracted from the labor of Indian trappers and French-Canadian canoemen, merged with capital derived from land-company speculation, exploitation of settlers and the farming community; and thence to banking operations, railway speculation and profiteering, and the commandeering of the government apparatus and public exchequer.”

Introduced in Ryerson’s and Pentland’s work, the contribution of labour to the trajectory of Canadian industrialization has also been a theme within the new political economy. Greg Kealey has observed that as Canadian industrial capitalism progressed toward “maturity” in the last three decades of the nineteenth century, the working class struggled to keep pace as production shifted from an artisan to a machine base. Workers reacted both by looking for ways to slow the onslaught of new technologies and by recognizing that “their strength no longer lay in their skill but rather in their ability to organize all workers.” This organization involved both formation of trade unions and a search for labour influence within the political process. Through examining the decade after 1900, Paul Craven has emphasized that the craft-based unions that then dominated Canadian labour “were dragged extremely reluctantly, and with faces firmly turned toward the past,” into the new industrialism. Neglecting the interests of workers in mass-production manufacturing and defending instead “the old aristocracy of craft,” the newly organized Trades and Labour Congress (TLC) greatly restricted the potential influence of Canadian labour on the character of modern Canadian industry. With acceptance of the “employment hierarchy” at the heart of the craft model, the TLC was concerned with simple “fairness” rather than “equality.” Craven believed that its emphasis on making a fair bargain in the market place reaffirmed the legitimacy of the existing economic order, without raising complementary questions about distinctions between employer and worker.

Leo Panitch has outlined a more structural relationship between industrialization, the accumulation process, and the character of Canadian labour. Canada’s position in the international and continental political economies dictated that on a world comparative basis Canadian workers constituted a relatively “high wage proletariat.” This meant that “industrial production in Canada had to expand on the basis of relative surplus value, the application of extensive fixed capital to the production process to expand labour productivity, and not on the basis of cheap labour with the extension of working hours and absolute immiseration of the direct producers” as it did in less favoured parts of the world capitalist economy. With a later start and more limited domestic markets, Canadian manufacturers were inevitably led to dependence on US technology and investment. “Thus the very struggles of the Canadian working class . . . over the shorter work week, factory disci-
pline, the importation of cheap foreign labour, or resistance to wage cuts,” Panitch argues, restricted the potential for the evolution of a Canadian industrialism not dominated by American branch plants.53 The new political economy has also investigated the manner in which the subordinate classes have helped to shape the essential elements of state industrial policies. Kealey has argued that working-class support for National Policy tariffs was key to the 1878 electoral success of the Conservatives. A populist wing of the Tory party eagerly pursued this “cross-class political alliance,” and labour, in the context of unemployment and bad times, responded to the point where “the 1878 campaign in Toronto was fought almost entirely on the issue of protection and its effect on the working class.”54

Craven and Tom Traves have offered a three-class model to account for the subsequent evolution of the first fifty years of National Policy industrialization. Unlike countries where industrialism polarized society into direct confrontation between workers and capitalists, National Policy economic development also produced a powerful agrarian petite bourgeoisie. Thus the complex politics that framed the industrial tariff produced “grounds to unite class interests as well as divide them.” Workers and manufacturers found common cause as an “industrial interest,” farmers and workers intersected as “producing classes,” and industrialists and farmers joined together as “propertied classes.” However, as industrial capital “gradually consolidated its power at the expense of the others, it found it increasingly necessary to build such cross-class alliances. Instead, its priority became to forestall the possibility of an alliance against itself: hegemony, once established, must be maintained.”55

Traves’s own work on Canadian industry from the First World War to the Depression documents the difficulties of maintaining this hegemony in the face of organized resistance from the subordinate classes. Despite the desire of industrial capital to use the state to structure and regulate the market on its behalf, “there was never a simple translation of economic might into political power.” Instead, politicians had to learn to “tread carefully between powerful corporate interests and outraged public opinion.”56 Nowhere is this more clear than in Traves’s description of how popular forces were able to decisively influence the automotive production regime in Canada: “It is clear that after 1926 political and institutional imperatives affected the course of structural change in the Canadian industry at least as much as the changing nature of the market... Once automobile prices became the focus of class and sectional politics in Canada the industry was especially vulnerable to pressures to change the terms of the tariff schedule under which it operated. After 1926 these forces, together with changing market conditions and altered entrepreneurial capacities, decisively reshaped the environment within which auto producers made their investment decisions. Ultimately the auto industry adapted to changed circumstances, but adaptation was slow and hesitant.”57

Confirmation of the potency of subordinate classes in pushing and pulling state industrial policies has also been recorded since 1945. Lying at the heart of Quebec’s Quiet Revolution, according to William Coleman, was a project for industrial renovation bringing together the common interests of three classes in allowing “the francophone community to become a full participant in the advanced industrial economy of North America.” While the francophone business class saw obvious opportunities in extending its sphere of operation, the nationalist middle class believed that a new francophone “capitalist order could be directed so as to be compatible with the established culture of the French-Canadian community.” Organized labour, meanwhile, hoped that the strengthening of francophone enterprises would prove “a means of regularizing the business cycle and stabilizing employment.” All three classes coalesced around the 1960 program of the Parti liberal calling for state intervention both to increase French-Canadian control of the Quebec economy and to extend industrial development through processing of Quebec’s resources within the province.58

Wildly successful at first, this alliance ultimately broke apart over issues such as the degree of government intervention, layoffs and instability attending industrial restructuring, and competing views of cultural nationalism. Ironically, Coleman notes, the more successfully integrated into North American production “the francophone capitalist class becomes, the less interested in nationalism it is likely to be.”59 However, important sections of the organized working class channelled into the independence movement their disenchantment with the failure of the Quiet Revolution to increase job security.

Subordinate classes also play a meaningful role in Rianne Mahon’s account of the restructuring of Canadian textile manufacturing in the wake of post-1960s tariff liberalization. The changing tariff regime, Mahon believes, was in the interest of the “hegemonic” resource-exporting or staples fraction of the Canadian capitalist class, and the burden of much of her analysis is to demonstrate how labour became marginalized in the formation of state policies to cope with industrial restructuring. Faced with potential deindustrialization in their industries as tariffs fell, textile and clothing unions attempted in the late 1950s and the late 1960s independently to lobby the state for a “corporatist planning” solution, involving unions, corporations, and the government. Because of the organizational fragmentation of the unions concerned as well as the generally weak representation, compared with western Europe, of Canadian labour within the federal state structure, they met with no success.

It was through a producer-initiated and -led alliance that labour was eventually able to gain some leverage in the policy process. In a period
"marked by generalized labour militancy," and given the Quebec base of textile production, the Canadian Textile Institute was able to establish a connection between the plight of the manufacturers it represented and "the state's more fundamental concerns: labour unrest and Quebec separatism." And so "the coalition led by textile capital did manage to present its case for a 'new national policy for textiles' in a manner that forced the state to recognize that inaction might ultimately place in jeopardy the staple fraction's hegemonic position." Nevertheless, subordinate classes did not play a direct role in negotiating the concessions that were made in 1971 to help textile capital modernize. "Clothing capital and labour in both industries were kept at a distance from the process... Other forces - consumers and importers - were even more marginal." Mahon warned that the outcomes for workers in other industries that face tariff-induced deindustrialization "are unlikely to be better than those provided under the textile policy," unless "labour is able to produce a decisive shift in the basic balance of power."46

Mahon's discussion of the competitive challenges posed by multilateral tariff liberalization for one of Canada's "traditional" manufacturing sectors usefully introduces broader questions about the place of subordinate classes in the ongoing restructuring and transformation of production in countries of the advanced industrial bloc. Basing their analyses on the French regulation school, François Houle, and John Holmes and Colin Leys, have traced the protracted period of recession during much of the last two decades to the erosion of the particular socioeconomic structures sustaining the Fordist régime of accumulation.62 Constructed around the relationship between mechanized mass production and mass consumption, Fordism, by the end of the 1960s, began to suffer from chronic productivity and profitability crises accompanied by intensified international competition. In general terms, industrialists have been responding by reorganizing labour markets and processes, introducing new technologies, and relocating manufacturing to low-wage sites.

Panitch has observed that firms have been seeking "to organize production so that they can respond flexibly and quickly to an environment they don't and can't control monolithically." Part and parcel of the search for flexibility have been "a strategic attack on labour." This has included heightened reliance on part-time and short-term contract work, decentralized collective bargaining which seeks to institutionalize new forms of worker identification with management goals, and extension of job ghettos in the burgeoning service sector.60

For North America, these upheavals have brought not only decline relative to the global industrial economy but also a relative shift in output and employment from manufacturing to services. As Jorge Niosi and Phillippe Faucher have documented, these trends have made "more explicit" the structural weaknesses of Canada's branch plant economy. These authors warn of the "very expensive" social costs associated with industrial decline. Increasingly, "high productivity, high value added" jobs are exchanged for "low productivity, low value added" ones.64

Female workers have been particularly affected by restructuring. While most factory workers are men, female workers are concentrated in especially vulnerable industries like textiles and electrical products. Accordingly, Pat Armstrong has argued, although more men will likely lose their jobs to restructuring than women, the future is bleak for female workers in manufacturing, "since women are concentrated in the sectors characterized by low productivity, in those targeted by the government for technological transformation and in those facing the greatest competition from abroad."65

Conclusion

Through amassing an impressive inventory of empirical studies, the new political economy has developed the most robust analytical framework in contemporary Canadian social science for understanding the peculiar trajectory of Canada's industrialization. Reflecting this strength, this chapter has reviewed outstanding contributions in three research dimensions: the staples trade, foreign ownership, and social relations. It has argued that these research foci are generally linked through four underlying methodological assumptions which stress that outcomes are socially determined and historically developed across relationally linked economic sectors and territorial spaces. Nonetheless, contributors to this field have engaged frequently in fierce internal debates on, among other things, the nature of state-society relations and Canada's position in the international political economy. Other chapters record these debates. This chapter seeks to outline what we have learned about the substance of "what went wrong" in Canadian manufacturing.

The current debate over free trade underlines the enduring importance of the research dimensions and methodological assumptions that we have identified. Bowing before the commands of the international market, free trade promises to deepen Canada's historic reliance on export of staples to the United States. This will be particularly so insofar as it is cast as an alternative to a state-directed industrial strategy as a means of adjusting to restructuring in the international economy. Here Innis's exploration of the national government's fragile capacity to mediate the impact of "economic storms" in the world economy speaks directly to the current retreat from interventionism. Equally timely is the work of the later staples writers on the regional dimension of industrialism, encompassing analyses along both the federal-provincial and Canadian-US axes. Much more work needs to be done from this perspective.66
Similarly, as it centres on the effect of technological change and the labour process, research adopting a social relations approach must be carried forward to consider in greater depth the labour market upheavals and “adjustments” that have attended liberalized trade and the international redivision of production. Further, the strategic response from the corporate sector and organized labour to both these upheavals and the federal state’s re-energized continentalist thrust must be examined through more studies of specific industries and sectors. Finally, of course, there remains the broad problem of “Americanization,” pivoting around the contemporary behaviour of multinational corporations and the effect of foreign ownership on Canada’s manufacturing prospects. We still know too little about the new roles that branch plants will be expected to play in the ongoing rationalization of continental production.

NOTES

2 Innis, Problems of Staple Production in Canada, 100.
5 Aitken, “Myth and Measurement.”
7 Innis, Problems of Staple Production, 91, 82.
8 Innis, “A Defence of the Tariff,” 150.
9 Innis and Easterbrook, “Fundamental and Historic Elements,” 368.
16 Innis, “Government Ownership and the Canadian Scene,” 96.
18 For a discussion of how the orthodox view has been manifested in Canadian analysis, see G. Williams, Not for Export, chap. 7.
20 Ibid., 62–3.

21 Ibid., 73.
22 Ibid., 63.
24 Richards and Pratt, Prairie Capitalism, 10–11.
26 Ibid., 329.
27 McCallum, Unequal Beginnings, 120, 116–17.
28 Ibid., 119.
29 Ibid., 91–2.
31 Levitt, Silent Surrender, 118–19. For contemporary illustrations of the stifling effects of foreign ownership on industrial entrepreneurialism, see Saul, “The Secret Life of the Branch Plant Executive.” For an excellent discussion of the difficulties of maintaining an independent Canadian economic policy in the face of US pressure, see Clarkson, Canada and the Reagan Challenge.
32 Naylor, “The Rise and Fall of the Third Commercial Empire of the St. Lawrence,” 3.
33 Naylor, “Dominion of Debt,” 52. See as well his History of Canadian Business, 1, 38. Volume II focuses on industrial development. A collection of more recent essays can be found in his Dominion of Debt.
34 Naylor, “Dominion of Debt.”
36 Drache, “Canadian Capitalism.”
37 Drache, “The Crisis of Canadian Political Economy,” 34.
40 Ibid. See also his “The Political Economy of Aborted Developments.”
41 G. Williams, Not for Export, chap. 2. For an explicit critique of Naylor’s position, see his “The National Policy Tariffs, 333–8.” On Glen Williams’ view of Canada’s location in the international political economy, see his chapter in this volume.
42 G. Williams, Not for Export, 169–72.
43 Ibid., chap. 9, and “Canadian Sovereignty and the Free Trade Debate.”
44 Britton and Gilmour, The Weakest Link. Also see Canada, Science Council Industrial Policies Committee, Hard Times, Hard Choices.
45 Britton and Gilmour, The Weakest Link, 153, and Rotstein, Rebuilding from Within, chap. 2, 3.
46 I. Laxer, “Canadian Manufacturing and U.S. Trade Policy.”
47 I. Laxer, Rethinking the Economy, 97–9.
48 I. Laxer, Leap of Faith, 80.
CHAPTER FOUR

Through Different Lenses:
The Political Economy of Labour

Paul Phillips

Dioptic lens: a lens used to focus light on a single plane
Prismatic lens: a lens used to correct errors of vision

The Canadian tradition of political economy – the “fusion of economic and political theory into one single social theory”1 – has been long and honourable. The “old” political economy reached its peak under Harold Innis and the Toronto school, complemented in the west by a coterie of hinterland political economists at the University of Saskatchewan. But political economy in Canada entered a “dark age” in the 1950s and 1960s with the triumph of economism, the divorce of economic theory from political and social theory. The economic crisis of the 1970s and 1980s and the failure of orthodox economics either to explain or to correct the resulting stagflation and unemployment crises brought renewed interest in political economy. The “new” political economy, however, differed significantly from the old. While the earlier political economy was hardly monolithic or homogeneous, given the differences between the metropolitan and hinterland perspectives, the differences were less in the type of “lens” used to focus on their subject than in the direction in which they chose to point them.

By contrast, the new political economy embodies a number of disparate and competing strains, most notably, the schism between the left-nationalist, dependencist school and the more classical Marxist class analysts, though it would be a mistake to see this as the only basis of “dioptic” or “prismatic” division.2 Far from being an indication of a crisis in Canadian political economy, however, vigorous competition among approaches indicates an intellectual vitality that generates perhaps equal amounts of light and heat.

The political economy approach to labour has used numerous lenses, each focusing on different aspects of the labour experience. At one extreme is labour as an abstract factor of production – a commodity used in the production of other commodities. At the other, labour is viewed as a class, both in the objective sense of its social relation to capital in production and as a vehicle of conscious social and economic change. It is viewed as an institution, in both

---

2. G.S. Kealey, Toronto Workers, 293.
5. Ibid., 128-9.
7. Ibid., 120.
9. Ibid., 136-7. See also Panitch and Swartz, From Consent to Coercion.
10. L.K. Mytelka looks insightfully at changing multinational behaviour from the perspective of the organization of technological change in “Knowledge-Intensive Production.” A quite conventionally orthodox, but recent, treatment of some similar themes is provided by Conklin and St-Hilaire, Canadian High-Tech.