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PREFACE

Every so often an issue arises which crystallizes or dramatizes for politicians and commentators alike a broader set of concerns. The

economy generally, is intimately wrapped up in the intergovernmental struggle. Thinking through a position about Bill S-31 requires a response to both dimensions.

Tupper's analysis clearly sketches out the arguments, and points to the

issues that are at stake. Not everyone will agree with his criticisms

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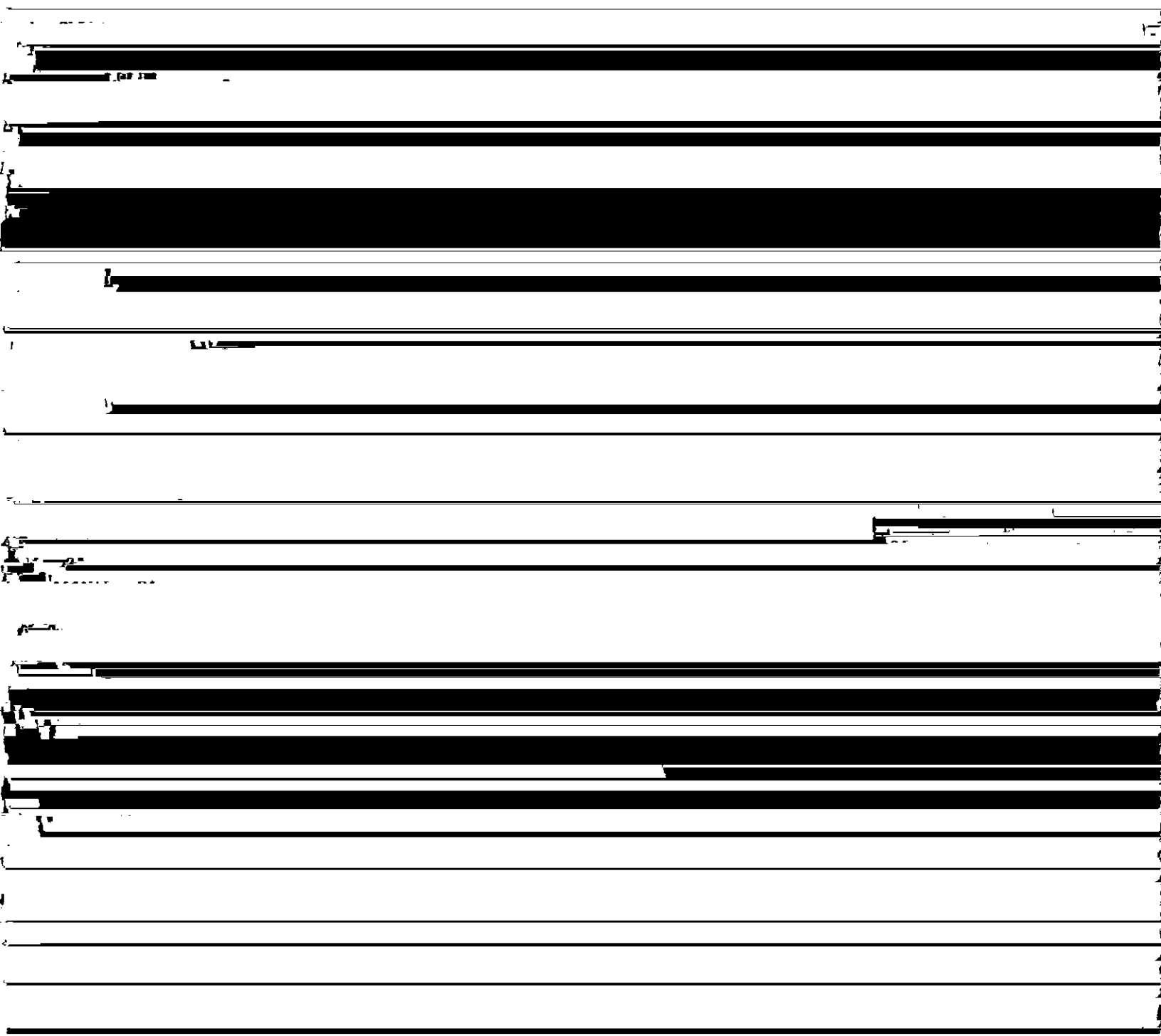
In November 1982, Canada's normally sedate Senate suddenly found itself at the centre of an important and virulently political debate. The controversy concerned the unexpected introduction of Bill S-31, The

between the federal government and certain large Canadian corporate and financial interests, notably Canadian Pacific Ltd. Ottawa's primary interest was to reduce the provincial governments' capacity to influence economic activity beyond their borders while the corporations concerned

decades all the provinces have rejected both federal policy and unhindered market forces as the prime determinants of economic development within their borders and have intervened deeply in their economies.³ However, the expansion of the provincial public sector, while general, has not been uniform across the provinces. In this vein, a particularly prominent development is the active role of the Quebec state in

NDP governments in Manitoba, Saskatchewan, and British Columbia in the 1970s helps account for some of the recent growth in provincial entrepreneurship, but their nominally more conservative counterparts in other provinces have also been active. For example, Alberta's Progressive Conservative government purchased Pacific Western Airlines, Canada's third largest common carrier, in 1974 and the government of Ontario, through

the purchase of a large oil company, has recently



The financial heart of Quebec's industrial strategy and Crown corporation sector is la Caisse de dépôt et placement du Québec. Recently described by its general manager as "an economic agent of essential importance"

investments which simultaneously strengthened francophone firms, reduced the dominance of anglophone financial institutions, and promised healthy

are specifically mentioned therein. Much to Ottawa's chagrin, the Quebec

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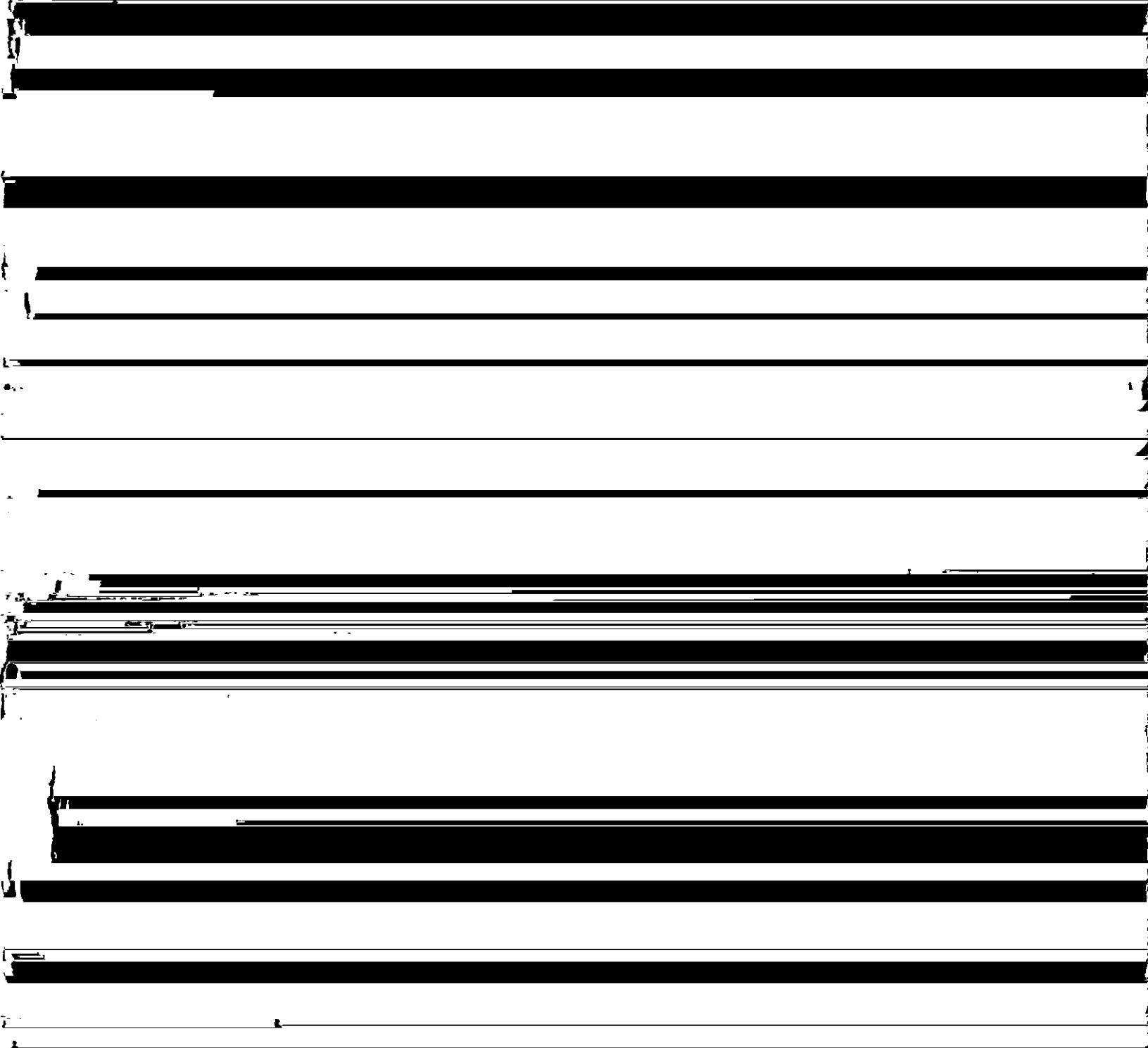
Alberta government with a pool of capital with which it pursues several objectives including the improvement of the quality of life, the development of long-term revenue to be tanned as non-renewable resources

government is itself no stranger to the world of state enterprise. Over the past decade, Petro-Canada, the national oil company, embarked on an ambitious scheme of expansion through the acquisition of private firms. In the mid-1970s, the federal government also purchased Canadair and de Havilland Aircraft of Canada, two major firms in the aerospace industry. The Canada Development Corporation acquired in the 1970s the Canadian assets of several large foreign-owned firms. The federal government also

purchase of Pacific Western Airlines (PWA) in 1974.¹⁷ Justified as a
measure necessary both to the maintenance of Alberta control over the

province's interest. In the face of continuing ideological opposition in Alberta to its ownership of PWA, the Lougheed government has moved to return the airline to at least partial private ownership. However, the recent activism of the Caisse seems to have re-ignited Ottawa's fears about provincial ownership of aircraft.

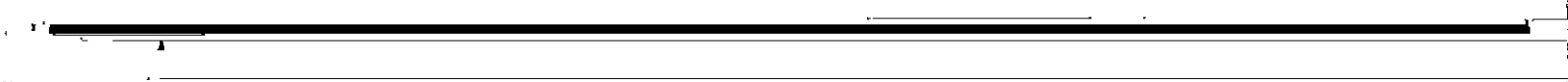
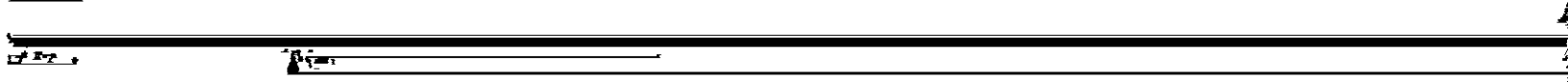
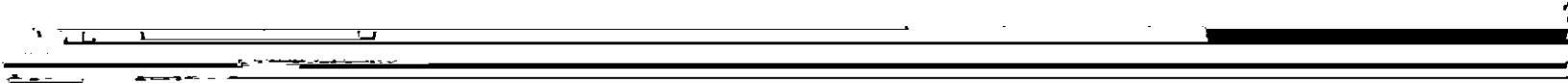
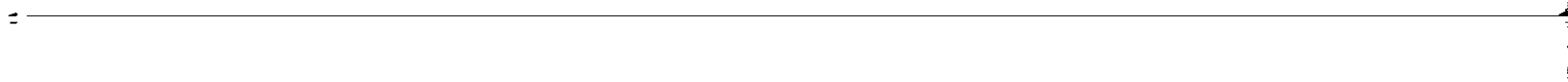
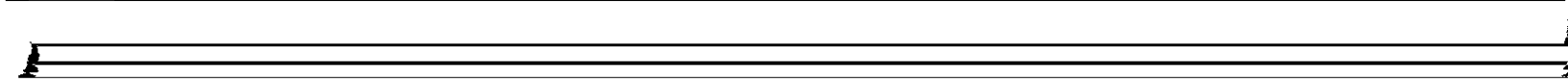
not specified. The Bill also contains important enforcement powers. Under section 8, the federal director of corporations (as designated under section 253 of the Canada Business Corporations Act) may apply to the Federal Court - Trial Division to force a provincial agency to reduce its



provincial governments as beneficiaries of the national interest.

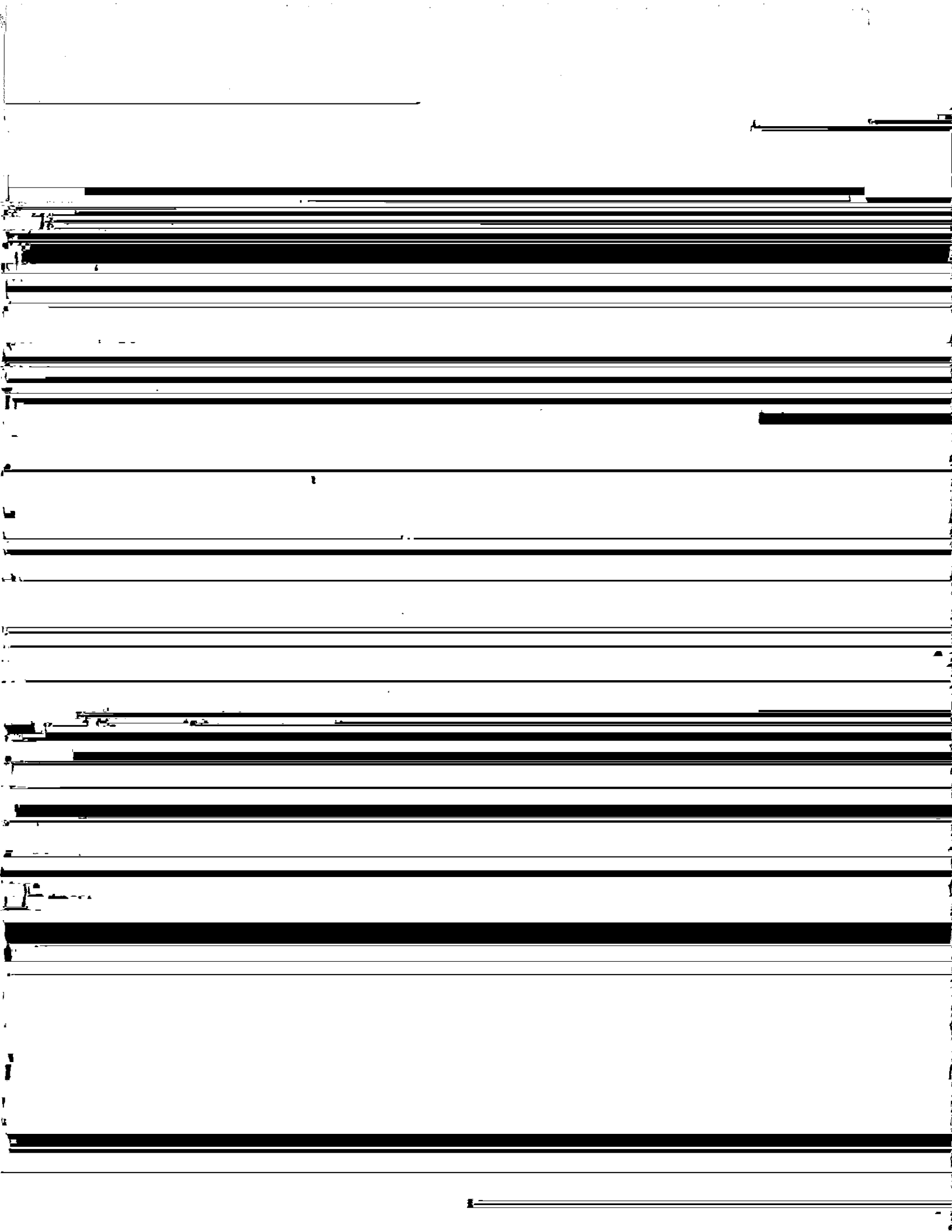
discriminate against extra-provincial interests, both public and private. The federal government, as defender of the national interest, could not allow this to happen.

God decides when it's going to rain or hail or snow or when we'll have sunshine. In a sense the private sector by making




noted that the federal government had invested \$5 billion in energy and aerospace firms over the last three years alone.²³

The most vocal private sector supporter of S-31 was Canadian Pacific Ltd. In testimony before the Senate's Standing Committee on Legal and Constitutional Affairs and in a number of public statements, CP Chairman, Fred Burbidge, revealed the genesis of S-31. He noted that CP was worried about the Caisse's intention to increase its interest in CP beyond 10 per cent and to have a controlling interest in CP.



3 THE OPPOSITION'S CASE

In decrying S-31 as a "heavy menace" to Quebec, the Parti Québécois government launched a potent counterattack. To a degree, Quebec's case rested on the obvious and appealing strategy of denouncing S-31 as a conspiracy engineered by the anglophone business elite against



In a related argument, Parizeau attacked Ottawa's contention that the Parti Québécois was practising socialism. On the contrary, the PQ government, through the Caisse and other state firms, sought to nourish a dynamic, private enterprise economy. S-31 was a calculated attack on Quebec's coherent development strategy. The Quebec government also maintained that, contrary to Ottawa's assertions, S-31 singled out Quebec, and in particular, the Caisse, for special treatment. For purely political reasons, the federal government was determined to limit Quebec's

options and to make the province follow a passive approach to economic development.

Leaving no stones unturned, Quebec argued that S-31, far from being an innocent measure, would render the Caisse impotent. The legislation was ambiguous, poorly drafted, and full of loopholes. For one thing, it applied to the subsidiaries of specified corporations and thereby provided firms hostile to the Caisse with a perfect defence. For example, a major resource firm, by acquiring a tiny interprovincial transportation firm, would be forbidden to sell to the Caisse.³⁰ Moreover, if the Caisse

politicization of corporate decision-making. They argued that the Caisse remained an autonomous institution dedicated to its dual roles of enhancing its deposits through profitable investments and promoting Quebec's economic development. Jean Campeau, the Caisse's general manager, ridiculed Ottawa's assertion that the Caisse, at the government's behest, would wilfully direct corporations to pursue "political" goals at the expense of profitability.

Bill S-31 alleges that since November 3, any share acquired by the Caisse or any share held or acquired exceeding the 10 per cent limit is acquired not for profitability purposes but for

-- their marginal position in Canadian corporate capitalism and the
commitment of successive Quebec governments to changing that situation.

of the more conservative provincial governments, notably British Columbia, argued that their opposition to S-31 did not imply support for widespread public ownership. In fact, they downplayed the Bill's implications for relationships between the public and private sectors and stressed instead its intergovernmental dimensions. For example, British Columbia argued that S-31 limited provincial options but left the field

contribution of provincial governments to economic development. On the other hand, the Conservatives who allegedly favour a more co-operative federalism are also committed to reducing the role and influence of Crown corporations. Their opposition to S-31 could easily have been portrayed as a contradiction of the latter principle. However, the government's heavy-handed introduction of S-31 and its awkward handling of the Bill left it exposed to a barrage of criticism both inside and

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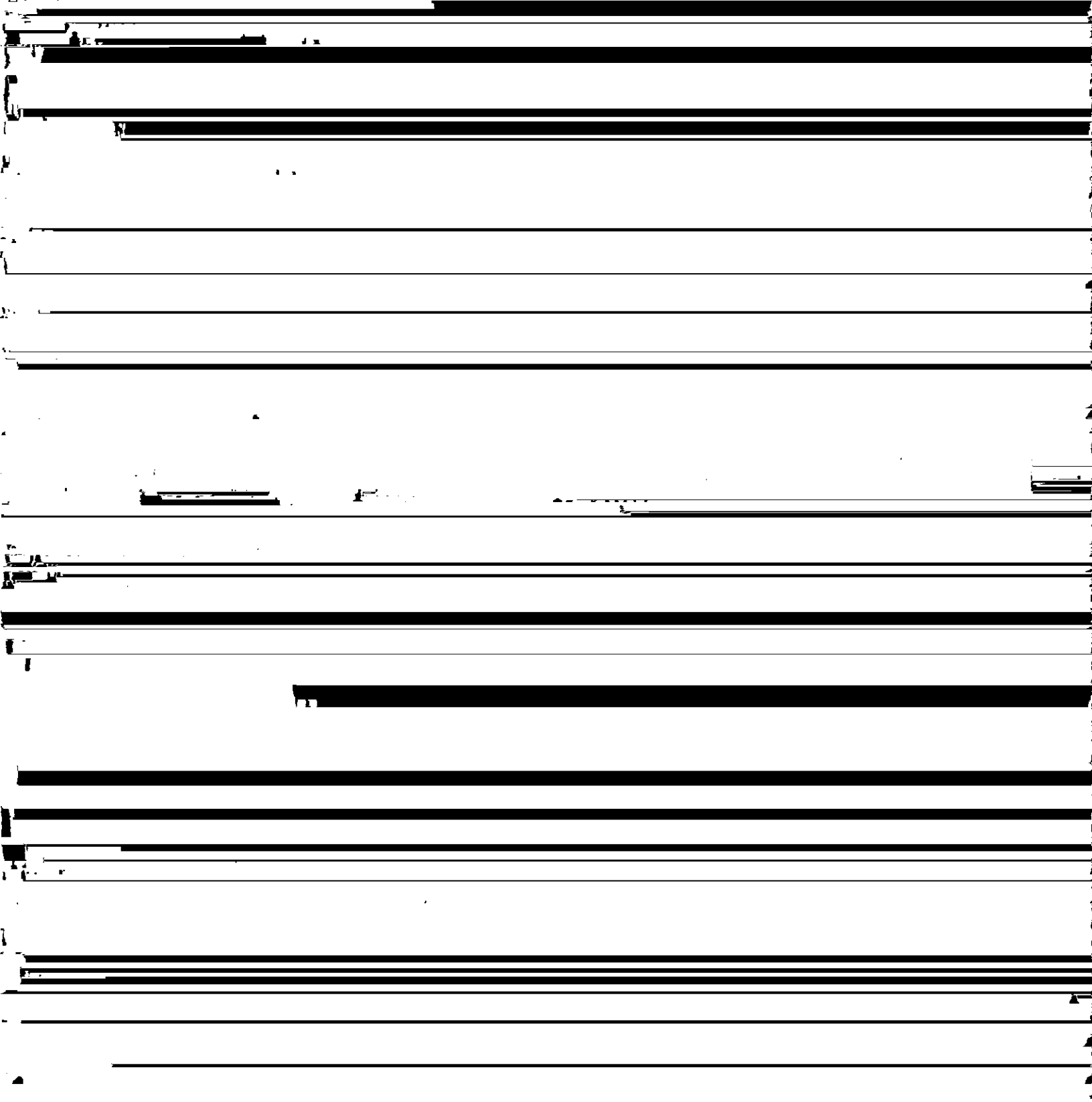
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current parliamentary session, any provincial acquisition of shares in designated firms on or after 3 November 1982 will be limited to ten per cent and without voting rights. In a bizzare way, therefore, S-31 already exerts important constraints on provincial investment in the



4 ANALYSIS AND EVALUATION

federal government and corporate interests. More fundamentally, Bill S-31 rests on the politically offensive notion that the federal government

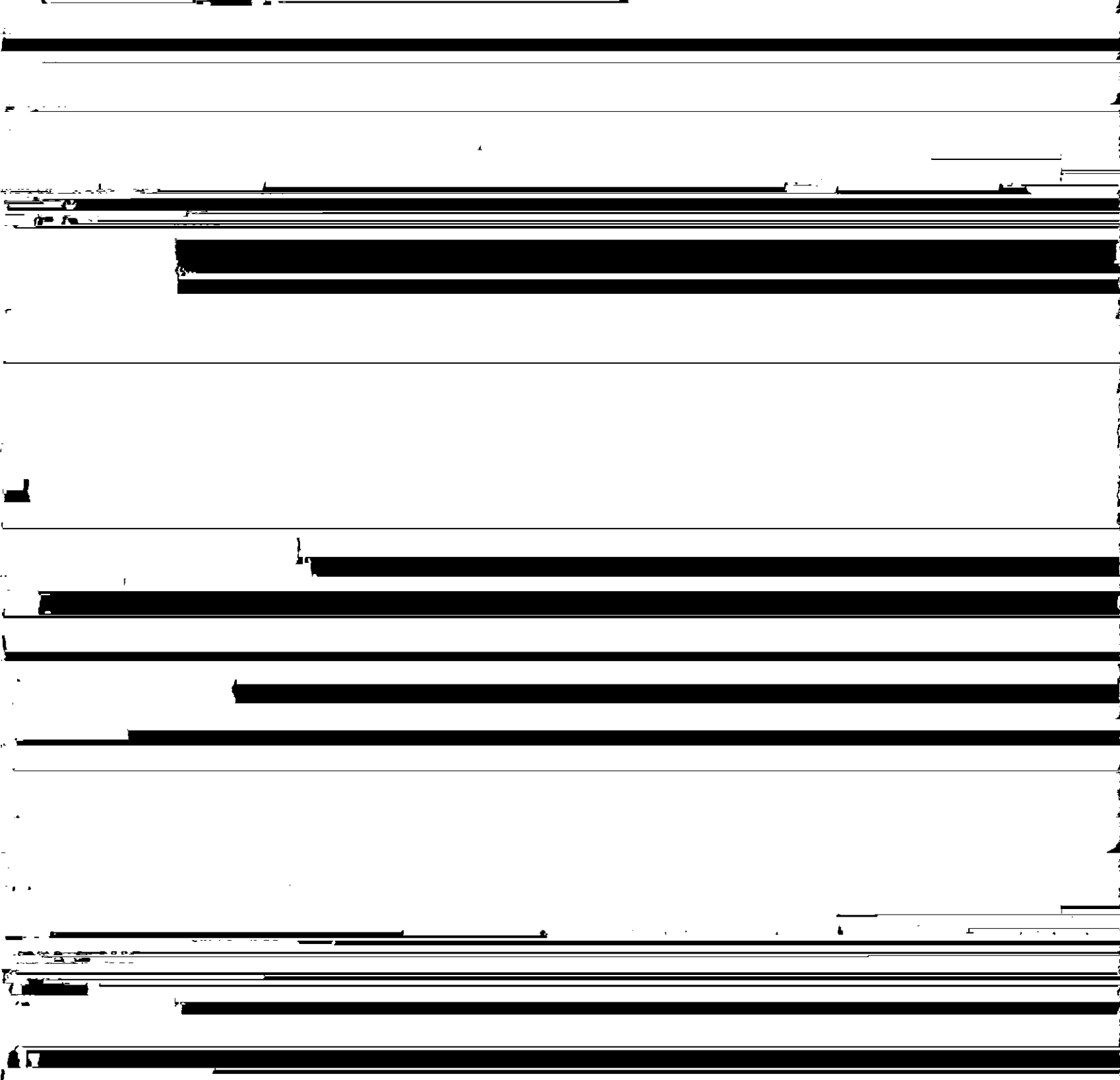
Because such institutions exhibit some vaguely defined potential for

financing and reorganization of industry, and that S-31, by limiting provincial investment options, might be enforcing a remedy worse than any

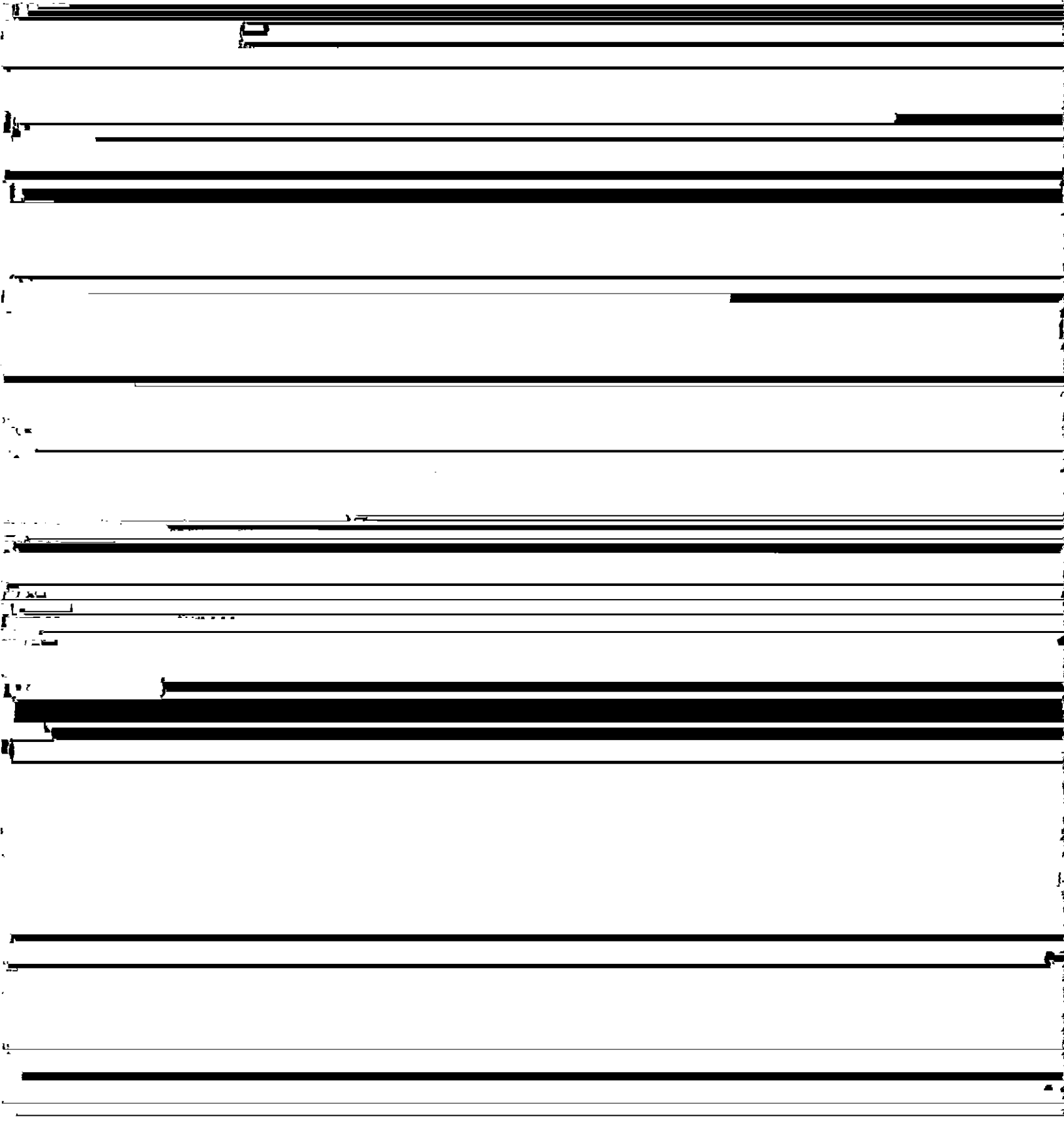
For in an indirect way, S-31 focussed attention on the essence of

S-31 is too heavily biased in favour of the former principle, too coercive, and in the absence of compelling evidence of provincial misconduct, too restrictive of established provincial institutions.

The debate over S-31 highlights the deep schism between the federal and



commitment to do so. Similarly, the omnipresent option of centralizing economic power in Ottawa, and thereby eliminating the nagging problem of economically powerful regional governments to ...



the S-31 debate exposed the outmoded conceptions of Canadian political economy that linger in business and government circles. Businessmen's opinions, with the exception of those expressed by francophone Quebeckers, emphasized and prescribed a clear demarcation between state and industry while governments generally downplayed their obvious interdependence. Perhaps by exposing the complexity of Canada's mixed economy, the storm over S-31 will bring actors' visions more in line with reality. The federalism of state capitalism will not be mastered until its advent is more broadly acknowledged.

NOTES

1 Peter C. Newman "Ottawa's new war with Quebec" Macleod's—20

10 Pierre-Étienne — "The New Parameters of the Quebec Revolution"

23. Michel Nadeau, "Les perturbations de M. Ouellet," *Le Devoir*, 19 November 1982, p. 16.
24. Senate, Standing Committee, Proceedings, 2 December 1982, p. 6.
25. Ibid.
26. Senate Standing Committee, Proceedings, 2 December 1982, p. 7.
27. Wendie Kerr, "Caisse role termed in spirit of free enterprise," *Globe and Mail*, 26 October 1982, p. B-15.
28. Michel Nadeau, "Les perturbations de M. Ouellet," *Le Devoir*, 19 November 1982, p. 16.

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