

**An Evaluation of Ontario's Industrial Policy Efforts:
1985-1995**

by

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Abstract

Both the Ontario Liberal (1985-1990) and NDP governments (1990-1995) committed themselves to pursuing activist industrial policies, but they did not successfully do so. The industrial policies of these governments were outlined, respectively, in the report of the Premier's Council, *Competing in the New Global Economy*, and *An Industrial Policy Framework for Ontario*. This thesis explores the reasons underlying the failed attempts of these governments to pursue 'third order' policy change through anticipatory industrial policies within the continental/global economy and a federal political framework. A series of 35 interviews undertaken revealed that bureaucratic and political constraints were most responsible for the failed implementation of the Liberal agenda, and political, budgetary, and bureaucratic constraints were most responsible for failed implementation of the NDP agenda.

An integrated framework, or typology, is developed in Chapter 1, that examines industrial policies based on the ideological underpinnings of policy, the type of policy pursued (anticipatory or reactive), and their scope and means of implementation. Chapter 2 presents the economic, political, and historical context in which both governments shaped their industrial policies. A number of factors came together to make pursuit of anticipatory, interventionist industrial policies at the provincial level a predictable course of action.

Chapter 3 outlines the specific industrial policies established by the two governments. While both focused on increasing competitiveness by moving to higher value-added production, the NDP agenda called for a change in the province's industrial policy focus towards problem-centred initiatives negotiated in a context of sectoral level consultations with labour, business, and community 'partners.'

Chapter 4 outlines a range of constraints that might reasonably explain the failure of these governments to proceed: globalization; international trade agreements; the constitution; bureaucratic limitations; the budget; and political dimensions.

Chapters 5 and 6 move beyond the hypothetical discussion of which constraints might impede efforts to implement industrial policies, to determination of the factors that were actual impediments to implementation. Interview results are presented which highlight the roles played by a lack of political support, and bureaucratic resistance, in constraining implementation efforts. These factors overshadowed the other constraints described above, impeding progress towards third order policy change.

Chapter 7 concludes through consideration of whether subnational economic policy-making is viable in the context of globalization. The potential role for provincial governments in using human resource policies (specifically education and training initiatives) to shape economic development, as well as information brokerage, is presented.

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Preface

Both the Ontario Liberal (1985-1990) and NDP governments (1990-1995) committed themselves to pursuing activist industrial policies, but they did not successfully do so. This study develops alternative explanations for the failure of these two Ontario provincial governments to implement their stated industrial policy objectives. While explanations such as constitutional limitations, globalization, and international trade agreements had some relevance, examination of internal policy documents and interviews with key players suggest that budgetary, bureaucratic, and political constraints were more directly responsible for the failed implementation.

The Liberal industrial policy agenda was outlined in a 1988 report, *Competing in the New Global Economy*, released by the Peterson government's 'blue-chip' advisory body, 'The Premier's Council.'¹ Despite early indications of support for the industrial policy agenda presented in the Premier's Council Report (PCR), including Peterson's role as Chair of the Premier's Council, the Liberal government did little. Upon release of the PCR, Peterson lauded the process that led to the report, while treating the substance of the report ambivalently. Rather than endorsing the contents, he stated that "this government regards the Premier's Council report with utmost seriousness. We intend to begin considering its specific recommendations immediately."² This position was even more noteworthy given the fact that the specific recommendations were more modest in their expectations of activism than was the more general agenda outlined in the PCR.

The ideological predisposition of the New Democratic Party to support an interventionist role

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- 1 For full details, see Ontario, Premier's Council, *Competing in the New Global Economy: Report of the Premier's Council, Volume I*, (Toronto: Queen's Printer for Ontario, 1988). Note that there were three volumes to this report. The first, released in April, 1988, is typically referred to as the Premier's Council Report (PCR). It will be referred to here either by title (*Competing in the New Global Economy*), or by the acronym, PCR. The second volume was subtitled *Report of the Premier's Council: Industry Studies, Volume II*; the third, *Report of the Premier's Council: Industrial Policy Studies, Volume III*. The Premier's Council as it is referred to here, is sometimes referred to as the Premier's Council on science and technology to distinguish it from the Premier's Council on Health.
 - 2 Ontario, Legislative Debates, 1st Session, 34th Parliament, April 11, 1988, 2273.

for the state in the economy suggested a government that would pursue pro-active industrial policies similar to those favoured by the Premier's Council. The NDP government committed itself to policies consistent with the earlier PCR agenda in its *Industrial Policy Framework (IPF)*, released in July 1992.³ Like the Liberals, however, the NDP government had limited success in implementing their industrial policy. This thesis attempts to explain the lack of success, and to some extent, inaction, of these two governments.

Before explaining failure, however, it is important to explain ambition. There are four reasons, in addition to their own policy statements, why the Peterson and Rae governments could reasonably have been expected to move decisively towards activist industrial policies. First, Ontario's historical record demonstrates precedents for activism in pursuing economic development objectives. Second, there was growing emphasis on regions as a focus for economic development efforts. There are good reasons that development policies focused on the region (as opposed to the nation) are increasingly appropriate to the 'global political economy.' Third, the confluence of province and region in federal systems encourages the deployment of the resources of the provincial state to advance competitive advantage at a regional level. Provincial states pursuing such policies often do so at the expense of national economic development objectives or strategies. Finally, not only does the federal system facilitate provincial activism, but the substance of federal policies occasionally encourages provincial activism. During the period studied here (1985-1995), the federal Conservative government of Brian Mulroney had signalled a decisive shift away from activist industrial policies, favouring instead more market-oriented, liberal, policies typified by the pursuit of continental free trade agreements. In 1993, the federal Liberals were elected to government, promising to move beyond free trade as the centrepiece of federal industrial policy. Although they raised expectations that they would be pursuing a more activist industrial policy agenda, these

3 Ontario, *An Industrial Policy Framework for Ontario*, (Toronto: Ministry of Industry, Trade and Commerce, 1992). This document is often referred to here as the IPF.

expectations were largely unfounded. These contextual factors are explored more fully in Chapter 2.

The Peterson government's industrial policy response to the economic, political, and historical context faced during their mandate was expressed through the Premier's Council. The philosophy underlying the PCR, including the Council's view of the role of the provincial state in meeting the challenges of the 'New Global Economy,' is evident in the stated public policy objectives. The PCR objectives provided a clear blueprint for active state involvement in shaping industrial restructuring and economic development. It stated that Ontario should:

- Encourage all industries to move to competitive higher value-added per employee activities which can contribute to greater provincial wealth;
- Focus industrial assistance efforts on businesses and industries in internationally traded sectors;
- Emphasize the growth of major indigenous Ontario companies of world scale in those trade sectors;
- Create an entrepreneurial, risk-taking culture that fosters an above-average number of successful start-ups in internationally traded sectors;
- Build a strong science and technology infrastructure which can support the technological needs of our industries;
- Improve the education, training, and labour adjustment infrastructure to levels adequate to sustain the province's industrial competitiveness and help workers weather the technological change and adjustment necessary to move to higher value-added per employee activities;
- Follow a consensus approach, like that embodied in the Premier's Council, in the creation of both economic strategies and specific programs and in the mobilization of public support for the new directions.⁴

As well as introducing innovative concepts to industrial policy making in Ontario (such as 'value-added,' and 'threshold firms'), the Premier's Council also legitimized the involvement of a range of interests, representing business, labour, and academia, in formulating provincial industrial policy. This approach suggested a movement towards a corporatist model of policy making.⁵ and

4 Premier's Council, *Competing in the New Global Economy*, 13-14.

5 An appropriate description of corporatism is offered in Arnold J. Heidenheimer, Hugh Hecllo, and Carolyn Teich Adams, *Comparative Public Policy: The Politics of Social Choice in Europe and America*, 2nd edition, (New York: St. Martin's Press, 1983), 162. Corporatist modes of decision making involve "a system of high-level bargaining and consultation between government officials and leading actors in the private economy. In essence, corporatist policy making is a process of continuing negotiation among a small number of highly organized and centralized interest groups (especially workers, employers, and professional associations) and an equally well-organized government apparatus that is obliged by law or informal agreement to consider the advice of such groups." See also Philippe

signalled a new approach to business-government relations:

[I]t is essential that government begin thinking more in terms of cost sharing with industry. Instead of maintaining its traditional role as a lender and grant-giver to industry, government must begin to portray itself and function in partnership with industry.⁶

Although some initiatives were undertaken by the Peterson Liberals in response to specific recommendations of the Premier's Council, the overall direction, which suggested a provincial government actively involved in the promotion of industrial development in partnership with labour and industry, was not taken. To some extent the successful innovations in process masked the failure of the government to implement the PCR agenda.

The Industrial Policy Framework, released by the NDP government of Bob Rae in July 1992, represented the NDP government's articulation of an industrial policy. This document embraced much of the philosophy underlying the PCR, though with a particular emphasis on sectors (rather than specific firms) as the focus for state intervention. The first NDP Minister of Industry, Trade and Technology, Ed Philip, outlined the "distinguishing features" of their industrial policy, in a message prefacing the document *An Industrial Policy Framework For Ontario*:

- It is market-led, with an active role for Government;
- It takes a broad view of competitiveness;
- It focuses on creating capabilities and promoting winning activities -- the competitive fundamentals -- rather than trying to pick the winning companies or sectors of the future;
- It is relevant to all sectors and regions of the economy;
- It takes the view that competition and cooperation are complementary;
- It treats moving to a higher value added economy as a process, not a destination;
- It recognizes that innovation is more than technological improvement;
- The industrial policy recognizes the importance of environmental issues in economic development, the contribution that social development makes to enhancing competitiveness, and the importance of fairness in adjustment;
- The policy is action-oriented. It involves government action on a variety of fronts;
- Fiscal realities shape the approach to industrial policy.⁷

As with the Liberals, the major contribution of the NDP government to industrial policy was

C. Schmitter and Gerhard Lehmbruch, eds., *Trends Towards Corporatist Intermediation*, (Beverly Hills: Sage, 1979), Wolfgang Streeck and P.C. Schmitter, eds., *Private Interest Government*, (London: Sage, 1985), and Alan Cawson, ed., *Organized Interests and the State: Studies in Meso-corporatism*, (London: Sage, 1985).

6 Premier's Council, *Competing in the New Global Economy*, 89.

7 Ontario, *Industrial Policy Framework*, ii-iii.

at the process level. The sectoral focus of initiatives such as the Sector Partnership Fund (SPF) and the Ontario Training and Adjustment Board (OTAB), positioned the NDP government to capitalize on the advantages of pursuing meso-level initiatives at the provincial (subnational) level. Although the NDP government implemented important elements of the *Industrial Policy Framework*, it also fell short of its stated intentions.

The research undertaken here outlines a range of factors which might reasonably have constrained attempts by both governments to implement the industrial policies they had presented. Despite reasonable conjecture that ‘globalization’ and free trade agreements, such as the FTA, NAFTA, and GATT, might limit the ability of governments to pursue industrial policies, there is little evidence that these were the factors that most hampered the Liberal or NDP implementation efforts. Nor were constitutional constraints particularly important in limiting successful provincial industrial policy implementation; on the contrary, the division of powers places in provincial hands jurisdiction over a number of areas considered crucial to regional competitiveness, such as education and training. Because these factors fail to explain the lack of success of these governments, alternative explanations must be sought.

Budgetary constraints facing Ontario during the period under study, particularly during the years of the NDP government, constrained provincial abilities to pursue activist industrial strategies, limiting the availability of funds for industrial policy initiatives, and thus altering the means available to government to address its industrial policy objectives. The potential role of bureaucracies in shaping policy outcomes is widely accepted. Some observers, particularly critics on the left, have argued that the bureaucracy, particularly the Ministry of Industry, Trade, and Technology (MITT), prevented the Liberals from proceeding with the PCR agenda, both for ideological reasons as well as “bureaucratic turf” protection. This belief is explored and substantiated here. Ontario’s efforts to pursue industrial policies under both governments were also hampered by inadequate political will. Despite generally supporting the message of the Premier’s

Council. Peterson was unwilling to commit the necessary resources – either political or financial – to the implementation of the agenda. Despite trying very hard to implement long-term industrial policies with a sectoral focus, the Rae government found the political challenges of governing overwhelming, requiring a focus on short-term crises. Moreover, in attempting to implement their industrial policy agenda, the NDP government faced formidable cultural barriers to change. In the face of all of these obstacles both Peterson and Rae were unable, or perhaps unwilling, to commit the resources required to turn the government’s industrial policy vision into reality.

Thesis Outline

In Chapter 1 the formal concepts related to industrial policy are introduced. Industrial policies are often utilized to pursue economic policy objectives which macro level instruments alone cannot address. Industrial policies, typically focus at the micro and meso levels (but anticipatory industrial policies also integrate macro instruments).

Definitions of industrial policy are first presented, noting the wide variations in what policies are considered to fall under the ‘industrial policy umbrella.’ Subsequently, a review of the industrial policy literature presents the relationship between state, business, and labour interests. The work of Moore and Booth⁸ is particularly useful, as it sketches a relationship known as ‘negotiated order,’ which falls midway between the pluralist and corporatist models of relations between sectoral interests. This model is used in subsequent analyses of many of the industrial policy processes introduced by both the Peterson and Rae governments. A framework for analysis of industrial policies is developed, which examines policies based on the ideological underpinnings of policy, the type of policy pursued (anticipatory or reactive), and the scope and means of such policies. This framework, or typology, provides benchmarks against which the Ontario industrial policies can be

8 Chris Moore and Simon Booth, *Managing Competition: Meso-Corporatism, Pluralism, and the Negotiated Order in Scotland*, (Oxford: Clarendon Press, 1989).

measured.

Chapter 2 presents the economic, political, and historical context in which both governments shaped their industrial policies. The intention of the chapter is to make the case that a number of factors came together to make pursuit of anticipatory, interventionist industrial policies at the provincial level a sensible, indeed predictable, outcome.

Economically, it makes sense for provincial governments to respond to regional economic needs. Globalization generally discourages national economic development responses. Provinces are ideally suited to respond to the needs of regions. There are historical precedents in Canada -- in Ontario dating back to the turn of the century, and in Alberta during the 1970s -- for provincial governments exercising their constitutional powers to pursue industrial policies which were not complementary to federal initiatives. The efforts of the Peterson and Rae governments to pursue activist industrial policies at a time when the federal government was pursuing continentalist, laissez faire policies, would be consistent with these precedents. Moreover, by abandoning industrial policies as an alternative at the federal level, both the Conservative and Liberal federal governments in power during the era in question here left the door open for the provinces to step in. Politically, the Ontario provincial governments were also responding to impulses within their parties, and within their circles of advisors, to forge industrial policies. Influential factions within the NDP, in particular, wanted to see policies of 'progressive competitiveness' implemented, advancing the province's competitive position within a context favourable to NDP priorities such as worker protection.

Chapter 3 outlines the specific industrial policies established by the two governments. Both focused on increasing competitiveness by moving to higher value-added production, although the specific recommendations of the PCR were more reactive in nature than anticipatory. The NDP agenda, as outlined in the IPF, called for a change in the province's industrial policy focus, away from program-centred initiatives, towards problem-centred initiatives negotiated in a context of

sectoral level consultations with labour, business, and community ‘partners.’ This change was clearly what Peter Hall calls a change of ‘third order magnitude,’ characterized by “radical change in the overarching terms of policy discourse.”⁹

Both governments outlined ambitious policies, but neither government was able to completely follow through at the implementation stage. Chapter 4 outlines a range of constraints which might reasonably explain the failure of these governments to proceed. The effects of globalization, trade agreements, the constitution, bureaucratic constraints, budgetary constraints, and political constraints are considered. The industrial policies laid out in the PCR and the IPF are examined to see which constraints would have the greatest potential influence.

Chapters 5 and 6 move beyond the hypothetical discussion of which constraints might impede efforts to implement industrial policies. Each government’s implementation efforts are presented, and are evaluated in turn. Chapter 5 examines the attempts to implement the Liberal industrial policy, and assesses the factors which in fact impeded the industrial policy agenda. While factors such as the constitution, globalization, and trade agreements shaped the context in which implementation occurred, these factors are not found to have impeded implementation. In this case, political, bureaucratic, and budgetary constraints (in descending order) are concluded to have had the strongest negative effect.

The NDP implementation efforts (Chapter 6), were impeded by political, budgetary, and bureaucratic (in descending order) considerations. Efforts to pursue sectoral level ‘negotiated order’ would have required third order change. Change of that magnitude faces resistance at all levels — societal, business, and political. The NDP tried to impose a culture of business-government relations, characterized by cooperation and consultation, in a context traditionally dominated by competition and antagonism.

9 Peter Hall, “Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain,” *Comparative Politics*, 25 (1993), 279.

Chapter 7 presents both specific and general conclusions, and reflects on the lessons to be learned from these two case studies. Specifically, it examines the growing assumption that subnational economic policy making is viable in the context of globalization, and concludes that at best, Ontario's industrial policies between 1985 and 1995 had a marginal effect on the competitiveness of the provincial economy. Based on the examination of this era in Ontario, human resource policies (specifically education and training initiatives) may provide the greatest potential for provinces to increase their competitiveness. The general implications regarding the viability of various types of industrial policy for Canadian federalism are also examined. Given current focuses on 'reordering' the Canadian federation, the efforts of these two governments suggest that a more explicit recognition of the legitimacy of the provincial role in shaping economic development through training and labour market policies, may be appropriate.

Research Methodology

The research undertaken for this thesis has consisted of the collection and analysis of four primary types of information:

- government publications, such as the Premier's Council Reports, *Competing in the New Global Economy* and *People and Skills in the New Global Economy*, and the *Industrial Policy Framework*, indicating the stated industrial policy intentions of the Peterson and Rae governments;
- reports and submissions prepared by a variety of interests, indicating their reaction to proposed government initiatives, and/or suggesting alternative policy options;
- information, including government reports (public and internal), public accounts, journalistic interpretations, and published analyses, which indicated the directions actually pursued by the two governments; and
- 35 interviews lasting from 15 minutes to over two hours with government officials, both elected and appointed, with experience in the industrial policy field (broadly defined) during either the Peterson years, the Rae years, or both.

Before proceeding with formal interviews, a number of less formal conversations were held with government officials familiar with the policy initiatives of the two governments, to obtain initial perspectives on the issues relevant to this study. Specifically, a proper understanding of the complex relationship between the primary 'actors' for both governments was needed -- for example, the

relationship between politicians and bureaucrats, and between ministries such as the Ministry of Treasury and Economics (later the Ministry of Finance) and the Ministry of Industry, Trade and Technology (later the Ministry of Economic Development and Trade). These preliminary discussions were necessary to ensure meetings were held with 'the right people,' and that 'the right questions' were asked. Typically, these early discussions provided a 'bare bones' impression, which was fleshed out considerably as interviews proceeded. Occasionally, however, initial impressions were later discovered to be misleading.

A generic set of questions, identified in Appendix 2, was prepared. The questions were 'fine-tuned' for each interview to ensure the best possible fit between the questions asked and the experiences of the interviewees.¹⁰ Prospective interviewees were chosen to represent a wide variety of perspectives, and to provide, in the aggregate, a reasonably comprehensive understanding of the policy choices made by the Peterson and Rae governments. In total, thirty-five (35) personal interviews were conducted, at an average length of one hour. Interviews ranged in length from fifteen minutes to over two hours. Some individuals were subsequently contacted by telephone for clarification of various points of information. The thirty-five interviewees included the following former officials: two (2) premiers, four (4) cabinet ministers, eleven (11) representatives of the Premier's Council (three officials from the secretariat serving the Council, seven Council members, and one consultant to the Peterson Council), nineteen (19) officials from the Ministry of Industry, Trade and Technology (and its successor, the Ministry of Economic Development and Trade), seven (7) officials from the Ministry of Treasury and Economics (and its successor, the Ministry of Finance), two (2) officials from the Ministry of Municipal Affairs, two (2) officials from the Cabinet Office, one (1) official from the Ontario Training and Adjustment Board (OTAB), one (1) member

¹⁰ See Appendix 2 for the generic format. Some interviewees occupied relevant positions during both governments, while others served either only the Liberals, or only the NDP government. In the latter cases, opinions of the experiences of the 'other' government were often sought, but their responses were assigned less weight than those of people with experience serving that government.

of the Ontario Investment Service,¹¹ and two (2) officials from another central agency.¹² Of those individuals contacted for interviews, only one person -- a manager with the Ministry of Finance -- was unwilling to be interviewed. In one other case, an individual suggested an alternative person who would be better to talk to due to her greater exposure to the policy field.

Central to understanding the Peterson government's approach to industrial policy was the report, *Competing in the New Global Economy*, and the extent to which the government embraced the agenda outlined in the report. Respondents were asked to assess the extent to which the PCR was considered government policy, the response at both the political and bureaucratic levels to not only the specific recommendations of the PCR, but more importantly, the philosophy underlying the report, and the extent to which industrial policies *per se* were seen as viable components of the government's approach to economic development. They were also asked what factors had been most significant in constraining the efforts of the Liberals to pursue either the specific recommendations of the Premier's Council or the broader agenda underlying the PCR. Questions posed helped to flesh out the picture of the Liberals' approach to economic development. Specific questions were asked concerning the role played by the following in shaping the governments' economic development policies: the role of the Canada-United States Free Trade Agreement (FTA); electoral considerations; Peterson's prominent position on national unity issues; and the influence of organized interests.

Where the Premier's Council's report, *Competing in the New Global Economy*, provided a focal point for questions about the Liberal government, the NDP government's *Industrial Policy Framework* (IPF) provided a comparable point of departure for questions of respondents involved in the NDP industrial policy process. Respondents were asked to describe the relationship between

11 The Ontario Investment Service (OIS) bills itself as a private-sector partnership created by the NDP government on the advice of a task force of the Premier's Council.

12 The more senior official from this central agency asked that for reasons of political sensitivity, neither he/she, nor his/her subordinate be identified, nor their ministry identified. Note that these numbers exceed thirty-five. Interviewees with relevant experience in more than one ministry/agency have been 'double counted' in the sub-totals.

the PCR and the IPF, and the role played by the Rae government's Premier's Council in shaping implementation of the IPF. Questions about the constraints to implementation of either a general industrial policy or the specifics of the IPF were also posed. Respondents familiar with the NDP government's industrial policies were asked questions similar to those discussed above concerning the role played by trade agreements (the North American Free Trade Agreement, or NAFTA), constitutional reform and national unity, and interest groups, in shaping economic development policies. These questions yielded responses that rounded out the picture of the NDP government's view of the role of the provincial state in the political economy of the late 20th century.

Respondents were then asked a number of questions generally applicable to both governments. They were asked about the frequency, content and tenor of interactions with officials at the federal level. Because this line of questioning was typically unproductive in early interviews, it was often 'sacrificed' in later interviews when time constraints merited.

In search of more reflective considerations, earlier questions about the difficulties of pursuing industrial policies under regimes of free trade were supplemented with a more general question about the viability of provincial industrial policies under federal regimes actively committed to laissez-faire, continentalist policies. Does the existence of such a regime doom provincial industrial policies to failure, or, alternatively, do such policies at the federal level leave pro-active industrial policies to the subnational level by default?

Respondents were also encouraged to speculate about the prospective role of provincial governments in economic development as we move into a new century. Recent trends suggest a movement towards emphasizing human resources, through education and training (areas increasingly under provincial jurisdiction), and away from large capital expenditures on traditional industrial parks and the like. Respondents were encouraged to speculate as to whether such trends would continue.

A final line of questioning prompted discussion of the role of multi-partite bodies such as the

Premier's Council(s), aimed particularly at eliciting speculation over the role such bodies might play in the future. Is there a role for multipartite (or tripartite) decision-making in Ontario's industrial affairs? More than providing an eye on the future, as this line of questioning seems to do, it sheds light on the level of support among respondents for multi-partite decision processes.

The major shortcoming of relatively unstructured interviews is that the results of such interviews do not lend themselves to quantitative analysis. However, unstructured interviews can offer a very complete view of the policy area in question, and yield quotations that allow the reader to form his or her own impressions based on the words of those interviewed.

The conclusions drawn here are not meant to be definitive. Indeed, one objective of this study is to stimulate further discussion about the potential for subnational governments to aggressively pursue activist industrial strategies as we move into the 21st century. It is hoped that the evidence presented here entices readers to join in that debate.

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Chapter 1: Industrial Policy

1.0 Introduction

In recent years, the declining ability of macro-level interventions to address the economic needs of countries and provinces has resulted in policy-makers turning to the use of industrial policies. There are various definitions of industrial policy which are reviewed in this chapter. A number of different dimensions of, and approaches to, industrial policy (IP) are outlined but those approaches particularly relevant to provincial governments working within the context of globalization and a federal system are highlighted.

Some provincial industrial policies are strongly interventionist, while others are more market-enhancing, and thus continentalist. Because the time period studied here was dominated by the debate over free trade, the relationship between trade policy and industrial policy is examined. Provincial industrial policies cannot be intelligently assessed apart from federal policy, which was clearly committed to free trade.

Based on three previously described industrial policy typologies, an integrated typological framework is developed. Industrial policies begin with a basic ideological predisposition, from which a range of goals and objectives are derived. These objectives require governments to apply either anticipatory or reactive industrial policies, with varying scopes and means of delivery. As this chapter shows, industrial policy is often as much about process as it is about substance.

1.1 Why Industrial Policy?

Governments have traditionally used a wide range of policy instruments in pursuit of economic goals. Despite variations in the means utilized to achieve policy goals, there is a general consensus in western industrialized nations¹ that certain basic goals should be pursued. Richard Harris notes

¹ Consensus on broad economic goals is sought annually among the G-7 nations. The term Western industrialized nations, is used here to refer broadly to the nations of the OECD.

four basic goals of 'benevolent minded' policy makers:

1. a high aggregate rate of growth in average real income;
2. stability in real income, across both time and regions;
3. opportunity for meaningful employment by all citizens and;
4. a degree of equality in the income distribution consistent with a social consensus about economic justice.²

In recent decades, the range and effectiveness of instruments available to governments to achieve these goals has been constrained, forcing governments to either remove themselves from policy arenas, or to make use of different policy instruments. Heidenheimer, Hecló and Adams note that the energy crisis of the early 1970s, and the failed attempts to control simultaneous onslaughts of unemployment and inflation (i.e. stagflation), forced governments to reassess their roles in the economy:

Events of the 1970s undercut much of the earlier confidence that the rules of economic management were understood and readily translatable into sustained, non-inflationary economic growth. By the early 1980s it had to be admitted that the old sense of mastery over economic development was gone in policy-making circles....³

One outcome of this process of reassessment has been an increased interest in the development of industrial policies, and a shift in emphasis from macro-level interventions to micro-level interventions..

Microeconomic policies, such as firm-specific subsidies, allow governments to pursue economic policies in ways not available with macroeconomic policy, whether classical or Keynesian.⁴ Harris notes that the failure of both monetarist and Keynesian approaches to maintain stability and growth through macroeconomic interventions has driven the search for new approaches: "This general dissatisfaction with macroeconomic policy led some to look for solutions in the microeconomic

2 Richard G. Harris, *Trade, Industrial Policy and International Competition*, volume 13 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada. (Toronto: University of Toronto Press, 1985), 113.

3 Arnold J. Heidenheimer, Hugh Hecló, and Carolyn Teich Adams, *Comparative Public Policy: The Politics of Social Choice in Europe and America*, 2nd edition, (New York: St. Martin's Press, 1983), 161.

4 Coleman notes that "microeconomic policies...include those programs that take as their target the individual properties of sectors and firms or the economic structure of a particular region," in William D. Coleman, "Macroeconomic Policy: Dwindling Options," in *Governing Canada: Institutions and Public Policy*, Michael M. Atkinson, ed., (Toronto: Harcourt, Brace, Jovanovich, 1993), 208.

policy area. Their hopes found expression in the concept of industrial policy.”⁵ More recently, meso-level policies, addressing industrial policy at the sectoral level, have emerged as well.

A number of rationales are commonly advanced in support of industrial policies.⁶ Social democrats often advance the economic nationalist [nationalist/ provincialist] rationale for industrial policy. Howlett and Ramesh note that “[T]he economic nationalist rationale put forward by social democrats favours a state-led industrial policy to promote the nation’s interests, and especially the interests of the working class.”⁷ This view sees IP as a means to redistribute wealth among all classes (relying typically on reactive adjustment policies rather than anticipatory policies). The rash of ‘downsizing’ among corporations reporting record profits demonstrates that the benefits of ‘globalization’ are not being shared equally among all social classes. This trend encourages development of industrial policies with a redistributive element.⁸ The predisposition of social democrats towards industrial policies bolstered expectations that the Rae government, in particular, would aggressively pursue pro-active industrial policies.⁹

Mainstream liberal Keynesian-welfare political economists see policy as involving the adoption of measures necessary to correct market failures.¹⁰ In areas of high technology and hence typically

5 Harris, *Trade, Industrial Policy and International Competition*, 14.

6 Michael Howlett and M. Ramesh, *The Political Economy of Canada: An Introduction*, (Toronto: McClelland and Stewart, 1992), 227-229.

7 Howlett and Ramesh, *The Political Economy of Canada*, 229.

8 The NDP approach to industrial policy has been referred to as “progressive competitiveness,” where the progressive element is intended to ensure that working Ontarians receive a ‘fair share’ of the benefits of their labour, with those on the party’s left, particularly organized labour itself, providing ‘input’ as to what such a fair share should be.

9 During the first two years of the Liberal mandate, in particular, social democratic supporters apparently believed that NDP influence over the Liberals resulting from the Liberal-NDP Accord might encourage development of activist industrial policies. Supporters of ‘the left’ occasionally attempt to capitalize on latent support for social democratic policies within centrist parties such as the Liberals.

10 Market failure occurs when the market allocates resources in ways that are suboptimal to society. Alford and Friedland note that “Overall social needs (the public interest, the optimal equilibrium -- the language varies) are realized via public actions when private actions do not suffice.” Robert R. Alford and Roger Friedland, *Powers of Theory: Capitalism, the State and Democracy*, (Cambridge: Cambridge University Press, 1985), 45. Dolan and Vogt note that

Even when markets are competitive and performing their functions as efficiently as possible, they may not always be able to provide for the best allocation of some goods and services.

Such market failure occurs when goods have negative or positive spillover effects...or externalities....Economic theory shows that the market, left to itself, will produce too many

high start-up costs, the 'infant industry' rationale is often advanced. This view suggests that state assistance is required to induce investment beneficial to the overall economy (and/or society in general), in areas where the private sector might otherwise be unwilling to assume the risk. Such instances are considered 'market failure' because market forces alone will not allocate funds to activities considered desirable from a societal perspective.

The most commonly cited rationale for industrial policy relates to the public good¹¹ character of certain industrial inputs. The nature of technology, scientific and managerial information, and labour inputs is such that their use cannot be restricted to those paying for them. Firms therefore avoid investment costs from which their competitors also benefit. State intervention (through subsidies, tax concessions, training programs, etc.) can overcome the disincentive created by this 'free rider' problem. Brenner and Courville further explain that:

At issue here is the fact that actual output is lower than potential output because of problems that the laissez-faire policies bring about in society. The presence of risk inhibits entrepreneurial activity and leads to lower industry output. Accordingly, economic activities that have a risk component may be carried out less frequently than they should be...¹²

If the market is not capable of determining which activities 'should' be carried out, who is? Governments advocating pursuit of industrial policies apparently believe that political and bureaucratic judgement may produce 'better' decisions about the allocation of resources than does 'the market.' Even if one accepts that industrial policies can be useful tools in dealing with the challenges inherent in the global economy, there is little consensus about the form an industrial

goods with negative externalities and too few goods with positive externalities.

See Edwin Dolan and Roy Vogt, *Basic Economics*, 2nd Canadian Edition, (Toronto: Holt, Rinehart and Winston, 1984), 528.

- 11 Public goods are those goods, either privately or publicly produced, which: have high costs of exclusion, meaning it is neither 'technologically [n]or legally easy to exclude some citizens from benefitting from a policy;' and which have high availability after consumption. After one individual has enjoyed the good, there is a great deal of the good available for others to enjoy. See Mark Sproule Jones, "Institutions, Constitutions, and Public Policies: A Public Choice Overview," in *The Politics of Canadian Public Policy*, Michael M. Atkinson and Marsha A. Chandler, eds., (Toronto: University of Toronto Press, 1983).
- 12 Reuven Brenner and Leon Courville, "Industrial Strategy: Inferring What It Really Is," in *Economics of Industrial Policy and Strategy*, Donald G. McPetridge, Research Coordinator, volume 5 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada, (Toronto: University of Toronto Press, 1985), 56.

policy should assume.

1.2 Industrial Policy Defined: Policy as Function of Inclination to Intervene

The range of policies affecting industry or industrial competitiveness, growth, and development, is almost limitless. Such policy tools include overt barriers to trade (both tariff and non-tariff barriers, or NTBs), labour relations, product and environmental standards, transportation policies, public procurement, public enterprise, direct subsidies, technical assistance, infrastructure investment, regulation of foreign investment, and taxation. Other initiatives include so-called framework policies, “such instruments as competition law, intellectual property law, corporate and securities law, intellectual property law, corporate and securities law....which create the broad conditions under which winners will be able to emerge by themselves.”¹³ As outlined below, it remains a matter of considerable debate which of the policy instruments above should be employed as tools of industrial policy.

The academic literature differs considerably on how broadly to define Industrial Policy (IP). There seems to be a ‘double funnel effect’ (see Figure 1.1) related to the level of state intervention advocated. Those least in favour of proactive industrial policies argue that industrial policies are really the sum of a vast array of other policies, such as those listed above, and that specific state action encouraging industrial development is not necessary if conditions in other policy areas are conducive to economic growth. Proponents of industrial policies with moderate visions of the extent of government intervention typically define IP in more precise, narrow terms, suggesting specific courses of action, such as industrial subsidies or targeted tax expenditures, which governments might

13 Robert Howse and Marsha Chandler, “Industrial Policy in Canada and the United States,” Chapter VI in *Degrees of Freedom: Canada and the United States in a Changing Global Context*, Keith G. Banting, George Hoberg, and Richard Simeon, eds., (Montreal/Kingston: McGill-Queen’s University Press, 1996).

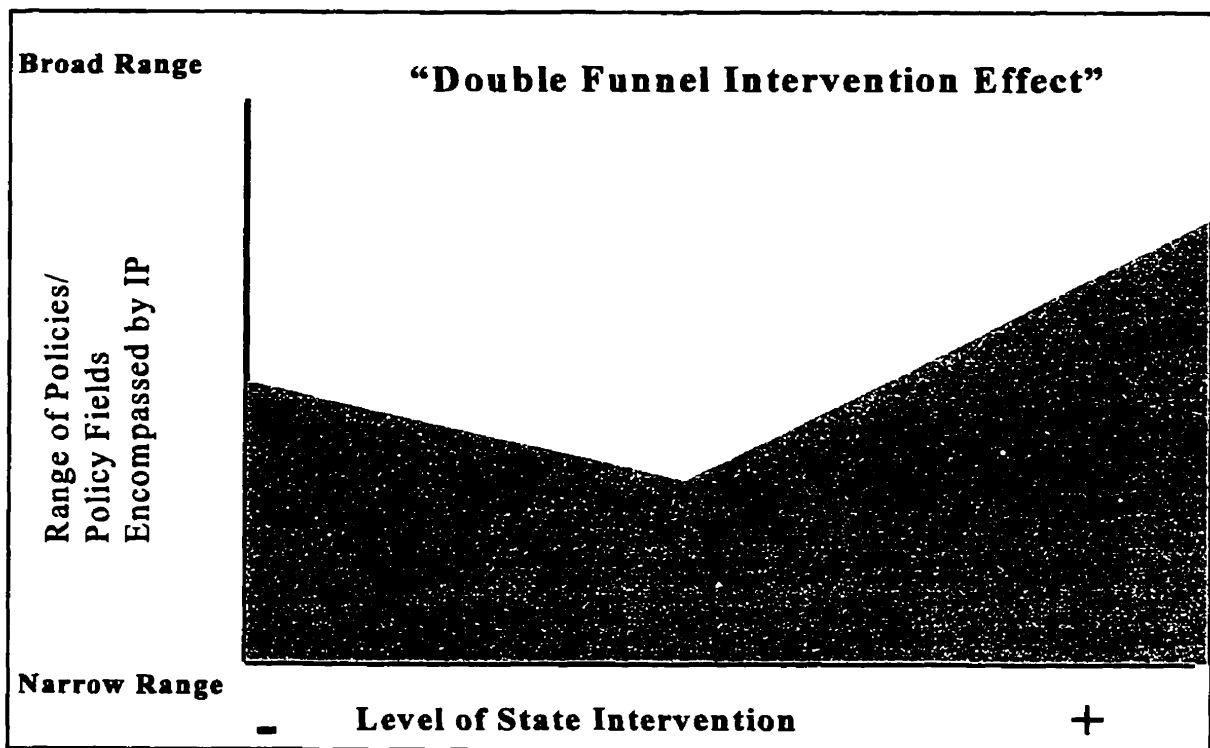


Figure 1.1 At the least interventionist point, the range of policies considered 'industrial policy' is quite broad, reflecting view that IP should be a composite of other policies, such as tax policy, monetary policy, trade policy. Advocates of greater intervention favour specific, narrow policies of industrial policy, as shown at narrow point of funnel. Those favouring highly interventionist states see IP as requiring state intervention in a wide range of policy fields spanning micro, meso, and macro levels: social policy, education policy, science and technology policy, etc.

pursue to advance development. Those who favour state involvement on the largest scale often argue that although specific industrial policies may be necessary to advance development and growth, a broader, or more holistic view of industrial strategy is required which reflects the interconnections between entire policy spheres such as economic policy, education policy, social policy and labour policy. Typically, definitions offered reflect the level of state intervention advocated.

Falling at the least interventionist (left) side of the double funnel above, the federal Royal Commission on the Economic Union and Development Prospects for Canada (RCEU) (1985) took the broad view that industrial policies are merely the sum of other economic policies. By defining industrial policy "in a broad sense to cover all government efforts to promote growth, productivity

and the competitiveness of Canadian industries,”¹⁴ and by arguing that “implicitly or explicitly, an industrial policy follows from decisions governments make regarding tax policy, trade policy and the many factors that bear upon the efficient allocation of capital and natural resources,”¹⁵ the Royal Commission effectively rejected more specific state intervention at the national level, while leaving the door open to provincial industrial policies.

Whether interventionist policies at the provincial level are complementary to laissez-faire federal policies of continentalist free trade remains debatable. In his presentation of an “interventionist-nationalist” policy orientation, Leslie notes that the Macdonald report presents a:

‘strict neutrality’ prescription...based on the presumption that businessmen are the people best equipped to size up economic opportunities and to exercise judgement about the ventures that make a good risk. Governments have a poor record at trying to second-guess the market, and when the state gets involved in large-scale ventures for economic development, the price of miscalculations runs high.¹⁶

Although this statement appears to suggest government intervention should be avoided, the RCEU leaves considerable policy room to the provinces to guide economic development.

‘The federal task is to provide a unified national framework for private economic activity and provincial activities to encourage economic development.’ In other words [Leslie notes], the framework is federal, the context is continental, and the agents are private industry and the provincial governments. Insofar as it is appropriate for government to alter the play of market forces, it would appear that the provinces are to have the active role.

Although the RCEU does not make it clear why provincial governments might be better placed than the federal government to ‘second guess the market,’ its significance is in legitimizing provincial industrial policies.

Located near the centre of our funnel are those who identify specific, targeted industrial policies as appropriate tools of economic development. The notion of specific intent is central to the view of industrial policy held by scholars such as Woodside and McFetridge. Policies which achieve

14 Canada, Royal Commission on the Economic Union and Development Prospects for Canada (Macdonald Commission), *Report*, II, (Ottawa: Minister of Supply and Services Canada, 1985), 133.

15 Canada, Royal Commission on the Economic Union and Development Prospects for Canada (Macdonald Commission), *Report*, I, (Ottawa: Minister of Supply and Services Canada, 1985), 51.

16 Peter M. Leslie, *Federal State, National Economy*, (Toronto: University of Toronto Press, 1987), 181.

various economic improvements can only be considered industrial policy if the achieved improvement corresponds to expressed policy intentions. McFetridge distinguishes industrial policies from “general factor or product market policies,” such as labour market policies, wage rates, tax policies, tariff policies, and monetary or macroeconomic management policies which can affect industrial investment decisions. These are excluded, he argues, because: “While these general policies may have the effect of encouraging the expansion of some industries and the contraction of others, they are not put in place explicitly to do so.”¹⁷ Woodside notes that “[i]ndustrial policy refers to the mix of government policies intended to enhance the productivity and growth of the economy.”¹⁸ noting, however, that a conventional definition of IP would refer only to government policies “that more directly attempt to affect economic performance.”¹⁹ Such policies can be targeted at either individuals or firms, and include both well-coordinated, intrusive, anticipatory industrial strategies, as well as unorganized, reactive policies. Woodside’s support of industrial policies is tentative, however. He suggests that Canada’s weak state tradition makes an emphasis on trade policy more feasible than an emphasis on IP, since industrial policies require a more sophisticated institutional capacity than do trade policies, which rely to a lesser degree on the “coherence and competence” of state policy-makers.²⁰

Industrial policy proponents such as Atkinson and Coleman can be placed towards the right end of the intervention funnel, advocating not only specific interventions in various industrial sectors, but also viewing industrial policy in a more holistic sense, incorporating a range of policy spheres. Atkinson and Coleman support an active role for the state in pursuing anticipatory industrial policies,

17 This rationale is open to criticism, however, as it apparently neglects the possibility that some of these policies might be put in place to explicitly encourage specific industries or industrial sectors. See Donald G. McFetridge, “The Economics of Industrial Policy: An Overview,” in *Canadian Industrial Policy in Action*, volume 4 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada, Donald G. McFetridge, Research Coordinator, (Toronto: University of Toronto Press, 1985), 3.

18 Kenneth Woodside, “Trade and Industrial Policy: Hard Choices,” in *Governing Canada: Institutions and Public Policy*, Michael M. Atkinson, ed., (Toronto: Harcourt Brace Jovanovich, 1993), 242.

19 Ibid., 243.

20 Ibid.

while recognizing that such policies may demand that conventional industrial policy instruments be augmented by much broader policy activity. They note that “[t]he demand for industrial policies is...the demand for a set of selective measures, to be adopted by the state, that will alter the structure of industrial organization to the long-term advantage of both workers and owners of capital.”²¹ This view notably avoids strict adherence to quantifiable measures such as productivity. Indeed, the ‘long-term advantage’ cited by Atkinson and Coleman may not necessarily depend on the maximization (or minimization) of such quantifiable measures, but may instead be the result of altered modes of production and decision-making that equally involve many partners, including government, capital, and labour. This perspective supports the establishment of consultative mechanisms such as the Peterson Premier’s Council and the many sectoral associations formed as a result of the NDP government’s sectoral focus.

Like Atkinson and Coleman, H.T. Wilson takes an expansive view of industrial policy, based on a belief that such policies can only be pursued within a much broader policy context. Wilson suggests that industrial policies cannot be understood if viewed only in relation to economic values, but must also be viewed through the lens of non-economic [ie. social, political, cultural] considerations:

Industrial policy as an objective must proceed from the need to fit its prescriptive requirements about doing things economic into the larger framework of non-economic institutions, values and goals.²²

This holistic approach not only suggests a broad range of policy fields relevant to industrial policy, it also suggests that provincial governments, with jurisdiction over policy fields such as education and welfare, may be more appropriately placed to ensure that industrial policy fits into this broader perspective.

While there are certainly those who oppose the idea of state intervention under any

21 Michael M. Atkinson and William D. Coleman, *The State, Business and Industrial Change in Canada*, (Toronto: University of Toronto Press, 1989), 6.

22 H.T. Wilson, “The Quagmire of Industrial Policy: A Holistic/Critical Perspective,” (Toronto: York University, 1992), 8.

circumstances, it is noteworthy that those placed on both ends of our funnel (the RCEU on the left, Wilson on the right), advocate, or at least leave room for, the pursuit of industrial policies at the provincial level.

1.3 Adding a Dimension: Provincial Industrial Policy as Function of Intervention and Decentralization

The inclination and capacity of a provincial government to pursue industrial policies depends not only on its perception of the appropriate level of state intervention, but it also depends on the inclination (and ability) of that government to pursue distinctive policies at the provincial level. How willing is the provincial government to carve out industrial policies perhaps contrary to those policies prevailing at the federal level? This section develops a matrix combining continua of intervention and decentralization, useful in conceptualizing the policies of the Liberal and NDP governments in Ontario.

Provincial governments interested in pursuing industrial policy must first determine the level of intervention they are prepared to take. Specifically, they must determine the extent to which public decision making will replace private decisions. Second, they must assess their perspective on the nature and future of federalism. This perspective on decentralization affects the tendency of distinct provincial industrial policies to be pursued, even if they are at the expense of a coherent national economic vision. These two dimensions, intervention and decentralization, are presented in Figure 1.2, entitled "Interventionist/Decentralization Matrix." The intersections along the two continua can be represented as four cells or categories of major orientations on economic policy.

Whether economic development is pursued primarily within a continental or national framework cuts to the heart of one's definition of Canada. Peter Leslie has presented three 'major policy orientations' which articulate fundamentally different views of the roles of federal and provincial governments in Canadian economic policy making.²³ By the mid 1980s, the *liberal-*

23 Leslie, *Federal State*, 164.

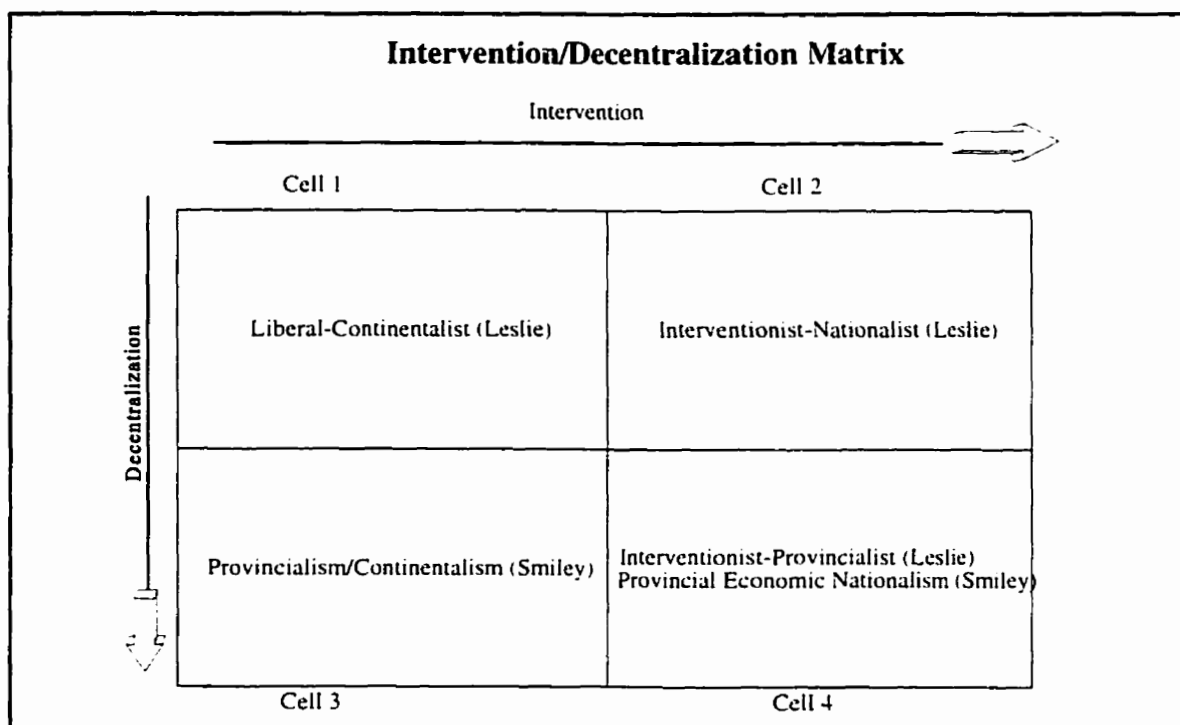


Figure 1.2

Source: Adapted from Leslie, *Federal State*, 164-171; Smiley, *Canada in Question*, 272.

-continentalist option (Cell 1) enjoyed 'pride of place' in Canada, including qualified endorsement by the Macdonald Commission. According to this view, government intervention should be neutral in relation to sector, industry, firm, and region.²⁴ Those arguing in favour of this position see economic gains maximized when governments resist the urge to shape economic development, instead allowing market forces to determine resource allocation.

The *interventionist-nationalist option* (Cell 2), involves the design and implementation of a national policy, "in which the federal government takes the lead in shaping economic development while the provincial governments play a complementary and supporting role."²⁵ The popularity of the liberal-continentalist option in both business and government circles throughout the period studied here, and the difficulty of achieving federal-provincial consensus on a national industrial policy makes this alternative the most difficult to achieve.

The view represented by Cell 3, originally articulated by Donald Creighton, equates

²⁴ Ibid., 166.

²⁵ Ibid., 181.

provincialism with continentalism. This view, recounts Smiley, suggests that Canada could only avoid national disintegration by preserving the essentials of the 1867 Confederation settlement, with national integration fostered through east-west trade.²⁶ Canadian provinces which have encouraged the development of natural resources by multinational (usually American) corporations, have thus facilitated continental integration.

The fourth view presented suggests that provincial governments pursue policies of “provincial economic nationalism,” in order to resist the integration of their economies into either a continental or a national framework. Leslie notes that despite favouring the liberal-continentalist option, the Macdonald Commission contained within it a clear rationale for this approach, which he terms the *interventionist-provincialist* option.²⁷ Advocates of this option promote the active participation of provincial governments in shaping the pattern of economic development. This “major policy orientation” corresponds most closely to the agenda articulated in both the PCR, and the IPF.

1.4 The Relationship Between Industrial Policy and Free Trade

Determining the relationship between free trade and industrial policy is important to this study because any provincial industrial policy presented would necessarily be implemented in the context of federal free trade agreements such as the FTA/NAFTA and GATT/WTO. Provincial policies neither complementary to nor compatible with federal trade policies might stand little chance of successful implementation.

The debate as to how interventionist national industrial policies should be was institutionalized in the Canadian policy community throughout the late 1970s and early 1980s. The proponents of an active state role in nurturing technological development, led by the Science Council of Canada (SCC), were pitted against those favouring free trade policies led by the Economic Council

26 Donald V. Smiley, *Canada in Question: Federalism in the Eighties*, (Toronto: McGraw-Hill, Ryerson, 1980), 272.

27 Leslie, *Federal State*, 171.

of Canada (ECC). The RCEU participated in this debate – siding with the ECC position – by arguing that the key to increasing the competitiveness of the Canadian economy was to pursue free trade as the central element of any industrial policy. The Commission observed that “The question of whether to opt for free trade or for protectionism is undoubtedly the key issue to be resolved in forming an industrial policy....A key component of Canada’s industrial policy should be a commitment to freer trade...Canada’s industrial policy and trade stance are so closely intertwined...”²⁸ Peter Leslie noted the Commission’s view that “Free trade is the main instrument in this Commission’s approach to industrial policy.”²⁹

The Royal Commission was influenced in part by Richard Harris, who advocated a slightly more interventionist role for the state.³⁰ He argued that trade and industrial policy should work as one, stating that “In the small, open economy, industrial policy and trade policy are almost synonymous.”³¹ Harris’ trade views move him to the right of the RCEU on our intervention funnel. While sharing the RCEU view that government actions collectively impact on Canadian industrial activity, Harris sees a definite strategic role for the state in encouraging specific industrial niches:

[I]t is obvious that governments have a substantial impact on the allocation of investment and the decisions of firms. Government policies with respect to competition, tax, subsidy, procurement and trade all affect private sector activity. Collectively, these policies constitute industrial policy....[However] a strong case exists for active promotion of the emerging high technology growth industries within the Canadian industrial structure...³²

Harris’ view that industrial policy can “properly be viewed as complementary to a general policy of

28 Canada, Royal Commission on the Economic Union and Development Prospects for Canada (Macdonald Commission), *Report*, II, (Ottawa: Minister of Supply and Services 1985), 200, 202.

29 Canada, Royal Commission on the Economic Union and Development Prospects for Canada (Macdonald Commission), *Report*, I, (Ottawa: Minister of Supply and Services 1985), 60, cited in Leslie, *Federal State*, 166.

30 Richard G. Harris with David Cox, *Trade, Industrial Policy, and Canadian Manufacturing*, (Toronto: Ontario Economic Council, 1983), and Richard G. Harris, “Summary of a Project on the General Equilibrium Evaluation of Canadian Trade Policy,” in *Canada-United States Free Trade*, volume 11 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada, (Toronto: University of Toronto Press, 1985), cited in Macdonald Commission, *Report*, I, 329, notes 12 and 13.

31 Harris, *Trade, Industrial Policy and International Competition*, 112.

32 Harris, *Trade, Industrial Policy and International Competition*, 117, 144.

promoting free trade”³³ will be used later as a point of departure in assessing whether the federal government’s focus on continentalist free trade between 1985 and 1995 precluded pursuit of provincial industrial policies.

Woodside, like Harris, views trade policy as a strategic tool in the arsenal of policy makers, in contrast to the RCEU position which suggests that trade in and of itself -- with the market calling the shots -- is the preferred route to economic growth. Woodside elaborates on the relationship he sees between trade and industrial policies, noting that they can work in harmony, with the lead role shifting between the two as conditions vary:

Thus, industrial policy might provide the overall framework and trade policy measures like tariffs might be used to make the industrial policy more effective. Alternatively, trade policy might provide the overall framework with industrial policy measures being used on an ad hoc basis as needed.³⁴

Harmonization of such policies would obviously be much more difficult to achieve if they were being utilized by different levels of government.

Occasionally, trade and industrial policy work at cross purposes, “with the measures in one policy area creating problems in the other. Thus trade remedy laws aimed at export subsidies in one sector can provoke retaliation against goods benefiting from industrial policy measures in another.”³⁵ Of relevance to this study is the possibility that trade policies pursued at the federal level could create difficulties for provincial industrial policies.

Atkinson and Coleman argue that impediments to industrial policy do not excuse the government from pursuing industrial policies:

[T]he obstacles to industrial policy do not relieve the state of the obligation to pursue it. Industrial policy is required in every sector of the Canadian economy, not as a competitor to trade policy, but as an equal partner.³⁶

They argue as well that the importance of complementarity between trade and industrial policies

33 Harris, *Trade, Industrial Policy and International Competition*, 150.

34 Woodside, “Trade and Industrial Policy,” 252.

35 Ibid.

36 Atkinson and Coleman, *The State, Business, and Industrial Change*, 192.

applies equally regardless of whether the government of the day pursues liberalized trade or anticipatory industrial policies as the first line of offence.

The critical question is which type of policy, trade or industrial, takes pride of place. If governments stress industrial policy as the primary means to economic growth and stability, then an anticipatory approach is ordinarily employed with trade measures applied on a case-by-case basis at the sectoral level. If, however, a liberal trade policy is emphasized, then industrial policy becomes a supplementary tool, normally reactive in character and often applied primarily at the level of the firm.³⁷

This view invites the question, addressed in subsequent chapters, of what level of provincial industrial policy response is most appropriate in a context in which the federal government pursues liberalized trade policies.

1.5 Development of a Framework for Analysis of Industrial Policy

A number of different conceptions and variables relating to industrial policy are outlined above. This section comes at industrial policy from a slightly different perspective, by considering the frameworks or typologies that have previously been presented for industrial policies in order to develop an integrated framework through which to study the policies of the Ontario Peterson Liberals and Rae NDP. The approaches presented examine industrial policies from the broad ideological underpinnings, to the specific policy instruments used to achieve the goals and objectives of policies.

1.5.1 Ideological Predispositions

Wyn Grant's four-category typology of strategic approaches to industrial policy categorizes the various degrees of intervention.³⁸ These four categories -- pure market, social market, selective intervention, and socialist, (see Figure 1.3) -- reflect ideological choices, or predispositions, which can be placed on a continuum ranging from market forces predominating, to the state predominating.

37 Atkinson and Coleman, *The State, Business, and Industrial Change*, 191.

38 Wyn Grant, *The Political Economy of Industrial Policy*, (London: Butterworths, 1982), 12-23.

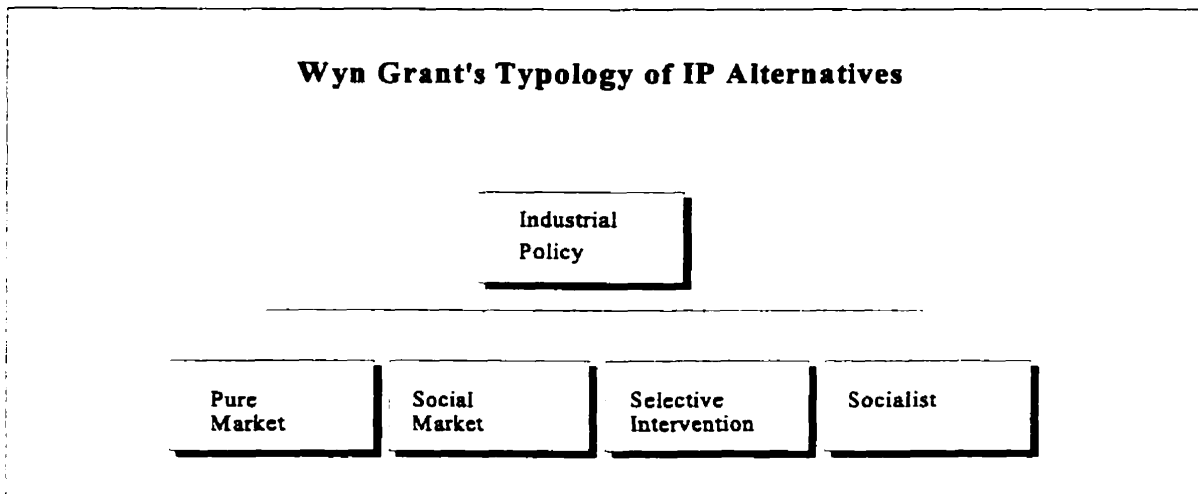


Figure 1.3

Source: Adapted from Grant, *The Political Economy of Industrial Policy*, 12-23.

In the 'integrated typology' presented later this chapter, this is the first step required in classifying industrial policies. The ideological predisposition acts as a foundation upon which subsequent policy decisions can be built. When formulating economic policy, all governments must determine what balance of market and state forces will prevail. Among the industrialized democracies of the OECD, market forces currently enjoy widespread favour, at least at the rhetorical level. Market forces thus act as the basic principle of operation, or the "default option" in Grant's terminology.³⁹

Michael Jenkin notes, however, that despite many countries' rhetorical commitment to the importance of market forces, interventionism remains prevalent:

The tendency for industrialized states to intervene in their economies has been reinforced by the economic, social and political problems of recent decades. In the postwar period, most industrialized countries have been unable to rely solely on market forces to rationalize their economies....Although state intervention in the postwar era began as a response to the problems of reconstruction, it often continued as governments grappled with such long-term structural issues as lack of competitiveness in traditional industries, employment maintenance, and regional development, to the point where in many countries intervention became the norm rather than the exception...⁴⁰

It is artificial to speak of market forces and state forces in mutually exclusive terms. Political

39 Wyn Grant, *Government and Industry: A Comparative Analysis of the US, Canada and the UK*, (Aldershot, England: Edward Elgar, 1989), 18.

40 Michael Jenkin, *The Challenge of Diversity: Industrial Policy in the Canadian Federation*, (Ottawa: Minister of Supply and Services Canada, 1983), 19.

economists presume the interdependence of markets and state, as Howlett and Ramesh observe:

Political economy presumes not the independence of states and markets but their mutual dependence and intertwining. States and markets cannot be studied in isolation. Indeed, the inseparable nature of their relationships forms the very rationale for political economy.

States and markets are interdependent primarily because they need each other: they must overcome the societal and organizational constraints that each of them is incapable of facing alone. The state needs the market because of the market's efficiency in responding to consumer demands and co-ordinating an extensive production apparatus....Markets need the state because, to function at all, they need a body that enforces property rights and private contracts...⁴¹

Industrial policy decisions are the result of trying to establish this balance.

Grant observes that the pure market approach does not exist, and therefore cannot contribute to industrial policies of any sort. As a theoretical model, however, it exerts an intellectual pull on social marketeers, "shifting them in the direction of a version of the social market approach which is more market than social."⁴²

Those advocating a social market approach to IP "recognize the inevitability of some intervention by government in industrial affairs, but they regard such intervention as inherently undesirable and consider that it should as far as possible be infrequent, temporary, and limited in scope."⁴³ Those falling in this camp believe in a policy for industry rather than the comprehensive industrial policy advocated by selective interventionists. Those who distinguish between industrial policies (IP) and industrial strategies (IS)⁴⁴ would place the former in the social market category, and the latter in the selective intervention category.

Selective interventionists argue that macro-economic measures alone cannot attain such objectives as fuller employment, thus making micro-economic interventions necessary. They

41 Howlett and Ramesh. *The Political Economy of Canada*, 15.

42 Grant. *The Political Economy of Industrial Policy*, 13.

43 Ibid., 14.

44 Howlett and Ramesh highlight the distinction between these two concepts: "The concept of *industrial strategy* is broader than that of industrial policy. Industrial policy describes individual policy measures aimed at altering industrial activity in a country. Industrial strategy, on the other hand, describes a collection of interrelated policies directed at industrial development. It is more than the sum of individual policies, for it requires the various policies to form an integral whole and be complementary to each other. The emphasis is on coherence and co-ordination among policies." In Howlett and Ramesh. *The Political Economy of Canada*, 227.

typically favour financial inducements (grants, loans) which discriminate between firms and industries. This approach is characterized by voluntary compliance by industry and other interests, rather than compulsory participation, epitomized by the tendency for multipartite bodies to proliferate. Industrialists are induced by means of subsidy and exhortation to take decisions considered to be in the national or provincial interest. Grant identifies three major difficulties encountered by this approach:

- difficulty of influencing firms while at the same time preserving their autonomy;
- risk that decisions will be based on short-run political considerations rather than be related to the pursuit of long term strategic objectives;
- difficulty of ensuring government has at its disposal sufficient relevant information at the right time in order to make decisions about intervention.⁴⁵

Despite these difficulties, this approach has enjoyed considerable popularity, particularly in parts of Europe. As will be discussed later, the inability of the Peterson Liberals to choose between the social market approach and the selective intervention approach was in part responsible for their failure to aggressively pursue the Premier's Council agenda.

At the heart of socialist approaches to industrial policy is the importance of planning 'agreements,' typically enforced by state coercion. Grant notes that under such systems, government plans are not forecasts but instructions for state enterprises, and economic activity proceeds in accordance with instructions from above.⁴⁶ Although some supporters of the NDP government may have expected they would pursue policies consistent with the socialist approach, the *Industrial Policy Framework* clearly indicates a selective interventionist approach more heavily influenced by the social market approach than by the socialist approach. Ontario -- typically ideologically staid and conservative -- was not ready for significant influences from the socialist approach. Grant notes that in contrast to the socialist approach, both the social market approach and selective intervention approaches share the assumption that a form of capitalism can be made to work:

What unites both approaches is that they strive to avoid as far as possible the element of

45 Grant, *The Political Economy of Industrial Policy*, 18.

46 Grant, *The Political Economy of Industrial Policy*, 23.

compulsion inherent in socialist approaches to industrial policy....Socialists would argue that neither approach will work because capitalism is beset by internal contradictions which are now manifesting themselves in a terminal global crisis...⁴⁷

1.5.2 Industrial Policy Goals and Objectives

Grant's categorization is useful as a starting point for analyzing industrial policies. It provides a foundation or framework from which further analysis takes place. The goals and objectives of industrial policy interventions follow from, and should be consistent with, the ideological position of the government.

Industrial policy goals pursued by Canadian governments are often in conflict with each other. Harris notes that the IP goals of real income growth and stability in income and employment are largely incompatible. The Macdonald Commission heard many submissions arguing that full employment, rather than economic growth, should be the primary public policy goal.⁴⁸ They found such arguments unpersuasive, however, suggesting that industrial policy need not involve a trade-off between economic growth and employment, but rather, that the two can be mutually reinforcing, complementary objectives.⁴⁹ Wyn Grant recognizes that these goals can be either complementary or conflictual, depending on circumstances. Influenced by European experiences with industrial policies, he notes that the maintenance of full employment is often the central objective of industrial policy:

It could be argued that the central goal *should* be the creation of an efficient, internationally competitive industrial economy. Without such an economy, it is difficult to see how fuller employment can be attained in the long run. On the other hand, the creation of such an economy may destroy jobs through a trend towards greater capital intensity in industry.⁵⁰

The objectives of policy makers (as outlined above by Harris) necessarily affect the type of industrial policy adopted.

47 Grant, *The Political Economy of Industrial Policy*, 20.

48 Macdonald Commission, *Report*, vol. II, 136.

49 Macdonald Commission, *Report*, vol. II, 261.

50 Grant, *The Political Economy of Industrial Policy*, 23.

Scharpf argues that social democratic parties will be committed to one priority above all other goals or objectives -- the achievement and maintenance of full employment:

Thus, when economic conditions left them any choice at all, social democratic governments must have had a preference for full employment strategies in keeping with their own self-understanding and with the unambiguous interests of their political constituents and of the unions representing those interests. And given their presumed clarity and seriousness of purpose, it may also be presumed that social democratic governments exploited all economic policy options available...in order to avoid, or eliminate, mass unemployment.⁵¹

The record of the NDP government -- previously thought to fit the description of a 'social democratic party' -- is found wanting when measured against Scharpf's assessment. Rae's defence of his government's record outlined later in this study suggests he felt that in the case of his government, economic conditions had not left open to him the option of pursuing full employment strategies.

The challenges imposed by the sometimes incompatible goals of full employment and economic growth are often addressed through *adjustment policies*. The Macdonald Commission (RCEU) notes that:

from a purely economic perspective, the case for government involvement in the adjustment process is tightly circumscribed. The interests of the economy as a whole are best served by the rapid shift of capital, human and other resources out of areas that provide relatively low value in terms of output of goods and services, into areas of higher value.⁵²

The RCEU advocated a heavy commitment to adjustment-promoting (rather than adjustment-retarding) policies. Organized labour, however, often lobbies hard for 'adjustment assistance.' Governments often bow to such political pressure, providing firm-specific assistance to sustain output, and thus, employment, often citing 'regional development' criteria. The RCEU notes that:

The political process in this country, therefore, is likely to lead to the adoption of policies that in many respects are quite different from the approach that would be suggested by economic and social considerations alone.⁵³

Often, such adjustment policies retard, rather than facilitate adjustment to economic change.

51 Scharpf, *Crisis and Choice in European Social Democracy*, (Ithaca: Cornell University Press, 1991), 16. The ability of a provincial government to influence employment levels is seriously circumscribed by policy instruments available at that level. Provincial governments have little or no control over either monetary policy or exchange rates which dramatically impact on employment.

52 Macdonald Commission, *Report, vol. II*, 243.

53 *Ibid.*, 244.

McFetridge notes that:

while firm or industry support may, on occasion, be a convenient way of assisting the adjustment of a particular group of workers, this is more than outweighed by its potential for encouraging adjustment-inhibiting arrangements.⁵⁴

The term 'positive adjustment' has been coined to identify those adjustment policies that have demonstrably positive economic impacts, rather than the inhibiting results cited by McFetridge. Grant cites OECD interest in positive adjustment policies which are judged by whether over the long run they "facilitate movement of labour and capital from the production of goods and services in declining demand to those whose demand is increasing, from less to more efficient forms and locations of production, and from production in which other countries are gaining a comparative advantage to new competitive lines of production."⁵⁵ These requirements are not easily satisfied. More often, 'adjustment assistance' is directed at either individuals or firms in a manner which satisfies political, and perhaps short-term economic goals, but not long-term ones.

McFetridge distinguishes between what he describes as a consensus view of the appropriate role for government in facilitating adjustment, and a minority view that sees a more proactive role required of government. According to the consensus view, government should:

- maintain a stable macroeconomic environment and appropriate work, saving, and investment incentives;
- remove barriers to adjustment; and
- assist individuals [not firms!] faced with serious unanticipated adjustment problems.⁵⁶

This consensus, essentially the social market view, lends itself to generally reactive policies, rather than proactive/anticipatory policies more commonly pursued by the selective interventionist camp.

McFetridge notes the irony that government willingness to assist with adjustment creates the need for intervention:

The possibility that the government might intervene creates circumstances under which the government must intervene....There is a further problem in identifying firms that are truly

54 McFetridge, "The Economics of Industrial Policy," 35.

55 OECD, *The Case for Positive Adjustment*, (Paris: OECD, 1979), 82, cited in Grant, *The Political Economy of Industrial Policy*, 24.

56 McFetridge, "The Economics of Industrial Policy," 32.

failing, since all firms have an incentive to threaten to discharge workers and qualify for subsidization. Indeed, firms and workers have an incentive to cooperate in this type of opportunism vis-a-vis the government.⁵⁷

Doern notes, furthermore, that 'adjustment' is a misnomer lending a false sense of order:

Who could possibly be against 'adjusting' things to make the economy better? The very word exudes a confidence in the virtues of orderly change. One does not have to pick winners, one can 'go with the flow' of the market, with governments gently nudging us along with appropriate packages of carrots and sticks. At one level, one can understand the vital need for this conceptual approach, and how it may be superior to the hodge-podge of things done in the name of industrial policy. It suggests to some, initially at least, a more generic, 'hands off' role for government, especially if focused on the need to assist labour as opposed to capital.⁵⁸

Doern warns that in practice adjustment policies often betray the "alluring simplicity of the concept."⁵⁹

The most significant problem associated with adjustment policies is that they are typically pursued at the expense of industrial efficiency. Grant argues that employment objectives should not be excluded altogether, particularly with respect to their regional impacts, but that the social consequences of industrial change must be dealt with elsewhere in government than in the industry ministry. He argues that industrial policy has been deflected from its pursuit of industrial efficiency objectives by being required to cope with problems which really require social policy solutions. He further notes that the pursuit of an efficient industrial economy that attempts to cope with the social consequences of industrial change will result in both objectives becoming muddled and difficult to pursue.⁶⁰ Atkinson and Coleman concur with this assessment, noting that Canada has been either unable or unwilling to arrange for programs of compensation to aid workers and employers in adjusting to the efforts of global competition.⁶¹ This assessment is particularly harsh (but not unfair)

57 Ibid., 37.

58 Doern, "The Tories, Free Trade and Industrial Adjustment Policy: Expanding the State Now to Reduce the State Later?," in *How Ottawa Spends, 1986-87: Tracking the Tories*, (Toronto: Methuen, 1986), 79.

59 Ibid.

60 Grant, *The Political Economy of Industrial Policy*, 144, 145.

61 Atkinson and Coleman, *The State, Business, and Industrial Change*, 185.

given the sizeable bailout packages which have been allegedly directed to such ends.⁶²

Ultimately, both Canada and Ontario have decidedly mixed records in promoting 'adjustment'. Doern observes that the Canadian economy has successfully undergone extensive adjustment in the past, "sometimes aided by public policy, but also often *despite* public policy."⁶³ The reputation of adjustment policies is such that few governments talk about such initiatives, while many continue to facilitate 'adjustment' through costly, politically inspired bailouts to major regional employers. Both the Liberals and the NDP were guilty of such efforts during their respective tenures in government in Ontario.

1.5.3 Industrial Policy Ideal Types: Anticipatory and Reactive Policies

Once objectives have been determined, the general type of policy can be chosen. Atkinson and Coleman present two ideal types of industrial policy, represented graphically in Figure 1.4.⁶⁴

- *Anticipatory* industrial policy, with its emphasis on intrusive policy instruments that are integrated with one another and aimed at structural transformation;
- *Reactive* industrial policy, which is organized around the immediate needs of specific firms (often for distress financing) and is devoted to creating a climate attractive to investment.⁶⁵

The characteristics of these ideal types are captured in three dimensions of industrial policy. The first of these characteristics involves an examination of *objectives*, or *goals*, including either *facilitating rapid adjustment to economic change*, with emphasis on improving labour markets, modernizing plants, and facilitating the development and transfer of technological innovations; or *defensive expansionism*, characterized by an emphasis on relieving excessive social costs through the use of protectionist measures such as quotas or other trade barriers. While both types of

62 See Michael J. Trebilcock, "The Political Economy of Business Bailouts in Canada," in *Domestic Policies and the International Economic Environment*, volume 12 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada, (Toronto: University of Toronto Press, 1985).

63 Doern, "The Tories, Free Trade and Industrial Adjustment Policy", 77.

64 Atkinson and Coleman. *The State, Business, and Industrial Change*, 23-27.

65 Ibid., 23.

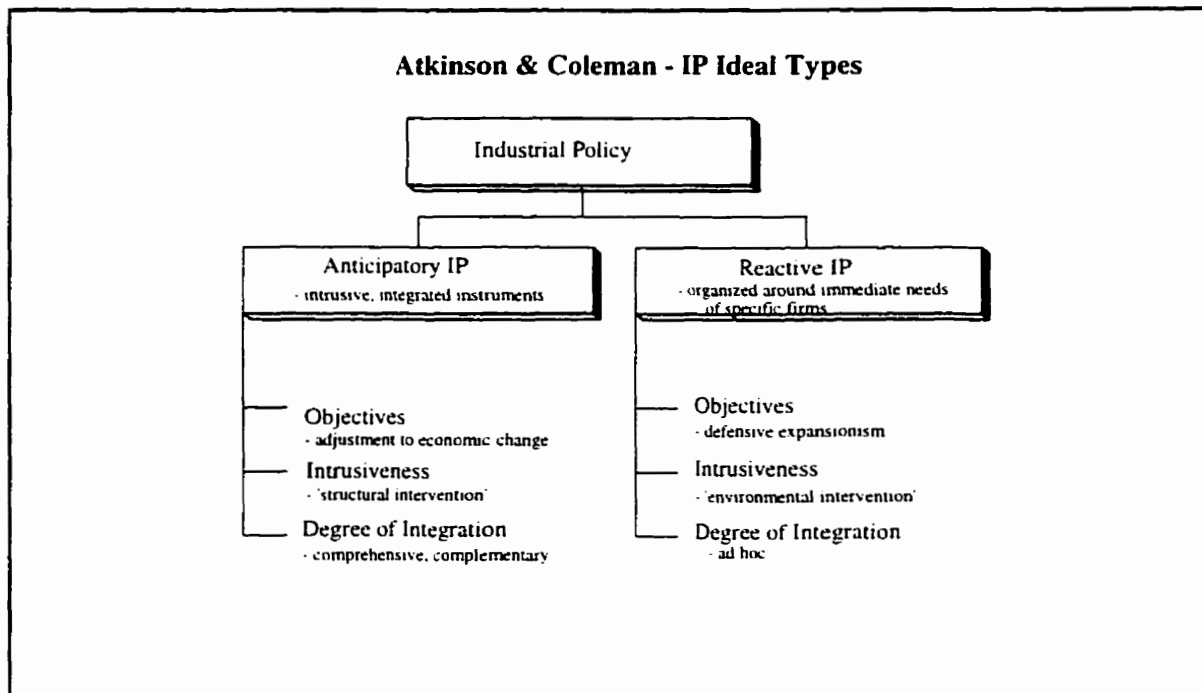


Figure 1.4

Source: Adapted from Atkinson and Coleman, *The State, Business, and Industrial Change*, 23-7.

objectives may exist with either anticipatory or reactive industrial policy, the emphasis with anticipatory, or proactive policies is on positive adjustment measures, while the emphasis with reactive policies tends to be on protectionist measures.

The second characteristic which distinguishes reactive from anticipatory policies is *intrusiveness*, meaning the degree to which industrial policies require the state to participate in, or direct, investment decisions at the level of the firm. Typically justified by market failure, reactive policies are characterized by *environmental intervention*, in which the state enacts a “series of broad measures, provided through the tax system, general schemes of industrial subsidy, or programs of trade protectionism”⁶⁶ to create a climate conducive to investment. By contrast, anticipatory policy involves *structural intervention*, including the targeting of programs to specific sectors or firms. An underlying assumption of this approach is that national [or provincial] policy goals are not necessarily served by market-based outcomes. State intervention is justified by the fact that private

66 Ibid., 24.

decisions often result in consequences detrimental to the public. Thus state-led, or tri-partite negotiated industrial development is required to protect public interests. Such arrangements place considerable demands on the state:

[S]tructural intervention presumes a considerable degree of technical expertise and a set of political institutions capable of engineering the necessary degree of consensus.⁶⁷

In Ontario, multipartite bodies were in their infancy during the Liberal term of government. The bureaucracy lacked sufficient expertise to engineer consensus during the Peterson mandate. By the NDP years the bureaucracy -- specifically the Sector Development Branch of the Ministry of Economic Development and Trade -- had begun to develop such expertise. However, these mechanisms required a sense of continuity that the NDP government was never able to foster. Nor were they able to convince their economic development 'partners,' specifically the business community, that the process itself was worthy of their time and effort.

The *degree of integration* provides another means of differentiating between Atkinson and Coleman's ideal types. As the name suggests, reactive policies are not characterized by a high level of policy integration, typically giving "the appearance of a series of ad hoc measures applied to firms and sectors as the need arises".⁶⁸ By contrast, the anticipatory policy approach evaluates all firms and sectors against a set of criteria designed at the political/bureaucratic centre:

An intensive information-gathering effort undergirds the comprehensive approach and, whether justified or not, the state operates as if it possesses the skill and the legitimacy to conduct industrial policy on a broad scale....Strong efforts are made to achieve a measure of complementarity, with special attention being paid to backward and forward linkages among industrial sectors.⁶⁹

While nothing of this nature emerged during the Liberal years, the NDP government's Sector Partnership Fund, discussed extensively in Chapter 6, involved many of these components.

Within these two ideal types, Atkinson and Coleman further differentiate industrial policies by *scope of policy*. *Macro level* policies involve the use of classic horizontal policy instruments, such

67 Ibid., 24.

68 Ibid., 25.

69 Ibid.

as subsidies and tax expenditures; *meso level* policies are those applied at the sectoral level; while *micro level* policies, the traditional focus of industrial policies, are those firm-specific actions, ranging from bail-outs to the promotion of so-called 'national [provincial] champions'. They suggest that anticipatory policies take a comprehensive, coordinated approach to each of these three levels, with considerable focus on the sectoral (meso) level, while reactive policies are more likely to be contradictory across the three levels.⁷⁰ They stress the importance of institutional considerations:

The issue of co-ordination across these three levels points again to the importance of political institutions. The co-ordination associated with anticipatory policy is possible only under particular circumstances. The first requirement is a centralized, highly autonomous state bureaucracy that can plan on a global plane, prioritize sectors, and choose particular firms for special encouragement. Highly diffused bureaucracies or those that have been penetrated by interest associations are much less capable of performing in this way.⁷¹

This point highlights the importance of understanding the dynamics of the relationship between Ontario's various policy-making institutions. It also suggests that federal-provincial cooperation is vital, since many of the macro level policies are controlled exclusively at the federal level.

1.5.4 Industrial Policy: Scope and Means of Implementation

Marsha Chandler has developed a framework for classifying adjustment policies that can be applied to a broader range of industrial policies.⁷² Her typology draws attention to the *scope* and *means* of government policies toward industrial decline (See Figure 1.5). The scope (or extent) of policy, referring to the "range of matters in which governments are involved,"⁷³ is subdivided by Chandler into three variables, *range* of areas affected by public choice, i.e., the scale of interventions; *depth* of intervention, i.e. the extent to which public replaces private decision-making; and *degree* of

70 Ibid., 26.

71 Ibid., 27.

72 Marsha Chandler, "The State and Industrial Decline: A Survey," in *Industrial Policy*, volume 44 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada, André Blais, Research Coordinator. (Toronto: University of Toronto Press, 1985), 171-218.

73 Ibid., 175.

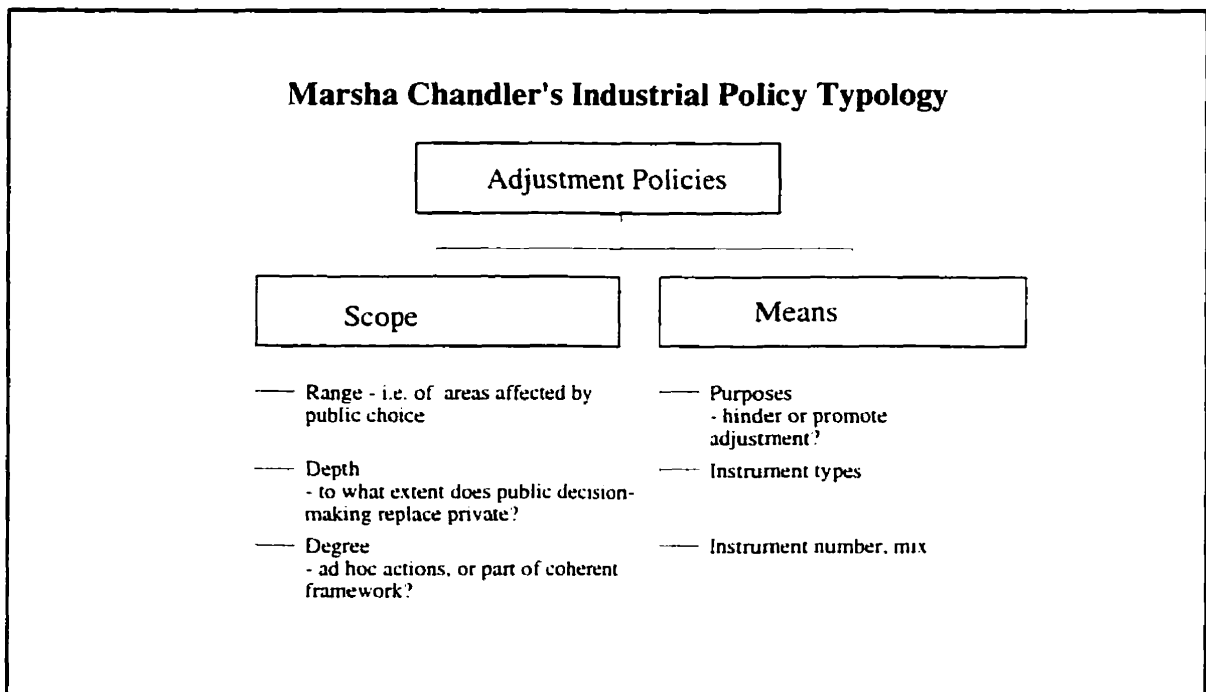


Figure 1.5

Source: Adapted from Marsha Chandler, "The State and Industrial Decline," 171-218.

integration, i.e. ad hoc interventions, or part of a coherent framework.

The *means* of policy incorporates the purpose of interventions, and the number, mix, and type of policy instruments utilized. The *purpose* of policies "refers quite simply to whether the policies are to *hinder* or *promote* adjustment."⁷⁴ i.e., whether they work with or against market forces. Bailouts of failing firms work against market forces, while policies which encourage the pursuit of comparative advantage work with the market, promoting positive adjustment. The experiences of the Liberals and the NDP in government demonstrate that the viability of industrial policies is shaped by the means chosen to implement those policies.

1.5.5 Assembling the Framework: An Integrated Typology

The 'integrated typology' presented here (Figure 1.6) combines elements of the Grant, Atkinson and Coleman, and Chandler industrial policy/adjustment policy typologies. The first 'tier' of the chart

⁷⁴ Ibid., 176.

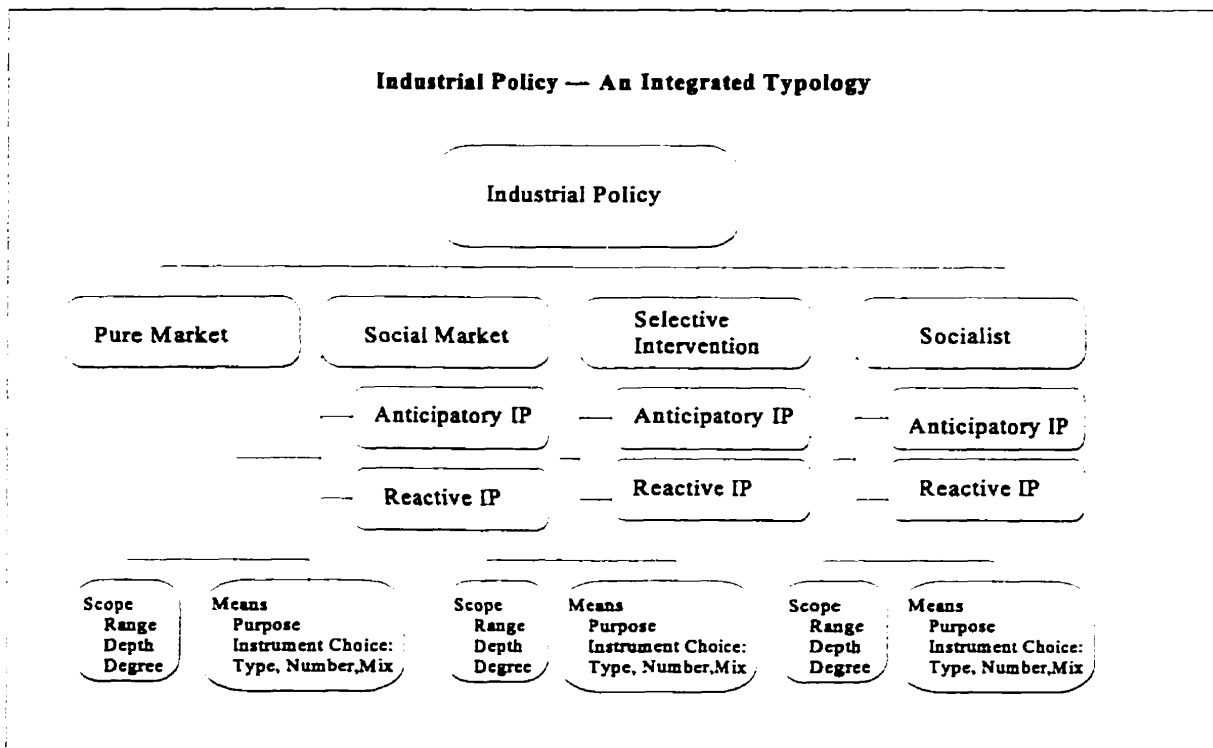


Figure 1.6

involves a set of general ideological decisions. What approach -- pure market, social market, selective intervention, or socialist -- will be pursued? In short, what balance of state and market corresponds to the ideological predisposition of the government of the day? As one moves ideologically to 'the left' (to the right in Figure 1.6), it becomes much more likely that anticipatory, rather than reactive policies will prevail. Normally accompanying such a shift between reactive and anticipatory policies (or signalling such a shift) are changes to scope and means utilized. Note however, that neither anticipatory nor reactive policies has a monopoly on particular means of implementation. Indeed, it is quite likely that anticipatory policies will make use of many of the same instruments as reactive policies. As one moves from the left (social market) to the right (socialist) the scope of policies pursued generally increases, while the means of implementation become more complex, requiring a greater number and mix of policy instruments.

1.6 Towards A Negotiated Order?

Industrial policy implementation is as much about process as it is about the specific policies themselves. The delivery of policy typically requires a level of involvement from interests outside government, such as the business or labour community. In Canada, as in many industrialized nations, discussion of industrial policy requires an understanding of the nature of the relationship between industry, the state, and labour. Works by Atkinson and Coleman and others examine the relationships between and among industrial policy actors.⁷⁵ Indeed, much of the corporatist and neo-corporatist literature of the past decades has focused primarily on relationships directly relevant to the study of industrial policy. Recent works drawing specifically on the Ontario context have explored the applicability there of the "negotiated order," a concept introduced by Chris Moore and Simon Booth.⁷⁶

The introduction by Moore and Booth of the concept of negotiated order was based on their dissatisfaction with both corporatist and pluralist perspectives of the relationship between public and private interests, as well as with such "crude" attempts to accommodate both as Alan Cawson's "dual polity" analysis.⁷⁷ Moore and Booth add the "negotiated order" to the pluralist and corporatist orders, thus creating a "triple economy model."⁷⁸ They write:

In sectors where there is a high degree of indigenous control, which can be combined with a Scottish identity and the existence of sectoral organizations, distinctive negotiated relationships at the sectoral level can emerge...These arrangements may be temporary and are weak...but they are part of a negotiated order because they combine public and private interests at a sector level in the formulation and implementation of an agreed strategy.⁷⁹

75 See Atkinson and Coleman, *The State, Business and Industrial Change in Canada*, and Grant, *The Political Economy of Industrial Policy*.

76 Chris Moore and Simon Booth, *Managing Competition: Meso-Corporatism, Pluralism and the Negotiated Order in Scotland*, (Oxford: Clarendon Press, 1989). For applications to Ontario, see Michael Swayze, "The Evolution of Ontario's Industrial Policy from Davis to Rae: An Incipient Negotiated Order in a North American Region," Paper presented at the Annual General Meeting of the Canadian Political Science Association, St. Catharines, Ontario, June 2, 1996, and David A. Wolfe, "Negotiating Order: The Sectoral Approach to Industrial Policy in Ontario," Paper presented at the Annual General Meeting of the Canadian Political Science Association, St. Catharines, Ontario, June 2, 1996.

77 Moore and Booth, *Managing Competition*, 19.

78 Moore and Booth, *Managing Competition*, 82.

79 Moore and Booth, *Managing Competition*, 84.

The key elements of a negotiated order identified by Moore and Booth are as follows:

1. Recognition that institutional arrangements affect market operation;
2. Identification of parties involved (with one side comprising either a representative of the state or a surrogate acting as agent of the state, and the other side comprising "representatives of organized groups who have a particular self-interest to pursue;" and
3. Shared, formal or informal responsibility among parties involved, to achieve agreed objectives.⁸⁰

According to Moore and Booth, "the greatest advantage of the negotiated order is that the state can claim that it has surrendered no rights to non-state interests whilst sectoral groups can claim to have preserved their own identity and autonomy from the state."⁸¹

The application of Moore's and Booth's analysis to the Ontario case seems logical given apparent similarities between Ontario and the Scottish case which is the focus for their book. In exploring the possibility of forging industrial policies with a "Scottish dimension," Moore and Booth noted, for example, that "whilst there cannot be a policy for Scotland which *conflicts* with policy for the rest of the UK there are....opportunities to provide distinctive policies for the particular problems which face the Scottish economy." This description corresponds to the experience of both the Peterson and Rae governments, which despite taking political stands against certain economic initiatives taken at the federal level, ultimately pursued initiatives that, while fitting less than ideally with federal policies, did not conflict with them, either.

The Scottish Office relied for economic advice on a Scottish Economic Council, representing "most of the important industrial and economic interests in Scotland."⁸² This body, which provided unstructured advice to the Secretary of State of the Scottish Office, appears to have served a function analogous to that served by the Premier's Councils in Ontario, during both the Peterson and Rae mandates. With members drawn from banks, trade unions, major industries, universities, and economic development bodies, the Scottish Economic Council (like the Ontario Premier's Councils), provided a quick and easily accessible source of feedback as policy issues arose.

80 Moore and Booth. *Managing Competition*, 115.

81 Moore and Booth. *Managing Competition*, 116.

82 Moore and Booth. *Managing Competition*, 27.

With many similarities between the Ontario case and that of Scotland, both Wolfe and Swayze have examined whether Ontario's policy experiences in recent years indicate the emergence of a negotiated order. Wolfe argues that although "the idea of sectoral approaches to industrial and training policy has established a foothold in the Canadian industrial culture,"⁸³ industry representatives involved in recent sectoral initiatives did not share the view of those initiatives held by government officials (including Wolfe in his capacity as Secretary to Cabinet for Economic Policy). Swayze speaks of a policy trajectory moving in the direction of a negotiated order, but concludes that Ontario had achieved only an 'incipient negotiated order' by the time the NDP government was defeated in 1995. Swayze notes that the Harris government which replaced the NDP moved quickly with "the elimination of Ontario's incipient industrial policy."⁸⁴

During both the Peterson and Rae mandates, there was a movement towards sectors as the focal points of government policy. As suggested by both Wolfe and Swayze, however, this policy movement did not continue after the defeat of the NDP in 1995.

1.7 Social Learning and "Third Order" Policy Changes

Ontario governments have not had a great deal of experience delivering anticipatory industrial policies such as those outlined in the PCR and the IPF. Implementation of such policies would require what Peter Hall has called a "third order" policy change,⁸⁵ requiring significant change at a number of levels. Guy Peters notes that achieving cultural change in public administration requires cultural change at societal, administrative, and political levels (see Figure 1.7).⁸⁶ In a practical sense, such change would require the support of the bureaucracy, the business community, and the labour community.

83 David Wolfe, "Negotiating Order: The Sectoral Approach to Industrial Policy in Ontario," 29.

84 Michael Swayze, "The Evolution of Ontario's Incipient Negotiated Order," 27.

85 David A. Wolfe, "Negotiating Order," and Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," in *Comparative Politics*, 25 (1993), 275-296.

86 B. Guy Peters, *The Politics of Bureaucracy*, 3rd. ed., (New York: Longman), 41.

Changes such as those proposed in the Liberal and NDP industrial policies would require societal change, arguably of third order magnitude, in order to be successful. Hall expounded this concept in his 1993 work examining economic policy making in Britain. David Wolfe has shown its applicability to the Ontario case. Hall hypothesizes that changes in policy making reflect either first, second, or third order change.

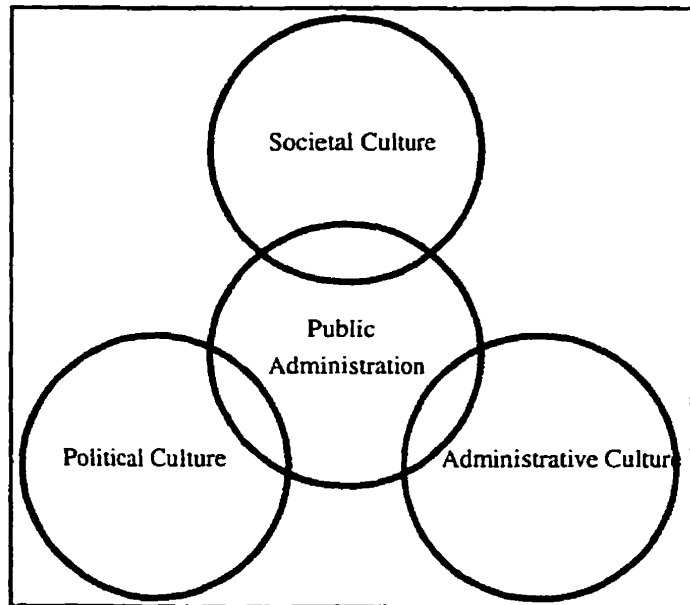


Figure 1.7 Culture and Public Administration
 Source: B. Guy Peters, *The Politics of Bureaucracy*, 3rd. ed., (New York: Longman), 41.

Citing Lindblom⁸⁷ and Wildavsky,⁸⁸ Hall notes that first order change “is likely to display the features of incrementalism, satisficing, and routinized decision making that we normally associate with the policy process,” while “second order change and the development of new policy instruments may move one step beyond in the direction of strategic action.”⁸⁹ Hall notes that “first and second order change can be seen as cases of ‘normal policymaking,’ ..adjust[ing] policy without challenging the overall terms of a given policy paradigm,” while third order change, by contrast, “is likely to reflect a very different process, marked by the radical changes in the overarching terms of policy discourse associated with a ‘paradigm shift.’⁹⁰ Such a paradigm shift might reasonably be accompanied by, or even preceded by, the emergence of new cultural norms or attitudes, and the development of new institutions of governing.

Wolfe, applying Hall’s concept, concludes that “the industrial policy initiatives launched by the Ontario government in the early 1990s fall somewhere between a second and third order magnitude

87 Charles Lindblom, *The Policy-Making Process*, (Englewood Cliffs: Prentice Hall, 1968).

88 Aaron Wildavsky, *The New Politics of the Budgetary Process*, (Boston: Little Brown, 1968).

89 Hall, “Policy Paradigms, Social Learning and the State,” 280.

90 Hall, “Policy Paradigms, Social Learning, and the State,” 279.

of policy innovation.”⁹¹ His choice of words masks the reality identified elsewhere in his paper – that the initiatives as conceived and launched (under Wolfe’s direction) were perceived very differently by other sectoral partners, particularly the private sector participants. Whether the implementation of policies (under both the Liberal and NDP governments) corresponded to the ideas which underlay their conception, is explored further in later chapters.

How do these concepts of negotiated order and second- and third-order change fit with the integrated typology presented in section 1.5? They help us to navigate meaningfully through the typology presented. Evidence of a policy shift from reactive industrial policy to anticipatory industrial policy would, for example, suggest change of a third-order magnitude. Such a shift might be evident by examining the scope and means of policies undertaken. Where public rather than private decisions (or public and private decisions collectively taken) govern a wide range of the economy, within a context of a coherent framework for industrial policy, third order change might reasonably be indicated.

In the Ontario context, evidence of the establishment of a negotiated order across several sectors of the industrial economy would be indicative of third-order change. The industrial policies indicated by both the Liberals and the NDP suggested an intention to move in the direction of negotiated order. Subsequent chapters note that despite such lofty indications, both governments fell short of achieving negotiated order, and thus fell short of third-order change.

1.8 Conclusion

This chapter has noted the declining ability of macro level policies to address economic challenges of the late 20th century, a development that has opened the door to the pursuit of micro and meso level interventions, including industrial policies. Meso level initiatives in particular, are well suited to interventionist-provincialist⁹² policies such as were proposed by both the Liberals and the NDP.

91 Wolfe, “Negotiating Order,” 12.

92 Leslie, *Federal State, National Economy*, 171.

Several approaches to the analysis of industrial policies were explored in order to develop an integrated framework, or typology of industrial policy. It is within this framework that the industrial policy objectives and subsequent implementation efforts of these two governments can be evaluated. The Liberals approached industrial policy making from a selective interventionist position, with social market forces within the party moderating their perspective. The PCR presented reactive industrial policy solutions to problems requiring an anticipatory approach. The NDP came to power with greater expectations of activism, and similarly released selective interventionist policies, despite pressure from within the party to pursue policies consistent with the socialist approach.

Chapter 2: Historical, Political, and Economic Context

2.0 Introduction

The industrial policy objectives of the Ontario Liberal and NDP governments, and their subsequent implementation efforts, can only be understood in the context of several factors: prevailing economic conditions; the increasing appropriateness of regional responses to global economic developments; and the historical context in Ontario, Alberta, and at the federal level. A discussion of previous periods of activism in these jurisdictions demonstrates a precedent for activism such as was intended by the Ontario governments during the period under consideration. This chapter describes these influences which set the stage for the industrial policy efforts of the Liberal and NDP governments in Ontario. Furthermore, the roles of key individuals, such as premiers, relevant ministers, deputy ministers, and others, must be considered in order to understand their contribution to the process of policy formulation.

2.1 Setting the Stage - Expectations of Activism

Both the Liberal and the NDP governments in Ontario raised expectations that they would be pursuing activist industrial policies. Although the policy documents released by these governments left room for interpretation, both governments appeared committed to move toward government involvement in the decisions of Ontario industries, at either the level of the firm, or at the level of clusters (Liberals) or sectors (NDP) of firms. While such involvement seemed ambitious, there are several reasons these expectations appeared reasonable in this era, both to those in government, and to interested public observers. By extension the question here is whether provincial, regional, or subnational governments are suited (or equipped) to undertake such industrial policies. In this case, the question is underscored by the fact that the primary industrial policy of the federal governments of the day (Progressive Conservatives under Brian Mulroney and the Liberals under Jean Chrétien)

consisted of the pursuit and involvement in successive continental trade regimes (the Canada-United States Free Trade Agreement (FTA), and the North American Free Trade Agreement (NAFTA)). With the federal government abandoning previous attempts to pursue activist industrial policies at the national level, the door was left open to provincial governments interested in pursuing such policies.

2.1.1 Economic Conditions and the Competitive Region

The ability of nation states to respond effectively with industrial policies appropriate to the economic challenges of the late 20th century is apparently in decline. David Wolfe writes that “the trend towards the globalization of production and the increasing integration and interpenetration of national markets raises questions about the capacity of nation states to effectively pursue their economic policy objectives.”¹ Similarly, Daniel Drache suggests Canada, (as well as other countries involved in the global economy), is becoming a “post-national state,” with two defining characteristics:

First, a weak national economy since the country’s well-being is *externally* determined by its export and trade bloc performance, and secondly, a substantial reduction in the ability of the state to engage in day-to-day *internal* economic management.²

Regional, or subnational industrial policies may be better suited to this new economy than are national policies. Thus, Jurgen Schmandt observes that “several of the key ingredients that determine success in the changed economic environment of the new industrial revolution are better served by regional than federal policies.”³ Schmandt’s assessment of the importance of a first-class educational system, infrastructure facilities such as transportation and communications networks and

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- 1 David A. Wolfe, “The Wealth of Regions: Rethinking Industrial Policy”, (Paper presented to the Annual Meeting of the Canadian Political Science Association, Carleton University, Ottawa: 1993), 9.
 - 2 Daniel Drache, “The Post-National State,” in *Canadian Politics*, 2nd ed., James P. Bickerton and Alain-G. Gagnon, eds., (Peterborough: Broadview Press, 1994), 549.
 - 3 Jurgen Schmandt, “Regional Roles in the Governance of the Scientific State,” in *Growth Policy in the Age of High Technology*, Jurgen Schmandt and Robert Wilson, eds., (Boston: Unwin, Hyman, 1990), 32.

the creation of a favourable business climate,⁴ can be applied to the Canadian context, where provincial governments have either sole, or shared, jurisdiction with the federal government over these policy areas. Indications by both the Liberal and the NDP governments that they recognized the importance of these three areas raised expectations that they would actively pursue policies in these areas in the context of anticipatory industrial policies.

The emphasis on regional economies reflects spatial/locational considerations resulting from the changing role of technology and innovation in manufacturing. As the 'economic centre of gravity' in North America shifted from the so-called 'Rust Belt' states of the north -- with their focus on traditional manufacturing industries -- to the 'Sun Belt' states of the south, emphasizing new manufacturing technologies, the Ontario economy was forced to adapt. Ontario's heavy reliance on traditional manufacturing sectors with declining significance in the global economy, left the province vulnerable.⁵ Not only did traditional industries have to restructure in order to remain competitive, but efforts to counteract the 'sun belt effect' required an emphasis on developing high technology, high value-added industries in Ontario. Both the PCR and the IPF reflected an awareness of these twin demands.

As the focus of industrial production changed, the focus for industrial policy shifted to the sectoral, or *meso* level. Sectoral based industrial policies complement the trend towards collocation of distributors, suppliers, and the increasing reliance on just-in-time inventories (JIT), further reflecting the importance of spatial considerations to the new economy.⁶ Lorraine Eden notes that "the JIT system ...imposes certain requirements on supplier-MNE [Multi-national enterprise] linkages. Proximity is very important, in order to maintain tight inventory schedules. MNEs must

4 Ibid.

5 Auto sector exports (vehicles and parts), and iron/steel exports combined accounted for over 40% of Ontario's exports in 1990. Ontario, Ministry of Treasury and Economics, *Ontario Economic Outlook: Meeting the Challenges*, (Toronto: Queen's Printer for Ontario, 1996), 82.

6 Schmandt, "Regional Roles," 30.

also collaborate with suppliers in order to schedule production.⁷ The concentration of the NDP government on sectoral policies, particularly the Sector Partnership Fund (SPF), indicated awareness of, while also nurturing, such developments among Ontario's industries. Many respondents interviewed for this thesis noted that at senior levels, particularly within Cabinet Office, the sectoral focus was seen as the heart of the NDP government's industrial policy.

Both Michael Porter and Michael Best have written extensively on the importance and potential of industrial sectors.⁸ Porter believes that governments could increase the competitiveness of nations through a focus on industrial clusters. Best believes that healthy industrial sectors are best fostered through an approach combining both competition and co-operation.⁹

New ideas present unique challenges to implementation, however. Best provides several clues as to why regional/sectoral approaches utilized in other countries -- specifically Italy and Japan -- might not be easily translated to the Ontario context. In both of these countries, there was expertise at the bureaucratic level at obtaining the necessary balance between policy creation and implementation. Best writes that "Industrial policy...depends upon the integration of thinking and doing, of thinkers and doers."¹⁰ Development of that sort of expertise could not be expected overnight; rather, it takes several years of organizational change focused in a particular direction.

By nature, region/sector based policies involve a range of actors and interests. Best discusses the Emilia-Romagna region of Italy which clearly demonstrates many key differences from the Ontario cases studied here. The political situation provides a point of sharp contrast. The province of Modena, at the heart of the region, has been governed by the Italian Communist Party since the

7 Lorraine Eden, "Multinational Responses to Trade and Technology Changes: Implications for Canada." in *Foreign Investment, Technology and Economic Growth*, D. McFetridge, general editor, (Calgary: University of Calgary Press, 1991), 148.

8 Michael Porter, *The Competitive Advantage of Nations*, (New York: Macmillan, 1990), and Michael Best, *The New Competition: Institutions of Industrial Restructuring*, (Cambridge: Polity Press, 1990).

9 Michael H. Best, *The New Competition: Institutions of Industrial Restructuring*, (Cambridge, U.K.: Polity Press, 1990), 19.

10 Best, *The New Competition*, 268.

end of the Second World War.¹¹ This is significant for two reasons. First, is that the government has been ideologically amenable to corporatist style relationships with the industry and labour communities. Second is the importance of stability and continuity to the pursuit of industrial policies reliant on the consultative/cooperative approach.

Best's work also draws attention to the special challenges facing regional decision makers, noting that sector forums are most successful where they can be incorporated into a complementary macroeconomic environment. "Sector forums have long existed elsewhere without success....but [have existed] without a link between the industrial policy forums and other government instruments such as macro policy, the banking system and education policy."¹² This concern apparently echoes the views of Michael Jenkin in the Canadian context, that federal and provincial industrial policies are most effective if they are complementary, and Atkinson and Coleman's view that although anticipatory industrial policies typically emphasize meso-level policies, they effectively coordinate those policies with micro- and macro- level policies.¹³

2.1.2 Region as Province/State

One of the strengths of a federal system of government is that it allows, even requires, provincial governments to defend the interests of territorially delineated entities. If the global economy invites regional responses to economic development issues, then provincial governments are well positioned to coordinate, initiate, and implement such responses. Education is one example of a policy field critical to competitiveness and wealth creation that falls under provincial jurisdiction, and might, therefore, reasonably be a focus for provincial industrial policy. Drache observes that Ontario

is a powerful actor in its own right...responsible for broad areas of social and economic development such as labour markets, industrial restructuring, pay and employment equity, industrial relations, the financial regulation of institutions, technology transfer to firms and

11 Best, *The New Competition*, 208.

12 Best, *The New Competition*, 268.

13 Michael Atkinson and William Coleman, *The State, Business, and Industrial Change in Canada*. (Toronto: University of Toronto Press, 1989), 24.

enterprises, worker retraining, as well as export assistance to Ontario-based business....There are many initiatives the...government can and must take to...encourage the rationalization of whole sectors and industries.¹⁴

Increasingly, provincial governments are challenged in that they must pursue economic development objectives in both a continental and a global context. Strategies and experiences in American states can be directly relevant to provincial development strategies. Susan Clarke and Martin Saiz write that:

The emergent global economy challenges conventional assumptions about state development policies. It is clear that economic growth and development processes at the state level now must be considered in the context of larger trends...that investment flows and decision-makers are international rather than local or national, and that the very nature of economic competition and productivity is changing....¹⁵

Not only must provinces and states deal with the challenges associated with globalization, they must also deal with the reality that their regional difficulties may be seen as less problematic at the national level. Commenting on the American situation, Clarke and Saiz note that "when one region prospers while another languishes, most national policy makers interpret the result as short-term, or "frictional," unemployment and the price of an open economy and global competitiveness. From a national perspective, what is important is the ability of the economic system as a whole to absorb workers displaced from traditional manufacturing into new jobs that allow a decent standard of living."¹⁶ While this outlook may be less true in Canada, it remains valid to argue that national priorities tend to focus on 'the bigger picture,' perhaps at the expense of specific regions. Given such divergences in opinion between some state/provincial policy makers and those at the national level, it is entirely sensible that responses -- in the form of industrial policies -- to the regional challenges arising from a globalizing economy, should come from the subnational level of government.

14 Daniel Drache, "The Way Ahead for Ontario," in *Getting On Track: Social Democratic Strategies for Ontario*, Daniel Drache, ed., (Montreal/Kingston: McGill-Queen's University Press, 1992), 231.

15 Susan E. Clarke and Martin R. Saiz, "Economic Development and Infrastructure Policy," in *Politics in the American States: A Comparative Analysis*, 6th ed., Virginia Gray and Herbert Jacob, eds., (Washington: CQ Press, 1996), 519.

16 Clarke and Saiz, "Economic Development and Infrastructure Policy," 520.

2.1.3 Historical Precedents for Provincial Activism

The historical and constitutional evolution of the Canadian federation shows that from time to time, certain provinces have vigorously defended their constitutional powers in order to pursue strategies of economic development. Three studies of Ontario form the basis of a discussion of the role played by the Ontario government in fostering economic development.¹⁷ Historical periods in Ontario provide benchmarks against which the efforts of the Peterson and Rae governments can be measured. These studies highlight themes central to the analysis of the industrial policy experiences of the Rae and Peterson governments: use of constitutional powers; willingness to pursue policies distinct from federal policies; the relationships between the political and commercial elites; and commitment and involvement by the premier. Experiences in Alberta under the premiership of Peter Lougheed are also documented here, noting in particular the extent to which provincial policies antithetical to federal policies of economic development can be pursued.

Ontario

Nelles' study of 'the politics of development' during the period 1849-1941 demonstrates the importance of the provincialist-interventionist policies which, in an earlier era, successive Ontario governments pursued in developing its natural resources, specifically in forestry, mining, and hydroelectricity. This early activity on the part of the provincial state set a pattern for industrial development in Ontario. As the Premier's Council reported in 1988, "our current industrial structure and economic skills are the result of our history."¹⁸ Commenting on Ontario's status as the nation's "industrial heartland," Allan Tupper notes that "Ontario's prosperity is attributable to much more than favourable federal policies and natural advantages....the government of Ontario was pursuing

17 See H.V. Nelles, *The Politics of Development: Forests, Mines, and Hydro-Electric Power in Ontario, 1849-1941*, (Toronto: Macmillan, 1974), Christopher Armstrong, *The Politics of Federalism: Ontario's Relations with the Federal Government, 1867-1942*, (Toronto: University of Toronto Press, 1981), and K.J. Rea, *The Prosperous Years: The Economic History of Ontario: 1939-75*, (Toronto: University of Toronto Press, 1985).

18 Premier's Council, *Competing in the New Global Economy*, 11.

policies of public ownership, resource processing within provincial boundaries, and assistance to industry early in this century.”¹⁹

Nelles described a provincial government pursuing policies of “economic provincialism,” keenly attuned to the interests of its “business clients.”²⁰ Ontario’s primary resource industries, specifically forestry, mining and hydroelectricity – which collectively became the focal point for Ontario’s development strategy until after WWII – provided a natural focus for “the concept of the positive, interventionist state.”²¹ The level of intervention described by Nelles suggests a provincial government pursuing anticipatory policies, but in a context in which the provincial state was still at a fairly early stage of development. The policies pursued were obviously designed to serve industry, consistent with the social market approach more so than the selective interventionist approach.

Promotion of industry was encouraged between 1897 and 1900 by government attempts to “alter the legal framework of resource exploitation in such a way as to compel users of natural resources to locate their manufacturing establishments within the province.”²² Nelles identifies five factors influencing the effectiveness of this so-called “manufacturing condition”:²³

- market conditions;
- the willingness (and ability) of business lobbyists to play federal and provincial jurisdictions against each other;²⁴
- the inertia of capital (eg. the difficulty of moving refineries, pulp mills);
- the relative legal access of the state to the industry (with direct access more effective than indirect);
- the power and skill of those opposed to its application.

19 Allan Tupper, “Federalism and the Politics of Industrial Policy”, in *Industrial Policy*, Andre Blais, Research Coordinator, volume 44 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada. (Toronto: University of Toronto Press, 1986), 355.

20 Nelles, *The Politics of Development*, 490.

21 Nelles, *The Politics of Development*, 1.

22 Nelles, *The Politics of Development*, 102.

23 Nelles, *The Politics of Development*, 103-107.

24 Nelles notes (107), for example, the success of Orford Copper at this game:

“Orford knew how to work the dominion-provincial machinery. By an exceptionally skilful playing of the dominion-provincial game the company mobilized the senior level of government against the junior. In the face of many extremely serious threats from the province of Ontario, Laurier stood his ground....The coils of federalism that had given rise to the provincial manufacturing condition in the first place could also be engaged to nullify it.”

Bradford and Williams offer the following assessment of the manufacturing condition applied in Ontario:

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 'nationalist' interventions and receptive to American complaints.²⁵

Despite the fact that Nelles described the manufacturing condition as a "qualified failure," the failure of this particular instrument of economic development should not be equated with an overall policy failure. The government's pro-business approach was clearly favourable to economic development, even if at the expense of other societal interests:

[T]he Ontario government's attitude towards broader social and political issues, such as unemployment, industrial unionism, federalism, and public finances closely approximated business views on these same subjects. The Ontario interest in these matters was its business interest, and there were no more prominent businessmen in provincial counsels than those of the mining, forest products and hydro-electric industries. Paternal government departments and political friendships permitted businessmen to use the state to stabilize, extend and legitimize their economic power.²⁶

Liberal Premier Mitchell Hepburn (1934-1942) had a personal relationship with various 'mining men' that left him open to charges that he put their interests ahead of the broader public interest: "Hepburn fully shared the values and esprit of the mining milieu. From the point of view of his friends, he could be counted upon to protect their interests."²⁷ Hepburn was willing to carry his loyalty to his 'friends' into the federal-provincial arena, pressing the federal government to relinquish a sizable portion of the taxes imposed on resource industries to the provinces. A reduced tax burden was intended. Nelles observed that "the point here is not that the mining community instigated the famous breach between the federal and provincial government during the late thirties:

25 Neil Bradford and Glen Williams, "What Went Wrong? Explaining Canadian Industrialization," in *the New Political Economy*, Wallace Clement and Glen Williams, eds., (Montreal/Kingston: McGill-Queen's University Press, 1989), 61.

26 Nelles, *The Politics of Development*, 427.

27 Ibid., 439.

instead it is to be observed how the doctrine of provincial rights directly served the interests of the miners.”²⁸ Nelles suggests that “During the 1930s, the government of Ontario became, in effect, the client of its industrial tenants,” sharing a “bond of sympathy.”²⁹

The Ontario Hydro-Electric Power Commission enjoyed a unique relationship with the government of Ontario, since it was, itself, a branch of the executive. Throughout Hepburn’s mandate as premier, proposals for the development of the St. Lawrence Seaway became a focal point for federal-provincial tensions, with Ontario reluctant to proceed with such an expensive project at a time when provincial hydro power was in abundance. Nelles notes that the issue of hydro-electricity set the tone for dominion-provincial relations:

The needs of Ontario Hydro, then, carried considerable influence in the determination of Ontario’s attitude towards federalism. Differences between Ottawa and Toronto over hydro-electric questions quickly became differences over constitutional questions.³⁰

Tensions arising from the Seaway issue also poisoned the atmosphere in which the Royal Commission on Dominion-Provincial Relations (Rowell-Sirois Commission, 1940) discussed various forms of federalism.

Nelles’s assessment of the relationship between government and business in Ontario is neatly summarized in the following words:

Together these business groups fashioned the image of Ontario. It was mutual business -- mining, newsprint and hydro -- that forged the axis that revolved between Hepburn and Duplessis. Businessmen and bureaucrats...dictated the response of government to a vast array of social, economic and political problems. Provincial rights was good business, and business was politics.³¹

Like Nelles, Christopher Armstrong explains that the Ontario government was willing to use all tools at its disposal under the constitution to further the cause of resource development, even if that meant conflict with either the federal government or the American government. Armstrong observes the perception that Ontario has been well served by Confederation:

28 Ibid., 5.

29 Ibid., 462, 463.

30 Ibid., 486.

31 Ibid., 487.

To Canadians living in other provinces it has always seemed that the citizens of Ontario have every reason to be pleased with the way in which Confederation has worked. Yet Ontario can lay claim to the title of heart and soul of the movement for provincial rights, of the effort to defend local autonomy against federal interference.³²

This history dates back to the early days of Confederation, particularly under the Premiership of Oliver Mowat, between 1872 and 1896. Christopher Armstrong summarizes Mowat's approach to building 'Empire Ontario:'

Ontario has generally been satisfied with national development programs such as the protective tariff, which greatly benefited the region, but whenever such policies have failed to meet its needs, the provincial government has not hesitated to try to substitute its own programs for those of Ottawa. The result has been federal-provincial conflict, especially over resource development policies.³³

[Successive Ontario Premiers] sought the widest possible sphere of independence in shaping policies designed to promote the economic growth of the province, particularly through the development of natural resources, where ownership of lands, forests, and minerals gave the provincial government great authority.³⁴

Realizing that the constitutional arena would provide the focus for future federal-provincial conflicts, Mowat actively pursued a constitutional veto for Ontario. Tensions between federal and provincial governments were created and exacerbated by jurisdictional squabbles at the bureaucratic level, and by the tendency of private interests to play one level of government off against the other. Armstrong relates the ongoing power struggles between Ottawa and Ontario, citing

a series of acrimonious disputes over the way in which the federal system should operate, disagreements which were settled mainly on Ontario's terms with a consequent diminution of federal powers. As a result, the federal system did not function in the way that the Fathers of Confederation had envisaged, because the provinces through political activity and through the decisions of the courts were gradually recognized as co-ordinate jurisdictions with the central government, fully sovereign within their sphere of authority and not at all like the glorified municipalities originally envisaged.³⁵

Although Armstrong builds on the work of Nelles in several respects, it is his expansion of the

32 Christopher Armstrong, *The Politics of Federalism: Ontario's Relations with the Federal Government, 1867-1942*, (Toronto: University of Toronto Press, 1981), 3.

33 *Ibid.*, 4.

34 *Ibid.*, 233.

35 The notion of provincial and central government as co-ordinate sovereignties, "separate but equal to one another," was confirmed by Lord Watson's decision in *The Liquidators of the Maritime Bank of Canada v. the Receiver-General of New Brunswick (1892)*, cited *Ibid.*, 22.

discussion of American involvement in Canadian affairs – including constitutional affairs -- which is most enlightening. Their work invites comparisons with a later period: the relationship between Ottawa, Ontario, and the American government during the FTA discussions. Ontario's opposition to the agreement undoubtedly raised 'red flags' in the United States. If Ontario had more forcefully opposed the agreement (or if it had aggressively pursued anticipatory industrial policies of 'selective intervention' as outlined in the PCR, contrary to the 'pure market' or 'social market' direction of the FTA), might the Americans have pressured the Canadian government to ensure Ontario's support? Armstrong's work shows the precedent for such a response.

As the 20th century opened, American interests actively lobbied the Canadian federal government to exercise its power of disallowance over Ontario's 1900 plans to amend the *Mines Act* to impose a prohibitive tax on all ore exported from Canada. They believed that the new tax would effectively be an export duty, and thus an unconstitutional attempt by the province to regulate trade and commerce.³⁶ With the federal government willing to invoke disallowance, the province agreed to refer the *Mines Act* to the Supreme Court, a step made unnecessary when it was decided to not proceed with the legislation. American interests had successfully mobilized the federal government against the policy objectives of Ontario.

The attempts by interest groups -- both American and Canadian -- to play one level of government against the other exacerbated tensions between the governments of Ontario and Canada, adding an interesting dimension to 'the politics of federalism.' This theme is further explored in subsequent chapters as a factor in the politics surrounding Ontario's recent industrial policy efforts.

Ken Rea's study of Ontario's economic history -- covering the period from the Second World War to the mid 1970s -- further demonstrates the importance of natural resources to control of the economy by the provincial government. As exploitation of Ontario's natural resources reached a

36 Ibid., 43.

plateau,³⁷ the role for the provincial government in the economy became much less clear. The federal government had effectively taken control of the national economy during the war years, clearly intending to continue this trend following the war through the use of fiscal and monetary policy. Rea notes that:

The appropriate role of the provincial government was not so clear, partly because of the constitutional uncertainties inherent in the country's federal system, but also because the theory of economic management was not articulated for subnational units in the way that the Keynesian doctrine was for a nation as a whole.³⁸

Despite provincial intervention in virtually all areas of economic activity, and continued prosperity throughout the 35 year period documented by Rea, there is little evidence that the province was able to take control of its economic development in the period following World War II. Instead, the generous application of the federal spending power convinced Ontario to 'share' responsibility where federal and provincial interests could be reconciled, despite repeated provincial statements indicating an unwillingness to give up its decision-making powers to the central government.

Further evidence that the province had lost control of its economic destiny could be seen in the reaction to the early development of the 'global economy.' The movement to freer trade, the development of trading blocs, and particularly the emergence of south-east Asian producers of clothing, footwear, and consumer electronics created a deep sense of uncertainty.³⁹ This uncertain economic environment continues to concern both governments and producers in Ontario today.

Rea emphasised that the failure of the Ontario government to control the direction of economic development during 'the prosperous years' (1939-1975) resulted from the lack of a clearly articulated provincial vision:

In the absence of such purpose, partial planning exercises were doomed to be nothing more

37 According to Rea, Hepburn felt there was little the provincial state could do to alter this "plateau" of development. K.J. Rea, *The Prosperous Years: The Economic History of Ontario: 1939-75*, (Toronto: University of Toronto Press, 1985), 16.

38 Ibid., 16.

39 Ibid., 195.

than responses to particular requirements and pressures...industrial strategy became an empty declaration of good intentions. The inability to develop any set of coherent goals for the economy as a whole was of course partly a consequence of the federal-provincial division of powers.⁴⁰

The inability to enunciate a coherent anticipatory industrial policy prevented governments in the post-war years from playing a critical role in shaping the provincial economy. This theme is revisited throughout our discussion of the Peterson and Rae years of government, as both governments struggled to enunciate an anticipatory industrial policy that was clear in its intentions.

The studies by Nelles, Armstrong, and Rea paint a picture that suggests that provincial governments are best able to shape economic development when the policy tools in use are held exclusively by the provincial government. The success of development policies centering on resource extraction and processing clearly demonstrates this. As a provincial economy matures, however, reliance on primary industries ceases to be sufficient. Thus, uncertainties introduced by factors such as free trade and the emergence of huge trading blocs (Europe, Asia-Pacific, North America), require a new set of policies if provincial governments hope to be able to shape the development of provincial economies.

Alberta

Discussion above noted Ontario's early history of provincial activism. Canadian federalism, however, has evolved significantly since the period studied by Nelles and Armstrong. More recent examples of provincial activism demonstrate the continued ability of provincial governments to pursue activist provincial development policies through concerted efforts at 'province-building.' The Lougheed years (1971-1985) represent a landmark period in the province-building movement.⁴¹

40 Ibid., 251.

41 The term 'province-building,' which acts as an implicit point of comparison for this study, was first coined by Edwin R. Black and Alan C. Cairns, "A Different Perspective on Canadian Federalism," in *Canadian Public Administration*, Vol. 9, #1, March 1966, 27-44. The most thorough critique of the 'province-building' concept is offered by R.A. Young, Philippe Faucher, and André Blais, "The Concept of Province-Building: A Critique," *Canadian Journal of Political Science*, 17:4 (1984): 783-818.

This province-building often occurred through policies and initiatives running counter to policies pursued at the federal level, notably the attempt, culminating in the federal National Energy Program, to claim an increased share of oil revenues at the federal level. Alberta has demonstrated a willingness to put provincial interests ahead of national interests. In this respect, it appears to differ from Ontario, whose interests during the latter half of the 20th Century are often equated with the 'national interest.' Alberta has historically been seen as a counterpoint to 'Central Canada.'⁴²

The implicit question suggested by this comparison is this: "What can we learn from Alberta's successes in pursuing economic development policies (often at odds with the federal government), that help us understand the relative failure of the Peterson and Rae governments in Ontario to pursue similarly activist agendas?" A brief overview of the province-building literature illuminates this issue.

In their seminal article on province-building, Black and Cairns note the importance to a more complete understanding of Canadian politics of recognizing

the creation and effects of social, political, and physical communication networks within the provinces, the growth of regional economies with international as well as national ties, and the burgeoning provincial bureaucratic and other elites which confidently manage state systems bigger in scope, competence, and importance than some foreign sovereignties.⁴³

Since federal powers peaked in the immediate post-war years, a series of 'province-building' efforts have caused the 'balance-of-power pendulum' to shift in the direction of the provinces. Arguing that "probably the most important aspect of province-building concerns the growth of influential provincial elites in politics, administration, and resource-based industries."⁴⁴ Black and Cairns further observed that the redistribution of bureaucratic expertise had removed much of the paternalistic, hierarchical dimension of the federal-provincial relationship. Understandably, as the provinces built up their expertise, they found it increasingly difficult to accept federal incursions in

42 See John Richards and Larry Pratt, *Prairie Capitalism: Power and Influence in the New West*. (Toronto: McClelland & Stewart, 1979).

43 Black and Cairns, "A Different Perspective," 27-28.

44 Black and Cairns, "A Different Perspective," 40.

areas of provincial jurisdiction. With provincial incentives for co-operation declining, and the range of governments' plans and expectations growing, policy-making through co-operation and consensus-making became not only less possible, but also less desirable to those provinces capable of pursuing their own development policies.⁴⁵

By the early 1970s, the province-building movement was in full swing in several provinces. Richard Simeon's *Federal-Provincial Diplomacy: The Making of Recent Policy in Canada* notes that "Canada's ten provinces are vigorous, activist units, jealous of their powers and anxious to use them."⁴⁶ The coincidence of this inclination with vast resources (natural, administrative and financial) formed the foundation for Alberta's development.

Implicitly, when one level of government gains powers, the other loses, if not absolutely, then certainly relatively. Brodie and Jenson explain that:

Throughout the seventies, Ottawa lost its power to manage the national economy as the provinces began to implement their own development -- or "province-building" -- strategies to achieve the economic diversification that had been denied them by over a century of federal economic policy-making.... Throughout the seventies, the premiers of the resource-producing provinces, especially in the West, introduced and popularized an alternative vision of Canadian development, one which emphasized decentralization of the federal governments' economic prerogatives, market-driven economic development, and accelerated continental economic integration.⁴⁷

Alberta is often seen as an enclave of right-wing, laissez-faire, anti-Ottawa governments, while Ontario is often perceived as little more than a puppet of the federal government.⁴⁸ Although there have been instances when such characterizations were largely accurate,⁴⁹ Allan Tupper and Roger Gibbins argue that stereotypes of Alberta are unfair:

45 Ibid., 42.

46 Richard Simeon, *Federal-Provincial Diplomacy: The Making of Recent Policy in Canada*, (Toronto: University of Toronto Press, 1972), 10.

47 Janine Brodie and Jane Jenson, *Crisis, Challenge & Change*, 2nd ed., (Ottawa: Carleton University Press, 1990), 298.

48 Some would argue that it is the other way around -- that it is the federal government which is a puppet of the province (but not the government) of Ontario.

49 The positions of these governments in the round of discussions leading to the *Constitution Act, 1982*, with Alberta a member of the "Gang of Eight," and Ontario siding with the Federal government, even across party lines, is a case in point.

Perhaps the strongest stereotype of Alberta politics is the alleged political conservatism of its people and their governments' apparent preference for "right wing" policies. But Alberta's Progressive Conservative governments have been and remain interventionist, especially in their efforts to alter the province's economic structure; the interventionist state, in Alberta as elsewhere, has been a potent weapon in the hands of ambitious elites.⁵⁰

The province's reputation as an island paradise of free enterprise in a Canadian sea of interventionism reflects neither historical traditions nor contemporary realities. Successive Alberta governments have been deeply committed to the development of economic infrastructure, public education, provincial resources and a welfare state, subject in each case to the opportunities and constraints imposed by federalism. A particular skill of successful Alberta politicians is their capacity to wed the rhetoric of limited government with the practice of active government.⁵¹

In *Prairie Capitalism: Power and Influence in the New West*,⁵² John Richards and Larry Pratt examine the emergence of 'provincial entrepreneurship,' in which the governments of Alberta and Saskatchewan acted together with (and on behalf of), an emergent local bourgeoisie to develop bountiful natural resources thus capturing significant economic rents. These governments were prompted to act by what they perceived as a "fundamental encroachment by Ottawa upon provincial jurisdiction over resources."⁵³

Richards and Pratt attempt to debunk the predominant perception that provincial economic development efforts should be seen as impediments to national development. Instead, they argue that provincial governments should be seen as "competent, relatively autonomous agents of economic development," and that Alberta's actions were both effective, and appropriate.

The industrial policy pursued by Alberta during the Lougheed years was described by Richards and Pratt:

[U]nderlying the specific instances of state entrepreneurial activity in Alberta, we can discern a relatively coherent development strategy which is best described as the provincial equivalent of economic nationalism -- the ideological emblem of a rising middle class. Alberta's economic provincialism, with its emphasis on the use of the state to foster an

50 Allan Tupper and Roger Gibbins, "Alberta Politics: Change and Continuity," in *Government and Politics in Alberta*. Allan Tupper and Roger Gibbins, eds.. (Edmonton: University of Alberta Press, 1992), xv.

51 Ibid., xxv.

52 John Richards and Larry Pratt, *Prairie Capitalism: Power and Influence in the New West*, (Toronto: McClelland & Stewart, 1979).

53 Ibid., vii.

indigenous industrial-technological core in the West, should be interpreted as the frustrated reaction of a hinterland elite to the unequal diffusions of industry, wealth, and power in the national political economy.⁵⁴

Pratt further cited key components of a provincial industrial strategy as presented by Peter Lougheed to the Calgary Chamber of Commerce in 1974:

Alberta had a decade to diversify, Lougheed argued, adding that the government's development strategy was rooted in three fundamental objectives: 'The first one is to strengthen control by Albertans over our future and to reduce the dependency for our continued quality of life on governments, institutions, and corporations directed from outside the province. Secondly, to do this as much as possible through the private sector and only to move through the public sector if the private sector is not in a position to move in essential new directions and then only in exceptional and very specific circumstances. And thirdly, to strengthen competitive free enterprise by Albertans which to us means giving priority to our locally-owned businesses.'⁵⁵

Garth Stevenson explicitly identifies the Lougheed period in Alberta, in which the government pursued complementary goals of economic development and representation of business interests, as analogous to the early years of this century in Ontario, as studied by Nelles and Armstrong.⁵⁶ Richards and Pratt also draw a comparison to the use of the 'manufacturing condition' in Ontario, with the province inducing resource developers to process timber, nickel and other resources in Ontario. In an attempt to make the transition to a modern industrial economy, Alberta's strategy sought to encourage the development of industries enjoying backwards and forwards linkages to the oil industry, such as various petrochemical industries. Abundant resource rents captured during the world-wide energy crisis of the early 1970s were pooled in the Alberta Heritage Savings Trust Fund, which soon grew to a multi-billion dollar source of seed capital for industrial diversification.

That the "industrial heartland" epitomized by Ontario had been at a comparable stage of development several decades earlier was not lost on Alberta policy makers, suggest Richards and Pratt:

54 Ibid., 216.

55 Larry Pratt, citing Peter Lougheed's speech to the Calgary Chamber of Commerce, 'Alberta's Industrial Strategy,' September 6, 1974, in "The State and Province-Building: Alberta's Development Strategy," in *The Canadian State: Political Economy and Political Power*, Leo Panitch, ed., (Toronto: University of Toronto Press, 1977), 149.

56 Garth Stevenson, *Unfulfilled Union*, (Toronto: Gage, 1979), 99, and note 17, 99.

[T]he target against which this development strategy is primarily directed is central Canada. We are describing a classic struggle between a new rising capitalist class and an older entrenched bourgeoisie.⁵⁷

Alberta's determination to succeed economically was enhanced by a perception that Central Canada's economic strength had been built at their expense, and contributed to the adoption of a 'no holds barred' approach to economic development. The constitutional powers enjoyed by the provinces over natural resources were fully utilized by Lougheed's government in an effort to consolidate and extend control over its resource base.⁵⁸ Richards and Pratt discuss the connection between Alberta's position in constitutional politics and their economic policies:

There is a close relationship between Alberta's rising economic power and its defensive stance on political and constitutional decentralization. Alberta's political elites favour strong provincial governments as a buffer against a federal authority perceived as the predatory instrument of central Canadian interests. They do not favour the reform of federal institutions, such as the Senate, as a strategy of increasing representation in Ottawa: this, they fear, would weaken the position of the provincial governments.⁵⁹

Any analogies drawn between the Alberta experience and the period studied here in Ontario, however, largely break down at the level of specific constitutional reform efforts, where both Peterson and Rae subordinated Ontario's provincial interests to a broader national interest in constitutional discussions.

Bradford and Williams offer a comparative assessment of *Prairie Capitalism* and Nelles'

Politics of Development:

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

57 Richards and Pratt, *Prairie Capitalism*, 216.

58 Natural resource concerns served as a primary concern of Lougheed's in the constitutional debates of 1978-1981, leading to the inclusion of section 92A in the *Constitution Act, 1982*, further discussed in Chapter 2.

59 Richards and Pratt, *Prairie Capitalism*, 300. Note, however, that in recent constitutional discussions the Alberta government has championed Senate reform in the direction of a so-called "Triple E Senate" (Effective, Elected, Equal).

implement strategic goals.⁶⁰

While an obvious comparison can be drawn between the natural resource-led development of Lougheed's Alberta and Ontario during the years documented by Nelles and Armstrong, it becomes much more difficult to identify similarities between the Lougheed years and Ontario between 1985 and 1995. While clearly a resource-based strategy of provincial development has proven successful in the past, it is also possible that there are other factors which contribute to success, which the recent Ontario examples might (or might not) share. The above quotation suggests that control of natural resources may not be as important to the successful pursuit of an 'industrial policy' as are clear ideas, and the political conviction to turn those ideas into action. The importance of political commitment at the highest level (i.e. provincial premier) to the implementation of an industrial policy should not be underestimated.

Comparisons drawn between Alberta and Ontario allow us to draw conclusions which extend our understanding of the viability of provincial industrial policies within the Canadian federal system. The Alberta case highlights the fact that despite non-complementary federal policies, provincial industrial policy activism is possible in the latter part of the 20th century. The province-building movement suggests that the Peterson and Rae governments could have pursued activist industrial policy agendas. However, despite historical precedents in Ontario and Alberta, and despite the congruence of provincial and regional interests, and the importance of 'region' to the new global economy, both the Peterson and Rae governments failed to proceed aggressively with provincial industrial strategies.

2.1.4 Federal State, Continental Economy

Ontario's industrial policy efforts under the Peterson and Rae governments were shaped by historical and contemporary federal economic development policies. Three phases of federal economic

60 Bradford and Williams, "What Went Wrong?," 63, citing Richards and Pratt, *Prairie Capitalism*, 239.

development policy, and the impact of federal policy on the provincial Liberal and NDP governments in Ontario, are explored below. These phases included: a) the period before free trade, from 1972-1983, during which the federal government attempted to forge sectoral industrial policies from 1972 to 1979, and subsequently shifted focus towards a National Energy Policy (NEP) and several 'mega-projects' between 1980-1983; b) the pursuit of continental free trade agreements between 1984-1993, and the reaction of the Liberal and NDP governments to such trade regimes; and c) the overlapping development of alternative industrial policy visions such as the 'Prosperity Initiative'⁶¹ between 1991-1995. Federal economic development initiatives shaped both the formulation and implementation of provincial Liberal and NDP industrial policies.

Federal Industrial Policies: Before Free Trade, 1972-1983

Failed federal attempts to forge sectoral industrial policies led to the abandonment of such initiatives at the federal level, in favour of free trade initiatives. In abandoning activist industrial policies, the federal government left the door open to provincial governments to fill that policy void. Ontario's efforts to pursue industrial policies between 1985 and 1995 must be examined in this context.

A number of economic and political factors converged early in the 1970s, demanding a response from government. Principal among these factors were the 'energy crisis,' the emergence of 'stagflation,' a condition in which high inflation coincided with high unemployment, and the realization that the Canadian economy was being increasingly dominated by American capital. Richard French describes this context in which the federal government made its most ambitious foray into industrial policy-making:

New and more complex kinds of decisions were necessary to minimize, for example, foreign debt and foreign investment, to economize on expensive and finite natural resources, and to distribute development to underdeveloped regions. The objectives and criteria informing such choices would, according to some observers, be the essential elements of an industrial

61 See Canada, Prosperity Secretariat, Department of Industry, Science and Technology, *Prosperity Through Competitiveness*, (Ottawa: Minister of Supply and Services Canada, 1991).

strategy.⁶²

Two industrial strategy alternatives emerged; the 'free trade' camp, led by advocates within the Economic Council of Canada, and the 'technological sovereignty' camp, led from within the Science Council of Canada. French notes that:

A Canadian industrial strategy based on technological sovereignty would recognize that technological progress is essential to socio-economic development, that this implies an explicit, aggressive technology policy which must take priority over other policies, and that "Government 'intervention' at all levels is essential to reach the goals implied by technological sovereignty..."⁶³

While this debate between federal advisory bodies raged, the reaction at the federal political level was ambivalent. French notes that after an initial period of enthusiasm for 'industrial strategies' at the cabinet level, successive ministers of industry between the period 1972-1979 distanced themselves from this position: "early enthusiasm followed by prolonged anti-climax."⁶⁴ At the bureaucratic level, however, the machinery of government had been actively moving towards sector-based assessment of the challenges facing Canadian industrial sectors. This process was notably in direct response to the government's involvement in the Tokyo Round of GATT negotiations. Sector profiles had been created by staff of the Department of Industry, Trade and Commerce (IT&C) for approval by an interdepartmental committee of ministers. The result of this process was the establishment of twenty-three sectoral task forces (the so-called Tier 1 task forces), "each composed of management, labour, academic, federal and provincial representatives....[who met] to elaborate a sectoral strategy for each industry."⁶⁵ Subsequently, Tier 2 committees were formed to determine government actions appropriate to the fulfilment of the Tier 1 sector strategies.

Any forward momentum coming out of the Tier 1 and 2 processes was halted by the 1979

62 Richard D. French, *How Ottawa Decides: Planning and Industrial Policy-making 1968-1980*. (Toronto: Lorimer, 1980), 93.

63 French, *How Ottawa Decides*, 98, citing J.N.H. Britton and J.M. Gilmour, *The Weakest Link. A Technology Perspective on Canadian Industrial Underdevelopment*. (Ottawa: Science Council of Canada, 1978), 162.

64 French, *How Ottawa Decides*, 108.

65 French, *How Ottawa Decides*, 122.

election campaign and the subsequent defeat of the Liberal government. Atkinson and Coleman note that a series of demands combined to derail federal industrial policy efforts during the 1970s:

The rhetoric of 'industrial strategy,' which echoed in bureaucratic offices and cabinet committee rooms in the early 1970s has since been replaced by a piecemeal rationalization of particular projects. The technical, administrative and, political demands of 'across-the-board' anticipatory policy were simply too great.⁶⁶

While there did not emerge from this process anything resembling a national anticipatory industrial strategy, the legacy of these sectoral processes was the establishment of a precedent of addressing industrial policy at the sectoral level. While the initiatives proposed as part of the sectoral consultations did not approach the level of state involvement documented by Michael Best,⁶⁷ an acceptance of sector-level policy-making in one sense paved the way for later developments, both federally and provincially, while also arguably souring some business and government interests on the idea of anticipatory industrial policy. David Wolfe notes that the process of sectoral-level consultation that was the cornerstone of the NDP industrial policy was made easier by federal initiatives such as the sectoral-level input into the Canada-United States free trade discussions (through the Sectoral Advisory Groups on International Trade, or SAGITs), and sectoral discussions as part of the Mulroney government's Prosperity Initiative, discussed above. Indeed, Wolfe notes that "in at least one instance, the provincial consultation piggybacked directly on the federal advisory process."⁶⁸ Although sectoral level consultations had been undertaken previously in the Canadian context, the presence of organizational machinery provides no guarantee that substantive change (third-order change?⁶⁹) will be possible.

The re-election of the Liberals as government at the national level in 1980 signalled the beginning of a period of intense federal-provincial conflict, with competing visions of industrial

66 Atkinson and Coleman, *The State, Business, and Industrial Change*, 29.

67 Best, *The New Competition*.

68 David A. Wolfe, "Negotiating Order: The Sectoral Approach to Industrial Policy in Ontario." Paper prepared for the Annual Meetings of the Canadian Political Science Association, Brock University, St. Catharines, Ontario, June 2, 1996, 27.

69 Peter A. Hall, "Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain," *Comparative Politics*, 25 (1993).

policy at the centre of the debate. Rather than returning to the sectoral focus of the Tier 1 and 2 processes, the federal government embarked on a series of 'mega-projects' and a new National Energy Program (NEP) designed in part to assert control over an energy resource that was increasingly falling into the hands of the provincial state, notably in Alberta.

Federal Policy: Free Trade = Industrial Policy, 1984-1993

By the time the Peterson Liberals assumed control of the Ontario government in June 1985, with the assistance of the NDP led by Bob Rae, the Progressive Conservative federal government had been in power since September 1984, and had signalled a clear intention to pursue economic policies which differed considerably from those of previous federal Liberal governments. The National Energy Program (NEP) was gone; the Foreign Investment Review Agency (FIRA) had been considerably altered, attracting rather than inhibiting US (and other foreign) investment in Canada. The release of the Report of the Royal Commission on the Economic Union and Development Prospects (Macdonald Commission) in 1985, favouring the pursuit of a free trade agreement with the United States, gave the Mulroney Conservatives a 'ready-made' industrial policy based on free trade and the largely unfettered working of the market system. The free trade policies of the Progressive Conservatives placed their approach to the economy straddling the pure market and social market approaches.

At the national policy level, laissez-faire, continentalist trade policies emerged in the mid 1980s as the way to deal with profound changes which had occurred in the world economy since the Second World War. Atkinson and Coleman note that within a decade of the end of the war, "the bloom was off the Keynesian rose" and "[t]he triangular trade relationship changed as the British market declined in importance, increasing the significance of bilateral trade with the United States."⁷⁰

70 Atkinson and Coleman, *The State, Business, and Industrial Change*, 16.

The negotiation of the Free Trade Agreement (FTA), and subsequently the North American Free Trade Agreement (NAFTA) placed the centrality of the US economy to the economic health of Canada (and Ontario) at the forefront of policy discussions at both the federal and provincial levels.⁷¹ Given the significant reliance of the Canadian economy on trade with the United States, the possibility of US protectionism was feared among Canadian policy makers. Wyn Grant suggests that some degree of protectionism is inevitable:

[N]o one is arguing for completely free trade; rather the hope is that protection can be contained within bounds which prevent it from undermining the international trading system.⁷²

Given the negative effects of protectionism on consumers, industrial efficiency, and world trade,⁷³ the Tories felt that a primary policy goal should be to minimize the risk of its occurrence on a large scale. The FTA was seen as the means to achieve that goal, focusing efforts at the bilateral level, rather than aggressively pursuing multilateral trade.

While protection of Canadian access to US markets was one incentive to pursue free trade, the Mulroney Conservatives also wanted to distance themselves from the industrial policy efforts of previous federal governments. Bruce Doern notes that the Conservatives' first budget, released in May 1985, clearly signalled a rejection of 'old-style' industrial policies. The conservative critique of such policies included the following features:

- general argument for a reduced role for the state in the economy;
- the aversion to a so-called 'picking winners' approach to industrial policy;
- the conservative approach to free trade which is simultaneously a product of a belief that liberalized free trade is good but also a product of the fear of protectionist forces in the United States.⁷⁴

The desire to move away from previous industrial policy attempts was not entirely based on

71 The Canada-US relationship is sketched in D.V. Smiley, *Canada in Question: Federalism in the 80s*, (Toronto: McGraw-Hill Ryerson, 1980), 269-274.

72 Wyn Grant, *Government and Industry: A Comparative Analysis of the US, Canada, and the UK*, (Aldershot, England: Edward Elgar, 1989), 40.

73 For a further discussion of these points, see *Ibid.*, 42,43.

74 Bruce Doern, "The Tories, Free Trade and Industrial Adjustment Policy: Expanding the State Now to Reduce the State Later?," in *How Ottawa Spends, 1986-87: Tracking the Tories*, (Toronto: Methuen, 1986), 64.

ideology, however. Partisan politics played a role also. The free trade option was propelled by the Tory disdain for the industrial policy failures of the Trudeau Liberals. Corporate bailouts, the NEP, "and the sheer proliferation of an alphabet soup of industrial and business incentive programs strongly persuaded the Mulroney Conservatives and key parts of the federal bureaucracy that whatever had passed for 'industrial policy' over the past ten to fifteen years was not producing demonstrable positive results."⁷⁵ Doern notes that efforts were made to "partially move away from old-style industrial policy grantsmanship and to embrace aspects of the spirit of the new adjustment approach."⁷⁶

Ontario's Reaction to Free Trade

The Peterson Liberals' reaction to the Canada-United State Free Trade Agreement and the reaction of the NDP to the North American Free Trade Agreement were both rooted primarily in politics. Neither party wanted to be seen to be letting the Ontario economy face the potential negative consequences of free trade without a fight from the provincial government. This was particularly important to the NDP, with its traditional reliance on organized labour, which was outspoken in its opposition to both agreements. Despite vocal opposition to these agreements, neither government appeared concerned that free trade agreements would inhibit subsequent industrial policy efforts -- as presented in the PCR and the IPF -- at the provincial level.

The Peterson Liberal Reaction to the FTA

The Peterson government's reaction to the Free Trade Agreement negotiated between the Canadian and American governments indicated an ambivalence about ideology within the government ranks that was to repeat itself during the debate over the PCR agenda. The response of the government to the FTA was indicative of a party planted in the ideological centre (between the social market and

75 Doern, "The Tories. Free Trade and Industrial Adjustment Policy", 65.

76 Ibid., 83.

selective interventionist positions in the modified typology of chapter 1, Figure 1.6). unwilling to take an unequivocal position either strongly in favour of, or strongly in opposition to, the agreement. Indeed, even the demonstrated opposition to the FTA appears to have had as much to do with domestic politics as with its implications for the province's economic health. Moreover, although there was much academic discussion expressing concern that the FTA might inhibit provincial economic development efforts, this concern was apparently not shared by the government, which proceeded to unveil anticipatory industrial policies explicitly claiming to be equally relevant in the context of a free trade agreement.

Attorney General Ian Scott noted in the province's 'legal audit' of the FTA that the agreement altered the federal-provincial balance through both its substance and its process of negotiation.⁷⁷

Ron Watts noted that the agreement would quite directly influence Ontario:

The Canada-US Free Trade Agreement is likely to have a very significant impact on the relative roles played by the federal and provincial governments in the control of the economy and international trade relations, and also upon future relations between the historically dominant economic centre represented by Ontario whose government opposed the agreement, and the different peripheries represented by the West, Quebec and the Atlantic provinces, whose governments were generally supportive of the agreement....

The Canada-US Free Trade Agreement has significant implications for Canadian federalism in terms of its impact upon regional relationships within Canada, upon the jurisdictional balance between the federal and provincial governments, and upon the intergovernmental processes for negotiating trade agreements.⁷⁸

If the 'implications for Canadian federalism' outlined both by Scott and by Watts provided the Peterson government with a rationale for strongly opposing the FTA, Sheilagh Dunn -- who worked with Ontario's Ministry of Intergovernmental Affairs from 1985-1988 -- argues that Ontario's opposition to the FTA was undercut by "a desire not to upset relations with other provinces [notably

77 Ontario. Attorney General for Ontario. *The Impact of the Canada/United States Trade Agreement: A Legal Analysis*. (Toronto: Queen's Printer for Ontario, 1988).

78 Ronald L. Watts, "The Macdonald Commission and Canadian Federalism", in *Canadian Federalism: Past, Present and Future*, Michael Burgess, ed., (Leicester: Leicester University Press, 1990), 159, 160-161.

Quebec and Alberta].”⁷⁹

By 1988, largely for national unity reasons, Peterson had invested a great deal of ‘political capital’ in building congenial relations with Alberta Premier Don Getty and Quebec Premier Robert Bourassa, both ardent supporters of the free trade deal. Thomas Courchene suggests that despite Ontario’s inclination to oppose the agreement, the provincial government had left itself little room for effective opposition to the FTA given the national polarization that would result. According to Courchene, the decision to include energy in the FTA was a “brilliant tactical manoeuvre on Mulroney’s part. In one fell swoop, Ontario’s ability to speak out nationally against the FTA was substantially circumscribed....[F]rom the western perspective, the FTA is every bit as much about Ontarian hegemony as it is about continentalism. Former Alberta Premier Peter Lougheed expressed it best when he proclaimed that the energy provisions of the FTA are ‘our autopact’.”⁸⁰ The combination of the delicate status of the Meech Lake Accord and the energy provisions of the agreement prevented the Peterson Liberals from opposing the deal effectively without compromising the fragile national entente.

Keith Brownsey and Michael Howlett suggest that although Peterson may have wished to preserve the right to intervene, there was not a matching determination to exercise that right. Rather, when push came to shove, as it did during the FTA negotiations, Peterson “was willing to cede primacy in economic policy and constitutional affairs to Ottawa.”⁸¹

Because the FTA was crafted in such a way that few of its provisions impacted directly on provincial jurisdiction, an argument could be put suggesting there may have been little that Ontario could have done to actually kill the deal. A report completed for the Ontario Ministry of Industry Trade and Technology in 1985 suggested, however, that strong, determined opposition to the accord

79 Sheilagh M. Dunn, “The Free Trade Initiative and Regional Strategies,” in *Canada: State of the Federation, 1987-1988*, Peter M. Leslie and Ronald L. Watts, eds., (Kingston: Institute of Intergovernmental Relations, 1988), 68.

80 Thomas J. Courchene, *Rearrangements: The Courchene Papers*, (Oakville: Mosaic, 1992), 29.

81 Keith Brownsey and Michael Howlett, *The Provincial State: Politics in Canada’s Provinces and Territories*, (Toronto: Copp Clark Pitman, 1992), 148.

by a province the size of Ontario might have caused the Americans to pull out of negotiations:

If there is any sense of faltering, or any sense that Canada is not whole-heartedly behind the effort, the agreement could very quickly be emasculated. Canadian opponents could sabotage the effort quite easily if they so wished.⁸²

The view in the United States was that a free trade deal with Canada should only happen if Canada really wanted it (this greatly increased the American bargaining position). The point is clearly overstated, because there were many opponents to the FTA who could not “sabotage the effort,” despite their best efforts. It makes sense, however, that Americans would not have been interested in entering a deal with a country whose industrial heartland⁸³ was staunchly opposed to free trade.

The position of the Ontario government on the FTA became increasingly difficult to discern following the departure of Patrick Lavelle, Deputy Minister of Industry Trade and Technology, who had “almost single-handedly run the province’s opposition to the Free Trade Agreement.”⁸⁴ Lavelle was subsequently replaced by Gordon Gow, an enthusiastic supporter of the deal. In response to Gow’s appointment, *The Globe & Mail* stated that “with the appointment of a deputy industry minister who is in favour of free trade with the United States, Ontario is positioning itself to take as much advantage of the deal as possible, although the province still officially deplors it.”⁸⁵ Garth Stevenson elaborates on Ontario’s somewhat muted opposition to the FTA:

Ontario’s Liberal government, both before and after the [Free Trade] agreement was concluded, suggested on various occasions that the federal government might lack the legal authority to conclude an agreement that would bind the province. These remarks caused some concern in Washington, but Ontario did not actually do anything to block the agreement, perhaps because its legal case was weak and perhaps because the Ontario business community generally supported free trade with the United States.⁸⁶

82 Edward Nef (Edward Nef Associates) for Ontario, Ministry of Industry, Trade and Technology, *Canada-US Free Trade: US Perspectives and Approaches*, (Bethesda, Maryland: September, 1985), 29.

83 This term is used intentionally. It reflects the fact that Ontario’s proportion of the national manufacturing between 1989 and 1993 ranged between 51% and 53% of the national total. See Ontario, Ministry of Finance, “Ontario Economic Outlook: 1994-1998”, (Toronto: Queen’s Printer for Ontario, 1994), Tables 11, 14. The author recognizes that he may be seen as insensitive for drawing attention to this fact.

84 *Globe & Mail*, “Free Trade Specialist Quits Bureaucracy,” June 8, 1988, A5.

85 *Globe & Mail*, “New Ontario bureaucrat a supporter of free trade,” Aug. 13, 1988, B2.

86 Garth Stevenson, “Federalism and Intergovernmental Relations,” in *Canadian Politics in the 1990s*, 3rd ed., Michael S. Whittington and Glen Williams, eds., (Toronto: Nelson, 1990), 389.

Stevenson's contention concerning the deference of the Ontario government to the business community suggests that this government might have been willing to set aside its policy preferences in favour of those held by 'capital.' A more likely explanation, however, would be that the government itself was split between those who favoured a relatively laissez-faire approach to the economy, and those who favoured an active provincial state.

The NDP Reaction to the FTA and NAFTA

At both the federal and provincial levels, the NDP strongly opposed both the FTA and the NAFTA. Upon taking office in 1990, little could be done to prevent the implementation of the FTA. The negotiations for the NAFTA were not yet complete however. The Ontario NDP position on the NAFTA reflected the importance to the party of union support from mature industries such as the auto industry and steelworking. During the recession which coincided almost perfectly with the early years of the NDP mandate, job losses in mature industries were significant and often permanent. In a speech delivered in July 1993 (notably following the June 1993 passage in both Houses of Parliament of the legislation for implementing the NAFTA), Frances Lankin, Ontario's Minister of Economic Development and Trade stated that the NDP's opposition to the NAFTA "is informed by our experiences with the free trade agreement of 1988 which, along with the federal government's other economic policies, such as a tight monetary policy, have had a devastating effect on this province. Over 200,000 Ontario manufacturing jobs have been lost since 1988."⁸⁷ While job losses were the primary focus of the government's opposition, there was also considerable concern that the NAFTA represented a threat to the standard of living of Canadian workers. Lankin stated that "NAFTA also reinforces a model of international competition based on downward harmonization of labour and environmental standards and of wages."⁸⁸ Labour spokesperson John

87 Frances Lankin, Minister of Economic Development and Trade, "Economic Renewal, Trade and the Government's Response to the Report of the Cabinet Committee on the North American Free Trade Agreement" (Toronto: July 28, 1993), 5.

88 Ibid, 6.

O'Grady affirms that wage depreciation represents only the tip of the iceberg:

Within trade union and social democratic circles, it is widely believed that left to its own devices the market has a pronounced bias to achieve restructuring largely at the expense of workers. The greatest price will be exacted in the areas of job security and benefits, though wage inequalities will also widen.⁸⁹

Despite such concerns, NDP opposition to the NAFTA was relatively restrained until October 1993, when the government launched what appeared to be a full scale offensive against the deal, attacking provisions on water resources, energy, and 'social dumping,' while denouncing potential incursions into areas of provincial jurisdiction. Promising a legal challenge to the NAFTA through reference to the Ontario Court of Appeal, Premier Rae stated that "this government believes that NAFTA violates the division of powers in the Canadian Constitution. The federal government...is using a trade negotiation to intrude directly into important areas of provincial jurisdiction."⁹⁰ Despite criticism at the time that the 'NAFTA offensive' was being launched in an effort to shore up support for the federal NDP's 1993 election efforts, Rae stood firm in his opposition.

Throughout the remainder of NDP mandate, action on the NAFTA front remained minimal. The government apparently softened its public position, if perhaps not its conviction that the NAFTA remained a threat. Those in influential positions, notably Rae and Lankin, may have resigned themselves to the fact that there was little that could be done at the provincial level to scuttle the agreement itself. The previous rhetoric of opposition to the NAFTA was instead replaced with an approach which "tackl[es] the challenges of membership in an expanding trade block."⁹¹

[O]urs is a close association with the most powerful economy in the world. That has distinct advantages: For instance, the close proximity to vast markets for our goods and services. The disadvantages have to do with a natural dependence upon relatively easy access to markets and the risk of narrowing our trade focus. The debate over the pros and cons of the NAFTA is history, but I can tell you that Ontario intends to take full advantage of the

89 John O'Grady, Ontario Federation of Labour, "Labour Market Policy and Industrial Strategy After the Free Trade Agreement: The Policy Debate in Ontario," (Buffalo: May 3, 1990), 5.

90 Premier Bob Rae, "Statement to the Legislature: Regarding the North American Free Trade Agreement," (Toronto: Premier's Office, 1993), 4.

91 Premier Bob Rae, "Premier's Remarks: Economic Seminar, Frankfurt, Germany," (Toronto: Premier's Office, 1994).

economic activity induced by the treaty.⁹²

Rae thus signalled a confidence that his government's economic development objectives could be achieved within the context of existing trade agreements.

Beyond Free Trade, 1991-1995

One notable federal policy tangent beyond free trade was the Prosperity Initiative, allegedly an attempt to "improve our ability to compete in the global marketplace," through a focus on constitutional change, 'learning,' science and technology, financing investment, a competitive domestic market, and trade.⁹³ It was launched in 1991, under the direction of Michael Wilson, Minister of Industry, Science and Technology and Minister for International Trade, in response to a growing realization that Canada was in danger of falling behind the rest of the developed world in key areas of competitiveness. An extensive period of consultation followed, resulting in the preparation of 57 studies and reports, in areas such as learning, investment, trade, science and technology, and management. The resulting Action Plan,⁹⁴ mapped out a "vision of prosperity," and a "strategy for prosperity," hitting all the hot 'buzz-words,' such as *competitiveness*, *innovation*, *technology*, and *learning*, but failing, ultimately, to have a demonstrable policy impact. The Prosperity Initiative, and the results which emerged, appear to parallel the Premier's Council process in Ontario. Indeed, the contents of the Action Plan echo the dominant themes from the Peterson Council's two reports, *Competing in the New Global Economy*, and *People and Skills in the New Global Economy*. As with these reports, the Prosperity Initiative failed to meet its objectives. Its impact at the provincial level was limited to the fact that it nurtured the idea that government may have a role in pursuing 'prosperity,' while reviving the sectoral infrastructures developed during the

92 Ibid.

93 Canada, Prosperity Secretariat, *Prosperity Through Competitiveness*, (Ottawa: Minister of Supply and Services Canada, 1991), 5,6.

94 Canada, Steering Group on Prosperity, *Inventing Our Future: An Action Plan for Canada's Future*, (Ottawa: Queen's Printer for Canada, 1992).

1970s for industrial policy consultation, some of which were used later by the NDP government.

With the change of government at the federal level in 1993, it appeared there might be a new approach to industrial policy, with a focus on science and technology. Initial indications suggested that the federal Liberal government, led by Jean Chrétien, might map out a broader industrial policy than had the Conservative government. The 1993 Liberal campaign document, *Creating Opportunity: The Liberal Plan for Canada*, spelled out an active role for the federal state, investing in jobs, people and growth, towards the establishment of an innovative economy. A well researched document, prepared under the joint supervision of Paul Martin and former Peterson Cabinet Minister, Chaviva Hosek, the Liberal Plan signalled the intention to move beyond the FTA and NAFTA as industrial policy cornerstones. While committing to “renegotiating” the FTA and the NAFTA, the Liberals vowed to “go beyond trade dependence on the United States to pursue a more open and liberalized GATT and to strengthen our trading relationships with the countries of the Western Hemisphere, Eastern Europe, and the Pacific Rim.”⁹⁵ Moreover, early indications suggested that Liberal industrial policy would not stop with trade policy, as the Conservatives’ arguably had. Rather, they expressed a much greater inclination toward intervention in the economy, consistent with social market or selective interventionist approaches to the economy:

The Liberal Party does not see trade policy as a substitute for domestic policies. Monetary, fiscal, investment, training, education, and research and development policies go hand-in-hand with a nation’s trade policy....Governments must assist individuals and firms to deal with the restructuring that is occurring as a result of trade liberalization.”⁹⁶

The presence of an apparently like-minded federal government should make it both easier and less necessary for a provincial government to pursue its own policies. In areas such as apprenticeship and training, where both the federal Liberal and the provincial NDP governments had committed to improvements, the presence of federal dollars would reduce the burden on the provincial government. Certainly, federal support (particularly federal dollars), makes the achievement of

95 Liberal Party of Canada, *Creating Opportunity*, 25.

96 *Ibid.*, p. 24.

provincial objectives easier. Federal policies complementary to provincial ones would also reduce the need for Ontario to actively pursue a position of provincial autonomy.

Early indications that the federal Liberals would provide Ontario with a more favourable climate for pursuing activist industrial policies seem to have been misplaced. The federal debt situation caused the federal government to emphasize deficit slashing. Distancing themselves from business subsidies -- the principal method of industrial assistance prevalent in the past -- the Liberals pledged, in their 1995 Budget, to reduce business subsidies by 60% between 1994-95 and 1997-98.⁹⁷ While this reduction does not preclude anticipatory industrial policies at the national level, no such policy has been forthcoming. As campaign rhetoric, *Creating Opportunity* was effective, raising expectations that anticipatory industrial policy might be pursued. The approach to industrial policy signalled by the actions of the federal Liberals, on the other hand, has been to significantly downsize institutional infrastructure for dealing with industrial policy, moving away from selective interventionist approaches to the economy, to a position securely in the social market camp.

The failure to pursue a national industrial policy is partially offset in most regions of Canada, where federal regional development agencies oversee federal economic development programs. With the exception of Northern Ontario, which has its own federal development agency, FEDNOR, Ontario is not eligible for such regional development assistance. The prevailing view in Ottawa seems to be that Ontario is already 'developed,' and should not be the recipient of federal funds aimed at furthering this development. Almost by default, the 'industrial development' function of the federal government has been performed in Ontario by the Department of Industry, Science, and Technology (DIST, now Industry Canada).

As well as focusing on the encouragement of research and development (R&D), DIST was responsible in Ontario for administering industrial assistance programs such as DIPP (Defense Industry Productivity Program) and IRDP (Industrial and Regional Development Program). Under

97 Canada, Department of Finance, "Budget 1995: Backgrounders," (Ottawa: Department of Finance, 1995).

each of these categories, Ontario has received a smaller allotment of federal government expenditures than would be warranted by the province's population, or by its contribution to the federal tax base. A 1991 study prepared for Ontario's Ministry of Intergovernmental Affairs (MIA), "Regional and Industrial Development Assistance," indicated, for example, that in 1991, despite contributing 43% of taxes received by the federal government, Ontario received only 28% of all subsidies to industry, and only 27% of the federal expenditures on industrial capital assistance.⁹⁸ Not only is Ontario disadvantaged by these disproportionately small expenditures, the secondary impact is at least as damaging. The report noted that "[t]oo often Ontario has seen the WED, ACOA or FORD-Q⁹⁹ initiatives, used to attract the production facilities and employment out of Ontario....Ontario residents are paying a large portion of the federal taxes that are being used against them."¹⁰⁰ The lack of commitment at the federal level¹⁰⁰ to furthering economic development in Ontario left the door open to provincial governments aggressively to pursue appropriate industrial policies.

Federal failure to pursue industrial policy arguably does not reduce the likelihood that provincial industrial policies might appropriately be implemented. Atkinson and Coleman argue that the weak state tradition means that policy-making at the meso level can be relatively autonomous from macro-level orientations. "Thus...particular combinations of state structures, industry organization, interest associations, and experiences of co-operation create the potential for alternative policy strategies,"¹⁰¹ including, more anticipatory, intrusive, strategies than those at the federal level. In the absence of a national industrial policy, under the direction of the federal government, the door was left wide open to both the Peterson and Rae governments to pursue activist industrial policies at the regional/provincial level.

98 Informetrica, for Ontario, Ministry of Intergovernmental Affairs, "Regional and Industrial Development Assistance," Paper # 10, (Toronto: Informetrica, March, 1994), i.

99 WED is the Western Economic Diversification office; ACOA is the Atlantic Canada Opportunities Agency; FORD-Q is the Federal Office of Regional Development -- Quebec.

100 Informetrica, "Regional and Industrial Development Assistance," ii.

101 Atkinson and Coleman, *The State, Business and Industrial Change*, 190.

2.1.5 Standard Bearers for Industrial Policy?

Any significant public policy requires champions to introduce policy ideas, 'sell' those ideas in a political environment, and hopefully, ensure that policy translates to action. Within the circles of both the Liberals and the NDP, there were political impulses to pursue industrial policies. Who were the standard bearers for industrial policy in the Peterson and Rae governments? What level of personal commitment was indicated by the Premiers themselves? What level of support existed at the level of both the party and cabinet?

The role played by the respective premiers is probably the single most significant variable in understanding the relationship between industrial policies as outlined and as implemented. David Peterson was an enthusiastic supporter of, and participant in, the Premier's Council, as well as being a very active chair of that council. As a successful forum for discussion, and a prototype for multipartite policy-making, the Premier's Council owed a great deal of its success to the dedicated involvement of the Premier.¹⁰² David Pecaut, the principal consultant to the Premier's Council, noted that Peterson's involvement with the Council was very active, and very enthusiastic, personally chairing each meeting, including over 30 days in the Council's first year:

He loved it, because for one thing, it was like direct contact with the economy. He's sitting there, and George Peapples was there from General Motors, [so] he'd say "George, what's going on in the auto sector?" David Beatty was there from Weston Foods [so he'd say] "What's happening in the food sector?" So for him, it was great, immediate, contact.¹⁰³

Peterson was a pragmatic, action oriented individual, who had personal experience with business success in 'high tech' industry. That he would gravitate towards policies stressing technology, and 'value-added' seems natural. He also apparently enjoyed rubbing shoulders with leaders of industry. The 'direct contact with the economy' aspect of the Council's work, cited by Pecaut, appealed to

102 As discussed at length in later chapters, this success in terms of *process* was not matched by success in terms of policy implementation.

103 Interview with David Pecaut, The Boston Consulting Group, March 21, 1995. Mr. Pecaut's 30 day estimate may be generous. The Council's report, *Competing in the New Global Economy* notes that during the period July 10, 1986 to March 11, 1988, the Council met 15 times for a total of 20 days. See Premier's Council, *Competing in the New Global Economy*, 249. It is quite likely, however, that Pecaut and Peterson logged considerable time together during this period.

Peterson the hands-on manager. He was a 'doer' more than a 'thinker.'

Peterson liked the *idea* of an industrial policy, but he was not somebody who was inclined to 'go to the wall' in the defence of any particular industrial policy. Peterson was neither personally nor ideologically inclined to favour great shifts in policy. His view of industrial policy did not involve wholesale shifts from reactive to anticipatory policies. Nor did he want to make great ideological strides away from the historical position of the Liberals, maintaining a middle ground (some might say waffling) between social market and selective interventionist positions.

Nor is there evidence to suggest there were strong proponents of industrial policy within the Liberal party, or among Liberal supporters. At the cabinet level, while there were ministers who eventually warmed to many of the ideas in the PCR, there was no discernable movement pressuring for an industrial policy. Certainly some members, typically those on the party's 'left wing,' favoured an active role for the government in the economy. Ian Scott, Attorney General during the Peterson mandate, was one of the more outspoken proponents of such involvement, but there were not, according to interviewees, deep philosophical discussions around the cabinet table about various industrial policy options.¹⁰⁴

If the Liberal industrial policy had a champion, that role was arguably shared between Patrick Lavelle, Secretary of the Premier's Council and Deputy Minister of MITT, and the principal consultant of the Canada Consulting Group, David Pecaut. It was Lavelle and Pecaut who together crafted the Premier's Council as a forum to provide advice to the Premier. But Lavelle was an outsider to government, brought in by Peterson to front the government's opposition to free trade, who left the government shortly after the release of the PCR, and Pecaut was a paid consultant. Had either of these individuals been present during the implementation phase of the Premier's Council agenda, a different picture may have emerged than that which did.

The NDP government faced a very different policy-making environment than did the Liberals.

¹⁰⁴ In this respect, the Liberals differed from the NDP, who apparently tended to have deep philosophical/ideological discussions about many key issues that came before Cabinet.

The NDP history of developing policies outlining the positive state, led to expectations that the government would do what it could to actively promote economic development within a social democratic framework. Underlying this general sense was a tangible belief among the ranks of organized labour that their turn had come to influence the direction of government policy. It is not clear, however, that there was any great cry among the labour community for any particular form of industrial policy.

In fact, there emerged within the party a split between those who favoured a model of “progressive competitiveness”¹⁰⁵ (essentially the Premier’s Council agenda with a conscience) and those who felt that any program based on competitiveness would play into the hands of the corporate sector, sacrificing the solidarity of working people. The concern was that working men and women would be sacrificed in pursuit of industrial ‘competitiveness.’ Canadian Auto Workers researchers Sam Gindin and David Robertson argue that “Competitiveness is....not just a mechanism for wealth creation....[It] is an expression of capitalist ideology – an instrument for reinforcing the interests of the economic establishment and limiting the inroads the rest of us can make.”¹⁰⁶ This debate had to be resolved before the government could proceed with an economic agenda. The solution to party concerns that the competitiveness approach advocated by Porter would be achieved by sacrificing the gains achieved through collective bargaining, and that competitiveness would be antithetical to traditional NDP ‘themes’ such as co-operation, consultation and collective action, lay in the work of Michael Best. Porter’s focus on clusters was grafted onto Best’s belief that healthy industrial sectors are most effectively fostered through an approach combining both competition and co-operation.¹⁰⁷ The sector approach that emerged was embraced by the NDP as a way of involving the labour movement in the pursuit of acceptable competitiveness strategies.

105 Alan Ernst, “Towards a Progressive Competitiveness?: Economic Policy and the Ontario New Democrats, 1988-1995,” Paper Presented to the Annual Meeting of the Canadian Political Science Association. Université du Québec à Montreal, June 1995.

106 Sam Gindin and David Robertson, “Alternatives to Competitiveness,” in *Getting On Track*, Daniel Drache, ed., (Montreal/Kingston: McGill-Queen’s University Press, 1992), 32.

107 Best, *The New Competition*, 19.

Unlike Peterson, Rae had apparently spent considerable time contemplating the relationship between state, society, and economy. While he had a firmly developed sense of the values he wanted to promote in this relationship, he was not clear on the mechanism for striving towards such values. Of particular relevance to this study is that he was not sure how industrial policy could contribute. Despite lacking a clear view of what an industrial policy should look like, he came to realize that the province faced economic challenges requiring attention. In interview, Rae acknowledged that he was on a fairly steep “learning curve” with respect to his views on the province’s economic situation: “I was not persuaded at the beginning that Ontario had a real competitiveness problem. I was very quickly persuaded through the work of the Premier’s Council and my own exposure to what people were saying, that there was a real problem.”¹⁰⁸ These realizations made Rae amenable to the pursuit of industrial policy, without making him an outspoken advocate of a strategic approach to the economy. At no point was Rae the ‘point man’ on industrial policy. To the extent that industrial policy was a priority for the government, it was clearly a secondary priority. Other issues occupied centre stage for Rae, the party, and cabinet.

The driving force behind the NDP government’s industrial policy was (like David Pecaut and Patrick Lavelle) an outsider, David Wolfe. Wolfe, a political scientist from the University of Toronto, had established his credentials as a policy advisor by assisting with the preparation of the 1990 Premier’s Council Report, *People and Skills in the New Global Economy*. He had also written extensively on the relationship between technology and trade, and on the role government could play in encouraging socially responsible economic development through the pursuit of a balanced approach to technology and trade.¹⁰⁹ These qualifications led to the selection of Wolfe as the Executive Coordinator of Economic Development in the Cabinet Office.

108 Interview with Bob Rae, August 29, 1995

109 See David A. Wolfe, “Technology and Trade,” in *Debating Canada's Future: Views From the Left*, Simon Rosenblum and Peter Finlay, eds., (Toronto: Lorimer, 1991), and David A. Wolfe, “Technology and Trade: Finding the Right Mix,” in *Getting On Track: Social Democratic Strategies for Ontario*, Daniel Drache, ed., (Montreal/Kingston: McGill-Queen’s University Press, 1992).

Wolfe was a member of the intellectual leftist elite which had advised the NDP, either from within the party or without, over the years. From within this group, a number of academics were assembled in 1989, under the direction of Floyd Laughren's office, to think through the party's approach to the economy. Dr. Riel Miller, who had arranged the meeting on Laughren's behalf, emerged from this process as a senior economic advisor to Laughren in his capacity as Treasurer of Ontario. Like Wolfe, Miller brought to the table definite ideas about the role of the provincial state in the economy. Thomas Walkom, Queen's Park editorial writer for the *Toronto Star*, and author of a book documenting the Rae years, notes that:

Miller had little time for Keynesianism which had become NDP orthodoxy. Instead, he was more of a grand, conceptual thinker — intrigued by the growth of new, information-based service industries, interested in a form of social-democratic economics that would emphasize co-operation and flexibility....¹¹⁰

Although there did not emerge from this 'thinkers' forum, or subsequent re-drafts, an agreed approach to the economy, and certainly not a blueprint for developing anticipatory industrial policy, the appointments of Wolfe and Miller to senior advisory positions indicated that their ideas had been persuasive. Notably, these two were among the leading proponents of the "progressive competitiveness" approach. By placing them in prominent roles, the government sent a message to the business sector, as well as to the labour movement. The development of the government's sector-based, selective interventionist, anticipatory industrial policy would fall primarily to Wolfe, with early input from Miller.

2.3 Conclusion

A number of reasons have been outlined setting the stage for the articulation of industrial policies by both the Liberal and NDP governments . The political, historical, and economic context all suggested that the pursuit of activist, anticipatory industrial policies at the subnational level could reasonably be expected. Changes in the global economy have made regional economic development

¹¹⁰ Thomas Walkom, *Rae Days*, (Toronto: Key Porter, 1994), 95.

initiatives, in the form of meso-level industrial policies, increasingly appropriate. The precedents in Ontario and Alberta highlighted the historical potential for provincial governments in fostering development in economies dominated by the exploitation of natural resources. The experiences at the federal level – with the Trudeau government taking tentative steps towards sectoral level industrial policies, before abandoning that approach, and the Mulroney government (and later the Chretien government) relying on continental free trade, through two formal trade agreements — had left the door wide open to governments at the provincial level to pursue industrial policies of their own. Finally, there were within the circles of each government, political impulses to industrial activism. These ‘standard bearers for industrial policy’ faced the task of turning the above ‘expectations of activism’ into viable industrial policies.

Chapter 3: Presentation of Industrial Policies

3.0 Introduction

Despite the fact that neither the Liberal nor the NDP government faced enormous pressures to develop industrial policies, both governments did so. This chapter explores the substance and rhetoric of the industrial policies prepared by these governments, noting the ideological assumptions, the means indicated to pursue stated policies, and the implicit relationship between government, labour and business interests. The magnitude of policy change indicated by each government's policies is assessed, foreshadowing challenges associated with affecting third order change across political, societal, and administrative levels. Third order policy changes advocated by each government would have required changes in each of these areas -- including the establishment of appropriate institutions of governing and the development of new cultural norms or attitudes -- in order to be successful.

3.1 Liberal Industrial Policy: 1985-1990

On election day, May 2, 1985, the people of Ontario opened the door to a decade of political change. Although the Progressive Conservative government was returned briefly to office, with 52 seats to the 48 taken by the Liberals, it was apparent that their days were numbered. The Conservative campaign had centred around the new leadership of Frank Miller, generally regarded as a right-of-centre Tory. Despite the slim victory for the PCs, their popular support had slipped below that of the Liberals (38% vs. 37%).¹ The NDP offered to support whichever party would make the most credible commitment to implement specified NDP policies. The professed willingness of the PCs to implement elements of the NDP agenda was met with considerable scepticism, given their apparent shift, during the election campaign, away from the centre-moderate approach taken by Bill

¹ Rand Dyck, *Provincial Politics in Canada*, (Scarborough: Prentice-Hall, 1986), 302-305.

Davis, and his 'Big Blue Machine.' In the end, the willingness of the Liberals to commit to a written accord, and a period (two years) of stability, won over the support of the NDP.

The minority Liberal government, led by David Peterson, was supported by the NDP under Bob Rae's leadership, through a formal 'accord' signed May 28, 1985.² The accord, containing elements common to the election platforms of both parties, formed the basis of the Liberals' governing agenda for a period of two years. The accord made it politically necessary for both parties to pursue an identity distinct from the confines of the accord. The decision to formulate an industrial policy was undertaken in this context. The body charged with creating such a policy, the Premier's Council, was an innovative creation explicitly designed to operate outside the confines of the usual bureaucracy.

3.1.1 The Premier's Council

The Premier's Council was formed in July, 1986, "to help steer Ontario into the forefront of economic leadership and technology innovation."³ This body permitted Peterson to establish a body outside the regular structure of government, and also outside of the realm in which the NDP could claim influence through the accord. The Council was asked to provide Cabinet with advice on "strategic directions to benefit the Ontario economy."⁴ In one of 35 interviews conducted for this study, a participant in the Peterson Council noted that prior to the establishment of the Premier's Council, the province lacked a comprehensive industrial policy:

[F]or the most part, there wasn't *an* industrial policy -- one large framework -- that everyone could refer to. That's what the Premier's Council was set up to do, [it] was to help design an industrial policy that would be there for everyone; all the ministries, all the province in terms of the industrialists, the labour organizations, the academic sphere, and it was supposed to do that with their involvement.⁵

2 The full text of the accord can be seen in Rand Dyck, *Provincial Politics in Canada*, (Scarborough: Prentice-Hall, 1986) at note 82, page 304.

3 Ontario, Office of the Premier, "News Release," July 9, 1986.

4 Ontario, Office of the Premier, "News Release."

5 Confidential interview #3, January 19, 1995, Toronto, Ontario.

Two aspects of the Premier's Council were particularly significant. First, both the creation of, and mandate of the Premier's Council signalled to bureaucrats both in the Ministry of Treasury and Economics (Treasury), particularly the Office of Economic Policy (OEP), and in the Ministry of Industry, Trade & Technology (MITT), that the job of developing the province's industrial policy was not going to be their job. Instead, the council members themselves were given control over the expenditure of \$1 billion over a ten year period. This control of a significant sum of money by an advisory body lacking any official capacity was unprecedented.⁶

The inclusion of representatives of labour, academia, and the private sector in such a body was also a foray into uncharted waters, although similar bodies would quickly appear in other jurisdictions, across Canada as well as in other countries. Two members of the Peterson Premier's Council (both also members of Rae's Councils), Geraldine Kenney-Wallace and Fraser Mustard, noted in a 1988 article that "[t]echnology, engineering, and science are now of necessity on political agendas everywhere in the world."⁷ The Council's focus on science and technology was emulated in other jurisdictions, but it was the inclusive process of consultation that stands out as the most significant contribution to public policy made by the Premier's Council.

Through the Council, Peterson surrounded himself with a 'blue ribbon' panel of advisors. Among the 28 original members, thirteen were prominent corporate executives at the level of Chairman, President, or Vice-President. There were also three major labour leaders, four Cabinet Ministers, and a handful of lawyers, academics, and representatives of the research/technology community. Henry Jacek has suggested that the inclusion of labour representatives in the Premier's Council may have been an attempt to attract labour support, stating that "it was part of a strategy to make the provincial Liberals look friendly to organized labour and thus weaken the working-class

6 Interviews respondents observed that this 'pot of money' played a crucial role in attracting, and keeping, Council members from the highest echelons of the business, labour, and academic communities. Direct access to the Premier, coupled with a \$1 billion 'credit limit' has a way of focusing attention!

7 Geraldine A. Kenney-Wallace and J. Fraser Mustard, "From Paradox to Paradigm: The Evolution of Science and Technology in Canada", in *Daedalus*, Volume 117, #4, Fall 1988, 198.

and union appeal of the Ontario New Democrats.”⁸ By getting together with representatives from business and labour (in particular), Peterson and his government indicated an apparent willingness to forge a new balance between societal interests. One should not read too much into the government’s willingness to bring a variety of interests around the policy table. The fact that the Council had a \$1billion budget to allocate was significant, but it did not indicate the government was ceding its policy role to outside interests. The Peterson government explicitly retained the right to decide what actions, if any, would be appropriate based on the Premier’s Council agenda.

Comparisons can be drawn between the Premier’s Council and the Scottish Economic Council studied by Moore and Booth. The Scottish Economic Council consisted of “most of the important industrial and economic interests in Scotland.”⁹ including members of banks, trade unions, major industries, economic development bodies, and universities. It met two or three times a year to provide unstructured economic advice to the Secretary of State of the Scottish Office. Like the Premier’s Council in Ontario under Peterson, the Scottish Economic Council members knew each other well, and had numerous other social and economic arenas in common. While there were similarities between the Scottish approach to economic development and the Ontario approach during the Peterson years, the negotiated order common in industrial sectors in Scotland was not achieved in Ontario during those years. The Premier’s Council model did, however, plant seeds of change the nurturing of which fell to both the Liberal and the NDP governments.

3.1.2 The Premier’s Council Reports

1988: Competing in the New Global Economy

The first phase of the Premier’s Council’s work concluded with the publication of a three-volume set entitled *Competing in the New Global Economy*. The reports leave the exact role of the

8 Henry J. Jacek, “Interest Groups and Public Policy in Ontario: A Political Economy Analysis”, in *The Government and Politics of Ontario, 4th ed.* Graham White, ed., (Toronto: Nelson, 1990), 264.

9 Chris Moore and Simon Booth, *Managing Competition: Meso-Corporatism, Pluralism, and the Negotiated Order in Scotland*, (Oxford: Clarendon Press, 1989), 27.

provincial government somewhat in question. A range of interpretations is possible, depending on the elements on which one chooses to focus attention. Despite such ambiguities, the reports were generally interpreted to indicate that the Council was endorsing an industrial policy featuring widespread government involvement in the economy, with a particular emphasis on high technology, and high value-added industry. The report also left the impression that multipartite approaches to Ontario's economic problems were favoured. Discussion below explores these impressions, summarizes the contents of the reports, while shedding light on the various sources of ambiguity.

The first volume contained a detailed analysis of the Ontario economy, and the steps necessary to move the province decisively into the world economy. The PCR stressed that despite being in the midst of an economic boom, Ontario's future economic prosperity was being seriously compromised by a number of "competitive weaknesses," with declining productivity, and more importantly, declining relative productivity (as measured by GDP per capita).¹⁰ The PCR also specifically targeted Ontario's continuing reliance on "mature manufacturing industries," particularly the auto sector, as a troublesome situation.¹¹ Although Ontario's reliance on the automotive sector for employment reached a peak of 6.2% in 1986, up from 5.7% in 1983, by 1991, it had shrunk to 5.5% of the provincial workforce.¹² At that rate, the alarmist tone struck by the PCR seems to have been overstated. Of greater significance, perhaps, is that during the same period (1983-1991), knowledge-based employment remained stagnant, moving from 8.5% in 1983 to 8.4% in 1991.¹³ The PCR prescribed a set of policy objectives designed to address both these and other identified concerns and to move the provincial economy onto the right path.

Offering a blueprint for an activist industrial policy, it stated:

10 Ontario, Premier's Council, *Competing in the New Global Economy: Report of the Premier's Council, Volume I*, (Toronto: Queen's Printer for Ontario, 1988), 35-61.

11 Ibid., 57-58.

12 Ontario, Ministry of Treasury and Economics, *Ontario Economic Outlook, 1992-1996*, (Toronto: Queen's Printer for Ontario, 1992), Table 32, 87. The automotive industry includes motor vehicle parts and assembly, auto dealers, gasoline service stations and other auto-related distributors.

13 Ibid. Knowledge-Based employment includes advanced services (e.g. engineering), R&D-intensive manufacturing (e.g. computers), machinery, universities, trade associations, and publishing.

Ontario should:

- Encourage all industries to move to competitive higher value-added per employee activities which can contribute to greater provincial wealth;
- Focus industrial assistance efforts on businesses and industries in internationally traded sectors;
- Emphasize the growth of major indigenous Ontario companies of world scale in those trade sectors;
- Create an entrepreneurial, risk-taking culture that foster an above-average number of successful start-ups in internationally traded sectors;
- Build a strong science and technology infrastructure which can support the technological needs of our industries;
- Improve the education, training, and labour adjustment infrastructure to levels adequate to sustain the province's industrial competitiveness and help workers weather the technological change and adjustment necessary to move to higher value-added per employee activities;
- Follow a consensus approach, like that embodied in the Premier's Council, in the creation of both economic strategies and specific programs and in the mobilization of public support for the new directions.¹⁴

These objectives created an impression suggesting the resources of the provincial state would be applied to their realization. Applying the integrated industrial policy typology to these objectives, a picture emerges of an anticipatory industrial policy, featuring structural intervention targeted at firms in traded sectors and at activities dependent on science and technology. Moreover, the objectives call for significant infrastructure development, as well as a change of process in how strategies and programs are determined, suggesting multipartite decision making, perhaps like the negotiated order outlined by Moore and Booth. In Peter Hall's terminology, achievement of the Premier's Council agenda as expressed in the objectives above would have required third order change, indicating a paradigmatic shift in the way the provincial government approaches economic development.

The agenda outlined in the Council's objectives suggested that anticipatory industrial policies would be utilized, while the specific recommendations of the Council suggested a much more moderate industrial policy. The scope of anticipatory industrial policies, and the means required to implement them, are different from those characterizing reactive policies. Yet the Premier's Council prescribed policy instruments that fit the reactive industrial policy type much more closely than the

¹⁴ Premier's Council, *Competing in the New Global Economy*, 13-14.

anticipatory policy type. This lack of congruence between objectives and recommendations led to a similar incongruity between the PCR agenda and implementation efforts.

The emphasis on “strengthening the government industry partnership,” suggestive of a form of corporatism, permeates the PCR:

[I]t is essential that government begin thinking more in terms of cost sharing with industry. Instead of maintaining its traditional role as a lender and grant-giver to industry, government must begin to portray itself and function in partnership with industry.¹⁵

Yet, despite the repeated use of such terminology, the report stops short of formally endorsing corporatist arrangements. Non-government Council members had agreed on the objectives, but these members were not in a position to commit their respective sectors of society to work towards these objectives. The downside of the requirement that members not speak on behalf of their interests in Council was that there was no resulting responsibility to act as advocate for the Council agenda. This falls considerably short of key elements of the negotiated order outlined by Moore and Booth:

The parties involved in the institutional arrangements each have a formal or informal responsibility for achieving agreed objectives or an expectation of fostering those objectives. Those involved in implementation are also expected to report on progress and may be held liable or accountable for non-performance or failure to achieve agreed goals.¹⁶

Not only were the Council members not bound by the objectives, there was no mechanism (other than the fact that the Secretary of Council was also the DM of MITT) to facilitate accountability during the implementation phase to follow. The report itself provided an ‘out’ for the government, noting that “the government stands apart from the Council as the final arbiter of the decisions it will make and the directions it will take.” Had this ‘escape clause’ been displayed as prominently as other aspects of the report, the lack of follow-through would have been less surprising.

While the Premier’s Council as an institutional entity has reasonably been called alternatively ‘multipartite’ and ‘tripartite,’¹⁷ the policy recommendations emerging from the Council stopped

15 Ibid, 89.

16 Moore and Booth, *Managing Competition*, 116.

17 David Wolfe, for example, describes the Council as “a tripartite body that included Cabinet Ministers, some of the most influential business people in the province, and a small representation of labour leaders and people from educational institutions,” in “Harnessing the Region: New Perspectives on

considerably short of signalling the emergence of either anticipatory industrial policy as described by Atkinson and Coleman, or a 'negotiated order' as described by Moore and Booth.

Most of the 14 specific recommendations (see Appendix 7) required action by the government alone. Most of the policy instruments chosen fit more closely with a reactive industrial policy outlined by Atkinson and Coleman than with an anticipatory one, although as discussed above, the objectives underlying the PCR recommendations were anticipatory in nature. Four of the recommendations operate through tax expenditures encouraging certain types of investment decisions, but leaving the decision to participate in private, rather than public hands. This is consistent with the reactive industrial policy outlined by Atkinson and Coleman, which places an emphasis on creating a climate appropriate for private sector investment.¹⁸ Two recommendations address the issue of restructuring and the need for adjustment assistance, although the recommendations themselves do not make clear whether the resulting policies should facilitate adjustment, or shelter workers from the negative impacts associated with restructuring. Distinguishing between these types of adjustment policies was likely a source of debate between labour and non-labour members of Council.

Some instruments, such as procurement, involve the state quite directly in policy implementation, while others seem to be more process-oriented, calling for multipartite discussions of common concerns. These recommendations contributed to the perception that more anticipatory policies might emerge.

Lacking from the recommendations is an attempt to address meso-concerns, such as backward and forward linkages among industrial sectors. Atkinson and Coleman note that such attention at the meso level (in coordination with both micro-level, firm-specific policies, and horizontal, macro-

Canadian Industrial Policy," Paper Presented to the Conference on Regions, Institutions and Technology, (Toronto: September 23-25, 1994), 16.

18 Michael Atkinson and William Coleman, *The State, Business, and Industrial Change in Canada*. (Toronto: University of Toronto Press, 1989), 24.

level policies), is typical of anticipatory policy making.¹⁹ In this respect, the Premier's Council demonstrates a failure to capitalize on the unique strengths of a meso-level (ie. provincial/regional) government. As discussed below, this is probably the one area in which the NDP government showed the greatest movement away from their Liberal counterparts.

The recommendations themselves were placed in the context of a general analysis of the economy, and the failures of previous approaches to state assistance to industry. The PCR critically examined patterns of industrial assistance, noting "three basic problems" with prevailing approaches.²⁰ The first, "the problem of indiscriminate focus" stems from the failure of both provincial and federal programs to distinguish between low and high value-added businesses, and between traded and non-traded goods. The PCR was also critical of the tendency to focus assistance on mature industries and service industries, rather than on "high growth industries" such as computer hardware, software, medical instruments, pharmaceuticals, and semiconductors.

The second basic problem, "the problem of mixed objectives"²¹ results from the attempt, at both the federal and provincial levels, to address multiple objectives through a single instrument. Both levels typically mix regional development and wealth creation objectives:

Ontario and federal government industrial incentives, whether provided through direct programs or through the tax route, often focus on assistance to economically disadvantaged regions and smaller (and thus assumed to be 'needier') business interests. While this tendency to assist the have-not areas and businesses may provide for more even distribution of wealth, and may therefore serve a necessary 'social' objective, it often does little to enhance the competitive strength of industry.²²

Industrial assistance available to Ontario from the federal government is often limited by this regional dimension. Federal government funding to Ontario through the Industrial and Regional Development Program (IRDP) in 1986 accounted for only 28% of expenditures under that program.²³

Five years later, Ontario remained disadvantaged. An Informetrica study noted that in 1991,

19 Ibid., 25.

20 Premier's Council, *Competing in the New Global Economy*, 77-89.

21 Ibid., 83-86.

22 Ibid., 77.

23 Ibid., 83.

“Ontario contributed 43% of the taxes received by the federal government, but received only 28% of all federal subsidies to industry, and only 27% of the federal expenditure on capital assistance.”²⁴ This tendency, at both levels, fails to maximize potential competitiveness and wealth creation, at the expense of regional development. Another component of the problem of mixed objectives was the tendency to focus assistance on small business, neglecting larger businesses. The PCR noted that “by focusing extensively on small businesses, regardless of their value-added or traded orientation, government programs again illustrate the tendency to mingle competing social and economic objectives in their industrial assistance.”²⁵

The third basic problem identified, “the problem of misapplication” refers to the tendency of governments to make funds available for the wrong purpose.²⁶ Two such examples include the bias of programs for “fixed asset financing,” and the disproportionate provision of support “to firms on the verge of collapse:”

Corporate bailouts are government’s quick fix response to pressures from failing companies to rescue them from extinction. Decisions to bail out companies are often made for social and political reasons when a large employment base is involved or when the company’s survival is critical to the well-being of a small community.²⁷

Of course, governments must remain attuned to political and social implications of their policies. Although pursuit of economic development or wealth creation objectives *might* be optimized by a single-minded focus, the reality is that politically, governments cannot pursue any objectives independent of all other objectives. Too many interests need to be brokered. This political ‘fact of life’ makes it difficult to move beyond incremental policy innovations.

The PCR suggested that Council members were aware of the challenges that lay ahead:

It is essential that a clear and consistent focus be established and maintained in carrying out the objectives set by the Council. The considerable effort expended by the Council in arriving at a set of policy directions for Ontario must be matched by a long-term

24 Informetrica Ltd. for Ontario, Ministry of Intergovernmental Affairs, “Paper No. 10: Regional and Industrial Development Assistance,” (Toronto: Informetrica, March 1994), 20.

25 Premier’s Council, *Competing in the New Global Economy*, 84.

26 Premier’s Council, *Competing in the New Global Economy*, 79.

27 Premier’s Council, *Competing in the New Global Economy*, 87.

commitment to carrying them out...Once proposals are in the system, they are often slow to emerge or are altogether lost in the unwieldy maze of program delivery.²⁸

While Volume I of the PCR contained the Council's recommendations, and most of the analysis underlying the recommendations, the other two volumes highlight the priorities considered in formulating the main report. Volume II, subtitled "Industry Studies," appears to take a sectoral approach to the economy, examining the status of "core industries," including forest products, food processing, steel, automotive, chemicals, telecommunications, computer hardware and software, lasers, and biotechnology. While this apparent focus might suggest a meso-level emphasis as outlined by Atkinson and Coleman, and Moore and Booth, the report distances itself from such a focus:

The Ontario economy is often spoken of as...a collection of broad industry entities, such as the automotive, steel, or life insurance sectors. In reality, the Ontario economy is made up of tens of thousands of individual companies competing in tens of thousands of domestic and international markets. The competitive dynamics of each of these markets and the corresponding challenges facing each of these companies are different....

The unique competitive situation of each of the many thousand businesses making up the Ontario economy is the single greatest problem in developing an effective analysis of the competitive position and prospects of the province.²⁹

This highlights a trend common to the three PCR volumes. They are, either by accident or design, open to wide variations in interpretation. Thus, Volume II arranges its evaluations of the Ontario economy by sector, then claims that meso-level analysis is inappropriate, before proceeding to assess the competitive dynamics, and the issues and challenges facing each industrial sector. Is that meso-level analysis or is it not?

Volume II does not speak of industrial policy, *per se*, but its approach to industries hints at the types of policies that might be appropriate to the framework established. In emphasizing the variation in the competitive challenges facing each and every firm in the province, the authors of the

28 Premier's Council, *Competing in the New Global Economy*, 244,5.

29 Ontario, Premier's Council, *Competing in the New Global Economy: Report of the Premier's Council, Volume II*, (Toronto: Queen's Printer for Ontario, 1988), 8,9.

report³⁰ indicate a tendency towards reactive industrial policies, which tend to be organized around the immediate needs of specific firms. However, the actual analysis contained in the volume, in which entire industrial sectors are analysed, does not preclude the use of more intrusive, integrated instruments as seen in anticipatory industrial policies.

Further evidence of the ambiguity in the approach to industrial policy outlined by the authors of the PCR can be seen in Volume III, subtitled "Industrial Policy Studies." This volume surveys industrial policies in place in other jurisdictions to determine what elements of those policies might be appropriate to the Ontario situation. The language of this report suggests an approach in which government should intervene as little as necessary given the prevailing economic conditions:

The role of government in economic development depends upon the particular circumstances in which an economy finds itself....The strengths and weaknesses of a particular economy therefore dictate what role, if any, government should play in that economy.³¹

Again, however, the authors leave the door open to significant state involvement in some circumstances.

On the other hand, a country with few strong indigenous companies to generate substantial export earnings needs *significant and constructive involvement by government* to raise the living standards of its people (emphasis added).³²

While prioritizing wealth creation as a "public goal that can be met through government involvement in economic development"³³ volume III suggests that economic development policies should also attempt to "minimize human disadvantage", and "take account of the redistributive aims of

30 The three volumes were each prepared primarily by the consulting firms to the Premier's Council, the Canada Consulting Group and Telesis, and by the staff of the Premier's Council Secretariat. It is fair to assume that the contents of Volume I, released with much fanfare in May 1988, had been fairly thoroughly screened by members of the Council, particularly the Premier and his Cabinet Ministers. This volume formed the focus for public assessment of the Peterson government's industrial policy. The other two volumes were not screened as thoroughly. Attributing the content of these documents to the Peterson government, or even the Premier's Council (rather than the consulting firms), is therefore a more risky proposition than is the case for Volume I.

31 Ontario, Premier's Council, *Competing in the New Global Economy: Report of the Premier's Council, Volume III*, (Toronto: Queen's Printer for Ontario, 1988), 9.

32 Ontario, Premier's Council, *Competing in the New Global Economy, Volume III*, 9.

33 Ontario, Premier's Council, *Competing in the New Global Economy, Volume III*, 9.

government, including regional development policies".³⁴ The authors of volume III of the PCR seem to take the view that optimally, a pure market approach to the economy would be appropriate, with no need to adopt industrial policies, but that depending on the gravity of the ills facing the economy, a social market or even selective interventionist approach might be necessary.

In its presentation of the lessons gleaned from other jurisdictions about successful restructuring policies and programs, volume III plants a number of seeds which might have led to much more proactive policies than those recommended in the main report:

- A successful restructuring program reflects a coalescence of government, labour, and private sector interests and efforts.
- ...The most successful programs rely more on government leadership than on government money.
- Successful government programs are most often administered by small expert teams of quasi-public servants, who are able to do exceptional independent analysis of the competitive dynamics of a business and who enjoy a degree of public support and respect that would be unusual in North America.
- Behind most successful programs, there is some entity — either public or private — with the skill and the clout necessary to negotiate a solution that shares the miseries. This is a more important element of success than legislated authority to improve solutions.
- Programs aimed at specific sectors have the greatest chance of improving the overall standard of living in a jurisdiction, but they will be successful only when all major parties in the sector agree there is a problem that may require sacrifices by all.³⁵

Words such as these suggested that such policy aspirations were shared by Council members, and might therefore find their way into government policy. As events unfolded, such expectations were misplaced.

One aspect of the three 1988 reports that is particularly relevant to this study, is that very little attention is paid to the fact that the government for which the reports were prepared was a provincial government. Most of the analysis given would have been equally, if not more, appropriate advice to the federal government. Little attention was paid to the particular strengths of regional economic development strategies, or to the unique constitutional levers controlled in the Canadian federation by the subnational level of government. In this respect, the literature on meso-level policy

34 Ontario, Premier's Council, *Competing in the New Global Economy, Volume III*, 9.

35 Ontario, Premier's Council, *Competing in the New Global Economy, Volume III*, 24,25.

coordination is of questionable use in assessing the strategies outlined in *Competing in the New Global Economy*. The 1990 report, *People and Skills in the New Global Economy*, made greater use of the constitutional context in which its agenda was to be released.

1990: People and Skills in the New Global Economy

In July, 1990, a second phase of research, which focused on the development of human resources, through education and training initiatives, drew to a close with the release of the report, *People and Skills in the New Global Economy*. The recommendations of this report, “represented the labour force strategy to match the high-value added industrial restructuring strategy of [the Premier’s Council’s] first report, *Competing in the New Global Economy*. The main theme of the Council’s second report was that the human aspects of restructuring are at least as important as the technical and operational ones.”³⁶

Although some of the specific recommendations of this second report are significant, including the call for the establishment of a bipartite Ontario Training and Adjustment Board (OTAB), and the endorsement of the concept of “lifelong learning,” perhaps most notable is the extent to which its direction and recommendations were later embraced by the NDP government as the basis for policies in the areas of education and labour adjustment.³⁷

3.1.3 Other Industrial Policy Papers

The work of a number of bureaucrats in the Ministry of Industry Trade and Technology operated parallel to the efforts of the Premier’s Council. During the period following the assumption of power by the Liberals in 1985, there was a concerted effort, buttressed by the existence of the

36 Leon Muszynski, “The Implementation Status of Premier’s Council Recommendations” (Toronto: Premier’s Council Secretariat, 1991), 10.

37 Also very interesting is that two of the report’s contributing authors, David Wolfe from the University of Toronto and Riel Miller from the Ontario Council of Regents subsequently accepted senior advisory positions on the political side of the incoming NDP government.

Premier's Council, to increase the province's commitment to science and technology. During the five year period preceding the Liberal mandate, science and technology expenditures had fallen gradually, whereas overall expenditures increased by an annual rate of 23% between 1985 and 1988.³⁸ Leading the growth in Science and Technology expenditures was an increased emphasis on Research and Development (R&D), sparked in part by a commitment to help Canada double its investment in R&D to 2.5% of GDP over a ten year period, in conformity with target figures established by the OECD.³⁹

It is not clear what would have been accomplished by achievement of this benchmark. This approach to economic development implies that the objective is to increase expenditures. There is only an implied connection between the funds allocated by either the public or private sector, and eventual outcomes in economic growth. Moreover, government spending programs put in place to stimulate R&D exacerbate the imbalance between industry funded and government funded R&D. Perhaps most critically, the work emerging from the MITT during the Peterson era was neither proactive nor anticipatory, but reactive. Thus, *in reaction to* OECD Science and Technology targets, provincial bureaucrats pledged "important new increases in expenditures for programs aimed at strengthening key elements of Ontario's science and technology base."⁴⁰

Moreover, the efforts outlined by Ontario's Ministry of Industry, Trade and Technology (MITT) in policy documents committing to an emphasis on research and development, and science and technology, did not imply the development of a distinct provincial industrial policy, but rather, outlined Ontario's role in what they hoped would be a series of national industrial policies. In a policy document entitled *A Commitment to Research and Development: An Action Plan*, the emphasis is on achieving certain R&D targets at the national level. "If Canadians are to be assured

38 Ontario, Ministry of Industry, Trade and Technology, "The Ontario Government's Record in Promoting Science and Technology," (Toronto: May, 1988), 3.

39 Ibid., 4.

40 Ontario, Ministry of Industry, Trade and Technology, "The Ontario Government's Record in Promoting Science and Technology," 2.

of their technological future, there must be a national commitment to developing the technologies which will ensure that future....It is an issue of national concern that Canada is in the minor leagues of world research."⁴¹

Similarly, "The Ontario Government's Record in Promoting Science and Technology" identifies a number of science and technology priorities, the first of which involved "building a national consensus...[in which] all social partners, including the private sector, universities, federal, provincial, and territorial governments must work toward a shared appreciation of public policy priorities....The leading Science and Technology priority in Canada is the need for a substantial increase in national R&D investment....In order to bring this National Policy to life, all governments must agree on an action plan..."⁴² Rather than sounding like a government committed to a distinctive subnational approach to industrial policy, these MITT documents suggest a government taking a dominant role in leading the country in a national industrial policy.

Another 1988 policy document, "Focus on the Firm: Strategies for Competitiveness and Wealth Creation," further distances MITT from the meso-level approach advocated by Moore and Booth, Atkinson and Coleman, and Wolfe.⁴³ As suggested by the title, this document takes a firm based approach, rather than a sectoral, or regional focus. "Countries and provinces do not compete. Firms compete....The purpose of this discussion paper is to explore strategies for wealth creation by using the firm as the lens through which competitiveness issues are viewed."⁴⁴ This focus clearly rules out moving in the direction of a negotiated order such as the Scottish example documented by Moore and Booth, but it does not preclude innovative policy thinking.

The paper outlined "five types of economic policy available to governments to shape

41 Ontario, Ministry of Industry, Trade and Technology, *A Commitment to Research and Development: An Action Plan*. (Ontario: Queen's Printer for Ontario, 1988), 3.

42 Ontario, Ministry of Industry, Trade and Technology, "The Ontario Government's Record in Promoting Science and Technology," (Toronto: MITT, May 1988), 3,4.

43 Ontario, Ministry of Industry, Trade and Technology, "Focus on the Firm: Strategies for Competitiveness and Wealth Creation: First Draft," (Toronto: MITT, April 1988).

44 Ontario, Ministry of Industry, Trade and Technology, "Focus on the Firm: Strategies for Competitiveness and Wealth Creation," (Toronto: MITT, April 1988), 1.

comparative advantage,” including aggregate macroeconomic policies, policies to improve the performance of firms by positively influencing the factors of production, traditional industrial assistance to sectors, industries or firms, market-creating policies, and policies shaping the regulatory climate within which firms operate.⁴⁵ In assessing the potential impact MITT policies can have in each of these areas, two positions stand as particularly noteworthy. First, is the realization that in the area of traditional industrial policy assistance, the potential impact is limited. “The small size of the Ministry’s budget in comparison to the size of the commercial economy means that it can only act on the margins with this type of policy.”⁴⁶ Second, is the belief that at the second level of policy, influencing the quality, availability and price of factors of production, government policy can have a significant impact on provincial comparative advantage. A provincial government in the Canadian federation is particularly well positioned to influence factors such as raw materials (through control of natural resources), and labour (through increasing control of education and training). The conclusion drawn, that the ministry should “expand the scope of its policy activities and shift its priorities,” sets the stage for significant industrial policy change, of probably second order magnitude, but falling short of the paradigmatic shifts required by third order change. Whether such ideas translated to the implementation level is explored in later chapters.

The flurry of policy activity in the early months of 1988 illustrates an interesting dynamic of industrial policy making under the Liberals. One of the themes developed throughout this thesis involves the nature of bureaucratic competition. Essentially, the Ministry of Industry, Trade and Technology went head to head with both the Ministry of Treasury and Economics and the Premier’s Council in a competition to see whose economic development policy would emerge as government policy. One irony of this situation is that the Premier’s Council clearly lent instant credibility to the notion of industrial policy. Thus, MITT policy papers paid lip service to many of the themes

45 Ontario, Ministry of Industry, Trade and Technology. “Focus on the Firm: Strategies for Competitiveness and Wealth Creation,” (Toronto: MITT, April 1988), 8.9.

46 Ontario, Ministry of Industry, Trade and Technology. “Focus on the Firm: Strategies for Competitiveness and Wealth Creation,” (Toronto: MITT, April 1988), 9.

emerging from the Council, fitting the PCR components into the 'big picture' envisioned at the bureaucratic level. It seems unlikely that it was coincidence that so many policy papers were released by MITT before the May release of the Premier's Council Report.

3.2 NDP Industrial Policy: 1990-1995

The election of the NDP to the government benches in Ontario caught many, including the Premier, by surprise. Bob Rae noted that "I never believed that we would form the government, even during the last week of the campaign. I really didn't."⁴⁷ There was little evidence that they were initially prepared to actively pursue an industrial strategy. Early NDP efforts to define an industrial policy were largely inspired by a belief that they could adapt the thinking contained in the PCR to create an agenda appropriate both for a social democratic party and for the realities of the political economy of the late 20th century. The government was faced early in its mandate with the prospect of a protracted recession, which reduced its ability to commit resources -- fiscal or political -- to long term industrial policies. At the same time, the recession increased the need to focus efforts on traditional social democratic issues such as full employment. The short-term pressures placed on the government by the recession, the constitutional crisis, and the provincial deficit, largely forced industrial policy to the back burner in a practical sense. However, a number of key documents released by the NDP both before and after being elected to government document the evolution of the party's industrial policy intentions. This evolution is seen through the party's pre-election "Agenda for People;" the first "Throne Speech;" the 1991 Budget, particularly "Budget Paper E;" the *Industrial Policy Framework*; and a document outlining the government's approach to capital expenditures, entitled *Public Investment for Economic Renewal*.

⁴⁷ George Ehring and Wayne Roberts, *Giving Away a Miracle: Lost Dreams, Broken Promises & The Ontario NDP* (Oakville: Mosaic Press, 1993), 286.

3.2.1 NDP Thinking on Industrial Policy: Key Policy Documents

Agenda for People: Absence of Policy

The “Agenda for People,” the NDP’s 1990 election platform, made no effort to forge a comprehensive industrial policy, offering instead piecemeal improvements in provincial contributions to education costs, interest rate relief to farmers, mortgage breaks for moderate income families, and reduced interest loans for small business.⁴⁸ Only for the North did they propose a moderately ambitious strategy, “to promote economic development, job protection and job creation...”⁴⁹ Although the party and its members had for years stressed the importance of an industrial policy, early efforts to operationalize such a policy were piecemeal, including what Thomas Walkom identifies as a “‘rethinking exercise’ involving a number of NDP intellectuals, which resulted in a number of papers which did not meet the test of pragmatism and applicability.”⁵⁰ This process set the stage for what was to follow -- the expenditure of considerable intellectual energy, resulting in conflict and philosophical friction. Advocates of consensual decision-making, the NDP proved time and again an inability to achieve consensus.

Speech from the Throne: Ambitious and Expensive

The NDP’s first throne speech, delivered in the Legislature on November 20, 1990, signalled the government’s early intentions with respect to the economy.⁵¹ An early indication of what to expect from an NDP government came in the form of a commitment to an extensive \$700 million infrastructure investment, intended to stimulate the economy, while creating jobs for Ontario workers. This emphasis on the importance of infrastructure expenditures was an enduring theme for

48 Ontario New Democratic Party, “An Agenda for People.” (Toronto: NDP, 1990).

49 Ibid.

50 Thomas Walkom, *Rae Days*, (Toronto: Key Porter, 1994), 92-97. Walkom states (54) that Bob White had initially been offered a job at the rank of Deputy Minister, coordinating the government’s industrial strategy, an offer which apparently he declined.

51 Ontario, Legislative Assembly, *Speech from the Throne: Address of the Honourable Lincoln M. Alexander, Lieutenant Governor of the Province of Ontario*, (Toronto: November 20, 1990).

the Rae government, although actual expenditure patterns indicate that the rate of investment in capital projects during the NDP mandate was consistent with levels achieved during the Liberal years of governing, both in absolute terms and as a proportion of total expenditures (see Figure 3.1).

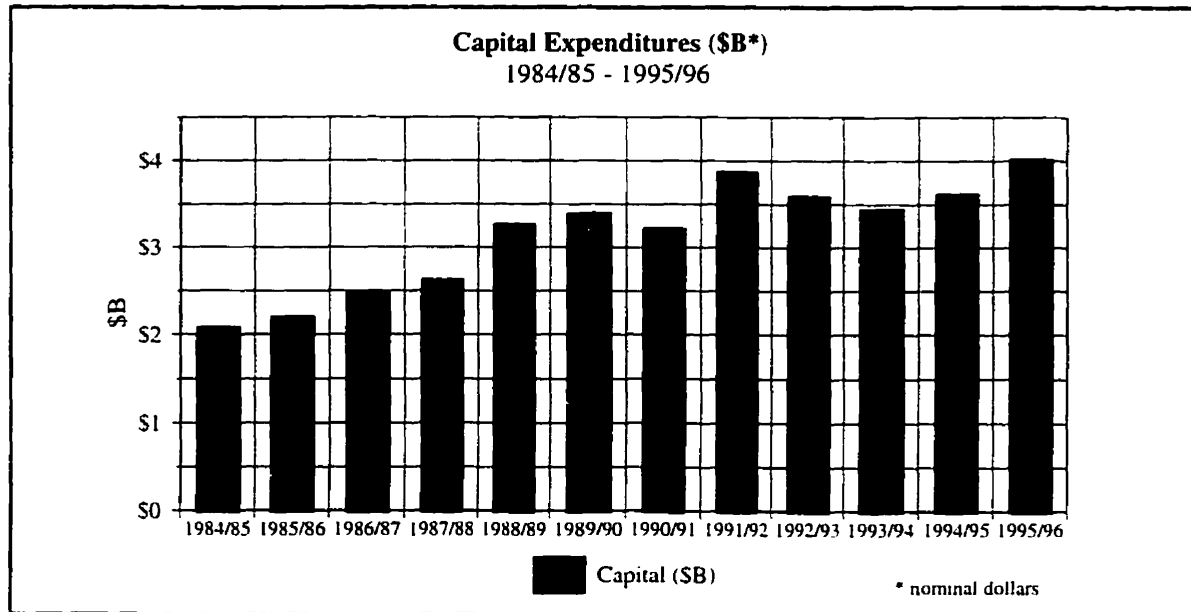


Figure 3.1

Source: Ontario, Ministry of Finance. *Ontario Budgets, 1994-1996*

While the substance of the throne speech may have alarmed some, it was the language of the speech that most clearly indicated a government intent on breaking new ground, indicating a desire to embark on a new approach to governing. Reflecting the party’s view of the world, the legislative address spoke of “extend[ing] throughout the economy...the democratic principles shared by all Ontarians,” “build[ing] a consensual, environmentally responsible economic strategy for the twenty-first century,” and of working with “all the partners in the economy.”⁵² This throne speech stated a clear intention to approach the economy in a new way. In Peter Hall’s terminology, the government indicated an intention to attempt third order change in a range of policy spheres, including its approach to the economy.⁵³ The government did not want to see incremental changes

52 Ibid., 6.

53 Peter A. Hall, “Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain,” *Comparative Politics*, 25 (1993).

in the relationship between industry and state, but rather, advocated a reconceptualization of the relationships between business partners.

The speech seemed to signal a lack of recognition among government members of the magnitude of the province's economic woes. In his first major economic statement to the House, Finance Minister Floyd Laughren stated that "the overall fiscal position of the government is solid."⁵⁴ Statements like that, spoken as the provincial economy plunged into recession, placing government finances into a severe deficit state, suggested Laughren was either poorly advised or determined to be optimistic in spite of the evidence. By December 1991, one year later, provincial Real Gross Domestic Product had declined 1.9%, and the provincial unemployment stood at 9.6%, largely as a result of 'structural unemployment,' resulting from permanent plant closures.⁵⁵ Laughren's embrace of a stimulative approach to job creation, evidenced by a commitment to invest \$700 million in provincial infrastructure projects, suggested on the one hand he had become aware of the dire employment situation facing Ontario, but on the other hand, that he had dismissed prevailing wisdom that Keynesian economics had been largely discredited.

The reliance on infrastructure expenditures was a repeating theme for the NDP government. As a policy instrument designed to stimulate the economy, it represented a throwback to what has been referred to as 'old style industrial policies,' in which any challenge is perceived to be surmountable if enough government money is thrown at it. This approach was clearly an example of 'reactive' policy, with money flowing in large quantities to public sector projects most of which were due to proceed anyway. The anti-recession money simply accelerated the rate at which the projects proceeded. The approach taken in this initiative stood in contrast to the 'new wave' ideas that followed in the 1991 Budget.

54 Ontario, Ministry of Treasury and Economics, *Statement by Floyd Laughren, Treasurer of Ontario and Minister of Economics on Dealing with the Recession and Preparing for Recovery*, (Toronto: December 4, 1990), 1.

55 Ontario, Ministry of Treasury and Economics, *Ontario Economic Outlook: Meeting the Challenges*, (Toronto: Queen's Printer for Ontario, 1991), 74, 16.

Budget Paper E

Ontario's success in addressing the challenges of the 1990s will depend on the ability of business, labour and government, working together, to increase the flexibility of our economy, its supporting institutions, and society in general.⁵⁶

If the \$700 million 'anti-recession initiative' signalled the first step of a process of battling economic 'brush-fires,' the second prong of the government's approach to economic development was unveiled with the government's first budget, in April, 1991. "Budget Paper E: Ontario in the 1990s: Promoting Structural Change,"⁵⁷ the product of ideological clashes among and between officials at both the bureaucratic and the political levels,⁵⁸ documented the changes in the global economy, and discussed the effects of these changes on the Ontario economy. These effects included permanent plant closures, waves of technological innovation, and the shifting of jobs to the service sector. With sustainable prosperity as the stated central goal of the government's economic strategy, Budget Paper E emphasized "equitable structural change through a comprehensive economic and social strategy aimed at sustainable prosperity."⁵⁹ This agenda picked up many of the themes articulated in the Agenda for People, and attempted to reshape them for a government

While sharing with many other governments, including the federal government, an interest in promoting competitiveness as a means to a more prosperous society, the approach in Budget Paper E explicitly charted a course distinct from that of the federal government. Rather than focusing on privatization, deregulation, tax reform, and free trade (macro-level policies), this document aimed instead for sustainable prosperity through "increased equity and cooperation," and the cooperative

56 Ontario, Ministry of Treasury and Economics, "Budget Paper E: Ontario in the 1990s — Promoting Equitable Structural Change," in *Ontario Budget, 1991*, (Toronto: Queens; Printer for Ontario, 1991)

57 Ontario, "Budget Paper E," 85-101.

58 Various interview respondents noted the process leading to the release of "Budget Paper E," which saw staff of the Ministry of Treasury and Economics attempting to reconcile their views with the somewhat different views of economic development held by those at the Ministry of Industry Trade and Technology (MITT). Major input into the budget paper was also forthcoming from the Executive Director of the Cabinet Committee on Economic and Labour Policy (CCELP), and from the Treasurer's special advisor for economic policy, partisan appointments with quite considerable differences in outlook.

59 Ontario, "Budget Paper E," 86.

efforts of business, labour and government working together to promote economic change.⁶⁰ Under this approach, innovation and technology were to be pursued, but within a context of the promotion of “social progress.” This focus would require an emphasis on a broad range of concerns: cooperation in the workplace, commitment to employment and income security, health care, investment in physical infrastructure, quality of life, as well as regulatory protection of consumers, the environment, and rural and urban development.⁶¹

Budget Paper E was read carefully by bureaucrats at all levels, as they attempted to discern the approach the NDP government would take. Released seven months after the NDP had assumed control of the provincial government, there remained a sense of uncertainty as to what directions the government would pursue.⁶² While Budget Paper E did not outline specific policy initiatives, it did indicate the need for “integrated and innovative economic and social policies” addressing issues such as public education, training, worker security, industry/sectoral strategies facilitating adaptability, investment in infrastructure, technology, and innovation, and the deployment of capital to address restructuring and regional development concerns.⁶³

More importantly, it set a distinct, and fairly consistent tone emphasizing the importance of “broad social partnerships” involving government, labour, business and community groups.⁶⁴ While other governments paid lip service to terms such as ‘partnership’ and ‘consultation,’ the NDP government really meant it. The approach of the NDP to the economy outlined in Budget Paper E represents a shift in policy paradigm, what Hall calls “third order change.”⁶⁵ Achievement of this economic strategy would have required an industrial policy that was anticipatory -- incorporating a comprehensive, coordinated approach across micro, macro, and meso levels, with a particular

60 Ontario, “Budget Paper E,” 87.

61 Ontario, “Budget Paper E,” 94-95.

62 This environment of uncertainty was experienced by the author during a period of employment with the Community Development Branch of the Ministry of Municipal Affairs, and confirmed repeatedly during interviews conducted early in 1995.

63 Ontario, “Budget Paper E,” 101.

64 Ontario, “Budget Paper E,” 101.

65 Hall, “Policy Paradigms.”

focus on the meso level.⁶⁶

The Industrial Policy Framework

Many of the difficulties faced in putting together Budget Paper E were replayed over the course of the next year, as the Executive Secretary of the Cabinet Committee on Economic and Labour Policy, David Wolfe, quarterbacked the process of drafting an industrial policy consistent with the priorities identified in Budget Paper E. A political scientist from the University of Toronto, Wolfe had impressed party insiders with his contributions to the “thinkers process” outlined above, in which ‘leftist academics,’ including Leo Panitch, Mel Watkins, Daniel Drache, and Isabella Bakker, had gathered to forge an economic policy suitable to the NDP. His credentials also included involvement with the Peterson Premier’s Council, in which he played a role in drafting the 1990 Premier’s Council report, “People and Skills in the New Global Economy.” The challenge facing Wolfe was to apply his academic research to the ‘real world’ of the Ontario political economy. Although some elements of the IPF followed logically from the Premier’s Council work, other elements would have required third order policy change, representing “an overarching shift in the terms of policy discourse.”⁶⁷ The following discussion demonstrates that the extent of change attempted complicated the process of policy formulation, while shaping the substance of resulting policies.

The prevailing view among officials involved in drafting the IPF was that it was a “painful” experience, with political interests clashing both with each other, and with more firmly entrenched bureaucratic interests. Evidence of this process in the document entitled *An Industrial Policy*

66 See Michael Atkinson and William Coleman, *The State, Business, and Industrial Change in Canada*. (Toronto: University of Toronto Press, 1989), 24. The need to coordinate across these three levels is reiterated by David Wolfe, who argues that “A sustained innovative capacity requires the effective coordination of policy at three different levels — that of the firm, networks of firms, and the nation,” in David A. Wolfe, “Technology and Trade,” in *Debating Canada’s Future: Views from the Left*. Simon Rosenblum and Peter Finlay, eds, (Toronto: Lorimer, 1991), 24.

67 David A. Wolfe, “Negotiating Order: The Sectoral Approach to Industrial Policy in Ontario.” Paper prepared for the Annual Meetings of the Canadian Political Science Association, Brock University, St. Catharines, Ontario, June 2, 1996, 11.

Framework for Ontario (IPF), released in July, 1992, can be seen from a number of perspectives. Consistent with the themes enunciated in Budget Paper E, the IPF outlined a series of policy priorities and objectives without providing much detail as to how those objectives would be met.

Chapter 2 discussed the division within the NDP between 'left' and 'right,' with respect to industrial policy, and the subsequent decision to proceed with a vision based on "progressive competitiveness."⁶⁸ The NDP view of competitiveness reached beyond the traditional parameters of this concept, encompassing not only the importance of lower costs and differentiated products, but also the importance of social development, which "enables more people to participate productively in the economy, strengthens the health and welfare of our citizens, and builds the education and skill level of our workers."⁶⁹ The release of the IPF represented an effort by the NDP government to enunciate a set of policies consistent with this view. Achievement of the NDP view of the appropriate relationship between economy, state and society would have required the cooperative participation of business, labour, and government. The Premier had indicated early in the NDP mandate an intention to pursue productivity and efficiency, while simultaneously striving for greater equity and social justice. He rejected the notion that "you either are in support of wealth creation, or you are in support of wealth distribution, but you cannot be in support of both," stating in 1991 that "I think that is nonsense."⁷⁰ Rae realized that articulating and implementing his view of society would not be easy: "We have to create a new culture, a new sense of shared values. The notion of creating a shared value is difficult to do, but it is critical."⁷¹ The difficulties involved in changing long-entrenched values and cultures (ie. achieving third order change), perhaps more than anything else, would hamper the efforts of the NDP government to shape Ontario's economic development.

68 See Alan Ernst, "Towards a Progressive Competitiveness?: Economic Policy and the Ontario New Democrats, 1988-1995," Paper presented to the Annual Meeting of the Canadian Political Science Association, Université du Québec à Montreal, Montreal, Québec, June 1995.

69 Ibid., 10.

70 Premier Bob Rae, "Building a Common Sense," address to the Premier's Council on the Economy and Quality of Life and the Premier's Council on Health, Well-Being and Social Justice, (Toronto: June 12, 1991), 4-5.

71 Bob Rae, Premier, "Building a Common Sense," 9.

The IPF can also be interpreted as the product of the process of bureaucratic “cleansing” of Peterson’s report, “Competing in the New Global Economy.” There was a sense of resentment on the part of the bureaucracy, particularly those within the Ministry of Industry Trade and Technology, that the lead role for industrial policy development under the Liberals had been ‘contracted out’ not only to an external advisory council, but to an external consultant hired by the Premier’s Council. Among the bureaucracy, the PCR was referred to disdainfully as ‘the Pecaut Report,’ after the principal consultant to the Premier’s Council, David Pecaut. While the elapsed time between the release of the PCR in April 1988 and the release of the NDP’s IPF in July 1992 allowed the NDP government to put its mark on the emergent policy, it also allowed those within MITT to massage and repackage the ideas from the PCR, thus reclaiming ‘ownership’ of the government’s industrial policy.

Although some officials involved in the preparation of the IPF rejected suggestions that the two documents were closely related, preferring to retain credit for the intellectual content of the IPF, the facts suggest otherwise. The two documents share a primary focus on “higher value added” activities.⁷² There is also a shared focus on “indigenous,” or “home-base” activities; technology and innovation; international trade; and education and training. While both documents focus on the importance of competitive advantage, the IPF more explicitly borrows from Michael Porter’s work the belief that competitive advantage can be created by government. “As the sources of competitive advantage shift to innovation and the quality of the labour force, the role of government as a catalyst for creating competitive advantage becomes increasingly important.”⁷³ While recognizing the role for government, the IPF also stressed the importance of working in partnership with companies, workers, and communities.

The IPF suggests that government’s role in encouraging a shift to higher value-added activities

72 Ontario, *Competing in the New Global Economy*, 38-40; and Ontario, Ministry of Industry, Trade and Technology, “Industrial Policy Framework Backgrounder: The Higher Value Added Concept,” in *An Industrial Policy Framework for Ontario*, (Toronto: Queen’s Printer for Ontario, 1992).

73 Ontario, *Industrial Policy Framework*, 9.

should be to focus on the following six “competitive fundamentals:”

- continuous innovation;
- raising skill levels;
- increasing technological capability;
- establishing companies’ home-based activities in Ontario;
- developing linkages and networks;
- building international capabilities.⁷⁴

Policy directions identified to pursue the competitive fundamentals together represented a comprehensive approach to the economy, featuring coordination across the micro, meso, and macro levels. While some of the policy directions grew out of the Peterson Premier’s Council recommendations, others were rooted in new academic influences, particularly the work of political economists Robin Murray and Michael Best.⁷⁵

Three key areas were identified where government actions could have the greatest benefit in strengthening the competitive fundamentals. These were: 1) Changing the way companies and the Government invest for the future; 2) Changing how the Government works with companies; and 3) Changing how we respond to economic change.⁷⁶ Policy directions to pursue each of the three areas ranged from traditional industrial policy initiatives such as industrial subsidies, through innovative approaches such as the establishment of multi-partite policy boards, a reliance on information brokering, and a new meso-level focus.

The first key area emphasized the importance of changing the way companies and the government invest for the future, with a new emphasis on investing in people and infrastructure.⁷⁷ As well as allotting over \$2 billion to training and adjustment initiatives (indicative of ‘old style.’ reactive policy making), the IPF noted that the Ontario Training and Adjustment Board (OTAB),

74 Ibid., 12.

75 Robin Murray, *Local Space: Europe and the New Regionalism*. (Manchester, Stevenage and Herts: Centre for Local Economic Strategies and South East Economic Development Strategy, 1991). Murray’s work with the Greater London Council was of particular interest in the government’s community economic development focus. Michael H. Best, *The New Competition: Institutions of Industrial Restructuring*, (Cambridge, U.K.: Polity Press, 1990).

76 Ontario, *Industrial Policy Framework*, 18.

77 Ontario, *Industrial Policy Framework*, 19-22.

created in response to the *People and Skills in the New Global Economy* agenda, was to be a critical component of this emphasis. The second aspect of the 'investing for the future' strategy coupled a commitment to increase and refocus investments in traditional public infrastructure (macro-level instrument), with a commitment to improve the province's technological infrastructure. Although this latter component 'fit' with the 'progressive competitiveness' strategy espoused by Wolfe and Miller, the initiatives relied primarily on extending commitments to existing Liberal initiatives.

The second key area emphasized the importance of changing how government works with companies, with the development of sectoral strategies and support for strategic groups of companies highlighted as central to that effort. This sectoral focus was unquestionably the centrepiece of the NDP industrial policy, "shift[ing] support towards cooperative projects undertaken by groups of firms within a sector and towards sector-level initiatives that benefit the sector as a whole."⁷⁸ This focus would not require the state to pick winning or losing sectors, but would "work with any sector that develops a collective voice and identifies useful projects to increase the sector's overall level of competitiveness."⁷⁹ The sectoral approach was based on the premise that both competition and cooperation contribute to economic performance, reflecting the influence of Wolfe's reading of Michael Best and Robin Murray.⁸⁰ The sectoral focus emphasized the potential role of cooperation, noting that "through cooperation, firms in a sector can accomplish projects that an individual company would not undertake. The benefits from this cooperation can be shared by all firms, enabling them to move to higher-value added activities."⁸¹ At the heart of the changed way government would work with companies was the Sector Partnership Fund (SPF). The SPF was announced as a \$150 million, three-year initiative, in the 1992 Budget, prior to the release of the

78 Ontario, *Industrial Policy Framework*, 24.

79 Ontario, *Industrial Policy Framework*, 24.

80 Michael Best, *The New Competition*, and Robin Murray, *Local Space*.

81 Ontario, Ministry of Treasury and Economics, *Ontario Budget, 1992*, 12.

IPF. Just as the sectoral focus was central to the IPF, the SPF was the central program initiative.⁸²

As outlined in the IPF Backgrounder, "Sector Partnership Fund," the SPF would "be available to all sectors in the provincial economy and will support actions that reinforce the competitive fundamentals and lead to higher value added activities."⁸³ Four principles were adhered to in determining which sectors were eligible for funding:

- Flexibility - Given that each sector has unique developmental needs, the SPF has been designed to allow for a flexible approach in funding projects;
- Cooperation - The SPF uses a multipartite consultative approach between business, labour, government, and other stakeholders to build a broad endorsement of strategies and action.
- Leverage - The SPF is designed to encourage participants to commit resources to projects that will improve the performance of sectors;
- Accessibility - The SPF has been created to address the common challenges within a sector. Initiatives will be accessible to many or all sector participants.⁸⁴

In terms of the level of intrusiveness anticipated, the IPF Backgrounder clearly indicated that the province would play a very active role in facilitating the development of sector strategies, noting that "some sectors are only just beginning to emerge and therefore have unique developmental needs. To help those emerging sectors mature and expand, the government will assist in the creation of viable sector organizations."⁸⁵ Further details about the SPF remained to be ironed out at the time of the release of the IPF.

A second part of the government's commitment to change how it worked with companies involved targeting strategic groups of companies, specifically 'innovative growth firms' and 'R&D performers.' Three innovative policy intentions were announced to achieve the former, while two

82 One senior advisor noted that the government created a \$300m pool of money for new initiatives. The SPF's \$150m thus represented a major commitment by the government to this program. The commitment to the consultative, inclusive process which characterizes the SPF is also made evident. In retrospect, there seems to be a prevailing conception that the government might have been able to pursue its industrial policy goals better by allocating more resources to other programs, such as the Ontario Innovation and Productivity Service (OIPS).

83 Ontario, Ministry of Industry, Trade and Technology, "Industrial Policy Framework Backgrounder: Sector Partnership Fund," (Ontario: MITT, 1992).

84 Ontario, "Backgrounder: Sector Partnership Fund." Subsequent analysis shows that these principles were later refined to three principles, with more stringent rules for participation.

85 Ontario, "Backgrounder: Sector Partnership Fund."

components of the original Premier's Council agenda addressed the latter.⁸⁶ The Ontario Investment Fund was proposed, "to provide long-term patient capital and build new linkages and expertise to support innovative, high-productivity companies." Labour Sponsored Investment Funds were also announced, providing Ontario workers with an opportunity to take control of the restructuring needs of their industries. These investment funds represented new policy instruments in the government's approach to industrial policy, although the basis of the labour-sponsored fund had been proposed in the Peterson government's PCR, in 1988. The IPF also indicated an intention to create the Ontario Innovation and Productivity Service, an initiative that recognized that information brokerage, and provision of expert assistance, might be the most helpful way to help small and medium sized "innovative growth firms" overcome hurdles to expansion. This sort of initiative, which recognized that the solution to problems is not to throw money at them, represented a step forward for Ontario's industrial policy. Such initiatives are particularly helpful in times of fiscal restraint.

The third key area emphasized the need to change government response to economic change, by increasing the capacity of governments, companies, workers, and communities, to cope with significant changes, particularly those resulting from the 'greening of the economy,' changes in the international trade environment, organizational innovation, and adjustment in response to structural change.⁸⁷ Most of the components emphasized here made reference to existing government initiatives, including a range of 'employment adjustment programs,' and the government's controversial reforms to the Ontario Labour Relations Act, although the commitment to development of a Green Industry Strategy was a new direction (and indicative of commitment to significant, although probably not third-order policy change).

The final section of the IPF addresses many of the concerns of the 'NDP constituency.' It

86 Ontario, *Industrial Policy Framework*, 28. The R&D Super Allowance was a tax expenditure initiative controlled through the Ministry of Treasury and Economics (later Finance), while the Ontario Technology Fund ('Tech. Fund') was administered through the Ministry of Industry, Trade and Technology (later MEDT).

87 Ontario, *Industrial Policy Framework*, 31.

emphasizes that the alternative to the 'progressive competitiveness agenda' enunciated in the IPF (i.e. competitiveness without a progressive component), would have a negative impact on areas important to social democrats:

Moving to higher value added activity is the preferred alternative to a strategy of relying on low-cost labour and eroded social and environmental standards to achieve competitiveness. A higher value added economy is a higher wage, higher-skill economy.⁸⁸

The philosophy articulated by the IPF was comprehensive – it called for an approach to economic development which synthesized industrial, social, and environmental elements. It attempted to be too broad in its approach, however. It contained elements designed to appeal to that portion of NDP supporters who would have liked to see a government attempt to apply socialist principles. It also contained elements which the business community would have been comfortable with, elements corresponding most closely to the social market approach. Ultimately, the broad-ranging nature of the document made its vision difficult to achieve. In the attempt to incorporate competing visions into a single document, the IPF failed to articulate clearly a cohesive vision, and risked alienating constituencies in both the labour community and the business community.⁸⁹ The document became a virtual 'catch-all' for the articulation of bureaucratic and political views on economic development and its role in shaping society. The 'Message from the Minister' that prefaces the IPF, ostensibly written by Minister of Industry, Trade and Technology, Ed Philip, speaks on the one hand of "encouraging innovation, upgrading skills, increasing technological capacity, establishing home-based activities, developing linkages and networks; and building ...international capabilities," while in the next paragraph speaking of the need for "a fair and equitable process of economic development that captures the benefits of full participation by women and other traditionally disadvantaged groups."⁹⁰

The process of 'vetting' the document prior to its release featured not only fairly routine political

88 Ontario, *Industrial Policy Framework*, 41.

89 Since virtually by definition, those aspects designed to appeal to the labour community will alienate the business community, and *vice versa*.

90 *Ibid.*, i.

and bureaucratic 'turf protection,' but also an ideological debate cutting to the heart of the social democratic party's approach to the economy and society. This debate apparently grew out of the split within the party between those who favoured the 'progressive competitiveness agenda' and those who favoured an approach that more clearly identified the distinction between the interests of business and the interests of labour, and other NDP constituencies. Thus, Ministries concerned with social policy argued that economic development could not be discussed independently of the social context. Other ministries tried to 'piggy-back' their agendas onto the document, or conversely, feared the document represented an attempt to move in on their domain. As one interview respondent explained:

It was a very painful process.... Even the Ministers, generally, were suspicious of it. The Minister of Northern Development thought it was a grab at her power. The Minister responsible for Women's Issues thought it was the kind of "male-oriented" thing that didn't sufficiently take into consideration the concerns of women.⁹¹

Not only did some ministers demand that a number of 'unacceptable terms,' such as 'competitiveness' be removed from the document (a response indicating sensitivity to those who see competitiveness as an instrument of the capitalist class), but entire sections fleshing out the concepts of the IPF, deemed crucial in the eyes of policy bureaucrats, were removed in response to political pressure.

One thing the IPF had going for it during the vetting process, was the strong support of David Wolfe, in his role as Executive Coordinator of Economic Policy. As the driving force behind the NDP's industrial policy, he was well placed to 'sell' his vision of industrial policy both to the bureaucrats within MEDT and to NDP caucus members. The 'progressive competitiveness' approach favoured by Wolfe was essentially a position that he hoped would reconcile the socialist demands pulling the party to the left, and the need to respond to the business community's view that a social market approach was required by the competitive pressures associated with the global economy. One MEDT official interviewed noted Wolfe's advocacy role:

91 Confidential interview #29, March 23, 1995.

I think David Wolfe was able to present this to his caucus colleagues, New Democrat colleagues, as being an industrial policy that they could be proud of as New Democrats, because it recognized the collectivist aspect of economic development; that there is, in fact, a collective interest that firms in a given firm or cluster share, and there are opportunities for collective action. Another word that rings with the history of the NDP and the CCF before it. I think this is the nature of the pitch that he made to his caucus colleagues, that this was an industrial policy that they could endorse as being something that was their own. It was not just the Liberal, Peterson Premier's Council warmed over.⁹²

Wolfe was aware of many of the difficulties the Peterson government had experienced in trying to implement an industrial policy agenda. Informed by the lack of support for the PCR among policy bureaucrats, he skilfully fostered critical 'buy-in' among policy bureaucrats for an industrial policy consistent with *his* vision. The conflicting pressures bearing on the government continued to plague the IPF into the implementation stage, as too many people wanted to see a document, and policies, reflecting *their* visions.

One phase of the IPF's development illustrates the ideological teeter-totter faced when bureaucrats, politicians and their political advisors, and external advisors all have a hand in policy formulation. After reworking the IPF to reflect a sensitivity to the agendas of other ministries, the policy people from MEDT responsible for the IPF presented a second draft of the report to the people in the Premier's Council on the Economy as one component of the pre-budget consultation conducted by the Ministry of Treasury and Economics in early 1992. The reaction of the Council members to the IPF was generally critical. One advisor summarized the difficulties faced:

It got pretty heavily trashed by the Premier's Council, because there were other things going on at the Premier's Council at this time. They had two task forces going. One was a task force on investment...and the other was a task force on the future of the [Ontario] Tech[nology] Fund, which was being led by Fraser Mustard [the President of the Canadian Institute of Advanced Research (CIAR)]....And they [the two task forces] were going off in quite different directions. The investment committee, in particular, was very concerned with the question of attracting and holding investment in Ontario. They were worried about all the subsidiaries that were leaving....so the overall issue for them was what was MITT doing to attract and hold investment in Ontario. And they basically saw the draft of the Industrial Policy Framework as not addressing this issue at all and so they came down on it like a ton of bricks.⁹³

92 Confidential interview #33 (MEDT official), February 14, 1995.

93 Confidential interview #34 (Cabinet Office official), February 9, 1995.

The members of the investment task force were clearly more concerned with the province's short-term economic performance, rather than the long-term outlook. In that respect, the approaches they were interested in pursuing required reactive policy instruments, rather than the anticipatory approach outlined in the IPF.

Alarmed by the reaction of his own Council, Rae subsequently instructed MITT staff to create a focus group of business people who could provide feedback crucial to making the document more acceptable to business interests. An advisory committee representing business was assembled by the Deputy Minister on a few separate occasions between February and May 1992, with the Premier's economic policy advisor, Chuck Rachlis, playing an increasingly active role in rewriting subsequent drafts, reflecting the Premier's concerns. Not surprisingly, the document underwent quite a transformation:

[B]y May of 1992 they produced another draft and it went back out once or twice to these business people to see if it was getting more acceptable to them and each time it did it got a little more right-winged in slant, because they were basically concerned more with the short term cost competitive issues.

The result was a document that did not fit with the NDP vision. "When the premier's office people read it...somebody...went ballistic...because it was now this totally, not totally, but it was now a much more right-wing document that said all sorts of things that an NDP government wasn't particularly going to want to say in this document."⁹⁴ After a number of further frustrating rewrites, involving both the Premier's Office and Cabinet Office, one individual questioned the logic of pursuing such a document, stating "our folks don't read policy papers anyway."⁹⁵ The IPF was the result of an attempt to create a set of policies and a document assuaging interests representing a broad section of the ideological spectrum. Given that fact, it is not surprising that the IPF lacked a coherent focus.

The difficulties of incorporating a broad range of sometimes conflicting agendas into a single

94 Confidential interview #34 (Cabinet Office official), February 9, 1995.

95 Cited in confidential interview #34 (Cabinet Office official), February 9, 1995. The quoted individual was referring to traditional supporters of the NDP.

industrial policy was evident in the way the IPF was presented. As a written document, it bore the scars of the ideological battles waged in its preparation. Items consistent with the NDP's broader agenda often did not fit into the flow of the main document. Instead, distinct text boxes outline a "broader view of competitiveness"⁹⁶ (emphasizing the importance of social development to competitiveness), the growing role of women in the labour force,⁹⁷ and the "long-term cost of poverty."⁹⁸ Other NDP priorities, such as "the greening of the economy"⁹⁹ were incorporated into the main text, but are linked only very tenuously to the main themes of competitiveness and value-added production. The lack of clarity of vision in the IPF was evident to Bob Rae during the period leading up to its release. One senior official involved in its drafting noted that "the Premier...the Premier actually described it [the IPF] as 'woolly.' That's what he thought. I think he probably still thinks that."¹⁰⁰ Rae acknowledged this view, noting that the IPF had "too many objectives, and too many targets, and tried to do too much."¹⁰¹

The bureaucracy was forced to deal with the fallout from battles on the political/ideological front. The response to this situation by officials at MITT was illustrative of the political-bureaucratic dynamic during the Rae years. Much of the substantive information removed from the official IPF in response to political pressures was re-inserted as a 26 page collection of 'backgrounders.' At the bureaucratic level, these backgrounders were deemed crucial to understanding the main document. The unspoken message seemed to be that if the IPF was going to become a political grab-bag of tenuously related policy thrusts, the backgrounders at least could stand as the unadulterated domain of MITT officials. The twelve backgrounders make no attempt to reconcile the sometimes conflicting demands of the economic, social, and environmental agendas -- they are clearly concerned with *economic* development. The backgrounders rely much more

96 Ontario, *Industrial Policy Framework*, 10.

97 *Ibid.*, 7.

98 *Ibid.*, 20.

99 *Ibid.*, 32, 33.

100 Confidential interview #29 (MEDT official), March 23, 1995.

101 Interview with Bob Rae, August 29, 1995.

heavily (than does the IPF) on the approach of Michael Porter, with a clear focus on the importance of competitive advantage, and on clusters of firms.¹⁰² The backgrounders flesh out many of the directions in the IPF, including the role of the Sector Partnership Fund and the importance of focusing on: higher-value added activities; continuous innovation; raising skill levels; increasing technological capabilities; increasing home base activities, developing linkages and networks, building international capabilities; strategic groups of companies; and the role of small business.

Three aspects of the backgrounders stand out. One is the fact that the backgrounders clearly indicate they are talking about an industrial policy: Thus the first backgrounder explains that “Ontario needs an industrial policy....” the second backgrounder presents “A Summary of the Policy,” and the remaining ten backgrounders spell out the components of the policy.¹⁰³ This stands in contrast to the IPF document. The minister’s message suggested he was announcing an industrial policy. The body of the document states that “this paper sets out a *framework* for an industrial policy” (emphasis added), as the document title suggests. Further confusion is created with the suggestion that the “industrial policy” is but one part of a larger agenda including other elements also mentioned in the IPF:

An industrial policy is an important element of the economic renewal agenda. It will complement other government initiatives designed to promote community development, to stimulate green industries, to revamp the training system around the Ontario Training and Adjustment Board, to renew agricultural industry, to build a sustainable forestry sector, and to provide innovative financing mechanisms to support long-term investment.¹⁰⁴

Should the focus on green industries, the emphasis on community development, and the creation of OTAB be seen as part of the provincial industrial policy, as their inclusion in the document suggests, or were they distinct from the industrial policy enunciated in the IPF? Was there a hierarchy of economic policies, with the industrial policy specified in the Ministry of Industry Trade

102 Porter’s ‘cluster’ approach is similar to the ‘sector’ approach emphasized in the IPF, but it captures more effectively the notion that in the production process, linkages exist between firms that might not be considered to be in the same sector. The term ‘cluster’ was one of the words purged from the actual IPF document as a result of negative reaction from the Premier’s Office.

103 Ontario, “Industrial Policy Framework Backgrounders.”

104 Ontario, *Industrial Policy Framework*, 2.

and Technology's IPF a subordinate element of a broader 'economic renewal agenda' controlled by the Ministry of Finance? If the government had an industrial policy, but it was not accurately represented by the IPF document, where should one look to see what the government's industrial policy was? The answer to this last question may be that the backgrounders were the 'real' industrial policy.

The second noteworthy aspect of the backgrounders concerns not what they *do* talk about, but what they *do not* talk about. They do not build on the need to 'green the economy,' nor do they highlight the importance of social development to competitiveness. In short, the industrial policy backgrounders outline a generic industrial policy, while the agenda outlined in the IPF is more obviously a product of the NDP.

The third noteworthy aspect, highlighted by the first two, is that the backgrounders indicate that the 'proper' domain for a provincial industrial policy is the Ministry of Industry Trade and Technology. With the exception of a brief discussion of OTAB, the initiatives discussed in the backgrounders are principally MITT initiatives. Through presenting the backgrounders, MITT made the case that not only did they have the expertise to develop an industrial policy, they also had rights to its implementation. That the 'ownership' of the IPF was uncertain was evident in the main document, also. Although it went out under the signature of Ed Philip, the Minister of Industry, Trade and Technology, it was not published under the ministry's name, but rather, under the name of the Government of Ontario. This perhaps seems a trivial matter, but it is not. An industrial policy that requires the active buy-in of other ministries could not be seen as 'belonging' to a single ministry. Yet ironically, a sense of ownership is required before any ministry could be expected to expend energies to implement such a policy. One senior official at MITT/MEDT noted that:

there was a little bit of a problem about whether the Industrial Policy Framework was MEDT's Industrial Policy or the Government's Industrial Policy. The Ministries were concerned that their policy agenda was being trammelled...David Wolfe saw it as being the government's, but I think that sort of got 'beat back.' We had more on training, but that was taken out because of OTAB, the bizarre OTAB process was underway. That was seen as

“you guys can’t contradict them. That’s over there now.”¹⁰⁵

Rae noted that such petty turf battles were symptomatic of a much larger societal malaise:

To me, you’ve got to break down the bureaucratic silos. Again, this is an ongoing struggle within government. Ministries that always have seen themselves as separate identities...That has to go....There is no such thing as an MEDT, quote, policy. There has to be a policy of the government. The issue to me though, even goes beyond that. [T]he whole purpose of the Premier’s Council, was to try to say look, “the solitudes of government, business, academia, labour, the broader communities – all those things have to be broken down”. And it’s important for us to look at a provincial approach to development, rather than a government approach. The government approach has to include what’s going on in the business community, and what’s going on in other communities.¹⁰⁶

The experience of the NDP in power suggests that at both the societal level, and the bureaucratic level, Rae’s government faced an uphill battle in its efforts to affect change.

The Rae government stepped to the plate with the intention of forging an industrial policy. They were torn between party ideologues and a concern that the business community not reject the approach out of hand. The ‘progressive competitiveness’ approach encapsulated in the IPF alienated both these constituencies, however. In a province where ‘The Art of the Compromise’ had been the name of the game politically for decades, the NDP industrial policy tried to reach too far. Rather than trying to straddle a middle position between social market and selective interventionist approaches, the IPF attempted to stretch across three ideological approaches, putting alternatively social market and socialist ‘spins’ on what was predominantly a selective interventionist approach.

Public Investment for Economic Renewal: Investing in Infrastructure

The Ministry of Finance released *Public Investment for Economic Renewal*,¹⁰⁷ in February 1993 (seven months after the release of the IPF), stressing the economic development potentials of public investment in infrastructure facilities. While the range of infrastructural components in this document went beyond traditional ‘bricks and mortar’ approaches to infrastructure, for the most part

105 Confidential interview #29 (MEDT official), March 23, 1995.

106 Interview with Bob Rae, August 29, 1995.

107 Ontario, Ministry of Finance. *Public Investment for Economic Renewal*. (Toronto: Queen’s Printer for Ontario, 1993).

the ideas presented in *Public Investment for Economic Renewal* fit with conventional approaches to economic development. As part of a larger “economic renewal” agenda, the infrastructure strategies outlined might be thought of as components of a comprehensive anticipatory industrial policy meshing micro, meso, and macro level objectives. As a ‘stand alone’ policy document, however, it does not qualify as an anticipatory industrial policy. Its contents require further evaluation to determine which of these alternatives is accurate.

According to the document, “roads and highways, transit, energy generation and transmissions systems, water and sewer systems, educational and medical facilities”¹⁰⁸ play key roles in the province’s economic development, providing “the basic fabric underlying a modern, sophisticated economy [and]....provid[ing] a powerful lever to attract private capital investment and new jobs.”¹⁰⁹ While acknowledging the historic role played by infrastructure investment, the paper mapped out three supposedly “New Directions,”¹¹⁰ including strategic investments for economic renewal, reforming capital planning, financing, and management, and improving accountability. These new directions were necessitated by “growing and changing demand for infrastructure, increasing pressure on existing infrastructure systems, and difficult fiscal constraints.”¹¹¹

First, infrastructure investments were to be strategically aimed (transportation, environmental infrastructure, and infrastructure fostering innovation, as well as community-focused infrastructure) to foster economic renewal by creating opportunity for economic development, improving the competitive positioning of existing industries, and increasing the efficiency of infrastructure systems:

Strategic capital investments are high-impact investments that act as catalysts for change. They do this by changing the fundamental characteristics or performance of infrastructure systems for the purpose of achieving important public policy goals.¹¹²

108 Ibid., 1.

109 Ibid.

110 Ontario, *Public Investment for Economic Renewal*, 17.

111 Ontario, *Public Investment for Economic Renewal*, 17.

112 Ibid., 17.

Second, special-purpose Crown corporations were created in three areas – transportation, sewer and water, and government real estate holdings – in search of effective partnerships as well as new financing arrangements including user pay and beneficiary pay systems “where they are practical and warranted.”¹¹³ By moving such operations out of the direct control of government, Rae hoped to involve the private sector in infrastructure projects which could be show-cased throughout the world, thus tapping into a market with extraordinary potential. While some observers have drawn analogies to the developments undertaken by the Quebec government during the 1970s and 1980s, Ontario’s approach steers clear of ‘glamorous megaprojects’ such as Quebec’s Great Whale hydro-electric project, focusing instead on “roads, public transit, sewers and water-treatment plants, the sinews of daily life.”¹¹⁴ In that respect, it is not the focus of these Crown Corporations that qualifies them as ‘new directions,’ but rather, the fact that as corporate entities, they would enjoy much greater flexibility in terms of potential financing alternatives. It was hoped that they would be able to tap into new revenue sources, “such as beneficiary pay and user pay,” therefore relying less on the provincial treasury.¹¹⁵

Improved accountability, involving improved coordination and priority-setting, and more complete reporting of capital investment in the budget, was identified as a third “new direction.” This emphasis was intended to distinguish government revenues and expenditures according to operating and capital characteristics, and would thus clearly reflect “the Province’s contribution to the capital stock of the economy.”¹¹⁶ In commenting on the impact of government infrastructure expenditures on the provincial debt/deficit Premier Rae was fond of the analogy that it was more

113 The **Transportation Capital Corporation** was created to implement key public transit and highway construction initiatives throughout the province. The **Ontario Clean Water Agency** would support the construction and management of water and sewer infrastructure. The **Ontario Realty Corporation** was created to hold, dispose of, develop, manage and finance Provincial land and buildings. See *Ibid.*, 21, 22.

114 *Globe & Mail*, “Ontario Takes a New Road,” March 28, 1994, A11.

115 Ontario, *Public Investment for Economic Renewal*, 21.

116 Ontario, *Public Investment for Economic Renewal*, 24.

like borrowing money to pay for your house than borrowing money to put food on the table.¹¹⁷

The document further noted the increasing importance of infrastructure systems, observing that the World Economic Forum's annual assessment of "competitiveness" identifies infrastructure (including natural resources, information, communications and transportation systems) as a key element of national competitiveness.¹¹⁸

To succeed internationally, many Ontario companies are now competing in more sophisticated market segments, a strategy which requires a well-developed infrastructure system, a highly skilled workforce, and a commitment to innovation.¹¹⁹

The role of infrastructure investments as credible tools of economic development was further buttressed by noting they have become priority issues in the U.S., throughout Europe, and in Japan.¹²⁰ This is consistent with the comments of one interviewee who noted that the whole concept of an industrial policy had been lent credibility by early initiatives of the Clinton administration in the United States.¹²¹

Like the IPF, the *Public Investment* document was written with traditional NDP constituencies in mind. While infrastructure expenditures have been traditional tools of governments in Canada since its inception, efforts were made to highlight how the components outlined would address typical concerns of the left. Quality of life considerations attainable through infrastructure investment, such as safe drinking water, affordable child care, and a healthy environment, would "provide immediate benefits and increase Ontario's attractiveness to companies that value quality of life considerations,"¹²² while presumably also improving the lives of 'working men and women.'

One aspect of the *Public Investment* document that is intriguing is that it was the first position paper released by the Ministry of Finance after the reorganization of the government in February

117 While this analogy has both economic and political merits, it does not hide the fact that every dollar spent on a mortgage (infrastructure) is a dollar not available for food/clothes (operating expenditures).

118 The World Economic Forum, *The World Competitiveness Report: 1992*, (Zurich: The World Economic Forum, 1992), cited in *Ibid.*, 4.

119 Ontario, *Public Investment for Economic Renewal*, 5.

120 Ontario, *Public Investment for Economic Renewal*, 7.

121 Confidential interview #11 (MEDT official), August 10, 1994.

122 Ontario, *Public Investment for Economic Renewal*, 7.

1993. A key element of the reorganization was the establishment of the Ministry of Economic Development and Trade, under the new leadership of Frances Lankin as Minister. The emphasis on infrastructure development stressed in the report was presented not as a component of the government's industrial policy as articulated in the IPF, but rather, as a complement to it. Ordinarily, this might not have been noteworthy, but given the timing, it seemed to suggest that the Finance staff were determined to maintain their previous responsibility for province-wide economic planning. This theme of bureaucratic competition continued a trend established during the Liberal administration.

3.2.2 Reactive Industrial Policy: "Old Habits Die Hard"

Despite having enunciated a comprehensive anticipatory industrial policy in the IPF, featuring a reliance on long-term employment strategies consistent with innovation, flexibility and productivity growth,¹²³ the NDP also relied heavily on ad hoc, reactive industrial policies, designed to 'bail out' industries, communities, and workers, facing the burden of restructuring. This is consistent with the Canadian experience that political pressures make 'adjustment assistance' impossible to resist. It highlights, in this respect, the fact that long-term economic development objectives are often sacrificed to short-term objectives with measurable impacts corresponding more closely to the electoral cycle.

Alan Ernst notes how this process worked during the NDP mandate:

[M]uch of [the NDP] government industrial policy remains crisis driven and influenced by the threatened closure or relocation of large enterprises, particularly during the 1991-92 recession. Job protection considerations influenced the \$18 million in assistance to Provincial Papers of Thunder Bay, \$49 million to purchase a share in deHaviland, \$9.2 million to Fleet Aerospace, and \$65 million to Ontario Bus Industries of Mississauga, among others, which fit poorly with the government's goal of "strategic investments" in

123 Ontario, Ministry of Treasury and Economics, *Investing in Tomorrow's Jobs: Effective Investment and Economic Renewal: Supplementary Paper, 1992 Ontario Budget*, (Toronto: Queen's Printer for Ontario, 1992), 1.

“medium-sized innovative growth firms.”¹²⁴

Even when government money was not involved in bailouts, as in the employee buyout of Algoma Steel (saving 5,000 jobs), significant government involvement, including extensive personal involvement of the premier, was required. Thus, mediating settlements between labour and management became very much an instrument of reactive industrial policy.

NDP efforts to pursue long-term employment strategies were overshadowed by the commitment to address the growing problem of unemployment accompanying the recession. The ‘jobsOntario’ series of initiatives (*jobsOntarioCapital*, *jobsOntarioHomes*, *jobsOntarioTraining*, *jobsOntarioSummer Employment*, and *jobsOntarioCommunity Action*) were used to create annual employment for approximately 150,800 Ontarians, in partnership with other levels of government. The price tag for this job creation was stunning, however. A 1995 NDP election document notes that “since 1991 the jobsOntario family of programs has invested \$19 billion to build roads, schools, hospitals, subways, sewers, water plants, and homes.”¹²⁵ The prominence in the public eye of jobsOntario initiatives eclipsed longer-term employment concerns, while bleeding hundreds of millions of dollars from the government’s budget which might otherwise have been targeted at more anticipatory forms of industrial policy.

3.3 Industrial Policies in Comparative Analysis

Both *Competing in the New Global Economy* and the *Industrial Policy Framework* advocated positive adjustment policies intended to increase value-added production, and emphasize reliance on high-technology, innovative growth strategies. The PCR outlined tentative steps towards anticipatory industrial policy, while the IPF approach was apparently more comprehensive. Both

124 Ernst, “Towards A Progressive Competitiveness,” 22, citing Ontario, Ministry of Treasury and Economics, *Jobs and Renewal: Strategies for a Growing Economy*, (Toronto: Government of Ontario, 1994), 9.

125 Ontario, Ontario New Democratic Party, “The Right Choice for Ontario,” (Toronto: New Democratic Party, 1995). This document notes that this money had created 600,000 person years of work.

the PCR and the IPF involved what Atkinson and Coleman call structural intervention, although the PCR tended to target programs at the level of the firm, while the major focus of the IPF was the sectoral level.¹²⁶ Where they parted company most profoundly is in the reliance of the IPF on meso-level initiatives, particularly the Sector Partnership Fund. This emphasis reflected the importance of healthy industrial sectors to regional economies.

The issue of whether the IPF represented a more interventionist set of industrial policies than the PCR is a matter of some disagreement among observers. Thomas Walkom noted, for example, that:

Ironically, the NDP industrial strategy was less interventionist than that of the previous Liberal government. The Liberals had talked of using the state to develop and support leading-edge, high technology industries. The NDP industrial strategy talked instead of "supporting winning activities...[which] doesn't require the government to pick winning industries or champion companies of the future..."¹²⁷

Walkom reached the conclusion that the IPF was less interventionist than the PCR by focusing on the enunciation of the 'competitive fundamentals' in the IPF (rather than the SPF initiative), and simultaneously reading into the PCR extensive state involvement to implement the outlined agenda. As the centrepiece of the IPF, the Sector Partnership Fund provides the best yardstick by which to measure the relative intervention inherent in the IPF.

In order to make the SPF 'work,' the government would have to involve itself intimately in the process of forming sectoral organizations, and in a series of discussions meant not only to produce multipartite policy directions, but to overcome an entire culture of competition and conflict. In that respect, the SPF represented a policy of considerable depth, in terms of the extent to which public involvement in decision-making would be required.¹²⁸ Moreover, while the SPF does not specifically target sectors in which the provincial government wanted to see strategies developed and

126 Atkinson and Coleman, *The State, Business, and Industrial Change*, 24.

127 Walkom, *Rae Days*, 107.

128 Marsha Chandler, "The State and Industrial Policy Decline: A Survey", in *Industrial Policy*, Andre Blais, ed., Volume #44 of the Research Studies for the Royal Commission on the Economic Union and Development Prospects for Canada, (Toronto: University of Toronto Press, 1986), 175, 6.

projects pursued, it makes it clear that potentially *all* sectors of the economy should participate. In that respect, it is a policy tool of potentially great scope, i.e. “the range of matters in which government [is] involved” is potentially considerable.¹²⁹

The enunciated policies of both the Liberals and the NDP indicated an awareness of the changing priorities of the global economy, and the extent to which provincial governments can perhaps ideally shape certain factors of production, particularly labour. By concentrating attention on education and training issues, through initiatives such as *People and Skills in the New Global Economy*, and the creation of OTAB, they indicated an intention to capitalize on the confluence of the demands of the global economy and their constitutional powers as provinces. Richard Harris notes the importance of education, training, and an emphasis on human resources:

[Human resources policies are] of the utmost importance in terms of long-run productivity and income growth....The effort to retrain the economy’s workforce will call for definite leadership on the part of government. The need is urgent and the potential social returns are probably greater here than in any other industrial policy area.¹³⁰

David Crane echoes this perspective:

The education that we give these students will be more important than anything else we do to shape our future, because the economy of the future will depend more than anything else on how well each country develops the potential of all its people. Unless we have highly productive and flexible workers who can earn high pay, we will be forced to compete for low-paying jobs with Mississippi or Mexico. In the global economy, the high-value and high-pay jobs will flow to the countries that can provide the best-educated workers and the most advanced educational institutions.¹³¹

By concentrating on human resource development, both governments signalled an awareness of the importance of this ‘factor of production’ to the global economy.¹³²

Both governments indicated they wanted to see a much higher level of consultation and

129 Chandler, “The State and Industrial Decline,” 175. In particular, the SPF potentially involves a wide range of state involvement.

130 Richard G. Harris, *Trade, Industrial Policy and International Competition*, Research Study #13 for the Royal Commission on the Economic Union and Development Prospects for Canada. (Toronto: University of Toronto Press, 1985), 127, 129.

131 David Crane, *The Next Canadian Century: Building a Competitive Economy*, (Toronto: Stoddart, 1992), 142.

132 Human resource policies are also perhaps the best example of the Courchene’s assertion that economic and social concerns are increasingly intertwined.

cooperation among and between government, labour, and business. For the Liberals, this desire was primarily manifested in the organization of the Premier's Council itself, and in the objective enunciated to "follow a consensus approach, like that embodied in the Premier's Council, in the creation of both economic strategies and specific programs and in the mobilization of public support for the new directions."¹³³ With little substance attached to this objective, it is difficult to accept it as much more than rhetoric. Rhetoric does have a cumulative effect, however. By the time the NDP came into power, the language of cooperation and consultation had been in circulation for some time. The sectoral approach of the SPF, in particular, moved a long way towards putting words into action. The NDP approach asked business representatives to set aside an entire culture based on individualist competition with other business interests, and to get past the culture of institutionalized antagonism between business and labour. In short, the NDP approach required third order change.

In ideological terms, the NDP industrial policy moved toward anticipatory industrial policy, consistent with a selective interventionist approach to the economy, at a time when the prevailing economic paradigm was positioned at the social market position, with rhetorical 'gusts' in the business community suggesting that a pure market approach might be preferable. Overcoming their resistance to such profound change would prove to be difficult.

If both governments apparently intended to pursue anticipatory industrial policies addressing economic priorities such as the need to move to higher-value added production, and to develop human resources to position Ontario to meet the challenges of the 'new global economy,' what explains their failure to implement their stated agendas? The following chapter turns to that question, addressing constraints that might reasonably explain the lack of action of the NDP and Liberals in this policy field.

133 Ontario, *Competing in the New Global Economy*, 14.

Chapter 4: Constraints on Industrial Policy: A Survey

4.0 Introduction

There are various factors that might reasonably explain why the anticipatory industrial policies outlined in the report of the Peterson Premier's Council, *Competing in the New Global Economy*, and in the NDP's *Industrial Policy Framework*, were not successfully implemented. In this chapter a number of specific factors are identified that might constrain the ability of provincial governments to pursue economic development strategies. These include:

- constitutional constraints;¹
- constraints imposed by the continental and global context;
- treaty arrangements (GATT, FTA, NAFTA);
- budgetary constraints;
- bureaucratic constraints;
- political constraints;

Each of these constraints is reviewed here, enabling us, in chapters 5 and 6, to assess what combination of factors explains the failure of the Liberal and New Democratic Party governments to implement the policy agendas outlined in the PCR and the IPF.

4.1 Constitutional Constraints

The Canadian Constitution does not assign exclusive jurisdiction over management of the economy to either level of government. The "watertight compartments" of which Lord Atkin spoke in the *Labour Conventions Case* (1937)² have ceased to exist. Instead, policy making at both levels of the Canadian Federation is characterized by the division and sharing of powers, typically leading to a

1 Included in this category are factors that could also be included in other categories. For example, difficulty in coordinating provincial and federal training policies could be considered a political constraint. When such constraints are attributable to the complexities of the Canadian federal system, they are considered 'constitutional constraints.'

2 *Attorney General of Canada v. Attorney General of Ontario*, In the Privy Council. [1937] A.C. 327; III Olmsted 180, cited in Peter H. Russell, *Leading Constitutional Decisions*, 4th ed., (Ottawa: Carleton University Press, 1987), 130.

situation of entanglement.³ The formal constitution remains, however, the starting point in determining responsibility for economic policy making in Canada.

Robert Howse argues that federal power over trade and commerce [s. 91(2) of *The Constitution Act, 1867*], “manifests the intent of the authors of confederation that the federal government have adequate capacity to direct the economy and create a national Canadian market.”⁴ Section 121 supports this perspective, protecting Canada as a customs union by prohibiting the imposition of tariffs on interprovincial trade.⁵ Under Crown prerogative, the federal government is also able to enter into treaties and agreements that bind Canada in the international legal sense.⁶ This power has become increasingly important as the world economy becomes more fully integrated -- it provides the federal government with the power to enter into agreements such as the GATT (now WTO), the FTA, and the NAFTA. The power to implement treaties between the British Empire and foreign countries is granted to the federal government by Section 132 of the *Constitution Act, 1867*. At Confederation, the written constitution was silent on the matter of implementing treaties entered into by Canada, because this was not possible at the time. The implication of treaty-making powers for Canadian federalism has been an issue only since the imperial conference of 1926, when it was resolved that “each dominion government had the power to negotiate, sign and ratify treaties on its own behalf.”⁷ The Labour Conventions case, of 1937, discussed below, outlined the division of powers relating to treaty *implementation*.

Although treaty-making powers and responsibility for international trade may prove to be the most significant economic management tools of the federal government in the present and future.

3 See Peter M. Leslie, *Federal State, National Economy*. (Toronto: University of Toronto Press, 1987), 48-49.

4 Robert Howse, *Economic Union, Social Justice, and Constitutional Reform: Towards a High But Level Playing Field*, (North York: Centre for Public Law and Public Policy, 1992), 52.

5 Section 121 of the *Constitution Act, 1867* reads: “all articles of the growth, produce and manufacture of any one of the Provinces shall, from and after the union, be admitted free into each of the other Provinces.” See Smiley, *Canada in Question*, and Howse, *Economic Union*, 47.

6 See Anonymous, “Issues of Constitutional Jurisdiction”, in *Canada: The State of the Federation, 1987-88*, Peter M. Leslie and Ronald L. Watts, eds., (Kingston: Institute of Intergovernmental Relations, 1988), 41.

7 Peter W. Hogg, *Constitutional Law of Canada*, 2nd. ed. (Toronto: Carswell, 1985), 250.

during the post-war period, Keynesian policy instruments such as taxation, spending, and monetary policy have been central to federal management of the economy. It is monetary policy that most clearly distinguishes the federal and provincial levels of government in the area of economic management. In 1995, the Ontario Ministry of Finance released a critique of federal management of Canada's monetary policy since 1988.⁸ The document argued that tight monetary policy during this period led to higher than necessary interest rates which exacerbated the effects of the recession in Canada *vis a vis* the United States, and subsequently increased deficits incurred by federal and provincial governments.⁹ The lack of provincial control over this policy tool is one of the greatest sources of frustration for provincial governments in Canada. The situation is further complicated by the fact that the Bank of Canada, which manages Canadian monetary policy, is somewhat removed from the control of the federal government. This makes the usual intergovernmental bargaining, which contributes to provincial influence in most spheres, very difficult in this area.

Although it may be expedient for federal governments to give the Bank of Canada considerable 'elbow room' in managing monetary policy, ultimate responsibility rests with the Minister of Finance, who may be susceptible to pressures applied at the intergovernmental level. This explains the political pressure applied by the Ontario government by publicly releasing a document which clearly indicates a belief that officials at both the Bank of Canada and the federal Department of Finance erred in their single-minded pursuit of stabilized inflation. The same information could have been (and probably had been) conveyed through the 'functional' channels of intergovernmental relations central to Stefan Dupré's "workable executive federalism".¹⁰ By 'going public,' Ontario's Ministry of Finance may have been seeking to raise the stakes on the issue of federal control of

8 Ontario, Ministry of Finance, *The Role for Monetary Policy in Supporting Job Creation and Deficit Reduction*, (Toronto: Ontario Ministry of Finance, April 1995).

9 Ibid., 2.

10 J. Stefan Dupré, "Reflections on the Workability of Executive Federalism", in *Intergovernmental Relations*, volume 63 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada, Richard Simeon, Research Coordinator, (Toronto: University of Toronto Press, 1985), 1-32.

monetary policy, in the hopes of influencing them to change their policies to encourage economic growth.¹¹ This discussion of monetary policy highlights one of the major impediments to provincial governments pursuing anticipatory industrial policies such as those outlined by Atkinson and Coleman. Anticipatory policy is typified by wide ranging initiatives coordinated across micro, macro, and meso levels of the economy. Monetary policy is among the most important macro tools available to the federal government. Its absence at the provincial level makes it much more difficult to coordinate across all three levels.

The discussion about constitutional control of monetary policy may, however, be immaterial. Daniel Drache argues that the NAFTA effectively moves control of monetary policy from the hands of Canadian policy makers to American policy makers:

[I]t is wrong to think of NAFTA as a regional trading alliance. It is more precise to call it a dollar zone disguised as a trade bloc. What is different is that this relationship is now 'constitutionalized' in a legal text. The US dollar is de facto given the status as the agreement's reserve currency and this gives Washington the power to set the monetary policy for Canada and Mexico.¹²

If Drache is correct that this will be the effect of the NAFTA, the Canadian debate on federal 'mismanagement' of the money supply seems misplaced. It does suggest, however, that the NAFTA may have effects which reach beyond the obvious. It also demonstrates the interaction effect of some of the 'constraining variables' cited here. The federal government may enter into treaty agreements consistent with its constitutional jurisdiction over both trade and treaty-making which have the effect of nullifying some of the powers of both the federal and provincial governments. To the extent that international agreements place constraints on provincial powers, (*de facto* or *de jure*), should this be considered a constraint arising from the constitutional division of powers, or

11 This may also have been an attempt to lend legitimacy to Ontario's recent efforts to point out ways in which the federal system has, in recent years, failed to serve Ontario's interests. A more cynical view would be that this was a pre-election effort on the part of the NDP to discredit the federal Liberal government, and in turn, their provincial counterparts. This view seems unlikely, given the technical nature of the document, and the lack of overt partisanship.

12 Daniel Drache, "The Post-National State", in *Canadian Politics*, 2nd ed. James Bickerton and Alain-G. Gagnon, eds., (Peterborough: Broadview Press, 1994), 559.

a constraint arising from the treaty/trade agreement? The answer is 'both.' This is typical of the constraints identified here – their joint impact outweighs their independent impacts.

Although provincial governments may not control all the mechanisms necessary to manage economic growth, they do possess ample powers to make a real difference in the development of their domestic economies. Provincial involvement in economic policy has derived in part from the powers falling under s.92 (13), "Property and Civil Rights in the Province."¹³ This head of power confers on the provinces jurisdiction to regulate insurance, business in general, professions and trades, labour relations, marketing, securities trading, property, and debt adjustment.¹⁴ While jurisdiction over property and civil rights may have the greatest potential for expansive judicial interpretation, evidence suggests that provincial ownership of natural resources may have provided the provinces with their most powerful tool for economic development to date.¹⁵ Under the terms of the *Constitution Act, 1867*,¹⁶ the four original provinces were given proprietary rights over large tracts of resource-rich lands, which they were entitled to sell in the same way that a private proprietor would be able to. Special arrangements have been made with newer provinces, such that each now has the same proprietary rights as the original provinces. As well, provinces enjoy a wide range of legislative powers with respect to privately held lands, including regulatory control of

13 See Peter Hogg, *Constitutional Law of Canada*, at 453,454, where he explains that "the power to make laws in relation to 'property and civil rights in the province' ...is by far the most important of the provincial heads of power....Most of the major constitutional cases have turned on the competition between one or more of the federal heads of power, on the one hand, and property and civil rights, on the other."

14 *Ibid.*, Chapter 20, Property and Civil Rights, 453-481. Hogg notes that there are important exceptions to these regulatory powers.

15 See John Richards and Larry Pratt, *Prairie Capitalism: Power and Influence in the New West*, (Toronto: McClelland & Stewart, 1979), and H.V. Nelles, *The Politics of Development: Forests, Mines and Hydro-electric Power in Ontario, 1849-1941*, (Toronto: Macmillan, 1974).

16 Sections 117 and 109 retained provincial ownership and control over public lands with the exception of canals, public harbours, lighthouses and piers, steamboats, dredges and public vessels, rivers and lake improvements, railways, military roads, customs houses, post offices and other public buildings, ordinance and military property, and lands set apart for general public purposes. See Hogg, *Constitutional Law of Canada*, 569.

onshore minerals (including oil and gas), forests,¹⁷ and hydro-electricity.¹⁸ The inclusion of section 92A, in the *Constitution Act, 1982* further extended provincial powers. “shor[ing] up provincial ownership of and control over non-renewable natural resources, forestry resources, and electrical energy.”¹⁹

The history of ‘province-building’, notably the periods of development in Ontario and Alberta discussed in Chapter 2, suggests that in the past, natural resource exploitation has been the focus of provincial economic development. Provinces hoping to manage economic development within their borders into the next century will have to shift their focus to areas consistent with the demands of the global economy. Successful economies of the 1990s and beyond will be those where there is significant value-added, particularly through the application of technology and knowledge. Thus, while the tools of economic development which may have been most significant in past decades -- control of natural resources -- were in provincial jurisdiction, the most significant tools in future decades -- particularly education and training -- are also provincial responsibilities. Both the PCR and the IPF placed considerable emphasis on these priorities, not only at the conceptual level, but also in their specific recommendations. At the level of objectives, the most obvious fit between the PCR agenda and the emphasis on technology and knowledge can be seen in the assertion that “Ontario should...build a strong science and technology infrastructure...[and] improve the education, training, and labour adjustment infrastructure to levels adequate to sustain industrial competitiveness and help workers weather the technological change and adjustment necessary to move to higher

17 This power relies on legislative authority over property and civil rights in the province (s. 92(13)), local works and undertakings (s. 92(10)), matters of a local or private nature (s. 92(16)), natural resources (s. 92A) and taxation (ss. 92(2), 92A(4)). See Hogg, *Ibid.*, 583.

18 Provincial power over the generation and distribution of hydro-electricity stems from provincial jurisdiction over dams, generating stations and distribution systems, which fall under “local works and undertakings” s.92(10).

19 Roger Gibbins, *Conflict and Unity*, (Toronto: Methuen, 1985), p. 241. See also R.I. Cheffins and P.A. Johnson. *The Revised Canadian Constitution: Politics as Law*, (Toronto: McGraw-Hill Ryerson, 1986), 66.

value added...activities.”²⁰ Specific recommendations supporting R&D and the development of a “people strategy” also fit with an understanding that important constitutional powers can be utilized to further economic development. The NDP focus on training is most evident and in the commitment to “invest in people” through training and adjustment programs, and the establishment of OTAB, the province’s training board.

Constitutional change can occur through formal amendment, constant evolution, or a combination of the two. Thomas Courchene notes that “the institutions and structures of our federation appear to be continually evolving in order to meet the needs of the time.”²¹ Very little of the evolution which has occurred, however, has required formal constitutional amendment. Instead evolution has derived from the use of the federal spending power and the willingness of both levels of government to experiment with a variety of arrangements, forging federal-provincial agreements in several areas. Nevertheless, recent proposals for constitutional change have consisted of elements with profound implications for the economic dimension of Canadian federalism.²²

20 Ontario, *Competing in the New Global Economy*, 13,14.

21 Thomas J. Courchene, *Economic Management and Division of Powers*, volume 67 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada. (Toronto: University of Toronto Press, 1986), 230, 231.

22 The Meech Lake Accord [1987 Constitutional Accord] for example, included a requirement that the First Ministers convene at least annually “to discuss the state of the Canadian economy.” The Federal government’s proposals for constitutional reform, *Shaping Canada’s Future Together: Proposals*. (Ottawa: Minister of Supply and Services Canada, 1991), 29-31, released in September 1991, proposed formal amendments to Section 121 of the *Constitution Act, 1867*, enhancing the mobility of persons, capital, goods and services, by preventing laws, programs, or practices of either level of government constituting barriers to such mobility. The federal *Proposals* further recommended an amendment “to provide Parliament with a new power to make laws for the efficient functioning of the economic union. (31)”. While striking a somewhat more consensual approach, sensitive to concerns of the provinces, the Beaudoin-Dobbie committee essentially endorsed these proposals, in Canada, Special Joint Committee of the Senate and the House of Commons, *Report: A Renewed Canada*. (Ottawa: Queen’s Printer for Canada, 1992). More province-centred approaches to constitutional reform include Quebec Liberal Party, Constitutional Committee, *A Quebec Free To Choose* (The Allaire Report), (Quebec: January 28, 1991), and Quebec, Commission on the Political and Constitutional Future of Quebec, *Report* (Belanger-Campeau Commission), (Quebec: 1991). An excellent summary of the economic ramifications of various constitutional proposals can be found in various publications of the John Deutsch Institute for the Study of Economic Policy, including Robin Boadway, et al. eds., *Economic Dimensions of Constitutional Change*, Vols. 1 & 2., (Kingston: John Deutsch Institute, 1991), and Robin Boadway and Douglas D. Purvis, eds., *Economic Aspects of the Federal Government’s Constitutional Prospects*, (Kingston: John Deutsch Institute, 1991).

Although formal constitutional change and evolution through judicial review are the most apparent sources of shifting jurisdiction over matters of concern to the economic development of the nation and its regions, there are other sources of change which may also play a significant role. The Free Trade Agreement and the NAFTA, discussed at greater length below, have been viewed by some as having profound impacts on the *de facto* division of powers over economic development. Ian Scott, then Ontario Attorney-General, noted the threat posed to the process of federal-provincial relations by the Free Trade Agreement:

[A] constitutional change is implied by the manner in which the Agreement menaces the practices of balance and consensus that are the essence of federal-provincial accommodation and that have been an enduring feature of Canada's constitutional principles.²³

The FTA and other treaty arrangements thus potentially alter not only the *substantive* balance of power between the federal and provincial governments, but also the *procedural* balance crucial to the functioning of intergovernmental relations.²⁴ While both the FTA and the NAFTA were intentionally drafted in such a way that their infringements on areas of provincial jurisdiction are minimal, assessing their impact on the federal division of powers is an ongoing process. Like constitutions, trade agreements tend to take on a life of their own, with shifting effects that reflect the changes occurring in the surrounding economic and political landscapes.

Provincial governments seeking to pursue activist economic development policies face constitutional constraints limiting the range of policies that might be successfully pursued. Both the PCR and the IPF were drafted with full knowledge of the constitutional context, though. The specific recommendations of the PCR and the IPF were not constitutionally constrained. Moreover, the contextual constraint which establishes the federal government as pre-eminent in economic

23 Ontario, Attorney General Ian Scott, *The Impact of the Canada/United States Trade Agreement: A Legal Analysis*, (Toronto: Queen's Printer for Ontario, 1988), 9.

24 Admittedly, the "essence of federal-provincial accommodation" of which Scott speaks has been far more seriously jeopardized by forces unleashed during the failed attempts to pass both the Meech Lake and Charlottetown Constitutional Accords. That does not detract from his general point, that an agreement such as the FTA places a set of restrictions on both levels of government which has the effect of limiting the range of potential solutions available through federal-provincial negotiation.

policy, and the growing importance of federal jurisdiction over trade policy, does not preclude provinces from pursuing initiatives targeting the importance of human resource development. Perhaps ironically, the Canadian Constitution may have positioned its subnational governments to pursue meso-level policies ideally suited to the globalized economy.

4.2 Constraints Imposed by the Continental and Global Context

In economic terms...the Cold Peace -- a period characterized by economic rather than military conflict -- is upon us. Countries [and provinces] can be crushed every bit as much in a 'cold peace' as they can be in a cold war [Ian Scott, Attorney General of Ontario, 1990].²⁵

The international economic environment that Ontario faces in the 1990s is dramatically different from the world of the 1950s to mid-1980s. Intensifying international competition, the development and application of new technologies, and the growing concern about the environment are changing the basis for success in advanced economies...The scope and pace of these changes requires an economy that is quick to adjust and restructure -- an economy that embraces change [NDP's *Industrial Policy Framework Backgrounders*, 1992].²⁶

Both the Peterson Liberals and the Rae NDP governments demonstrated an awareness of the dramatic economic changes occurring internationally during their tenure in office. Both the PCR and the IPF were prepared within a context accepting globalization as a 'given.' To that extent, policy instruments were chosen with the express purpose of preparing the province to address the challenges of globalization.

In this section, the issues faced by Canadian governments, particularly the government of Ontario, are examined, with particular focus on those issues arising as a result of the global economy. The impacts of 'globalization,' 'continentalism' and 'interdependence,' are explored. The impact of global effects on the balance of the Canadian federation is also explored, providing a better understanding of the context in which Ontario's industrial policies were being implemented.

25 Ian G. Scott, *Ontario Looks at the 1990s*, (Kingston: Queen's University, Industrial Relations Centre, 1990), 5.

26 Ontario, Ministry of Industry, Trade and Commerce, *Industrial Policy Framework Backgrounders*. (Toronto: MITT, 1992), unpaginated.

Globalization Defined

The term 'globalization' is used so often when referring to the world economic and political context. that its meaning has been obscured. Donald McFetridge explains that globalization is:

a term used to describe a process of increasing international economic and political interdependence. Its manifestations include increases in international flows of goods, services and information and corresponding increases in the scope and importance of international business enterprises.²⁷

Closely linked to globalization is the emergence of an increasing emphasis on competitiveness.

Hollingsworth and Streeck note this development:

[T]he hope seems to be that global competition in an integrated world market will ultimately replace the variety of national definitions of good economic performance with a general standard of universal *competitiveness*.²⁸

This 'competitiveness' agenda, popularized by Michael Porter, has emerged in response to the series of changes in the global economy which we collectively refer to as 'globalization.' David Wolfe suggests the following changes are key:

- the wave of technological innovation which is reordering the basis of production across a wide range of industries;
- the steady fall in non-oil commodity prices since the mid 1970s;
- the phenomenon of jobless growth;
- the progressive shift from a manufacturing-based economy to a more service-oriented one;
- the increasing integration of the world economy, particularly under the influence of initiatives such as the GATT.²⁹

Implications of Globalization

The most significant implication of globalization for the purposes of this study is that globalization involves a shift in power from governments to corporations. Globalization has arguably altered the range of activities available to governments throughout the world. David Crane explains that a

27 Donald G. McFetridge, "Globalization and Competition Policy", in *Productivity, Growth and Canada's International Competitiveness*, (Kingston: John Deutsch Institute, 1993), 133.

28 J. Rogers Hollingsworth and Wolfgang Streeck, "Countries and Sectors: Concluding Remarks on Performance, Convergence and Competitiveness", in *Governing Capitalist Economies: Performance and Control of Economic Sectors*, J. Rogers Hollingsworth, Philippe C. Schmitter, and Wolfgang Streeck, eds. (New York: Oxford University Press, 1994), 281.

29 David A. Wolfe, "Technology and Trade", in *Debating Canada's Future: Views from the Left*, Simon Rosenblum and Peter Finlay, eds., (Toronto: Lorimer, 1991), 106-8.

recent United Nations report has noted that “[h]uge and powerful transnational corporations are increasingly deciding where production will take place around the world and what kinds of jobs will be located in different countries.”³⁰ With the growth of corporate power, the scope for government action is limited:

It is they [TNCs], rather than governments, that are allocating resources and activities around the world. Free trade agreements, such as the North American Free Trade Agreement, are pushing this new international division of labour even further.³¹

McFetridge echoes this view, noting that the pressures created by globalization lead governments to seek alternative policy instruments:

Globalization has reduced the policy discretion of the nation state. Various forms of hitherto routine state intervention in economic life have become or are becoming subject to the discipline of international codes of conduct. While the number of instruments available to national governments has declined, political pressure to protect domestic interest groups has not. There is thus a political incentive to seek out and employ new, less visible instruments.³²

The emergence of Newly Industrialized Countries (NICs) has also been a prominent feature of globalization. These countries have been able to produce goods at low cost, thus driving the need to reduce production costs in the developed world also. Atkinson and Coleman note that Canada’s “middle power status in the international economic system,”³³ combined with the small and open character of the Canadian economy, makes Canada particularly vulnerable to the political and economic impacts of globalization. They state that “[i]n the international [economic] arena Canada is a policy taker.”³⁴ Furthermore, Ontario’s vulnerability is particularly acute, given the high proportion of branch plants in the provincial economy, and the province’s heavy reliance on foreign (specifically American) exports.

30 David Crane, “Corporate giants, not governments are calling the economic shots”. *The Toronto Star*, July 21, 1993, A19.

31 Ibid.

32 Donald G. McFetridge, “Globalization and Competition Policy”, in *Productivity, Growth and Canada’s International Competitiveness*, Thomas Courchene and Douglas D. Purvis, ed., (Kingston: John Deutsch Institute, 1993), 133.

33 Michael Atkinson and William Coleman, *The State, Business, and Industrial Change in Canada*. (Toronto: University of Toronto Press, 1989), 15.

34 Ibid.

Drache and Gertler note that the impacts of globalization are not uniformly felt in all regions of Canada. Thus, the forces of globalization exacerbate the regional tensions which have been institutionalized by Canadian federalism:

With capital increasingly free to move across national boundaries, foreign investment is particularly threatening for Ontario, which has the largest number of branch plants in Canada. Ontario faces the harshest adjustment....³⁵

Paul Kennedy reiterates the regional effects of globalization, noting that globalization causes the regions and communities of the world to compete against each other to attract industry:

Since communities and unions are bidding for the same jobs, it follows that one region's enhanced (or retained) employment means another region's rising unemployment. Winner or loser, it is clear that there is "uneven bargaining power" between communities and the globalized company.³⁶

Those provinces, regions, and communities that lose this bidding war, are clearly hurt by this process. Less obvious, however, is that even for the winning bidders, considerable damage may result from the harmful effects of the bidding process. Some view this interregional competition as healthy, particularly in the Canadian context.³⁷ Others warn of the dangers of the 'race to the bottom' syndrome, where in an attempt to outbid each other, wages are forced down, unnecessary incentives are offered, and social programs are rolled back. These pressures build both at the public and private sector levels. Clark and Saiz note that "businesses can play states [provinces] off each other to get the best deal; state [provincial] and local governments take part in this bidding war because there are political advantages to winning the investment competition with other states."³⁸

Globalization and the trade agreements that have emerged to deal with the forces of globalization, also affect the balance of power within the Canadian federation. While acknowledging

35 Daniel Drache and Meric S. Gertler, "Chapter 1: The World Economy and the Nation-State: The New International Order", in *The New Era of Global Competition: State Policy and Market Power*, Drache and Gertler, eds., (Montreal and Kingston, McGill-Queen's University Press, 1991), 13.

36 Paul Kennedy, *Preparing for the 21st Century*, (Toronto: Harper Collins, 1993), 59.

37 See Albert Breton, *Centralization, Decentralization and Intergovernmental Competition*, (Kingston: Institute of Intergovernmental Relations, 1990).

38 Susan E. Clark and Martin R. Saiz, "Economic Development and Infrastructure Policy," in *Politics in the American States: A Comparative Analysis*, 6th ed., Virginia Gray and Herbert Jacob, eds., (Washington: CQ Press, 1996), 519.

that globalization leaves all governments with reduced capacity and power, Richard Simeon suggests that the central government is the main loser:

Its powers are the most constrained; it has the least ability to develop coherent policies, since it must balance so many regional interests; and it has less jurisdiction over the quality-of-life issues that are likely to become the major areas of government innovation in the future. These are largely provincial, so that, in Canada -- perhaps paradoxically -- globalization seems to be fostering decentralization rather than centralization.³⁹

Maude Barlow suggests that the relative weakening of national governments by TNCs may be intentional:

[T]ransnationals do not generally define themselves in national terms....They are economic fiefdoms: flexible, dynamic and autocratic. Their goals are to survive, to grow and to accumulate wealth. They seek to circumvent, and therefore weaken, national jurisdictions, creating what they lovingly call a "world without borders."⁴⁰

Although this tendency to erode state powers clearly applies to the national level, it also applies at the provincial level. The effect of TNCs on the balance of powers in Canada remains unclear.

Although the forces of globalization place restrictions on national governments, potentially creating policy vacuums into which provincial policy makers might move, the same forces surely place restrictions on provincial governments. It is impossible to know with any level of certainty how globalization will affect the balance of Canadian federalism in the long term.⁴¹ Much will depend on the effectiveness of various policy instruments in dealing with the forces of change. If, for example, the American economy surges, the success of nationally driven continental trade policies may shift power in the direction of the federal government. Alternatively, the success of provincial emphases on strategic approaches to training may cause a shift in the balance of power to the provincial level.

39 Richard Simeon, "Globalization and the Canadian Nation-State," in *Canada At Risk? Canadian Public Policy in the 1990s*, G. Bruce Doern and Bryne B. Purchase, eds., (Toronto: C.D. Howe Institute, 1991), 53.

40 Maude Barlow, "Charting Canada's Future: The Canadian People Versus Transnational Corporations," in *Meeting the Global Challenge: Competitive Position and Strategic Response*, Jerry Dermer, ed., (North York: Captus Press, 1992), 132.

41 Shifts in the federal balance of power resulting from globalization pale in comparison to the changes potentially arising from more immediate challenges to confederation, such as the uncertainty surrounding the future of the province of Québec.

Provincial Responses to Globalization

Provincial governments have become aware of the challenges and opportunities presented by globalization. Indeed, both the PCR and the IPF were explicitly responses to globalization. Ivo

Duchacek notes that provincial awareness of globalization is a new development:

Whether global, continental, or regional, interdependence is certainly not a novel fact or concept, but the subnational awareness of its pressures and opportunities and the need to react to them, is. The awareness of subnational vulnerability to extranational, distant events has now, as it were, trickled from beyond the borders down to subnational elected officials and their staffs...⁴²

The reaction of the provinces to the realities of globalization vary considerably, as one would expect.

Garth Stevenson suggests that in an attempt to find a niche in the international economy, provincial governments have pursued distinct economic policies:

These [provincial economic policies] are, in part, a consequence of the relatively specialized provincial economies and the fact that their relevant interdependencies are as much with the outside world as with one another.⁴³

Thus, province-specific development policies, such as outlined in the PCR and the IPF, may be necessary to remain competitive in the world economy.

H.T. Wilson notes that in the absence of federal action, provincial and regional institutions have emerged to take on the functions and activities required to deal with the challenges. While noting Quebec's 25-30 year head start in this area, Wilson also singled out the various reports prepared by Ontario's Premier's Council, "which, with justification, treat that province as an economic entity in its own right."⁴⁴

As economic units with a certain degree of autonomy, provincial governments have pursued distinct approaches to dealing with the United States. Increasingly, provinces have turned to their neighbouring states for two-way trade. Brown, Fry and Groen note that provincial relationships

42 Ivo Duchacek, "Perforated Sovereignties: Towards a Typology of New Actors in International Relations," in *Federalism and International Relations: The Role of Subnational Units*, Hans J. Michelmann and Panayotis Soldatos, eds., (Oxford: Clarendon Press, 1990), 6.

43 Garth Stevenson, *Unfulfilled Union*, 3rd edition, (Toronto: Gage, 1989), 180.

44 H.T. Wilson, "The Quagmire of Industrial Policy," in *Meeting the Global Challenge: Competitive Position and Strategic Response*, Jerry Dermer, ed., (North York: Captus Press, 1992), p. 154.

remain dynamic, shifting to non-North American trade options when the US economy indicates a period of decline. This cross-border interaction is typically accompanied by a decentralization of the respective federations:

As the balance of power in federal subunit relations shifts increasingly in favour of subunits, and as state-province policies are redefined to project economic and domestic interests abroad, the decentralizing influence of globalization on federalism will become increasingly apparent.⁴⁵

As provinces have matured as economic entities, their economic development policies have been increasingly scrutinized in the United States:

Provincial incentives, loans, and other alleged subsidies for automobile production, fish products, pork, Michelin tires and, of course, softwood lumber, among others, gradually brought the US trade remedy community, especially after 1979, to focus as much on Canadian provincial subsidy practice as on federal government actions.⁴⁶

While specific subsidies might attract attention south of the border, there is no evidence to suggest either the PCR or the IPF attracted negative attention, although one interview respondent noted that the PCR had been widely distributed among interested American observers of industrial policy.

Summary of the Effects of Globalization

The forces of globalization created a sense of urgency for both the Liberals and the NDP in forging their industrial policies. Both governments forged policies intended to help Ontario not only survive, but thrive in a global economy. Ontario's reliance on external trade, concentrated in the United States, makes adaptation to globalization a necessity. Ontario must adapt, or face the serious consequences of failing to do so. Neither the members of the Premier's Council, nor the various 'partners' of the NDP wanted to run that risk. Because both the PCR and the IPF were prepared in response to globalization, the implementation of the respective agendas was not constrained by

45 Douglas M. Brown, Earl Fry, and James Groen, "States and Provinces in the International Economy Project," in *States and Provinces in the International Economy*, Brown and Fry, eds., (Berkeley: Institute of Governmental Studies, 1993), 9.

46 Douglas M. Brown, "The Evolving Role of the Provinces in Canada-U.S. Trade Relations," in *States and Provinces in the International Economy*, Brown and Fry, eds., (Berkeley: Institute of Governmental Studies, 1993), 102.

globalization.

4.3 Constraints Imposed by Treaty Arrangements (GATT,⁴⁷ FTA, NAFTA)⁴⁸

On the whole, state, provincial, and municipal governments in North America are gearing up for freer trade, although some support the multilateral route through GATT more than the regional route through NAFTA. They generally understand that the world economy is becoming more complex and more interdependent, and that protecting and enhancing the interests of their constituents require active involvement both continentally and globally [Earl Fry, "Sovereignty And Federalism: U.S. and Canadian Perspectives"].⁴⁹

A number of formal trade agreements, including the GATT, the FTA, and the NAFTA, have emerged in response to globalization. Much of the literature suggests these treaties limit the ability of governments to pursue anticipatory industrial policies. Howlett and Ramesh note, for example, that agreements such as GATT and the FTA "limit what the government can do to aid its domestic industries. Opting out of the agreements is not a viable option, because although they restrict Canada's options they also protect its interests."⁵⁰ This presents provincial governments with a dilemma. Canada's high degree of dependence on trade makes us particularly vulnerable to negative elements of these agreements, while at the same time making us particularly reliant on other elements. While most provincial governments have, on balance, supported formal trade initiatives, Ontario, with its large industrial base, took a more cautious approach during the Liberal and NDP mandates. While Ontario may gain the most from such treaty arrangements, it also has arguably the most to lose. Unless Ontario's industries can compete in the continental or world market, there is great potential for devastation. Uncertain policy-makers are constrained by a sense of caution

47 The GATT has been replaced by the World Trade Organization (WTO). Unless specific reference is made to this new institutional entity, the term "GATT" will be used here.

48 These treaty arrangements could have been included as a sub-set of the previous section on the constraints imposed by the continental and global context, since such treaties are signed in response to globalization.

49 Earl Fry, "Sovereignty and Federalism: U.S. and Canadian Perspectives," Brigham Young University/University of Utah, CIBER Working Paper 94-11. (Provo: Brigham Young University, 1994), 14.

50 Michael Howlett and M. Ramesh, *The Political Economy of Canada: An Introduction*, (Toronto: McClelland and Stewart, 1992), 251.

(resulting in part from 'fear of the unknown'), and of responsibility for dealing with the inevitable negative fallout.⁵¹

One constraining influence common to GATT, the FTA and the NAFTA arises from the fact that it is federal governments, rather than provincial governments, that are signatories to such agreements. Under these agreements, provincial policies can be challenged. "but the province cannot directly defend itself because provinces would have no standing under the general dispute settlement mechanism."⁵² The constraining effects of the GATT, FTA and NAFTA on provincial policy makers are similar.

General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO)

Provincial interest in the GATT/WTO process has increased in recent years, as the focus of discussions has shifted from the reduction of tariffs, a federal matter, to numerous matters of both provincial interest and jurisdiction. For example, although closer scrutiny of industrial subsidies under the Uruguay Round of GATT may prove beneficial to the Ontario economy, providing opportunities for competition on a more level playing field internationally, it also clearly restricts the range of assistance which governments, both federal and provincial, can lend to facilitate industrial restructuring. The extent to which such restrictions are problematic depends on the inclination towards intervention of the government of the day.

The recent focus of GATT/WTO discussions on non-tariff barriers is of special significance to Canadian provinces, particularly given the continued proliferation of such barriers between provinces. The demands of trading on world markets may be credited with sparking long-overdue changes to the internal trading patterns in Canada. Canada's Internal Trade Agreement, signed by Canada's First Ministers, July 18, 1994, completed a process begun seven years previous.

51 Even those who argue Ontario will be a net beneficiary of continental and world trade agreements acknowledge that there will be certain industries and even entire sectors, that will suffer losses. The adjustment costs associated with these losses are a major focus of public policy.

52 Ontario, Cabinet Committee on the North American Free Trade Agreement, *Final Report*, (Toronto: Queen's Printer for Ontario, 1993), 7.

Completion of continental (FTA and NAFTA), and world trade agreements (GATT/WTO) had placed Canada in the embarrassing situation of having more liberal trade regimes with much of the rest of the world than was enjoyed within our own domestic borders.

The extent to which provincial economic development plans are curtailed by GATT provisions depends on the sectoral focus of government policies, and the extent to which industries in that/those sector(s) would be able to compete effectively on the world market.⁵³ For example, the inclusion in the April 15, 1994 GATT agreement, of a General Agreement on Trade in Services (GATS), featuring open markets "in a broad range of services, including computer and software, engineering and construction, enhanced telecommunications, financial, high-tech (in areas such as forestry, manufacturing and mining), professional and business, tourism, and transportation services."⁵⁴ may indeed open up markets to Ontario firms in these sectors. Government development strategies based on the likelihood of success of a particular sector in a bilateral trading relationship with the U.S. might be fatally threatened by a trade regime opening up such services to the world market.

One area restricted by GATT/WTO provisions is government procurement, an area that many have suggested is ideally suited as a tool for economic development.⁵⁵ Although the inclusion of provinces and states under the provision of the procurement section is 'voluntary,' subnational governments of signatory nations face considerable pressure to comply. Opening procurement up to other GATT signatories will limit the effectiveness of this tool as a mechanism by which the provincial state can shape economic development.

The long-term impact of the GATT/WTO on provincial economic development cannot be easily

53 Areas in which we are competitive on the North American market, but perhaps not on a world market, would be harmed by opening up world markets. Alternatively, certain policy initiatives, such as the private development of highway 407, are aimed in part at exposure on a world market.

54 Canada, Industry Canada, "Ontario and the Uruguay Round," May 26, 1994, (unpaginated).

55 Michael Porter argues convincingly for the strategic use of procurement policies, noting that procurement of goods and services by the public sector exceeds \$100 billion annually, accounting for approximately 18% of GDP. Government acting as a "demanding and sophisticated buyer," can be a positive force for upgrading national (or provincial) competitive advantage. See Michael Porter, *Canada at the Crossroads: the Reality of a New Competitive Environment*, (Ottawa: Business Council on National Issues and Minister of Supply and Services Canada, 1992), 238.

identified. With the exception of restrictions on preferential procurement strategies, the GATT/WTO did not conflict with the recommendations in either the PCR or the IPF.

Canada-United States Free Trade Agreement (FTA)

There is a vast literature in Canada suggesting that trade agreements such as the FTA profoundly shape the ability of governments to determine the direction of industrial development within their boundaries. An outspoken opponent of the deal, James Laxer, states that “[t]he FTA has set rules for Canada’s economic and industrial policies. The FTA is a real, if unacknowledged, ‘fourth level of government’ planted atop the municipal, provincial, and federal levels.”⁵⁶ Stephen Clarkson notes that during the negotiations leading to the FTA, “Canada had made enormous concessions that limited the federal and provincial -governments’ capacity to make industrial policies to promote their exports, to husband their energy reserves, or to foster their cultural industries...”⁵⁷

During the negotiations of the FTA, the potential impact on the powers of provincial governments was downplayed by supporters of the deal. Andrew Petter explains that:

Any suggestion that the pact threatens provincial powers would embarrass those premiers willing to swallow their provincialist pride for an agreement that furthers their philosophical agenda....The soothing sounds emanating from politicians who favour the FTA cannot alter the fact that it will have a profound influence on the powers of the provinces and on federal-provincial relations.⁵⁸

Although the FTA was intentionally drafted in such a way that its direct infringements on provincial jurisdiction are quite limited, it does specifically require the signatories (the Canadian and American national governments) “to ensure that all necessary measures are taken to give effect to the provisions [of the Agreement], including their observance, except as otherwise provided in this

56 James Laxer, *False God: How the Globalization Myth Has Impoverished Canada*, (Toronto: Lester Publishing, 1993), 9.

57 Stephen Clarkson, “Disjunctions: Free Trade and the Paradox of Canadian Development,” in Drache and Gertler, eds., *The New Era of Global Competition: State Policy and Market Power*, (Montreal and Kingston: McGill-Queen’s University Press, 1991), 116.

58 Andrew Petter, “Free Trade and the Provinces”, in *Trade-Offs on Free Trade: The Canada-U.S. Free Trade Agreement*, Mark Gold and David Leyton-Brown, eds., (Toronto: Carswell, 1988), 141.

Agreement, by state, provincial and local governments.”⁵⁹ Watts notes a variance of opinion as to whether the FTA will have a centralizing or a decentralizing effect on Canadian federalism. He sides, on balance, with those suggesting that the provinces gain relative to the federal government:

[T]he limitations imposed by the FTA on governmental intervention or regulation of trade will impinge mainly upon the federal government’s areas of jurisdiction, leaving important areas of provincial jurisdiction including education, training and industrial relations and social services undiminished.⁶⁰

The emphasis in both the PCR and the IPF on the development of human resources through training and education initiatives reflects an appreciation of this policy room. The FTA arguably skewed Canadian federalism towards the provinces by leaving open to provincial governments policy instruments widely recognized as key to success in the global economy, while restricting federal areas of jurisdiction. As discussed above, the extent to which provinces gain from this apparent opportunity to alter the federal balance of power depends largely on the actions taken at both the federal and provincial levels. There is certainly nothing automatic about a potential shift in favour of either level. Like the GATT, because both the Liberals and the NDP formulated their industrial policies in the context of the FTA, neither agenda was in conflict with the FTA provisions.

North American Free Trade Agreement (NAFTA)

“NAFTA represents a significant expansion of the FTA in terms of its direct impacts on provincial jurisdictions.” (Ontario, Cabinet Committee on the NAFTA, 1993)⁶¹

The constraints imposed by the NAFTA on provincial government efforts to pursue industrial policies such as those proposed in the PCR are consistent with the types of constraints imposed by both the GATT and the FTA. While each of these agreements limits policy tools available to all levels of government, as the above quote suggests, the breadth of issues covered by NAFTA places

59 Article 103, cited in *Ibid.*, 144.

60 Ronald L. Watts, “The Macdonald Commission and Canadian Federalism”, in *Canadian Federalism: Past, Present and Future*, Michael Burgess, ed., (Leicester: Leicester University Press, 1990), 162.

61 Ontario, Cabinet Committee on the NAFTA, *Final Report*, 32.

even greater limitations on provincial jurisdictions.

Daniel Drache notes that the NAFTA "establishes a set of 'new rules' principally for Canadian (and Mexican governments) [sic] that will diminish their power while at the same time leaving US power largely unfettered. Because many of the traditional levers of government will be subject to external control and external norms imposed by the trade agreement, these countries will not be able to subsidize regions or industries or mount strong national policies in the future."⁶²

Many people have argued that the NAFTA represents yet another effort by the Mulroney Conservatives to impose a right-wing agenda on the nation. Ian Robinson implies that the governing federal Conservatives may have taken advantage of the restrictions placed on provincial governments by trade agreements such as the FTA and the NAFTA, to advance broad policy objectives. Much of their neo-conservative agenda previously advanced through constitutional avenues, was instead being achieved through trade agreements such as the FTA and the NAFTA:

Efforts to bring expanded private property rights and increased court powers over provincial industrial policies through the front door of formal constitutional reform were blocked by provincial governments, social movements, and Canadian voters. It may be argued, therefore, that important steps towards the realization of these objectives were nonetheless made through the back door opened by the FTA and the NAFTA. These gains have been entrenched in the quasi-constitutional form of an international agreement that will be difficult if not impossible for subsequent national governments to amend....In the constitutional shell game, the pea turns out to have been under the shell labelled 'trade policy'.⁶³

Ontario's Cabinet Committee on the NAFTA notes that many witnesses to their committee expressed the view that the NAFTA, "which they saw as an attempt to change the Canadian constitution through the back door," should have been subjected to a referendum process similar to that undertaken for the Charlottetown Accord.⁶⁴

Earl Fry notes that the NAFTA will limit government procurement restrictions. While this

62 Daniel Drache, "The Post-Nationalist State", in James P. Bickerton and Alain-G Gagnon, eds., *Canadian Politics, 2nd. ed.*, (Peterborough: Broadview Press, 1994), 557-558.

63 Ian Robinson, "The NAFTA, the Side-Deals, and Canadian Federalism: Constitutional Reform by Other Means?", in *Canada: The State of the Federation 1993*, Ronald L. Watts and Douglas M. Brown, eds., (Kingston: Institute of Intergovernmental Relations, 1993), 217.

64 Ontario, Cabinet Committee on the NAFTA, 33.

would restrict the ability of Ontario governments to pursue procurement schemes such as recommended in the PCR. Fry observes that on balance, it would be beneficial to Canadian firms, since American procurement policies protect a huge market, totalling over \$280B in 1992.⁶⁵ With 16 states having 'buy America' policies in place, and 37 with 'buy in state' procurement preferences, placing restrictions on such preferential treatment would open up significant markets to Ontario firms. On balance, it seems like a fair trade-off to lose a policy instrument in exchange for access to government markets in the United States.

Assessing the Overall Impact of International Trade Agreements

Although the bulk of the literature suggests that the GATT, the FTA and the NAFTA have imposed constraints with potentially far-reaching consequences for provinces attempting to pursue distinct policies of economic development, there is very little in these agreements that is contrary to the policy initiatives outlined in the PCR and the IPF. Although it is possible that the presence of such trade agreements foreclosed certain policy options, the agreements did not appear to contravene the industrial policy agenda of either the Liberals or the NDP. The nature of such agreements, however, is such that one cannot make a definitive statement about their potential constraining effects. Under NAFTA, for example, the United States can decide unilaterally under its domestic trade law, what subsidies are acceptable, and can enforce its law by imposing countervailing duties against the offending nation. In that sense, NAFTA should be seen as a dynamic agreement. What today seems acceptable may no longer be in the future.

Most analysts agree that there will be 'adjustment costs' associated with movements toward free trade. Lorraine Eden notes that "according to standard international trade theory, Canada, as the smaller country going into a free trade agreement, is expected to bear a larger share of the adjustment

65 Fry, "Sovereignty and Federalism," 12.

burden and reap a larger share of the trade gains.”⁶⁶ Attributing such ‘adjustment burdens’ (most dramatically felt in terms of plant closures and/or unemployment) or ‘trade gains’ to formal trade agreements is not possible, however. Who is to determine where the effects of the FTA and the effects of the GATT, or the recession diverge? Data can be presented in such a way as to credibly claim that specific agreements have been beneficial, just as it can be presented to show they have had detrimental impacts.⁶⁷

The impact of these transitional costs on the government’s policy-making manifests itself in various ways. Given the climate of fiscal restraint prevailing in recent years, every dollar spent on reactive industrial policies facilitating adjustment, either at the level of the individual or of the firm, is one dollar that is not available for expenditure on broader, anticipatory industrial policies. Unemployment resulting from industrial ‘restructuring’ may also impose considerable long-term costs, as those unable to find suitable employment may be forced onto the welfare rolls. For the NDP government, dislocations resulting from trade agreements have potentially disastrous political consequences. ‘Average workers,’ particularly those in manufacturing sectors -- long a mainstay of NDP support (or at least a centre of their focus) -- suffered disproportionate job losses during the NDP mandate. The failure of the NDP government to adequately protect the interests of this constituency may lead to long-term shifts in electoral support, away from the New Democratic

66 Lorraine Eden, “Multinational Responses to Trade and Technology Changes: Implications for Canada”, in *Foreign Investment, Technology, and Economic Growth*, D. McFetridge, General Editor, (Calgary: University of Calgary Press, 1991), 150.

67 Proponents of the deal argue that exports to the US have increased since the inception of the FTA, and cite survey evidence suggesting that 16 of 22 Canadian manufacturing industries have gained market share since implementation of the FTA began. Some critics observe that Canada’s balance of trade has fallen under the FTA, and that the share of the Canadian market held by Canadian producers has fallen. Others note that export statistics are misleading. Leo Gerard, National Director of the United Steelworkers of America, notes that many manufacturing plants serviced by the steel sector have moved to the United States. Thus, steel shipments which were previously part of domestic consumption are now classified as exports. Cited in Ontario, Cabinet Committee on the North American Free Trade Agreement, *Final Report*, 4.

Party.⁶⁸

These agreements have shaped the economic and political context in which both the Liberals and New Democratic governments developed their industrial strategies, foreclosing certain policy options, and plunging the province into a period of restructuring which the government was unprepared to facilitate. This may be the double-edged sword of freer trade agreements: they increase the need for adjustment, while simultaneously removing the means available to government to facilitate adjustment.

4.4 Bureaucratic Constraints

Both the PCR and the IPF were largely reliant on the Ontario Public Service to ensure their implementation. In the former case, the Ministry of Industry, Trade and Technology (MITT) was asked to implement an agenda for which they did not feel ownership. In the latter case, the Ministry of Economic Development and Trade (MEDT) were asked to dramatically change their approach to industrial policy. Constraints at the bureaucratic level could reasonably have prevented either government from implementing their respective agendas. Bureaucratic constraints to the successful pursuit of policies consistent with the PCR and the IPF might reasonably have consisted of three elements: temporal, organizational, and cultural. Each of these three elements might reasonably have inhibited implementation of the agendas spelled out in the PCR and the IPF.

Given the existence of a complex bureaucratic structure, how much time would be required for the Ontario Public Service to take the ideas contained in the PCR and convert them to action? Given the defeat of the Liberal government slightly over two years after the release of the PCR, how reasonable would it be to attribute to lack of time their failure to act decisively in the prescribed direction? Many of the ideas contained in the PCR, *Competing in the New Global Economy*, were incorporated in the NDP government's document *An Industrial Policy Framework*, released in July

68 It remains too early to determine whether the results of the June 8, 1995 election, which saw the defeat of the NDP in favour of the Progressive Conservatives, led by Mike Harris and his "Common Sense Revolution", signals a "sea-change", or rather a temporary realignment.

1992, fully four years later. The time taken to incorporate these ideas into policy suggests there may have been considerable delay at the bureaucratic level.

During the period immediately prior to the 1990 election, bureaucratic momentum on PCR initiatives may have ground to a halt, pending the outcome of the election. The unexpected results of the election – a majority government led by the NDP – could also explain a significant period of delay. Following the NDP victory, even a ‘normal’ period of adjustment between the political and bureaucratic levels could reasonably have paralyzed government operations for several months. Evidence presented here suggests that the bureaucratic and political levels were at loggerheads for a period of time that could not reasonably be considered ‘normal.’

The second level of analysis, organizational, takes us much deeper into the ‘bureaucratic politics literature’ synthesized by Graham T. Allison in 1971.⁶⁹ Kim Nossal has summarized the axioms of the bureaucratic politics model:

- Governments are not unitary actors, but comprise sets of players holding policy-making positions;
- Diverse sets of players within government have diverse interests they wish pursued and translated into policy, and thus have different, and often divergent, policy preferences on the same issue;
- Motives can be ascribed not to governments, but to individual players, whose interests will be shaped by their own conceptions of the public good or the national [provincial] interest, by their organizational affiliation and by their own career ambitions;
- Players interact with each other along regularized circuits of the policy process attempting to ensure that their proposal receives authoritative approval;
- The process of interaction among these sets of players determines outcomes.⁷⁰

The bureaucratic politics model is thus predicated on the assumption that policy outcomes are largely determined by the various forms of interaction which occur within the bureaucracy and between the bureaucratic and the political levels.

The most obvious bureaucratic constraint on the pursuit of the ideas promoted by the Premier’s Council may have resulted from the fragmentation of the task of assessing the needs of the Ontario economy in the face of the rapidly changing world economy. Along with the Premier’s Council, the

69 Graham T. Allison, *Essence of Decision*, (Boston: Little, Brown, 1971).

70 Kim Richard Nossal, “Bureaucratic Politics in Canadian Government”, in *Public Administration in Canada: Selected Readings*, 5th ed., Kenneth Kernaghan, ed., (Toronto: Methuen, 1985), 299.

Peterson government drew on a number of other sources for information and assistance in dealing with industrial change. These included the Office of Industrial Restructuring, under the direction of a Commissioner, as well as the expertise of the Ministry of Industry, Trade and Technology (MITT). Other public sector bodies included the Ontario Development Corporations,⁷¹ with an increased emphasis on picking industrial winners, Industrial Research teams established at six universities, and the creation of a Strategic Modernization Corporation as a new high risk partnership between government and larger firms.⁷² While it was unquestionably wise to seek the political version of a 'second opinion,' the Liberals had put themselves in a situation of potential information overload. By involving so many governing units, they had also created a ready-made excuse for inaction – potential courses of action could be held in abeyance pending the results of a number of studies.

To speak of a government as a monolithic entity is clearly misleading. Different ministries have substantially different outlooks on issues, and therefore, different interests which they promote. These differences often correspond to the 'guardian-spenders' framework utilized by Donald Savoie in *The Politics of Public Spending*.⁷³ In the Ontario context, the Ministry of Treasury and Economics [later the Ministry of Finance]⁷⁴ is clearly the 'guardian' of the public purse. Thus, opposition to major new initiatives might logically emerge from this source. In 1988, speaking in defence of his recently released Budget, Treasurer Robert Nixon identified as one of three purposes of the budget "to prepare the province for the future in the increased competitiveness that has been brought to

71 The term "Ontario Development Corporations" refers collectively to the Ontario Development Corporation, the Northern Ontario Development Corporation (NODC), and the Eastern Ontario Development Corporation (EODC).

72 Robert Sheppard, "Ontario Pinpoints Targets for Modernization", *Globe & Mail*, January 19, 1988, B5.

73 Donald J. Savoie, *The Politics of Public Spending*, (Toronto: University of Toronto Press, 1990), 6. This dichotomy, used extensively in Savoie's work, has grown out of the work of Aaron Wildavsky. See Aaron Wildavsky, *The Politics of the Budgetary Process*, (Boston: Little, Brown and Co., 1964).

74 The Ministry of Treasury and Economics was merged with the Ministry of Revenue in 1993, forming the new Ministry of Finance. In choosing which terminology to use, we will base our decision on the protocol of the day. Thus, references to 'Treasury' will be applicable until the reorganization in 1993.

public attention by the Premier's Council on Technology."⁷⁵ Thus, at least initially, the chief 'guardian,' the Treasurer, did not appear anxious to distance himself from the PCR. Interview evidence presented in following chapters notes that Nixon's public pronouncements may have been masking considerable apprehension about both the general direction of the PCR and many of the specific recommendations .

Opposition to the ideas emanating from the Premier's Council could reasonably have emerged from Treasury for another reason. During the 1970s, the 'superministry,' TEIGA (Treasury, Economics and Intergovernmental Affairs), had virtually unchallenged control of the development of the province's economic policies. While the process of dismantling TEIGA had begun years earlier, with the creation of the separate Ministry of Intergovernmental Affairs, the Treasury culture still created an assumption that economic policy was properly their domain. The creation of a separate body, the Premier's Council, charged with drafting an economic development strategy for the Peterson government, was bound to create opposition and resentment. The Office of Economic Policy (OEP), the brain-trust of TEIGA, had been largely dispersed by the mid '80s, with expertise distributed throughout various ministries and agencies.

The creation of a Ministry of Economic Development and Trade in 1993, after the release of the IPF, may have presented a further threat to Treasury people, particularly within the remaining rump of OEP. Hugh Mackenzie, former Executive Secretary of the Rae government's Fair Tax Commission, noted that opposition to the PCR may have been strongest within the Ministry of Industry, Trade and Technology (MITT):

At the level of implementation, it is clear that the powerful bureaucracy in Ontario mobilized effectively to keep the ideas in the report from infiltrating economic policy at Queen's Park. The Ministry of Industry and Trade [sic] in particular was extremely effective in its resistance.⁷⁶

75 Ontario, Legislative Debates, 1st Session, 34th Parliament, April 25, 1988, 2766.

76 Hugh Mackenzie, "Dealing with the New Global Economy: What the Premier's Council Overlooked", in Daniel Drache, ed., *Getting On Track: Social Democratic Strategies for Ontario*, (Montreal/Kingston: McGill-Queen's University Press, 1992), 16.

While the preconditions existed for interdepartmental politics to play a significant role in shaping the response of these two governments to the industrial policy ideas in the PCR and the IPF, intradepartmental politics may also have had a 'moderating' effect on the ability of these governments to successfully implement policies consistent with the philosophy outlined in the government's policy documents. Many government departments are explicitly divided into policy and operational 'sides.' These two elements not only may not 'speak the same language,' there may in fact exist open hostility and resentment between them. For example, program officials may see their job security as being attached to the continuation of their programs. New programs, or non-programmatic initiatives are therefore very threatening. Thus, the general philosophy underlying the PCR and the IPF may have most threatened officials in 'program' roles.

Cultural considerations come into play at the level of public administration, just as they do at the societal, and political levels.⁷⁷ In fact, the bureaucracy reacts to cultural change at these other levels. There also develop within bureaucracies, certain cultural norms. Many of these cultural considerations emerge as institutional allegiances. The reorganizations cited above threaten organizational culture and increase friction between institutional entities. Literature dealing with organizational cultural and bureaucracy addresses some of these sources of friction. In defining organizational culture, Edgar Shein notes that:

the term 'culture' should be reserved for the deeper level of *basic assumptions* and *beliefs* that are shared by members of an organization.... and that define...an organization's view of itself and its environment. These assumptions and beliefs are *learned* responses to a group's problems of *survival* in its external environment and its problems of *internal integration*.⁷⁸

Thus, any significant change being imposed on an organization threatens those within, creating insecurity. As such, the preparation of an industrial policy by a body outside the bureaucracy, the Premier's Council, may have threatened the Ministry of Industry, Trade, and Technology, just as the change of focus indicated by the Sector Partnership Fund may have created a sense of organizational

77 See B. Guy Peters, *The Politics of Bureaucracy*, 3rd ed., (New York: Longman, 1989), 39-45.

78 Edgar Schein, *Organizational Culture and Leadership*, (San Francisco: Jossey-Bass, 1985), 6.

angst in some quarters of MEDT during the NDP mandate.

The literature suggests the bureaucracy can play a huge role in impeding government actions. Discussion above outlines several potential scenarios for bureaucratic constraint of the policy agendas of the Liberal and NDP governments. In chapters 5 and 6, interview results allow us to assess the extent to which bureaucratic politics constrained attempts by the Peterson and Rae governments to pursue their respective industrial policy agendas.

4.5 Budgetary Constraints

Because in the past, industrial policy at both the federal and provincial levels has largely consisted of throwing large sums of money at specific industries or industrial sectors, a failure to act on various industrial policies might be attributed to budgetary constraints. The budgetary reality facing Canadian governments (federal and provincial) at this time apparently precluded a generous program of industrial incentives. Ontario's debt had become a real concern over the course of the last decade. With revenues reduced by the effects of the recession of 1991-1993, and federal transfers cut significantly, the only alternative to drastic program cuts was the steady growth of the provincial debt.

Determining the extent to which the Liberals or the New Democrats were constrained by budgetary considerations involves much more than simply a comparison of relevant budgetary figures, however. Fiscal constraints may have altered the mix of policies considered. Certain governing instruments, such as regulation, cost considerably less than other alternatives (e.g. industrial subsidies). Thus, the governing instruments chosen, as well as those explicitly rejected, give a number of clues as to the constraining effects of the fiscal/budgetary climate. The Liberals chose a wide range of policy instruments, many of which called for considerable expenditure. Some policies originally considered were not even included in the report, due to their potential cost. Other costly instruments proposed were not pursued. Whether those policies were rejected due to cost is

considered here. However, even some recommendations calling on the implementation of a process, that may not have cost as much as spending programs, were not implemented. This suggests that cost may not have determined which recommendations were pursued by the Liberals.

The industrial policy agenda presented in the Industrial Policy Framework was noticeably lacking in program components. When programs did appear, they often lacked 'price tags.' The document itself clearly recognized that fiscal constraints shaped the government's policy. The most significant program included in the IPF was the Sector Partnership Fund. With \$150 million allocated to its implementation over three-years (later extended to five-years), it seemed to defy the realities of the province's fiscal situation. The rate of implementation suggests that the province's fiscal realities may have slowed its implementation.

The reliance of the IPF on creating processes of consultation at the sectoral level may have been shaped by the budgetary situation. While anticipatory industrial policies normally coordinate initiatives across micro, meso, and macro levels, they often rely most heavily on meso level interventions. While micro interventions often involve bailouts or other costly transfers to business, and macro level initiatives often involve expenditures of large sums either through stimulative packages such as the \$700 million anti-recession package, or through costly tax expenditures, meso level initiatives more often focus primarily on the establishment of relatively inexpensive processes. The government can build a framework for sectoral consultation at little cost. The emphasis of the NDP on meso-level initiatives can be attributed in part to the fiscal situation.

Despite the fact that the Peterson Liberals were in government during some of most productive recent years of the provincial economy, they consistently ran deficit budgets, with only the 1988/89 year yielding a budgetary surplus. They did, however, manage the province with an operating surplus from 1987/88 to 1990/91(See Figures 4.1 and 4.2).⁷⁹ In contrast, the NDP produced

79 Figure 4.1 shows Budgetary (Deficit) Surplus, which adds Capital Expenditures to the Operating (Deficit) Surplus. Figure 4.2 shows Operating (Deficit) Surplus. This is the difference between Revenues, and Operating Expenditures, including Programs and Public Debt Interest. See Ontario, Ministry of Treasury

operating deficits throughout their mandate, with budgetary deficits averaging over \$9B.

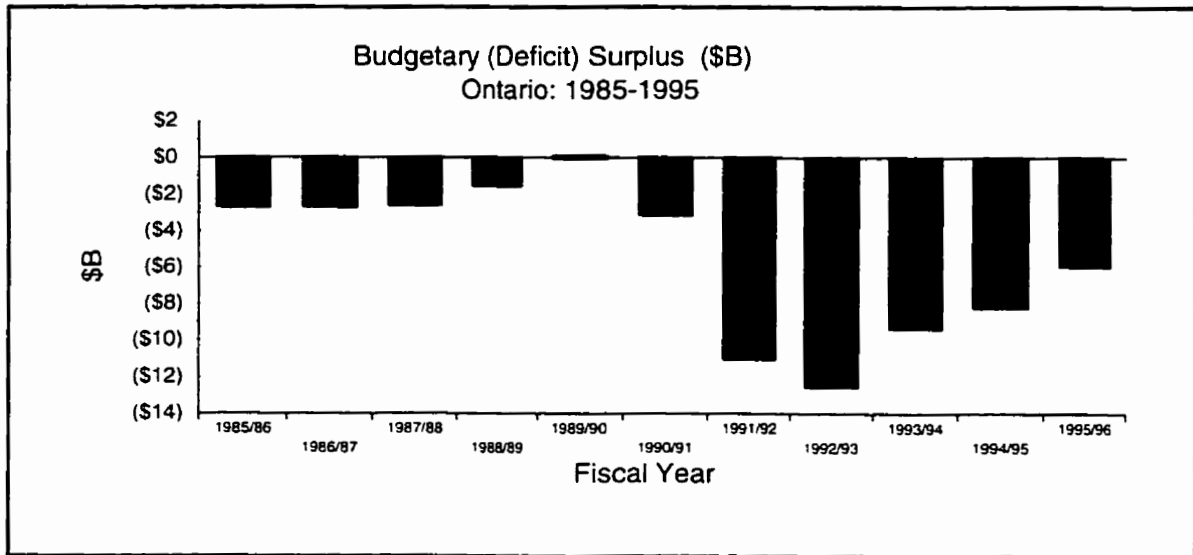


Figure 4.1
Source: Ontario, Ministry of Finance, *1995 Ontario Budget Plan*, (Toronto: Queen's Printer for Ontario, 1995), Table B7.

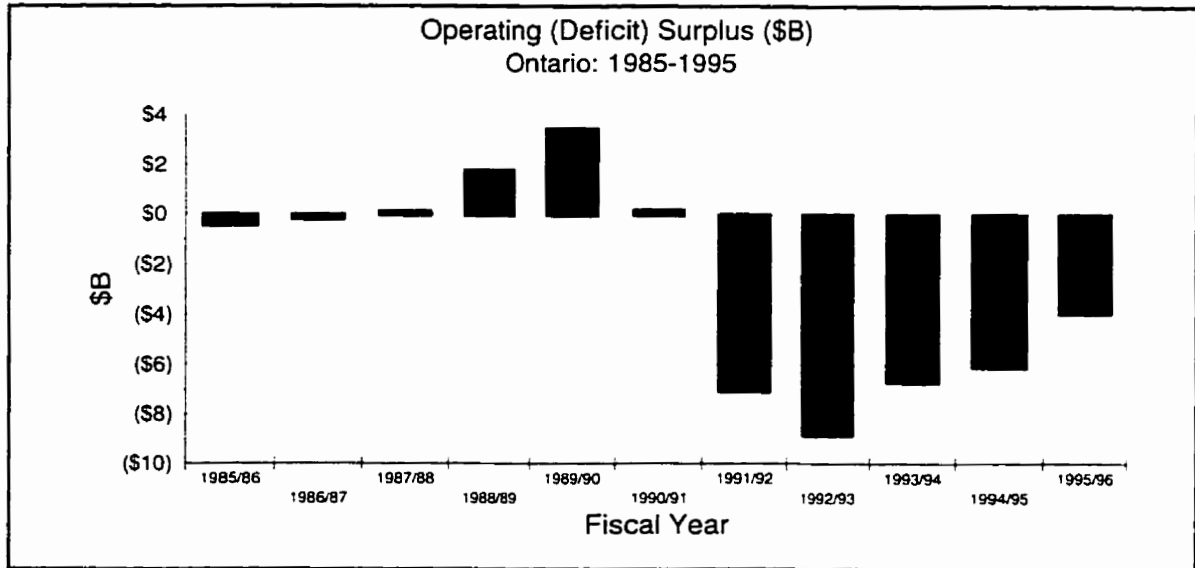


Figure 4.2
Source: Ontario, Ministry of Finance, *1995 Ontario Budget Plan*, (Queen's Printer for Ontario, 1995), Table B7.

and Economics, *Budget: 1993/94*, (Toronto: Queen's Printer for Ontario, 1993), 58.

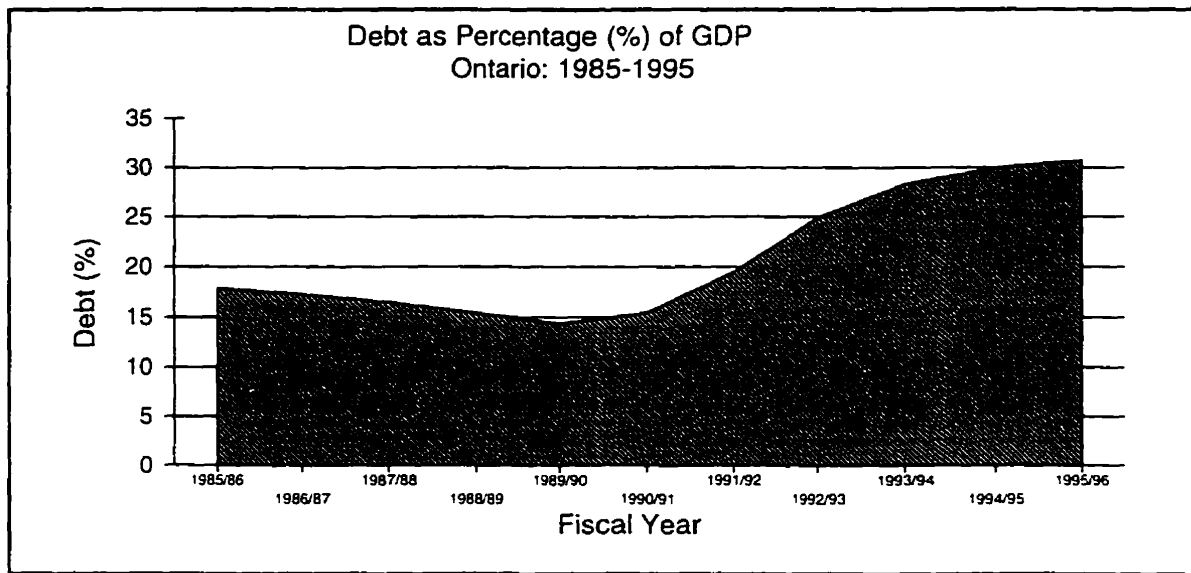


Figure 4.3

Source: Ontario, Ministry of Finance, *1995 Ontario Budget Plan*, (Queen's Printer for Ontario, 1995).

Some economists prefer to use the debt to GDP ratio, seen in Figure 4.3, as a way to assess the debt of a jurisdiction. This ratio increased notably during the NDP mandate. During this period, debt per capita -- illustrated in Figure 4.4 -- increased comparably, highlighting the distressing growth of the province's debt burden.

These debt/deficit figures are indicative of three trends during this period. The first trend, precipitated by the recession, was the necessary increase in social expenditures, and the reduction of revenues resulting from a reduced tax base. The 1993 Ontario Budget is illustrative of this general trend:

While Ontario began to emerge from the recession in 1992-93, Ontario's revenues continued to be severely affected. Continuing high unemployment and slower than expected nominal income growth hit tax revenues especially hard....Retail Sales Tax (RST) revenues were down by \$549 million from the 1992-93 Budget forecast....Weaker than expected corporate profits, large write-offs...resulted in Corporation Tax revenue falling \$556 million below the Budget projection....The shortfall in Personal Income Tax (PIT) revenue of \$337 million from the 1992 Budget plan was the result of lower than forecast employment and personal income growth....⁸⁰

80 Ontario, Ministry of Finance, *Ontario Budget: 1993*, (Toronto: Queen's Printer for Ontario, 1993), 60.61.

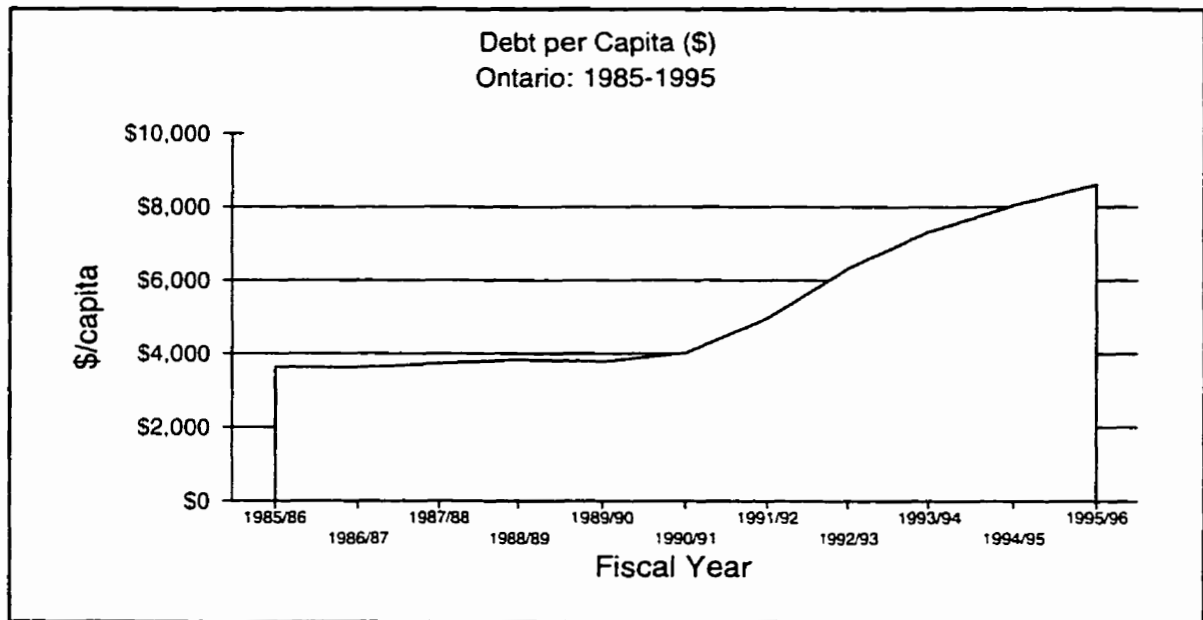


Figure 4.4

Source: Ontario, Ministry of Finance, *1995 Ontario Budget Plan*. (Queen's Printer for Ontario, 1995).

The effects of the recession contributed to increased social assistance caseloads for the Ministry of Community and Social Services, resulting in a growth in ministry operating expenditures from \$5.0B in 1989/90 to \$9.1B in 1993/94.⁸¹ While a portion of this increase can be explained by the NDP's decision to increase income support levels, most of this expenditure increase could not have been avoided without radical changes to the province's social safety net.

The second trend resulting in an increase in provincial deficit and debt involved the significant reduction in federal transfers to the provinces, largely resulting from efforts to control the deficit at the federal level.⁸² For example, a study prepared for the Ontario government by Informetrica documents a significant reduction in federal transfers to Ontario from the amounts originally

81 Ontario, *Budget: 1993*, 61 and Ontario, Ministry of Finance, *1995 Budget Plan*, (Toronto: Queen's Printer for Ontario, 1995), 38.

82 There is a recognized difficulty in assigning *fiscal constraints* their own category, when elements can be attributed to other factors. Should that portion of the reduction in revenues resulting from federal cutbacks perhaps be considered a further constraint imposed by the Canadian Federal system? For our purposes, the shortfall itself is considered a fiscal constraint, while the vulnerability to such a constraint is seen to result from the federal system. It is the interaction of these two constraints that is perhaps of greatest interest.

promised, with total shortfalls rising to \$5B in 1994-95 (see Table 1, Figure 4.5).⁸³ The approach taken by the NDP government was to affirm its continued support of the constitutionally enshrined principle of equalization, while indicating an unwillingness “to bankroll the rest of the country” through “backdoor equalization.”⁸⁴ The NDP government initially hoped that the strong representation of Ontario Liberals in the federal caucus (98 of 99 Ontario MPs) might translate to

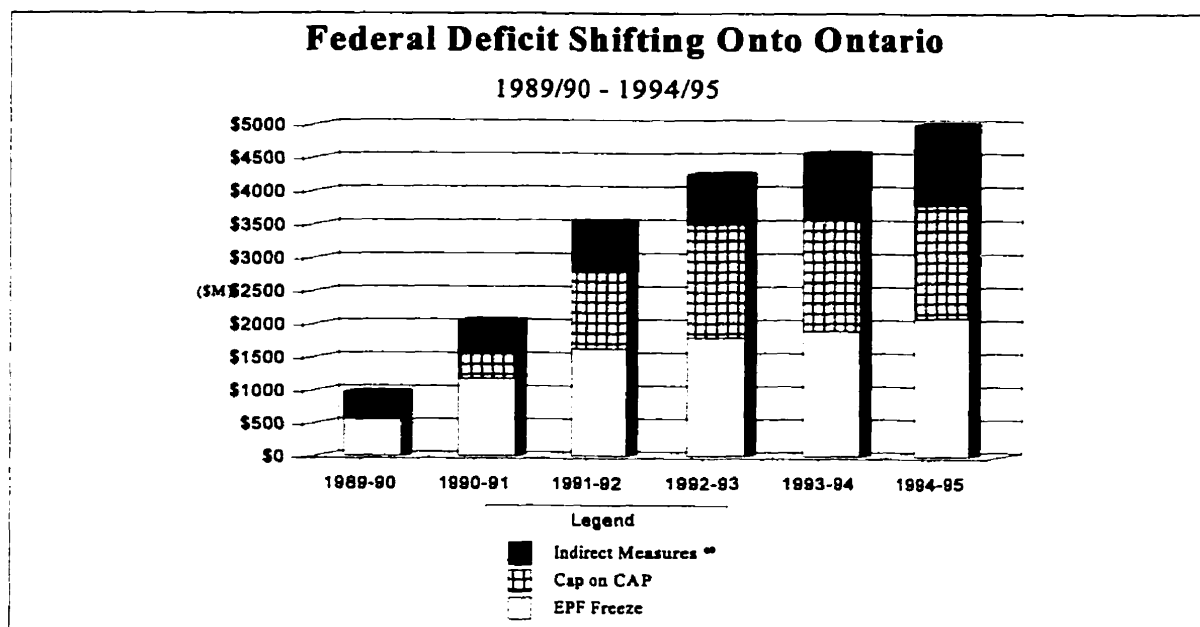


Figure 4.5

Source: Informetrica Ltd. Report for Government of Ontario, as reported in “Rethinking how the federal pie is sliced,” *The Toronto Star*, Saturday, November 27, 1993. Figures indicate how much less Ontario has received than originally promised.

* See note 86.

more equitable treatment. The Canada Social Transfer (CST), introduced in the February 1995 Federal Budget, instead further exacerbated the situation. The NDP 1995 pre-election budget statement noted that “Ontarians, who make up 38 per cent of Canada’s population, will be forced to shoulder 54 per cent of the net reductions in federal transfers for health, education, social services and equalization between 1994-95 and 1996-97 -- more than all the other provinces combined.”⁸⁵

83 Informetrica Ltd. Prepared for Ontario, Ministry of Intergovernmental Affairs, *The Consequences of Deficit Shifting for Ontario*, (Toronto: Informetrica, 1993).

84 Bob Rae, quoted in Shawn McCarthy, “Rethinking how the federal pie is sliced,” *Toronto Star*, November 27, 1993, B4.

85 Ontario, *1995 Budget Plan*, 5.

Federal Deficit Shifting Onto Ontario (\$ M)						
	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
EPF Freeze	\$570	\$1,175	\$1,625	\$1,800	\$1,900	\$2,100
Cap on CAP		\$400	\$1,200	\$1,700	\$1,700	\$1,700
Indirect Measures ⁸⁶	\$404	\$480	\$715	\$747	\$970	\$1,200
Total	\$974	\$2,055	\$3,540	\$4,247	\$4,570	\$5,000

Table 4.1 Source: Informetrica Ltd. Report for Government of Ontario, as reported in "Rethinking how the federal pie is sliced", *The Toronto Star*, Saturday, November, 27, 1993. Figures indicate how much less Ontario has received than originally promised.

The final factor explaining increased provincial debt load, and the most difficult to document, is the possibility that the provincial government under the direction of the New Democratic Party was more willing than their Liberal counterparts to run deficits. The measurement of such a willingness to run deficits can be determined in two ways: through assessment of the actual budgetary figures, and through a survey of government statements concerning the deficit. Patrick Monahan has noted that when the NDP initially took office, they were not yet prepared to make deficit reduction a priority. Noting the government's unwillingness to address the recession by cost-cutting, he explains that "[i]n part this was because of the NDP's traditional position that deficits don't matter. Because deficits don't matter, there's no concern that government revenues have gone into a nosedive."⁸⁷ The change of magnitude in the deficit between the 1990-91 fiscal year and the 1991-92 fiscal year suggests a clear willingness on the part of the NDP to deficit finance. Many commentators have suggested, however, that between the first budget (1991) and the second budget (1992) produced by the NDP government, the government did an 'about face' on the appropriateness

86 "Indirect Measures" include increases in provincial spending resulting from federal reductions in the following areas: Unemployment Insurance, Capital Gains, RRSP Limits, and Immigration. For further explanation, see Informetrica, "The Consequences of Deficit Shifting for Ontario," Paper No. 4, (Toronto: Prepared for Government of Ontario, Ministry of Intergovernmental Affairs, 1993), 4-6.

87 Patrick Monahan, *Storming the Pink Palace: The NDP in Power: A Cautionary Tale*, (Toronto: Lester, 1995), 51.

of deficit financing.

Although the fiscal situation facing the Liberals from 1988-1990 was much healthier than that later faced by the NDP, fiscal prudence may have created an unwillingness to aggressively pursue anticipatory industrial policies. The Ontario economy is so large compared to government expenditures for economic development, that government attempts to restructure the economy in any significant way (as the PCR apparently endorsed), may have required the commitment of billions of dollars. This may have been seen as too high a price to pay. Although the NDP government, in contrast, faced a much bleaker fiscal picture, their greater willingness both to intervene in the economy and (initially, at least) to run deficits, may have meant that budgetary considerations played a reduced role in determining their initial reaction to the ideas contained in the PCR. Although the deficits incurred by the NDP might seem to support this theory, their efforts to address the deficit situation at considerable political cost, particularly after the 1993 budget, suggests this was not the case throughout their mandate. In fact, the bleak fiscal situation facing the NDP suggests that budgetary constraints may have played a very significant role in shaping their approach to economic development.

Chapters five and six explore the budgetary constraints further through presentation of the results of a series of interviews of key players within both 'guardian' and 'spender' departments, as well as examination of budgetary documents. This examination suggests that budgetary constraints played significant, although different roles, in shaping the industrial policies of these two governments.

4.6 Political Constraints

The constraints outlined above do not adequately reflect the potential impact of political considerations. For better or worse, politicians, particularly those in government, tend to keep one eye firmly fixed on the electoral clock. It may be, for example, that upon due consideration of the Premier's Council agenda, the Liberal government decided against proceeding for primarily political

reasons. Peterson may have felt that the political risks of aggressively pursuing an activist industrial strategy far outweighed any potential benefits. Similarly, the NDP failure to implement aggressive interventionist policies may have resulted from an unwillingness to 'hitch their cart' to the fortunes of the Ontario business community.

Political factors can be broken down into a number of categories:

- broad political issues (eg. national unity, Meech Lake)
- electoral considerations
- political coalition building (i.e. interest groups)

Constraints in these areas could probably influence the general direction of government policy, rather than influencing specific recommendations or policy initiatives. Like the forces of globalization, and trade agreements, these constraints typically alter the context in which policies are being pursued, without necessarily impeding specific instruments.

Broad Political Issues

Certain issues, such as the vigorous support of the Meech Lake Accord by David Peterson's government, have such a broad impact on a government's overall agenda, that they may profoundly affect policy actions in apparently unrelated fields. For example, in discussing the approach of the Ontario government to the Free Trade Agreement, Sheilagh Dunn noted that Ontario's rather muted opposition to the FTA may have been shaped by Ontario's intergovernmental strategy that focused on efforts to cultivate a more co-operative relationship with various provincial governments, including those of Quebec and Alberta, two strong proponents of the FTA:

In actually formulating and implementing a strategy based on the decision to oppose the Canada-U.S. free trade initiative, Ontario appeared to tie its own hands and restrict its ability to manoeuvre and potentially defeat the deal. It did so by seeming to give as much weight to a desire not to upset the relations with other provinces as to its desire to defeat the deal.⁸⁸

88 Sheilagh Dunn, "The Free Trade Initiative and Regional Strategies," in *Canada: the State of the Federation, 1987-88*, Peter M. Leslie and Ronald L. Watts, eds., (Kingston: Institute of Intergovernmental Relations, 1988), 68.

Richard Simeon suggests that “the constitution and related issues of national unity tend to trump or dominate debate on substantive, functional policy issues” in the federal-provincial arena.⁸⁹ During the Peterson years, in particular, these issues seem to have enjoyed ‘trump’ status locally, also. Peterson’s virtually unqualified support for the Meech Lake Constitutional Accord provides considerable evidence of his commitment to national unity. That other issues, such as the aggressive pursuit of the industrial policy blueprint provided by the Premier’s Council, might have been forced to take a backseat to this ‘higher-order’ issue should not come as a surprise. In fact, the urgency of the national unity situation was such that concerted efforts in the direction of the recommendations of the PCR may have been neither desirable nor possible. Carving out a distinct ‘Ontario-first’ approach to economic development may have undercut the premier’s message on national unity’.

Ironically, the release of the NDP government’s *Industrial Policy Framework* also coincided with a period of intense uncertainty on the constitutional front. The federal government had released a series of constitutional proposals in response to the demand by the Quebec government that Canada present it with a viable alternative to separation. Provincial intergovernmental affairs ministers (which Bob Rae was, in addition to his role as Premier) began the lengthy process of negotiation leading up to the Charlottetown Agreement in March 1992. Rae spent a great deal of time between March and August of 1992 (when the agreement was finalized), preoccupied with the issue of national unity. The release of the IPF in July was easily lost in the shuffle.

This apparent preoccupation with national unity issues on the part of both Peterson and Rae, presented by the media, suggests two things. First, it suggests that the issue of national unity was something that was indeed important to them. Moreover, at the time of the Meech Lake and Charlottetown constitutional agreements, it was reasonable to believe that governments could

89 Richard Simeon, “The Political Context for Renegotiating Fiscal Federalism,” a paper presented at a conference on fiscal federalism, (Kingston: Queen’s University, November 1993), 3.

achieve constitutional change. Contrast this with the task of restructuring the economy. The capacity of one government to alter the shape and direction of economic development is comparatively limited.

The second thing suggested is that the media may have chosen to give industrial policies less coverage. However, if they wished, government communications departments could have overcome this. If either Peterson or Rae wanted to convey the impression that implementation of a comprehensive industrial strategy was a priority, they had the means at their disposal to do so. The fact that this message was never conveyed, that national unity seemed to be a more important issue, reflected the relative priorities attached to these issues by both premiers.

As Simeon suggests, there are some issues that by their nature take priority over others. When the issue is one such as national unity, the impact may be not only to displace other policy concerns, but to alter the approach taken to them.

Electoral Considerations

It may be idle to expect a Canadian cabinet to embrace a more ambitious and aggressive industrial policy in the absence of enthusiasm for the idea in the business and financial community....Democratic governments are nothing if not risk averse. It is most unlikely that any government will remain in office long enough to benefit from the fruits of its industrial strategy initiatives, since there is general agreement that these would not emerge before ten to twenty years from the implementation of a strategy. On the other hand, the costs of such an initiative are, politically speaking, identifiable and relatively imminent [Richard French, *How Ottawa Decides*]."⁹⁰

Both the Liberal and NDP governments were defeated in their first trip to the polls after releasing industrial policies. Both governments may have been planning to pursue additional initiatives in subsequent mandates. The Liberals certainly had reason to believe they would have the opportunity to govern for another mandate. The NDP, on the other hand, faced fairly certain defeat.

Electoral considerations may also have influenced the content of Liberal and NDP policies. Industrial strategies are by nature medium- to long-term propositions. While there can be visible

90 Richard French, *How Ottawa Decides*, (Toronto: Lorimer, 1980), 131.

results in the short term, most of the 'payoff' occurs over a much longer time-frame. Electoral cycles of four or five years invite politicians to emphasize short-term, highly visible policy achievements.

The Peterson Liberals would have been aware that they could not create a 'higher-value added' economy between the release of the PCR in 1988 and their next required 'appointment' with the electorate.

This awareness of the difficulties of pursuing long-term strategies of economic development may explain the incongruence between the anticipatory industrial policy presented in the objectives identified and the text of the PCR, and the generally reactive industrial policy indicated by the specific recommendations. The NDP undoubtedly also realized that the long term economic agenda first enunciated in "Budget Paper E" could not be quickly realized. Instead, shorter-term projects, with greater visibility, such as the various elements of the jobsOntario collection of programs were emphasized.

Political Coalition Building

Interest Groups

An examination of the process leading up to the release of the PCR, and in turn the IPF, and the subsequent reaction of various interests, provides an interesting case study of interest groups at work at the provincial level.⁹¹ At issue is the extent to which organized interest groups have been able to influence the directions taken by the Peterson Liberals and the Rae New Democrats to the directions enunciated in the PCR and the IPF. The argument examined here is that the Liberals may have determined that the potential political costs of proceeding aggressively with a set of interventionist policies outweighed the perceived benefits. Interest groups such as the Board of Trade of

91 The study of interest groups in Canada has tended to concentrate on activities at the national level.

Metropolitan Toronto may have played a critical role in shaping this decision.⁹² The NDP's reluctance to proceed with an aggressive industrial strategy may have been shaped by its inability to attain the confidence of the business community, and its subsequent alienation of the labour movement.

Hugh Thorburn has noted the strategic advantage to government resulting from the proliferation of interest groups: "Now governments can play off the pressures of the conflicting interests to which they are subjected, one against another."⁹³ With certain interests represented on the Premier's Council(s), and others left out, this dynamic seems entirely plausible. Those on the Council might tend to 'neutralize' each other, while lending legitimacy to the process, thus undercutting potential opposition from those not involved. Interest group literature notes that the relationship between governments and interest groups can become 'symbiotic.' Thorburn explains the 'usefulness' of interest groups, while pointing out the price paid for that usefulness:

In response [to public attitudes of indifference, cynicism or pessimism], governments are led to legitimize themselves by incorporating some of the groups into the decision-making process, so that they can be held responsible to some degree for policy outputs....Governments rely more and more on the input of interest groups, and they are consequently more exposed to their pressures for both expenditures and policy making."⁹⁴

Each government must determine what balance of interest group involvement most appropriately meets its needs. Ironically, the process established by the formation of the Premier's Council (and its continuation, in revised format by the Rae government) may have reduced the incidence of interest group pressures felt by the respective governments. By asking representatives of business and labour to check their formal 'interest group hats' as a condition of involvement in the councils, future lobbying efforts may have been reduced.

92 See The Board of Trade of Metropolitan Toronto, "Response to the *Report of the Premier's Council: 'Competing in the New Global Economy.'*" (Toronto: January, 1989), in which the Board strongly criticized the Council's recommendations, negatively perceived as "implicitly interventionist".

93 Hugh Thorburn, *Interest Groups in the Canadian Federal System*, volume 69 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada, (Toronto: University of Toronto Press, 1985), 123.

94 *Ibid.*, 125.

Heralded as a unique exercise in consensual policy making, a closer examination reveals that the Premier's Council model falls considerably short of the corporatist models with which it has been compared. The corporatist or 'neo-corporatist' approach⁹⁵ sounds wonderful – consultation, consensus-building, and cooperation. Leo Panitch, however, rejects the 'feel-good' approach of such corporatist models on the grounds that corporatism is an instrument used by the 'established order' to integrate the working class. He is also sceptical of the operating assumption of corporatist models – that business, labour and government meet on equal grounds: "Because the classes in a capitalist society occupy positions of structural inequality, one cannot really speak properly of 'partnership.'"⁹⁶

Henry Jacek suggests that the creation of the Premier's Council, composed of representatives of business, labour, and universities, marked a "transition from the state-centred pluralist process to a more corporatist approach toward negotiation among competing interests."⁹⁷ Without attaching a title to it, Jacek has described the "negotiated order," presented by Moore and Booth, as the area of conceptual ambiguity between pluralism and corporatism.⁹⁸ Jacek notes two respects in which the Peterson Premier's Council did not conform to traditional corporatist models, including the continued predominance of government representation (approximately one-third of Council members) and the tendency to rely on representatives of individual businesses and universities rather than representatives of business interest associations and collective university organizations.⁹⁹ The implications of limiting association membership may have been three-fold. First, individuals from specific industries would have been more willing, and better positioned, to "forego their private

95 This term clearly distinguishes the corporatism of recent decades from that associated with pre-WWII Italy. Use of the term "corporatism" refers here to the modern variant.

96 Leo Panitch, "The Tripartite Experience," in Banting, Research Coordinator, *The State and Economic Interests*, volume 40 of the research studies for the Royal Commission on the Economic Union and Development Prospects for Canada, (Toronto: University of Toronto Press, 1985), 111.

97 Henry Jacek, "Interest Groups and Public Policy in Ontario," in *The Government and Politics of Ontario*, 4th ed., Graham White, ed., (Toronto: Nelson, 1990), 264.

98 Chris Moore, and Simon Booth, *Managing Competition: Meso-Corporatism, Pluralism, and the Negotiated Order in Scotland*, (Oxford: Clarendon Press, 1989).

99 Jacek, "Interest Groups and Public Policy in Ontario," 264.

interests in order to achieve a consensus-building partnership formerly unknown in Canada”¹⁰⁰ as the Council expected its members to do. People are much more willing to compromise when they do not have to answer to ‘the membership’ for positions endorsed.¹⁰¹ Second, there may have been a danger that those associations not formally represented in the Premier’s Council process might be more inclined to respond negatively to the recommendations of the Council. Finally, by not including certain major interest associations in the process, the government provided itself with a fairly significant ‘escape clause.’ If major associations reacted negatively to the PCR, the government could distance itself, citing a need to respond to a broader process of consultation. The second discrepancy between the modern corporatist model and the Peterson Council, noted by Jacek, was that the outcome of the process was not adopted as a matter of course as government policy. Consensual decisions reached under the corporatist model would be accepted, and implemented, as government policy. Although the government accepted many of the specific recommendations, other recommendations were not accepted. The PCR implementation process was clearly inconsistent with the corporatist model.

The NDP government had its most significant involvement with interest groups on a different front. The Sector Partnership Fund (SPF), the centrepiece of the NDP industrial policy, and the Ontario Training and Adjustment Board (OTAB), the hub of provincial training policy, both emphasized consultation among stakeholders (labour, management, community interests, government, etc.) at the meso or sectoral level. These processes institutionalized interest group involvement in the delivery of key components of the agenda outlined in the IPF. Incorporating interest groups in this fashion may have effectively neutralized their impact. Realizing that consensual behaviour was expected of them, stakeholders may have been reluctant to make their cases as vigorously as they might have in the absence of a formalized process of consensual

100 Premier’s Council, *Competing in the New Global Economy*, 6.

101 Particularly when the continuation of their position within the interest group does not rely on the support of the membership.

planning.

The change in program focus represented by the SPF and OTAB has been identified as an attempt to implement what Hall calls 'third order change.' Desire to achieve this level of change asked a great deal not only of government, but also of those interests, particularly business and labour, whose cooperation was required to implement the government's industrial policies. These interests faced enormous pressure to adapt their thinking, and their mode of operation. This learning process itself would act as a constraint on those industrial policies. Accepting the SPF philosophy that cooperation and competition should co-exist could have taken years to overcome. It could be argued that the failure to reconcile the conflicting cultures, particularly between the business community and the NDP, ultimately contributed to the downfall of the NDP government.

4.7 Conclusions

Both the Peterson Liberal government and the Rae NDP government indicated they would pursue anticipatory industrial strategies. Government reports and policy statements apparently indicated that anticipatory policies would be pursued. The resulting policies, however, fell short of expectations raised by the governments themselves. Several factors are frequently cited as constraining the ability of provincial governments to shape economic development: constitution, globalization, and specific international treaties such as the FTA, GATT, and NAFTA. However, these issues did not suddenly emerge in the middle of either the Liberal or NDP mandates, following release of their activist, anticipatory, industrial policies. Rather, the potential constraints were known and would have been accounted for in policy preparation and in the proposal of specific implementation tools. The effect of such constraints is generally to shape the context in which policy is made.

As outlined above, political, budgetary and bureaucratic constraints may have played more significant roles in shaping efforts of these two governments to pursue the agendas outlined in the

PCR and the IPF. The fiscal situation facing the NDP in particular could have prevented the government from pursuing costly initiatives. There may also have been considerable opposition within the bureaucracy to the Premier's Council agenda, resulting in a set of recommendations with nobody interested in implementing them. In addition to the more typical political, budgetary, and bureaucratic constraints, a lack of support at the highest political levels, and a general difficulty in achieving third order change could have been very influential in preventing the implementation of the core concepts in the anticipatory industrial policies of the two governments. Chapters five and six draw heavily on the results of a series of interviews in an attempt to determine which of these potential constraints had the greatest negative impact on attempts to implement the industrial policy agendas of these two governments.

Chapter 5: Constraining the Liberals: “Actions Speak Louder Than Words”

5.0 Introduction

Chapter 3 documented the industrial policy agenda of the Peterson Liberals as set out in the Premier’s Council report (PCR), *Competing in the New Global Economy*, released in 1988, and in the follow-up report, *People and Skills in the New Global Economy*, released in 1990. These documents struggled with the economic challenges facing the Ontario economy in the late 1980s, and set out an agenda designed to meet those challenges. They were prepared within a constitutional context that was well defined, (although not immune to change), and within an economic context characterized by globalization, and treaty arrangements including the GATT and an emerging free trade agreement with the United States (FTA). The overall direction of the PCR suggested there should be an active role for provincial government in shaping economic development through specific anticipatory industrial policies.

This chapter outlines the attempts of the Peterson Liberals to implement the enunciated agendas, then discusses the factors that largely prevented successful implementation. Chapter 4 presented several alternative explanations for the failure of the Liberals to implement the agenda outlined in the PCR. This chapter looks at the empirical record, but more importantly, draws on the evidence provided through a series of interviews with individuals involved in the industrial policy process, to determine which factors were most decisive. While few interviewees came right out and stated “Implementation was impeded by factors ‘A’ and ‘C’,” the interviews did provide a fairly clear and consistent picture of the factors impeding implementation. Inadequate political support, particularly at the highest levels (Premier, Treasurer, Minister of Industry, Trade and Technology) for the anticipatory industrial policy agenda outlined in the PCR was the primary factor that prevented its implementation. Both the broader PCR agenda and the specific recommendations contained in it, also lacked support at the bureaucratic level, specifically at MITT and Treasury. The Centres of

Excellence program, probably the most successful component of the PCR agenda, enjoyed significant political support but operated largely outside the traditional bureaucracy, suggesting that a lack of bureaucratic support would not have mattered much for some other aspects of the PCR agenda. Similarly, policies operating through the tax system were easily implemented. There is no evidence to suggest that either constitutional constraints or trade agreements limited the ability of the government to implement the PCR agenda. Impediments at each of the political and bureaucratic level stacked the deck against third order change.

5.1 Implementing the PCR

As discussed in Chapter 3, the broader agenda outlined in the PCR, and encapsulated in the stated objectives, was much broader than the more modest industrial policy indicated by the fourteen specific recommendations. However, the government did not attempt to implement the broader agenda. Many of the specific recommendations were implemented, but the total effect of the policy as implemented consisted of a series of ad hoc, reactive industrial policies.

By the time the Council issued its report, *Competing in the New Global Economy*, much of the enduring work of the Council had been already been set in motion. A fund of \$1 billion to be expended over ten years, the Ontario Technology Fund (Tech. Fund) had been created at the time the Council was announced. This fund, under the direction of the Premier's Council, was intended "to help move Ontario to the forefront of scientific leadership and technological innovation."¹ The centrepiece of the Tech. Fund, the seven Centres of Excellence, were selected in 1987 from 28 applications. These centres, established in Ontario Universities (but involving faculty from more than just the home base) were to stimulate world class research in the following areas:

- lasers and lightwaves
- space and terrestrial science

1 Ontario, Task Force to Review the Ontario Technology Fund in the Context of an Innovation-Based Society, *Ontario: 2002*, (Toronto: Premier's Council on Economic Renewal, 1993), 98.

- manufacturing technology and methods
- groundwater research
- information technology
- new materials
- telecommunications technology

A 1990 review of the Centres of Excellence program found that this program was very successful. The review cited the outstanding quality of researchers and programs associated with the program, the development (beyond expectations), of industry linkages, and excellent management. As a result of the successful review, the NDP government announced in 1991 that the Centres of Excellence initiative would be continued for a further five years.² The Centres of Excellence program accounted for expenditures of approximately \$390 million during the Peterson and Rae years, representing a significant portion of funding available from the Technology Fund.³

The University Research Incentive Fund (URIF), intended to encourage greater university-industry collaborative research, predated the Liberals, having been initiated in 1984. Under this program, managed through the Ministry of Colleges and Universities (later the Ministry of Education and Training), eligible corporate investments in university research are matched by contributions from the program.

Like the Centres of Excellence and the URIF, the Industry Research Program, the second largest component of the program-based expenditures under the Tech. Fund, was created well in advance of the release of the PCR, late in 1987. This program invested in “leading edge industrial R&D in areas of strategic importance,” with demonstrable export or import replacement potential.⁴

The focus of the Technology Fund programs was almost exclusively on scientific and industrial research. One of the most expensive initiatives, the R&D Superallowance, was not a program, but a tax expenditure which worked in coordination with federal tax credits to offset investments in

2 Ibid., 102.

3 David Crane, “Let’s hear it for Centres of Excellence,” *Toronto Star*, October 21, 1997, D2. Crane notes that the Centres of Excellence continue to enjoy the support of the Harris government, which has pledged \$161.5 million towards the Centres during a five year period starting January ‘98. Technology Fund financing was extended beyond the original \$1 billion by the NDP government.

4 Ontario, Task Force to Review the Ontario Technology Fund, *Ontario: 2002*, 106.

industrial research and development. For small firms, the Superallowance subsidized 35% of all R&D expenditures, rising to 53% for incremental expenditures, while for large firms, the corresponding rates were 25% and 38%. Its value was estimated to be approximately \$50 million annually.⁵ With the total value of these incentives pegged at approximately \$300 million over the first five years, the Superallowance was a major component of the Liberal government's industrial policy expenditures.⁶

While much of the money allocated under the Technology Fund benefitted industry, the Premier's Council members from labour succeeded in extracting certain concessions. The Technology Adjustment Research Program (TARP), managed by the Ontario Federation of Labour, was created "in recognition of the need to strengthen labour's role in dealing with the effects of technological change on workers and the workplace."⁷ Of greater import, however, was the immediate pursuit, following the release of the report, of the second phase of the Premier's Council work. Recommendation 13 of the PCR stated that "The Premier's Council should work with appropriate areas of government to develop a comprehensive people strategy that will address vital education, training, and labour market policy issues as an integral part of its next agenda."⁸

The Technology Fund (particularly the Centres of Excellence) continued to stand as a significant legacy of the Peterson Premier's Council, and hence of the Liberal years of government, throughout the NDP mandate. Other recommendations of the PCR did not fare as well.⁹ Some of these initiatives (such as the proposed Ontario Risk Sharing Fund, which the Council recommended should

5 Ministry of Finance personnel are in the process of applying current tax modelling technology to previous fiscal years. They hope to be able to be more precise in their estimation of revenue foregone as a result of this initiative.

6 Ontario, Ministry of Industry, Trade and Technology, "The Ontario Government's Record in Promoting Science and Technology," (Toronto: MITT, May 1988), 5.

7 Ontario, Task Force to Review the Ontario Technology Fund, *Ontario 2002*, 112.

8 Ontario, Premier's Council, *Competing in the New Global Economy: Report of the Premier's Council, Volume I*, (Toronto: Queen's Printer for Ontario, 1988), 32.

9 This section draws on Leon Muszynski, for Ontario, Premier's Council Secretariat, Ministry of Industry, Trade and Technology, "The Implementation Status of Premier's Council Recommendations," (Toronto: Premier's Council Secretariat, 1991).

provide loans to successful, established exporting companies for investment in new product development and marketing, and the Early Stage Venture Capital Incentives, which was to provide loan guarantees to venture capital companies investing in eligible companies) were announced in various forms by the government, but never materialized. Other initiatives, including the Ontario Recapitalization Plan, which was intended to attract investors to “indigenous mid-sized exporting companies going to public equity markets to raise new capital” were deemed too expensive by the Ministry of Treasury and Economics (Treasury), and were not proceeded with.¹⁰

Other program initiatives considered by the Premier’s Council did not even make it into the PCR. One of these would have created a tax reserve fund which companies could have drawn upon to invest in higher value-added initiatives in their industries. Under the proposal considered by staff at the Ministry of Treasury and Economics, companies would have been able to open an “investment reserve account” with the government, containing profits that otherwise would have gone to pay provincial corporate taxes. These funds could subsequently be used to defray 50% of the approved costs leading to higher-value added production. Treasury staff estimated this proposal would cost the government approximately \$200 million annually.¹¹ This program would have been the only concrete attempt to respond to the rhetoric of “higher-value added” which pervaded the PCR. The government’s enthusiasm for pursuing higher value added production apparently stopped short of providing significant program funds, in this case, in the form of tax expenditures.

10 The Treasurer, Robert Nixon, indicated in interview that although he was broadly supportive of the Premier’s Council initiative, he was not willing, as Treasurer, to part with the amounts of money necessary to implement the agenda. The opposition of Treasury to such initiatives fits with both a lack of political support and lack of bureaucratic support for the agenda. Attributing Treasury’s opposition to these initiatives to budgetary considerations masks these more significant factors. There are several reasons that Treasury can say ‘no.’ There does not have to be a looming budgetary crisis for Treasury to use fiscal constraint as its reason for saying ‘no.’

11 Ontario, Ministry of Treasury and Economics, “Premier’s Council Report: Cost Estimates.” (Toronto: February 17, 1988).

5.2 Other Industrial Policy Initiatives

The Premier's Council and the resulting initiatives should not be seen as the sole focus for the Liberals, however. Both Liberal Industry Ministers, Hugh O'Neil (1985-1987) and Monte Kwinter (1987-1990) placed an unmistakable emphasis on the importance of the auto sector to Ontario. Several MITT initiatives were structured to serve the interests of this sector. Under a program called "Capital Projects," financial assistance was made available for industrial capital projects "that demonstrate a potential for long-term employment impact in underdeveloped regions or that add significantly to the international competitiveness of Ontario's existing industrial base."¹² This unadvertised program was accessed through word of mouth or in response to "special circumstances." It typified MITT's ad hoc, reactive approach to industrial development. The program's rationale, "[to] help Ontario attract investment by subsidizing capital costs [and to] enable the Province to compete with other jurisdictions that are able to offer tax or financial packages to attract investment,"¹³ suggests enthusiastic participation in the 'smokestack chasing' approach to economic development. Jurisdictions involved in smokestack chasing make concessions in areas such as minimum wage rates, environmental and workplace regulations, and employer taxes, and offer generous government subsidies in attempts to attract (or retain) industry. As such, initiatives intended to attract industry typically have a regressive impact. This may be the tip of the iceberg of a tendency to subordinate social policies to short term industrial policies, also described as a 'race to the bottom approach.'¹⁴ Keith Boeckelman notes that in the American context, "competition among subnational units can discourage redistribution due to fears that generous welfare benefits will attract the needy and drive out tax-sensitive capital."¹⁵ It is difficult to imagine how such an

12 Ontario, Ministry of Industry, Trade and Technology, "Program Descriptions," (Toronto: MITT, 1989), 30.

13 Ibid.

14 The 'racing' metaphor draws attention to the fact that as national and subnational jurisdictions participate in such competition for industry, the quality of life, if perhaps not the standard of living of its citizenry declines.

15 Keith Boeckelman, "Federal Systems in the Global Economy: Research Issues," in *Publius*, 26:1, (Winter 1996), 6.

approach to industrial policy provides net benefits to the jurisdiction.

5.3 Implementation Summary

The Premier's Council created by Peterson in 1986 implied a new approach to economic governance in Ontario. However, those expecting that the release of *Competing in the New Global Economy* signalled an era of anticipatory industrial policies, or a period of multipartite, or corporatist decision-making, would have been understandably disappointed by the results achieved by the Peterson Liberal governments. In fact, the agenda spelled out in the PCR, coupled with the RCEU assertion that provincial governments could facilitate economic development within a global context and a federal framework, may have had the effect of raising expectations unreasonably. Ontario does not normally lend itself to radical changes in the relationship(s) between state, market, and society. To that extent, the reaction of the government to the PCR agenda was consistent with established patterns.

Amid the modest results that were achieved -- notably the Centres of Excellence -- seeds of change were planted which might have flourished if they had been properly nurtured. Although the legacy of the Peterson Premier's Council fell short of its potential, there were lasting results to the Premier's Council process, however. The Premier's Council laid the foundation upon which future multipartite processes could be built, not just in Ontario, but throughout the country, and even internationally. The NDP government's Sector Partnership Fund owed much of its relative success to the groundwork of the Premier's Council. The Peterson Council had legitimized the notion of multipartite discussion.

Ultimately, though, the agenda of the Premier's Council was left unaccomplished. Like many government reports, the PCR was left to gather dust on the shelves of government bureaucrats.

5.4 Constraints on the Liberal Industrial Policy

The failure of the Peterson Liberals to implement the vision articulated in *Competing in the New Global Economy* resulted from a number of factors. Three sets of constraints were most significant: political constraints, bureaucratic constraints, and budgetary constraints. Other factors, such as the constraining effects of trade agreements such as the FTA and the GATT, and constitutional constraints, played a limited role, contributing to the context in which policies were made and implementation attempted. By the time of the Liberals' defeat in 1990, progress on implementing the Premier's Council vision had been decidedly limited. Although some interview respondents suggested that further efforts would have been made in a subsequent mandate, the lack of support at the highest levels, particularly the Treasurer and the Premier, makes such claims ring hollow.

Not all components of the PCR agenda were equally susceptible to a lack of political or bureaucratic support. For example, because the Centres of Excellence program was located at arm's length from the government, any lack of buy-in at the bureaucratic level would not have been a significant factor in determining the success of its implementation. However, because it was an expensive program, some level of political support for it was needed. Similarly, tax expenditures such as the R&D Superallowance required political support, but only minimal bureaucratic support. In some other respects, lack of political conviction derailed the Peterson government's industrial policy. Peterson was not willing to stand up for the broader agenda outlined in the PCR, and Nixon was not willing, as Treasurer, to commit resources to either specific components such as the Ontario Recapitalization Plan, or to the broader agenda outlined in the report. In relation to such aspects of the PCR, bureaucratic constraints were unimportant, because at no point was the bureaucracy asked to implement the broader PCR agenda. By the same token, other constraints -- constitutional, financial, trade agreements -- were also arguably of relatively little consequence.

5.4.1 Political Leadership/Commitment

In the world of government, political considerations are ubiquitous. Political commitment can be understood to be a summary of all other factors (reflecting, for example, the fiscal situation, constitutional powers, and the economic context). Political commitment is also, however, an independent factor, reflecting a combination of electoral impulses/constraints, and favourable ideological predisposition. In the face of strong political leadership and commitment at the highest levels, other constraints can be effectively neutralized, or trumped. The overwhelming consensus of respondents interviewed for this research noted that such a level of political commitment was lacking during the Peterson years.

Strong, focused leadership is crucial for the successful pursuit of anticipatory industrial policies, such as was outlined in the report of the Peterson Premier's Council, *Competing in the New Global Economy*. This leadership needs to arise at the political level. In a province the size¹⁶ of New Brunswick, a single, prominent politician can spark third order change, and create sufficient inertia to effect required cultural changes at the political, societal, and administrative levels. Larger provinces like Ontario tend to be more complicated (although perhaps no more challenging) to govern. Individual efforts to affect change, while necessary, are also inadequate. Instead, team efforts are required. Indeed, this belief was central to the creation of the Premier's Council.

The Liberal caucus, and more importantly the Liberal cabinet, were a group with heterogeneous views of the appropriate role of the state in the economy. Some, including the Treasurer, Robert Nixon, clearly felt that the role of government in the economy should be relatively limited (social market approach). He indicated this view in his actions as Treasurer, and confirmed that view in an interview conducted for this project.¹⁷ Others, such as Ian Scott, seem to have favoured a more

16 By "size," I don't mean geographic size, although that certainly effects one's ability to "sell" any program package, but rather, the size of the provincial population, and most importantly, the size of the provincial economy.

17 Interview with Robert Nixon, March 5, 1995.

interventionist approach (selective interventionist approach). David Peterson indicated in interview that he held rather ambivalent views, simultaneously praising the accomplishments of the Council, while citing the limits on what a provincial government can be expected to do to shape economic development.¹⁸ This divergence of views of the appropriate role of the provincial state made it largely irrelevant what individuals thought of the Premier's Council process or recommendations. Without widespread agreement to 'sing from the same songsheet,' implementation of a comprehensive, anticipatory, industrial strategy is next to impossible.

Leading the 'laissez-faire' camp was the Robert Nixon. Nixon noted in interview that he felt the Premier's Council discussed some interesting ideas, but that the product itself was not worth committing either much money, or much energy.¹⁹ He apparently felt that many of his colleagues shared his view, noting that the prevailing reaction among his cabinet colleagues to the PCR was a

'Big yawn'....When I say it was a yawn, that may have been mostly my attitude. I'm not a great believer in giving someone a million dollars and saying 'Tell us what to do.'²⁰

Moreover, Nixon seemed to have few regrets about the role he played in constraining implementation of the Premier's Council agenda:

I know in budgets, it seems to me on two or three occasions I would put in the budget a line saying "As once recommended by the Premier's Council," which was mostly to please the people in the Premier's Council that I was doing some of the things they had recommended. I think if you were talking to Pat Lavelle, he would say "Nixon was a little bit old, or something, for what we'd intended to do," but from my point of view, I found that their recommendations were hugely expensive, and I didn't have the confidence that they would work.²¹

Nixon clearly did not embrace an approach which laid out a comprehensive role for the state, preferring to address opportunities for industrial development on an *ad hoc* basis consistent with reactive industrial policy:

I'd say it [the Report] was "bullshit rhetoric," and most of the people that talked about --

18 Interview with David Peterson, July 19, 1995.

19 Interview with Robert Nixon, March 5, 1995.

20 Ibid.

21 Ibid.

nobody talked about it in Cabinet. We relied on MITT and some of the people in Treasury to give us what we considered to be an orderly approach to this, but in fact, we played the opportunities as we found them.²²

Nixon's views of the PCR were familiar to many in the industrial policy community. Patrick Lavelle, Premier's Council Secretary, and Deputy Minister of MITT, noted that "Mr. Nixon, in particular, threw his body against it, in terms of full-scale implementation."²³ A senior member of the Premier's Council Secretariat, Helen Burstyn, noted that Nixon's feelings about the process caused him to be reluctant to commit funds to the implementation of the report's recommendations. "When he did introduce, through the budget, certain measures, they didn't go all the way. It wasn't that he didn't endorse [the report], it was just that he was concerned about how to keep a lid on things too, because [of] his role as Treasurer."²⁴

The Ministry of Industry, Trade and Technology would have been the logical focus for implementation of industrial policy ideas. Here, too, strong leadership was lacking in the period following the release of the PCR in April, 1988. Nixon's perspective on the Liberal government's industrial policy was apparently shared by Industry Minister, Monte Kwinter, whose pragmatic approach to Ontario industrial development focused on existing strengths, particularly the auto industry, and an emphasis on expanding international trade. Asked whether the idea of an industrial policy or industrial strategy had been important to his government, Kwinter noted, "Yes, we are the manufacturing and financial centre of the country. To have a strategy that enhanced that, and attracted industry, was very important."²⁵ Pressed to be more specific, he noted a twofold approach taken by provincial governments, including the Peterson government: "One, to enhance and expand their particular base of strength in the province, and also, to try and direct industrial activity, and job creation activity to those areas of the province that didn't have it, or could use it. That was basically

22 Ibid.

23 Interview with Patrick Lavelle, November 22, 1995.

24 Interview with Helen Burstyn, Premier's Council Secretariat, January 19, 1995.

25 Interview with Monte Kwinter, Minister of Industry, Trade and Technology, February 17, 1995.

the strategy.” The base of strength, Kwinter noted, was the auto industry, which he argued, was “the engine that drives the economy of Ontario, and to a great extent, the economy of Canada.” His view of ‘industrial policy’ appears to have been to build on traditional strengths like the auto sector, while creating a climate that tells the world that ‘Ontario is open for business,’ in the belief that ‘good things will happen.’²⁶ This view fits more closely with the laissez-faire view of the current Progressive Conservative government than it does with the perspective enunciated in the PCR.

Several interview respondents suggested that the lack of strong ministerial leadership exerted by Kwinter, and his predecessor, Hugh O’Neil, was partially compensated by the appointment of Patrick Lavelle as Deputy Minister and Secretary to the Premier’s Council. More than one respondent suggested that Lavelle had a strong presence that effectively allowed him to move into areas of political decision-making normally reserved for the minister. One respondent noted that “During the Liberal [years], Patrick Lavelle was the Minister and the Deputy and [he was] strong, but there was not a strong minister.”²⁷ This awkward situation was facilitated in part by the fact that Lavelle was clearly a ‘political appointment,’ hand-picked by Peterson to spearhead the government’s free trade agenda. After serving as Deputy Minister for two and a half years, Lavelle announced in early June, 1988, shortly after the release of the PCR, that he would be leaving the public service to return to the auto sector, plunging MITT into a rapid succession of relatively ineffective Deputy Ministers. Whether Lavelle could have successfully followed through on the work of the Premier’s Council is largely a moot point -- he resigned as DM shortly after the report’s release. Ironically, Lavelle’s leadership may have been too ‘strong,’ leading to resistance on the bureaucratic side. Largely viewed as an ‘outsider,’ Lavelle’s approach to governing provoked a backlash among some career bureaucrats, a backlash that extended to the PCR as well.

There were, however, Cabinet ministers who favoured a more interventionist role. Attorney

26 This interpretation is based on the totality of Mr. Kwinter’s comments during interview rather than a particular (quotable) response.

27 Confidential interview #28 (Finance official), March 23, 1995.

General Ian Scott, one of the more respected members of Peterson's Cabinet team, noted that countries like Switzerland, Sweden and Austria, known for their corporatist approaches to industrial policy, should serve as models for economic development initiatives which would include "a willingness to articulate economic/environmental priorities, to commit to research and development, to training and retraining, [and] to the selection of winners and the rejection of losers."²⁸ Although this vision may have been shared by some others in Cabinet, without the support of the Treasurer, probably only the Premier himself would have been able to exert sufficient influence to see it through. Understanding the Premier's general approach to governing helps to explain why he was not likely to throw himself into implementing the Premier's Council vision.

Most interview respondents agreed that Peterson was very enthusiastic about the work of the Premier's Council. He was very supportive of the *ideas* presented in the PCR. He endorsed the basic direction prescribed for the Ontario economy, one emphasizing in particular the importance of innovation and technology for facilitating higher value-added production:

I was very interested in industrial policy. I knew in the 80s even though we were in the middle of a boom that the world was changing, fundamentally; that the old resource bases were not going to sustain you forever; that you had to move into the higher technology; that you had to train and equip your population to compete in a totally different environment.²⁹

He was much less clear in articulating the role the provincial state should play in encouraging the development of such an economy. In fact, he admitted to being somewhat unclear as to how government could facilitate "wealth creation:"

Do you say to your minister "Go and do something?" The answer is no. It's too big an issue. Wealth creation in the modern world, in a knowledge intensive world, is the most profound challenge, in order to sustain your standard of living.³⁰

Peterson showed leadership in preparing the vision. He did not, however, transfer that leadership to the implementation stage.

28 Ian Scott, *Ontario Looks at the 1990s*, (Kingston: Industrial Relations Centre, 1990), 8.

29 Interview with David Peterson, July 19, 1995.

30 Ibid.

Peterson's response when asked what he would do differently in the area of economic development, if he were given the opportunity to do it again, speaks volumes. "This is going to sound probably weird to you, but probably nothing [different]. I think it worked fabulously.... You're talking to a guy that may be terribly biased, but I think it [the Premier's Council] was a stunning innovation, and I think it achieved real results."³¹ Politicians are often guilty of looking at their accomplishments through rose-coloured glasses. Even allowing for this, it is clear that Peterson was satisfied with the limited accomplishments that grew out of the Premier's Council process. A number of interview respondents, particularly those on the political side,³² suggested that Peterson may have had plans to pursue more of the Premier's Council directions during a subsequent mandate. While it is an intriguing prospect, such claims seem to run contrary to claims made by the premier himself.

One indication of the relatively low priority Peterson attached to the PCR agenda could be seen in the greater attention paid to national unity concerns during this time period (1988-90). To the extent that Peterson had a supply of 'political capital,' he apparently 'spent' a great deal of it on Meech Lake.³³ The Meech Lake Accord created a period of significant turmoil between its inception in 1987 and its subsequent demise in 1990. As one of the most outspoken supporters of the Accord, Peterson devoted considerably time and energy to the cause of national unity. Thus, in the period surrounding the release of the PCR in 1988, and for much of the rest of the Liberal mandate, Peterson had a 'cause' that was occupying his attention. Although the PCR clearly indicated that significant economic challenges lay ahead for the province, a sense of urgency regarding the immediate prospects of the provincial economy had not descended upon the Peterson Liberals. Because the economic situation was, by most measures, in excellent shape throughout

31 Interview with David Peterson, July 19, 1995.

32 For the purposes of this study, 'political' officials include Cabinet Ministers and MPPs, and their staffs (ie. employees of Minister's Offices), and officials in the Premier's Office (PO), and the Cabinet Office (CO). It also includes political advisors, paid or otherwise, to senior cabinet ministers.

33 Indeed, the 1990 election results suggest his 'political capital account' was in arrears by September 1990!

most of the Liberal mandate, any significant initiatives intended to redirect the economy through use of industrial policies would have to wait until the 'constitutional house was in order.' Ian Scott spoke clearly of the role played by constitutional uncertainty in constraining government efforts to deal with major policy initiatives: "It seems most unlikely that Canadians will be able to address the variety of problems and issues we confront in economics, in the environment, in multiculturalism, and in a host of others until some measure of constitutional stability is obtained in our federal system."³⁴ One need not believe Peterson was wrong to focus on national unity in order to claim the pursuit of constitutional goals impeded the PCR agenda.

Peterson's satisfaction with the outcomes of the Premier's Council might suggest that the premise of one of the key questions explored here -- ie. "Why wasn't more done?" -- is based on a faulty assumption, namely, that the government wanted to do more, but was unable to. Peterson was not uncomfortable with the selective interventionist agenda enunciated in the PCR. Neither, however, was he inclined to implement it. His ideological predisposition was as a proponent of the social market approach. He was therefore content with having articulated a vision, and having made small inroads -- such as the Centres of Excellence program --in that direction.

Chapter 4 noted that the electoral cycle facing politicians may dictate against the pursuit of long-term anticipatory industrial policies. The Peterson Liberals had the luxury of governing during a period of considerable growth and prosperity. As such, there did not appear to be a need to pursue high-profile, short-term, reactive industrial policies in order to consolidate electoral support. Most interviewees, when asked what role electoral considerations had played in shaping the Liberal approach to economic development, indicated it had not been a significant factor in determining the ability to implement the PCR agenda. Indeed, Peterson suggested there had been a conscious effort to keep the Premier's Council 'above' the political arena:

This [the Premier's Council] was not the stuff of politics; this was the stuff of governance.

34 Scott, *Ontario Looks at the 1990s*, 11.

Maybe we should have put more emphasis...told people what we were doing more. Maybe I was naive, but I didn't want to truck this thing, in any way, with partisanship, or turn them into political prompts. I said to these guys [Council members], "We're going to wrestle with this stuff, and we'll leave the politics for an election."³⁵

If electoral considerations were not a significant factor in shaping the response of the Peterson government to the PCR agenda, the ideological predisposition of senior participants emerges as the decisive political consideration.

Peterson's apparent lack of political commitment to the implementation of the Premier's Council vision is viewed only as one of many constraints, despite the fact that without adequate political follow-through, the vision was arguably stillborn. Political support is not a binary variable, though. Rather, political support can be measured on a continuum. Unquestionably, if political support for the PCR agenda had been totally absent, other constraints would not have mattered -- the agenda would have been doomed from the outset. The evidence suggests that ad hoc industrial policy instruments, such as tax expenditures, or programs subsidizing specific industrial activities, can be successfully pursued with moderate levels of political support. More comprehensive, anticipatory policies such as was found in the PCR, require considerably more support. Indeed, total commitment at the political level is not only *necessary* for the pursuit of anticipatory policies, it may even be *sufficient* in some cases. This is because total support at the highest levels has a 'trump' component to it. In the face of political support, other barriers such as bureaucratic constraints and budgetary constraints dissolve.

The political constraints to the aggressive pursuit of the PCR were formidable. Not only was the cabinet ideologically split on the appropriate role of the state in the economy, with some favouring significant state intervention (i.e. selective intervention), and others leaning towards a more laissez-faire position (i.e. social market), but the premier was content with a very modest implementation effort. David Crane, outspoken proponent of an active role for government in the

35 Interview with David Peterson, July 19, 1995.

economy, encapsulated the impact of Peterson's failure to follow-through: "Unless the person sitting at the desk with the sign 'the buck stops here' pushes his ministers and officials for follow-up and results, they don't happen."³⁶ Adding to that mix a Treasurer who was unwilling to free up funds for many of the report's key recommendations, it is perhaps surprising that anything positive came out of the process. Despite these political barriers, however, a number of other constraints also played a role in limiting the impact of the Premier's Council agenda.

5.4.2 Fiscal/Budgetary Constraints

Although the Liberals governed during a period of unparalleled growth in the province, fiscal concerns were cited as having constrained the pursuit of the Premier's Council vision. Robert Nixon was the Provincial Treasurer at the time. His personal reservations concerning the PCR agenda were documented above. Nixon was not keen to spend large sums of money on PCR initiatives. As Treasurer, he was well positioned to put a brake on implementation, citing fiscal restraint. Given that scenario, attributing such barriers to implementation to the fiscal situation facing the province would seem disingenuous. Still, dismissing such claims out of hand might cause us to overlook examples when specific proposals were vetoed for budgetary reasons.

As seen in Figure 4.1 (p. 152), despite the boom, only the 1989/90 Liberal budget showed a surplus when both operating and capital expenditures were included. As discussed above, a number of initiatives recommended by the Premier's Council were subsequently scrapped, allegedly due to budgetary considerations.

Georgette Gagnon and Dan Rath note in their book analyzing the defeat of the Liberals in 1990 that during the 1990 election campaign, the Premier's Council agenda continued to take a back seat to "frugality:"

36 David Crane, "Why doesn't Premier's Council have more impact on policy?," *Toronto Star*, January 13, 1990.

Other budget programs springing from the Premier's Council on Technology and such high-cost promises as a \$5-billion transportation plan could have sent Peterson on an old-fashioned campaign spending spree. The strategists and policy staff weighed those options but decided frugality should prevail as the timely campaign theme.³⁷

One senior official at MEDT suggested that the nature of the Premier's Council invited proposals that were not fiscally viable:

[S]ome of [the proposals] cost a lot of money. Huge amounts of money. [When] you invite people to solve problems, and say they can spend as much as they like, they usually come up with expensive solutions. Some of the elements were quite expensive. I bet that if you were to classify the program specific things, by cost, you would find that ones that cost the least are the ones that went ahead, and the ones that cost the most didn't.³⁸

Certainly, some of the policy options considered by the Council had hefty price tags attached. Some, like the Tax Reserve Fund for Core Industries, designed to facilitate restructuring or rationalization of core industries, but estimated to cost \$100- \$200 million or more in total, did not even make it into the report. Others, like the Ontario Risk Sharing Fund, with an estimated price tag of \$200 million over five years, were announced in subsequent budgets, but never implemented. Other recommendations, such as the recommendation to "refocus the Ontario Development Corporations"³⁹ at no additional cost was "fully adopted."⁴⁰ As seen in Figure 5.1,⁴¹ however, the Tech. Fund and the R&D Superallowance, key components of the PCR industrial policy, have been funded at over

37 Georgette Gagnon and Dan Rath, *Not Without Cause*, (Toronto: Harper Collins, 1991), 164.

38 Confidential interview, March 23, 1995.

39 The Development Corporations of Ontario consist of four regional economic development bodies: Ontario Development Corporation (ODC) serves central and southwestern Ontario; Northern Ontario Development Corporation (NODC) serves northern Ontario; Eastern Ontario Development Corporation (EODC) serves eastern Ontario, and Innovation Ontario Corporation (IOC) serves the province's technology based companies. Collectively, they are often referred to as "the Development Corporations." Ontario, Development Corporations of Ontario, *Annual Review: 1991-1992*, (Toronto: Queen's Printer for Ontario, 1992).

40 Leon Muszynski, "The Implementation Status of Premier's Council Recommendations," (Toronto: Premier's Council, 1991), 6.

41 Both the BILD expenditures and the R&D Superallowance expenditures were actually line items falling under the Ministry of Treasury and Economics. They have been included here because they were central elements of the industrial policies of the day. Note that although the R&D Superallowance was drawing on the \$1 billion funding allocated to the Tech. Fund, it is separated out here, because the two components were managed by different ministries. The fastest growing component of the MITT/MEDT expenditures shown in Figure 5.1 is entitled "Other MITT/MEDT Expenditures." The growth in this component during the NDP years in particular resulted from stimulative expenditures such as the anti-recession spending in '91, the jobsOntario series of reactive economic development policies, and a series of bailout packages arranged for industries during the recession.

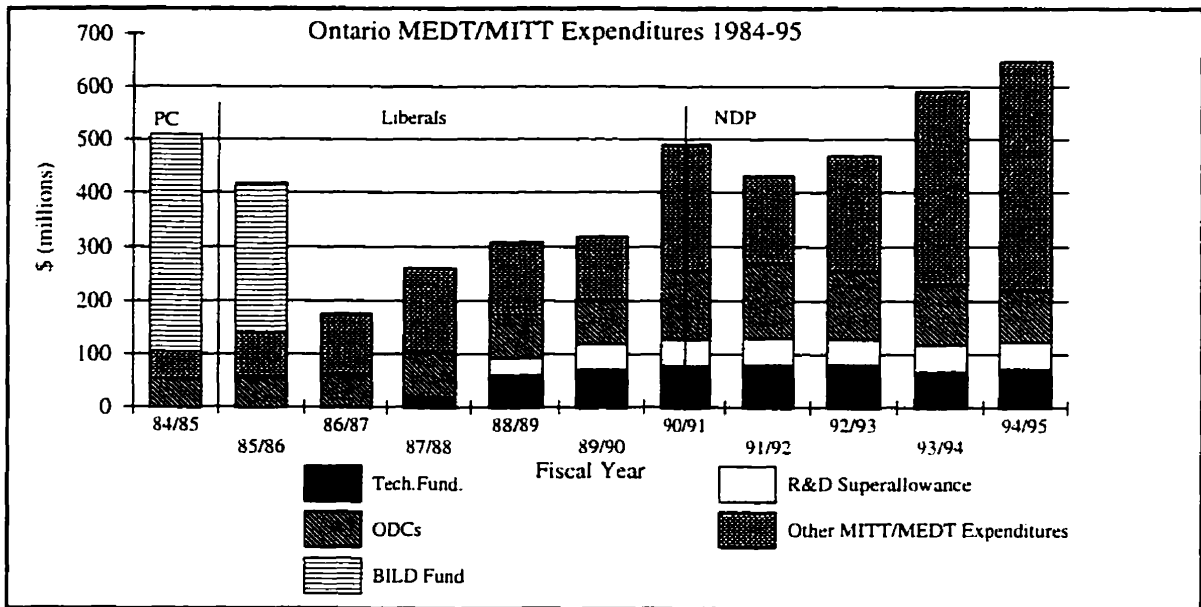


Figure 5.1

Source: Ontario, Ministry of Finance, *Public Accounts: 1985-1995*, (Toronto: Queen's Printer for Ontario).

\$100 million/yr.on average since the release of the report. This is not an amount of money that could be expected to reshape the Ontario economy – far from it – but it is evidence that claims that of an unwillingness to spend money on industrial policy rest on shaky ground.

The \$1 billion Tech. Fund committed by the Premier to the process invited extravagance. Indeed, several observers noted that the 'pot of money' served as a major attraction for several private sector participants who might otherwise have taken the process less seriously. David Pecaut, the principal consultant to the Premier's Council, suggested that the commitment of such funds was seen by Lavelle as an effective way to ensure meaningful policy clout. "Pat...[felt] that the way to do that was to actually come up with a significant amount of money and say to people 'you're going to be setting the direction for this.'"⁴² The \$1 billion seemed like a generous amount of money, particularly as a proportion of the annual budget of MITT (which never, during the Liberal years,

42 Interview with David Pecaut, March 21, 1995.

exceeded \$500 million/year including the money from the “Tech. Fund, see Figure 5.1)”⁴³ Divided over the course of a decade, however, the Tech. Fund fund inevitably became the target of interdepartmental bickering, as the Ministry of Industry, Trade, and Technology, and the Ministry of Treasury and Economics wrestled over control of expenditures. This split further hampered policy implementation.

Although there may have been concerns that the Premier’s Council agenda would place an unnecessary burden on the treasury, interview respondents from all camps noted that the relationship between the Premier’s Council, the Ministry of Treasury and Economics, and the Ministry of Industry Trade and Technology was such that Treasury was unlikely to waive control of significant instruments of economic policy unless forced (at the political level) to do so. Although Treasury’s influence had waned considerably by the Liberal years, there remained a sense that Treasury should control all forms of economic policy.⁴⁴ Control of the public purse gave Treasury the ability to interfere with implementation efforts, regardless of the province’s fiscal situation. In that sense, it would be fair to say that implementation of the PCR agenda faced budgetary constraints, but not fiscal constraints, to its implementation. With the Treasurer himself skeptical of the PCR agenda, neither fiscal nor budgetary limitations need have played a role in limiting Treasury’s support.

5.4.3 Bureaucratic Constraints

To the limited extent that the Liberals attempted to pursue industrial policies consistent with the Premier’s Council agenda, the constraint that had the greatest impact was lack of cooperation at the bureaucratic level. Bureaucratic tensions existed between the Premier’s Council and staff at both

43 When the \$1 billion allocation was fully depleted, the Rae government continued fixed annual funding of \$81 million to a revamped “Technology Ontario,” a division of the Ministry of Economic Development and Trade. This body was disbanded by the Harris Conservative government. See Ontario, Task Force to Review the Ontario Technology Fund, *Ontario: 2002*, 98.

44 This perception lingered from the days of Treasury’s predecessor ‘superministry,’ Treasury, Economics and Intergovernmental Affairs (TEIGA).

Treasury and MITT, and between Treasury and MITT staff. These tensions accumulated to a point where implementation of the Premier's Council agenda was jeopardized. The bottom line, expressed by some, thinly obfuscated by others, was that the bureaucracy was not interested in the Premier's Council agenda, except perhaps where specific components supported their agendas. Where recommendations like the R&D Superallowance were accepted as desirable, they became the target of bickering between ministries.

Officials at the Ministry of Treasury and Economics clearly did not appreciate an advisory panel of business, labour, and academic leaders, committing significant resources outside of the usual budgetary process. Treasury staff were still dealing with the significant decline of their policy pre-eminence, following a widespread dispersal of staff from the Office of Economic Policy (OEP), the policy 'heart' of the Ministry of Treasury and Economics. To have control of a portion of the provincial Treasury transferred to a collection of blue-chip advisors was not well received. Evidence provided by Council participants suggests that Treasury staff may have provided artificially high estimates of proposed initiatives, in an effort to dissuade Nixon and Peterson from giving the green light.

Not only did Treasury people resent the Premier's Council process, there existed within Treasury almost a disdain for MITT. This feeling largely resulted from a sense that the central agency/line department relationship between the two ministries also indicated a superior/subordinate relationship. Robert Nixon's spirited assessment of the level of competition between Treasury/Finance and MITT/MEDT suggests that the cultures may have been too far out of sync to be effective:

If I were to go back in there as "king of the universe," [Treasurer] I would think seriously about kicking MEDT right over the wall, and coming up with something more specifically attuned to economic development.⁴⁵

The people at MITT did share Treasury's apprehension over the Premier's Council process and

45 Interview with Robert Nixon, March 3, 1995.

ensuing agenda. The policy people at MITT particularly did not appreciate the implicit message that their policy skills were inadequate. A policy analyst with MEDT provided a typical assessment:

You mentioned "bureaucratic noses being out of joint." I think that's probably accurate. People felt that here they are, policy professionals, and here this really exciting opportunity comes along, to develop significant new industrial policy, and they're not really asked very much for their opinion. Instead the job is given to an outsider. I think some noses were out of joint. I was over in Treasury and Economics, and that was my kind of job there, too. Probably my nose was slightly out of joint, as well....there were policy bureaucrats whose noses were out of joint. And there was a certain "Not Invented Here, N-I-H" reaction to proposals coming from the Premier's Council process, that may be attributed to that, but I think one has to say also that the policy bureaucrats are professionals.⁴⁶

Nor did it help that Patrick Lavelle was critical of the quality of advice he received from his Ministry. After leaving the government, he stated quite frankly that "the policy area [at MITT] was weak and we weren't providing important advice."⁴⁷ Comments like this were not seen as fair by those within, many of whom had developed components of industrial strategies consistent with the Premier's Council agenda.⁴⁸ It is certainly understandable (if perhaps not forgivable) that a ministry that is criticized in such fashion might be less than enthusiastic about pursuing implementation. The assurance, cited above that "the policy bureaucrats are professionals," and therefore presumably able to put their personal dissatisfaction aside, rings rather hollow.

Even among those who seem to have thought quite highly of the general thrust of the report, it was uniformly seen as external to the regular governing structure. It was not the government's industrial policy, or even the Premier's industrial policy, but rather, it was 'David Pecaut's' industrial policy. Within bureaucracies, 'ownership' of policy ideas, and responsibility for implementation, is a central tenet. Because MITT did not have ownership of the ideas in the PCR, they had no reason to 'buy in' to the implementation.

Achieving such a buy-in was critical, yet it does not appear to have been recognized as such by

46 Confidential interview #33 (MEDT official), February 14, 1995.

47 Financial Post, "Maverick Mandarin Moves Over to Magna," June 14, 1988, 19.

48 See, for example, Ontario, Ministry of Industry Trade and Technology, "Ontario Industrial Performance: Maintaining the Momentum," (Toronto: MITT, 1988), and Ontario, Ministry of Industry Trade and Technology, "A Commitment to Research and Development: An Action Plan," (Toronto: MITT, 1988).

either the premier, or the Premier's Council. If anything, the intention to keep the bureaucrats at a distance was all too explicit. Peterson stated "I didn't want it [the Premier's Council process] to be a prisoner of the bureaucracy. Even though Pat Lavelle, who was the Deputy Minister of Industry, was the Secretary, I wanted independent advice."⁴⁹ Although Deputy Ministers were invited to attend meetings as observers, their input was neither sought, nor offered. Treated like outsiders, they responded accordingly.

Apart from the specific recommendations of the PCR, it was not clear to bureaucrats within MITT how to develop programs which would encapsulate the philosophy underlying the agenda of the Premier's Council. One MEDT official noted the disparity between the specific recommendations and the general approach of the PCR:

I think in a lot of ways, I think people sort of viewed it [the PCR] as very radical. And so, I think some of the key concepts, people had trouble with. A lot of the recommendations that were in there were easy to implement, and really didn't mean a whole lot.⁵⁰

It would be unfair to criticize the bureaucracy for failing to implement the broader agenda outlined in the PCR (and largely expressed in the 'objectives').⁵¹ At no point were they asked to develop policies that would address the underlying philosophy of the PCR. The Premier's Council, particularly the political leadership, failed to provide adequate guidance on how to pursue the articulated vision. Lavelle noted that this was partly due to the lack of continuity. Pecaut had been paid to prepare the report. Once the three volumes of the *Competing in the New Global Economy* agenda had been presented, his job was over. As a separate task, he served as a consultant to the Premier's Council for preparation of the second agenda, *People and Skills in the New Global Economy*. The consulting firm had no role to play in ensuring implementation of the 1988 PCR. To

49 Interview with David Peterson, July 19, 1995.

50 Confidential interview #7 (MEDT official), February 1, 1995.

51 These objectives, as noted in the Preface, encouraged all industries to move to higher-value added activities, recommended that assistance be focused on internationally traded sectors, and emphasized the importance of developing an entrepreneurial, risk taking culture, developing science and technology infrastructure, improving education, training, and labour adjustment mechanisms, all within a consensual approach similar to the Premier's Council.

the extent that the 'competitiveness agenda' contained in the 1988 report, *Competing in the New Global Economy*, was 'Pecaut's baby,' he was forced to put it up for adoption, without any assurance that it would continue to be well-nurtured. One MEDT official's comments communicate this idea particularly well:

Ideas need champions, who know when to attack, and bob and weave, and when to persist and carry through, and how to translate the essence of what was really intended into a particular policy proposal. The process of an independent consultant has advantages and disadvantages. One of its disadvantages is that once the report is delivered, the consultant goes on and does another job. There is still, in fact, substantial ongoing creative work required to take the vision embodied in a particular recommendations and move that forward in a government system in a way that results in actual programs and policies being changed at the end of the day.⁵²

If Pecaut was not to be that champion, neither were Lavelle, Peterson, Nixon, or Kwinter. Without at least one of these individuals as champion, no amount of bureaucratic effort could have carried the day. Officials at both MITT and Treasury were apparently just as pleased to see the documents forgotten.

5.4.4 Interest Group Opposition

Earlier chapters have suggested that the response of the Peterson government to the PCR may have been influenced by the reaction of a range of interest groups, particularly the business community. There is little evidence to suggest this was the case. A number of interest groups did formally respond to the PCR, but reactions were mixed.⁵³ Interviews conducted did not indicate that anybody at either the political or bureaucratic levels paid much attention to interest group reaction. The consensus among interview respondents seems to have been that although the Liberals listened to quite a broad range of interests, none was particularly influential in shaping either their general approach to economic development, or the specific components of the PCR pursued. After an initial

52 Confidential interview #33 (MEDT official), February 14, 1995.

53 These included the Board of Trade of Metropolitan Toronto, The Ontario Lumber Manufacturer's Association, the Manitoulin Trade Fair Association, the Canadian Chemical Producer's Association, the Association of Canadian Distillers, the Ontario Mining Association, IBM Canada, Ltd., Array Systems Computing, the Ontario Secondary School Teacher's Federation (OSSTF), and the Town of Cobourg.

flurry of reactions following release of the PCR, there was little sustained interest in the work of the Council among interest groups, with the notable exception of the Board of Trade of Metropolitan Toronto.

The Board of Trade supported a number of the Council's recommendations, "especially those which serve to improve the education system, promote industry-academia cooperation in research and development, and spur entrepreneurship," but expressed "concerns with respect to some of the more interventionist recommendations of the Premier's Council."⁵⁴ The *Globe & Mail's* Terence Corcoran noted a year after the release of the PCR that the Board of Trade had stood alone in its critical, and public, appraisal of much of the PCR: "[T]he board ...produced a critique of *Competing in the New Global Economy*, the only critical words ever uttered by any Canadian or provincial business group about the Premier's Council. Not a peep has been heard from the Canadian Manufacturer's Association, the Canadian Chamber of Commerce, the Business Council on National Issues, or any other business representatives."⁵⁵

Judging the effectiveness of the Board's case is difficult. Not a single interview respondent identified the Board of Trade of Metropolitan Toronto as having influenced either the general direction of the government's economic development policies, or the particular policies implemented as a result of the PCR. On the other hand, the Board expressed, in its October 1989 letter, particular opposition to two initiatives announced in the government's April 1989 budget, the Supplier Development Program, and risk-sharing support for "threshold companies." The failure of the government to implement these announced initiatives cannot convincingly be attributed to the Board's critique. It does, however, lend credibility to the hypothesis that the government was influenced by such views, and by the potential for political embarrassment identified by the Board

54 The Board of Trade of Metropolitan Toronto, letter to David Peterson, October 19, 1989, 2.

55 Terence Corcoran, "Ontario interventionists rack up more points", *Globe and Mail*, April 26, 1989, B2.

of Trade.⁵⁶ Press reports following the release of the PCR suggest that Peterson intentionally dispelled any notion that the PCR signalled a new era of government intervention. The Financial Post noted that "Premier David Peterson was cautious to avoid any suggestion...that a new wave of government intervention might stem from the Premier's Council's sweeping report on the economy."⁵⁷

Corcoran further speculated that the "strange silence" from interest groups other than the Board of Trade might result from the fact that many of the Premier's Council members sat on the boards of such groups. This suggestion merits further discussion. Some would argue that the Premier's Council forum operated as a pseudo-corporatist arrangement, with business, labour, and government working together to forge a unified vision acceptable to each of their constituencies, similar in many respects to the 'negotiated order' Moore and Booth have identified as characterizing the experience of forging economic policies in Scotland.⁵⁸ Previous chapters have noted that rather than acting as a forum for the articulation of particular interests, the Premier's Council may have effectively neutralized such voices, a view apparently shared by Corcoran. Evidence gathered from interviews presents an ambivalent view.

David Pecaut, primary consultant for the Peterson Premier's Council(s), noted that Peterson, Lavelle, and he, felt very strongly that the Council should be non-partisan, with members committing to set aside their various personal and organizational agendas. Council members had to be willing to put their 'hats' aside, to think as Ontarians first. In fact, the original list of invitees contained many individuals who turned down the opportunity to serve on the Council, citing their

56 The Board emphasized the potential for political embarrassment: "The political risks alone should present a major deterrent to such support [as the provision of risk-sharing support for threshold firms]. It would take only one large, well-publicized failure to do infinitely more damage to the government's prospects for encouraging future economic development in the province than the purely financial consequences of the failure itself would imply." October 19, 1989, 8. The Board left little doubt that they would ensure that such a failure would, indeed, have been "well-publicized."

57 Financial Post, "Peterson Stresses that Report is a Consensus," April 12, 1988, 4.

58 Chris Moore and Simon Booth. *Managing Competition: Meso-Corporatism, Pluralism, and the Negotiated Order in Scotland*, (Oxford: Clarendon Press, 1989).

unwillingness to set aside their advocacy roles. Representatives of interest associations were explicitly excluded from membership. Pecaut explained that “[w]e felt very strongly that to put people who represent small business, or any association – the automobile parts association, [or] the CMA – on these groups, is to destroy them. When we looked at the failures in the US, many of the failures were made up of people who spoke for associations.”⁵⁹ Of course excluding representatives of associations does not require one to exclude those with association membership. This situation opened the door to the danger that individuals might have difficulty maintaining the broad focus necessary to ensure an outcome beneficial to the province as a whole.

While business associations were not represented, labour representation was not as clearly distinct from major Ontario labour associations. The President of the Ontario Federation of Labour, Gord Wilson, was a member of the Council who apparently had a great deal of difficulty separating himself from his advocacy role. In an interview, David Peterson suggested that the labour representatives to the Council continued to be active advocates for their constituencies. In response to the suggestion that the normal process of interest group lobbying government may have been circumvented by the Premier’s Council, he stated: “Hell no. They lobbied me on everything. Dealing with the labour guys, they’re mean guys at the best of times. I think even they got caught up in it. They tend to be pretty insular, and concerned about their own power.... They’re straight into raw, power politics.”⁶⁰ It is also clear that labour representatives saw the emerging report as more than just a set of specific recommendations:

The most explicit statement on government planning made during the release came from council member Leo Gerard, the Ontario director of the United Steelworkers of America.

“Everyone’s afraid to say it, but it’s an industrial strategy,” he told reporters in a briefing session.⁶¹

The direct approach taken by labour did not significantly alter the general focus of the report.

59 Interview with David Pecaut, March 21, 1995.

60 Interview with David Peterson, July 19, 1995.

61 Financial Post, “Peterson Stresses that Report is a Consensus,” April 12, 1988, 4.

Council members from labour were able to win concessions, though, for supporting what was essentially a 'competitiveness' agenda. The Technology Adjustment Research Program (TARP), operated as one component of the Technology Fund. The TARP, designed "to assist the Ontario trade union movement in developing constructive and impressive responses to technological change in the workplace,"⁶² provided for average annual funding of \$1.1 million over five years (1990-1995). Of particular interest is the fact that this program was controlled entirely by the trade union movement, under the direction of a Management Committee chaired by the Ontario Federation of Labour!

As well as this specific commitment of funds, the labour movement also was 'rewarded' for its cooperation on the PCR agenda, with a second phase of study, leading to the 1990 report, "People and Skills in the New Global Economy." David Pecaut suggested that the linkage between these two was quite explicit: "I think the labour union leaders really felt that without the people strategy they couldn't endorse the productivity strategy. They needed to trust that there would be this other side to it."⁶³ Without endorsing the view that there was explicit 'logrolling,' many respondents indicated that there was certainly an understanding among Council members (evident in Recommendation 13, in which the council committed "to work with appropriate areas of government to develop a comprehensive people strategy that will address vital education, training, and labour market policy issues as an integral part of its next agenda")⁶⁴ that this agenda would be addressed. Robert Nixon was characteristically less guarded in his assessment of the role played by labour representatives on the Council:

Well, there was [a payback]. There was some specific thing [TARP],...that was almost a *quid pro quo* for continuing. That's when I thought this is not going to be a tea-party....Gord Wilson was one of the very capable people. He didn't join in the blackmail to quite the same extent....There were two other guys that came on [to the Council], who were

62 Ontario Federation of Labour, "TARP: Technology Adjustment Research Program," (Toronto: Ontario Federation of Labour - TARP Project, 1993), 2.

63 Interview with David Pecaut, March 21, 1995.

64 Premier's Council, *Competing in the New Global Economy*, 32.

essentially brainy guys – not presidents, but executive director types, who were very smooth, and very capable. They were the people who said, “Look,...we’re giving the premier a lot of kudos by being here, and more or less balancing off the rest of this thing, so we’re going to get something out of it.”⁶⁵

Organized labour representatives clearly wanted to ensure that ‘checking their hats at the door’ did not interfere with their ability to represent their respective constituencies.

On balance, it appears that interest groups played a relatively minor role in shaping the Peterson government’s industrial policy agenda. The Board of Trade of Metropolitan Toronto acted virtually alone in publicly criticizing the PCR, while lending qualified support for certain elements of the PCR. Interviews undertaken provided no evidence to suggest its opposition to interventionist policies was effective in changing the views of the government, although two initiatives specifically targeted by the Board of Trade lacked sufficient backing to carry them to implementation. The role played by the labour movement demonstrates that the Liberal industrial policy was shaped by their influence, in large part because of the direct involvement of labour leaders like Leo Gerard in the Premier’s Council itself.

The most significant lasting impact of ‘interests’ on the policy process at the provincial level has resulted from the process of the Premier’s Council. At the time of the council’s inception, the multipartite forum was a ground-breaking initiative, particularly because it involved individuals at the very top of their fields. These meetings were not held between mid-level bureaucrats and junior vice presidents, but between the Premier, a mix of presidents and chairs of major corporations, and presidents of major labour unions. By initiating multipartite discussions in shaping economic development, the Premier’s Council laid the groundwork for similar bodies throughout the country, at both the federal and provincial levels. The idea that members of government, labour, the business community, and academia could meet together, and discuss the problems and potential solutions to those problems, in an atmosphere of camaraderie, represented a significant step forward. The ability

65 Interview with Robert Nixon, March 3, 1995.

of the Rae government to pursue sectoral level consultations in the implementation of the Sector Partnership Fund and OTAB owes much to the groundwork laid by the Peterson Premier's Council. Ironically, it seems that the success of the process was sufficiently gratifying to Peterson and others, that any successes achieved during the implementation stage were seen as 'gravy.'

5.4.5 Free Trade Agreement

The PCR explicitly claimed to be equally relevant regardless of the outcome of the Free Trade debate that dominated the national agenda between 1985-1988. The PCR was a blueprint for what Leslie calls the interventionist-provincialist policy orientation.⁶⁶ Such intervention runs counter to the 'neoconservative' wave that swept over much of the world during the decade studied here, and counter to the principle of free trade, which is based on the premise that efficient production is maximized by the free flow of goods and services, unencumbered by state intervention. The underlying assumption of free trade is that the market best determines the allocation of resources. While the specific recommendations of the Premier's Council did not conflict with provisions of the FTA or the GATT, from an ideological perspective, the two approaches are not easily reconciled. Leslie notes that "interventionism and neo-conservatism are nearly antithetical in their prescriptions."⁶⁷

The FTA certainly would have been significant to this study if its provisions had expressly constrained the ability of the Peterson government to pursue industrial policies. The Premier's Council members knew that free trade with the United States was as good as finalized at the time the PCR was released. In that sense, the PCR was actually in many ways a response to the inevitable free trade agreement. Some interview respondents spoke of the potential impact of the accord on the Ontario workforce, and the lack of transition measures in place. Peterson noted that:

66 Peter M. Leslie, *Federal State, National Economy*, (Toronto: University of Toronto Press, 1987), 171.

67 Peter M. Leslie, "The State of the Federation, 1985," in *Canada: The State of the Federation, 1985*, Peter M. Leslie, ed., (Kingston: Institute of Intergovernmental Relations, 1985), 21.

Everything that happened with the free trade agreement to Ontario was predictable. It just gutted the heartland. And we knew that. But we also knew it was coming anyway....Under GATT, we were moving to a tariff free world anyway. And that was one of the external effects we had to prepare for. I think it accelerated a lot of the pressures on the Ontario economy, and made everything we were doing more important.⁶⁸

The PCR contained within it measures intended to address those issues, including a commitment to develop a comprehensive people strategy, which led to the release of the 1990 report, *People and Skills in the New Global Economy*.

Because the PCR was drafted with the assumption that the FTA would proceed, the FTA did not constrain the ability of the Ontario government to pursue anticipatory industrial policies. One official interviewed succinctly summarized the prevailing view, stating "I don't think that the Free Trade Agreement was particularly viewed as a real constraint on doing the kinds of things that the report was recommending."⁶⁹ The position of the Peterson government on free trade was confusing. The official position of the Peterson Liberals was that the government opposed to FTA. There was uncertainty as to how the government really felt about the FTA, however. There were too many conflicting messages coming out of Queen's Park to be certain of their actual position. Officials at MITT issued reports demonstrating the potentially detrimental effects of the deal, while officials at the Ministry of Treasury and Economics issued reports demonstrating the net positive impact of free trade with the United States. Peterson spoke out against the deal, while his most powerful Minister, Robert Nixon, refrained from joining the debate, not wanting to publicly contradict his premier. While publicly opposing the agreement, there were plenty of signals that the Peterson Cabinet was ambivalent on Free Trade with the United States. This ambivalence, with some government members, such as Robert Nixon, leaning toward the laissez-faire, free trade option, and others, notably the Premier, not willing to commit, was mirrored by their approach to the Premier's Council agenda, where, again, the cabinet was apparently split.

68 Interview with David Peterson, July 19, 1995.

69 Confidential interview #33 (MEDT official), February 14, 1995.

To the extent that the Ontario government was interested in pursuing activist industrial policies, it appeared to be on an ideological collision course with the Conservative federal government, even though interviews conducted demonstrated that the agreement itself had little effect on the ability of the provincial Liberals to implement their industrial policy agenda.

5.4.6 Federalism, Intergovernmental Relations, and Regional Identity

Interview respondents were reluctant to draw any connection between the PCR and issues of national unity or federalism in general. There were no provisions in the PCR recommendations that contravened the Canadian constitution. Neither did the general direction of the PCR agenda violate the constitution as written, or as judicially interpreted. If the constitution constrained the implementation of the PCR agenda, it was because decision makers, including the Premier, as well as the citizenry of Ontario, have come to expect certain roles from their governments. Anticipatory industrial policies at the provincial level offend cultural norms in economic policy in the Ontario context, despite historical precedents for wide-scale provincial intervention. A number of issues in Canadian federalism, particularly the negotiations surrounding the Meech Lake Accord, highlighted the emphasis that Peterson put on the importance of a strong national presence. These experiences shaped the response of the Liberal government to the PCR agenda.

The two political issues which dominated the political agenda during the Peterson years were free trade, specifically the Free Trade Agreement negotiated between the Mulroney Conservative government and the Reagan/Bush governments in the United States, and national unity, specifically the Meech Lake Accord. On free trade, the Peterson government was very vocal in its opposition to the agenda pursued by the federal government, suggesting that the traditional pattern, in which Ontario's interests are assumed to coincide with national interests, was not applicable. One interview respondent noted that the reaction of the Peterson government to free trade may have been rooted not so much in concern over the substance of the FTA, but in Peterson's lack of comfort as

Premier, after serving in opposition for so long:

David Peterson had been in opposition so long, when he came to government, it took a long time for him to [adjust]. For the first period of time when he was in government, he kept being an opposition leader. Well he couldn't be an opposition leader to the government of Ontario, so the only thing left was to be an opposition leader to the people in Ottawa.⁷⁰

Peterson noted that apart from the FTA, the federal government did not in any way alter the ability to pursue industrial policy at the provincial level. "They [the federal government] were not an impediment one way or the other. They never stood there and said "You can't do this and you can't do that. There was never that kind of a problem."⁷¹ Another interview respondent reiterated this position: "I always felt that Ontario, when it came to trade and industrial policy, really liked to stand up to 'the feds,' to the extent that they could."⁷² Few respondents saw much, if any, connection between the PCR and the FTA.

Peterson was one of the most enthusiastic supporters of national unity during his mandate, speaking out passionately for the Meech Lake Accord before its demise in 1990. His commitment to Meech was cemented, perhaps at the expense of his political career, when he offered up several of Ontario's Senate seats in an effort to broker constitutional change. Monte Kwinter, one of the Liberal Ministers of Industry, Trade and Technology, observed that Peterson's commitment to national unity, rather than the PCR agenda, arose in part from the fact that the Ontario economy was strong during the Liberal mandate:

Peterson certainly saw himself as 'Captain Canada.' You have to understand that at the time we were the government, we had the most vibrant economy in the industrialized world, so you could afford to be quite magnanimous. Certainly, he played that role. I think he played that role to his detriment in the 1990 election.⁷³

The PCR suggests that the Council was not particularly concerned with the subtleties of a federal system of governance. In fact, for the most part, there is little evidence that the PCR was directed

70 Confidential Interview #10 (Finance official), February 9, 1995.

71 Interview with David Peterson, July 19, 1995.

72 Confidential Interview #3, January 19, 1995.

73 Interview with Monte Kwinter, February 17, 1995.

specifically at one level of government or the other. The same Council, and the same consultants, would have submitted the same report if they had been advising the federal government. Moreover, the Council called for a level of national coordination that Ontario could not reasonably have been expected to oversee. The PCR explicitly states that “building and sustaining international competitiveness must be viewed as a national goal and achieved co-operatively by the provincial and federal governments,” and furthermore, that “moving towards that goal is a matter of adopting, *at both levels of public policy, a consistent, compatible, and complementary approach* [emphasis added].”⁷⁴ This premise implies that without such a cooperative pursuit of “consistent, compatible, and complementary” public policies, the pursuit of international competitiveness would be seriously compromised. Interestingly, the issue of coordinating the PCR agenda with a broader national agenda was not addressed by interview respondents, presumably reflecting the fact that the Peterson government paid only lip service to this objective.⁷⁵

Some of the Peterson government’s initiatives suggested a government trying to carve out a distinct role for Ontario in the federation. The Premier’s Council agenda was one such indication. The fact that this agenda was ultimately left unfulfilled is one indication that the government was very tentative in moving in this direction. For decades, Ontario had acted as ‘honest broker,’ (particularly in constitutional matters) assuming that what was good for Ontario was good for the rest of the country, and *vice versa*. The free trade agreement presented Ontario with a dilemma. While Ontario probably stood to gain the most from enhanced trade with the United States, it also had the most to lose. Ontario’s industrial base would have to remain competitive with American firms to prosper, otherwise, the effects of the deal would be entirely negative. Provinces less reliant on trade with the United States, such as Alberta and Quebec, had less to lose than did Ontario, and

74 Premier’s Council, *Competing in the New Global Economy*, 33.

75 Telephone discussions with officials in the Ministry of Finance revealed logistical challenges of coordinating the R&D Superallowance with similar federal tax expenditures. Presumably the call for a consensus approach aspired to a broader level of coordination.

could therefore support the deal more certain that it would be beneficial (or at least not detrimental) to their provincial economies. The FTA debate was one of the first times that the federal government was willing to risk significantly hurting Ontario⁷⁶ in order to risk helping other provinces, or at least to consolidate the political support of those areas.

David Pecaut points out that Peterson was reluctant to include anything in the PCR that might further compromise national unity:

There were two things Peterson didn't want to be explicit about. We did a whole analysis of how Quebec was basically raiding Ontario for jobs, and economic growth. He didn't want any of that published. He said "I don't want to do anything that smacks of the slightest that there's a competition between Ontario and Quebec."...The second thing he said, is "this implicitly says that the province is 'where it is at,' industrial policy-wise". and Peterson didn't want to say that, either.⁷⁷

Clearly Peterson placed the importance of preserving national unity ahead of any industrial policy aspirations. This position of Peterson's has enormous significance to this study. As a report prepared for a provincial government, the PCR *did* imply that "the province is 'where's it is at,' industrial-policy wise." Yet Peterson did not want to say this. His lack of comfort with the PCR's interventionist-provincialist industrial policy was to a certain extent a result of his lack of comfort with the level of decentralization implicit in such a policy. Peterson preferred to cede direction of the national economy to the federal government, unencumbered by provincial policies based on different assumptions about state and economy.

The idea that a provincial government would pursue anticipatory industrial policies was not one that many people were prepared for. The premier made it clear he was not prepared to move into the lead role for shaping Ontario's economic development. This position arguably resulted from Peterson's conception of the respective role of federal and provincial governments in the Canadian federation. People have a sense of what roles they expect each jurisdiction to play. Alternatives

76 Rather than siding with those economic projections showing Ontario's economy would be helped by the FTA, or hurt by it, I take the position that nobody knew what the effect of the agreement would be on either Ontario or Canada, but that both proponents and opponents of the agreement knew that either outcome was possible.

77 Interview with David Pecaut, March 21, 1995.

that challenge such visions meet resistance. In this case, the Premier himself was reluctant to reorder his conception of the economic policy role appropriate to a subnational government in a federal framework, and a global context.

Part of what was accomplished by the PCR was to set in motion a process of cultural change leading to an acceptance that a provincial government might appropriately play a very active role in the Ontario economy. One interview respondent noted that the trend towards provincialist industrial policies has been a clear response to the fact that the federal government has largely abandoned this area, leaving the provinces to “pick up the ball.” Accepting the legitimacy of an activist provincial state required the development of a regional sense of identity. Evidence suggests a sense of regional identity may have been developing in Ontario during the Liberal years, a trend which Premier Rae was to encourage with his ‘Fair Shares’ approach to the Canadian federal system, in which the Rae government identified a distinct Ontario first approach to fiscal relations with the federal government. Figure 5.2 shows that between 1980 and 1990, Ontarians, more than citizens in any other part of the country, moved away from a feeling of national (as opposed to provincial) citizenship. While it is premature to draw conclusions based on a pattern that still places Ontario

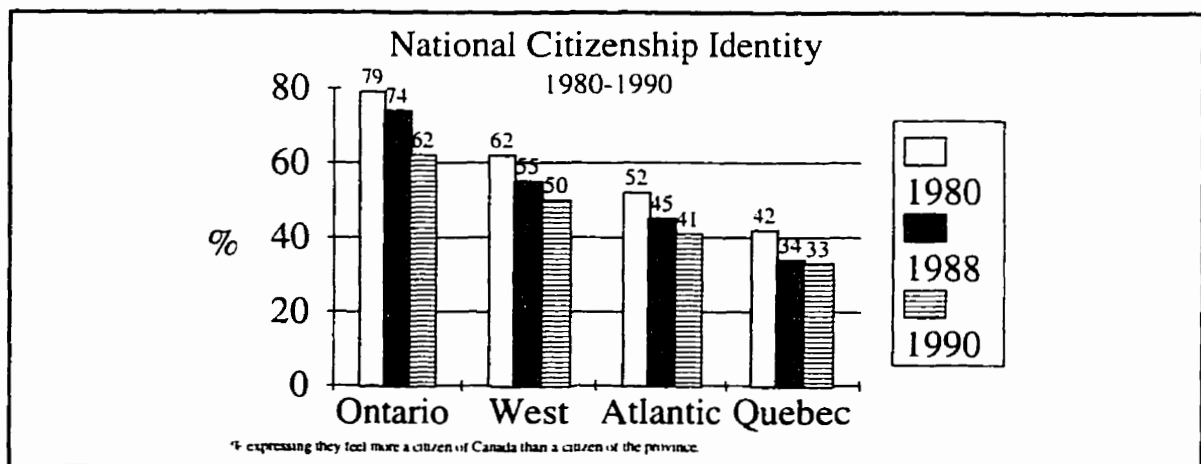


Figure 5.2

Source: Michael Adams and Mary Jane Lennon, “The Public’s View of the Canadian Federation,” in *Canada: State of the Federation, 1990*, Ronald L. Watts and Douglas M. Brown, eds., (Kingston: Institute of Intergovernmental Relations, 1990), 105.

ahead of the national average,⁷⁸ the trend opens the door to the possibility that by the end of the Peterson mandate, Ontarians had started to develop a provincial 'regional' identity. This development takes on added significance in the context of the sectoral level initiatives subsequently adopted by the NDP. A sense of regional identity is critical to meso-level initiatives such as the NDP's Sector Partnership Fund. Thus, in taking tentative steps towards reordering Ontario's role in the Canadian federation, the Liberals may have created the preconditions for the NDP approach to industrial policy.

5.5 Conclusion

In assessing the implementation of the industrial policy laid out in the report, *Competing in the New Global Economy*, one must first distinguish between the general direction laid out in the report -- which called for active state involvement in implementing what Atkinson and Coleman call 'anticipatory' industrial policy⁷⁹ -- and the specific recommendations contained in the report, essentially a series of ad hoc, reactive measures. Interviews conducted demonstrated that the role played by various constraints in impeding implementation differs at these two levels.

At the level of specific initiatives, success or failure typically depended on instrument choice. Tax expenditures were put in place successfully, because hurdles to implementation, such as bureaucratic constraints, were not factors. Similarly, the arms length nature of the Centres of Excellence program largely removed that initiative from bureaucratic in-fighting, permitting it to

78 This decline, first noted in Michael Adams and Mary Jane Lennon, "The Public's View of the Canadian Federation," in *Canada: State of the Federation, 1990*, Ronald L. Watts and Douglas M. Brown, eds., (Kingston: Institute of Intergovernmental Relations, 1990), has been the basis for commentary since then. See David R. Cameron, "Post-Modern Ontario and the Laurentian Thesis," *Canada: State of the Federation, 1994*, Douglas M. Brown and Janet Hiebert, eds., (Kingston: Queen's University Press, 1994), 116. Cameron correctly noted that Ontario's drop-off in national identity was the greatest in the country, at 17%. The enthusiasm with which he presents this data should be diminished by the fact that as a proportion of the 1980 figure, (i.e. 17/79), Ontario's reduction (21.5%), is only very slightly greater than the national average reduction of 21%, and not significantly different from the reduction in any region of the country.

79 M.M. Atkinson and W.D. Coleman, *The State, Business, and Industrial Change in Canada*, (Toronto: University of Toronto Press, 1989).

achieve its potential. Some initiatives requiring large sums of money, but with control removed from the hands of the Ministry of Treasury and Economics, were not implemented. Although budgetary considerations were cited in these cases, opposition from both the Treasurer and bureaucrats within Treasury provide more believable explanations.

Interviews conducted demonstrated that the reasons behind the failure to implement the anticipatory industrial policy contained in the PCR were more complex. At a very practical level, nobody was charged with implementation of the broader agenda outlined in the PCR. Particularly among 'left wing' observers, the bureaucracy was the focus of criticism for failing to implement the PCR agenda. That charge was harsh given the bureaucracy was not asked to do so. There was not adequate support at the political level to sustain implementation of the broader agenda, particularly at the highest levels – the premier and the treasurer. Implementation of comprehensive, anticipatory industrial policy, as outlined in the PCR, requires widespread commitment at both the political and bureaucratic levels. This commitment was lacking at both levels. Rather than sharing a common vision, bureaucrats faced internal power struggles, as well as derision from Council participants. When the Deputy Minister states as one of the successes of the Council that "we got the report out and I managed to keep it out of the bureaucratic system,"⁸⁰ it becomes evident that failure to implement the PCR agenda was inevitable. Ideological divisions partly explain the inability of the government to agree on an implementation strategy. While some members of cabinet apparently preferred a social market approach to the economy, others were more comfortable with selective interventionist positions.

Issues arising at the level of Canadian federalism further complicated the political environment. The Peterson government wanted, on one hand, to further national unity, particularly through constitutional renewal, while, on the other hand, it wanted to sidetrack the FTA, the federal agenda for economic development. Faced with an interventionist-provincialist agenda, Peterson was

80 *Financial Post*, "Maverick Mandarin Moves Over to Magna," 77, (1988), 19.

uncomfortable with both dimensions, preferring an approach that was both less interventionist, and less provincialist.

Both the Premier's Council process, and the PCR itself introduced dimensions to the Ontario policy agenda that would prove important to the approach taken by the NDP government. The Premier's Council process legitimized multipartite approaches to policy making, which laid the groundwork for both OTAB and the SPF. The anticipatory industrial policy contained in the PCR also set the stage for the IPF, both in terms of many of the provisions of each – an emphasis on high value-added activities, and the development of human resources -- but also in terms of the scope. Without the PCR, the SPF would have been rejected out of hand as excessively interventionist. In these respects, the PCR enjoys a legacy of sorts despite the shortcomings of its implementation. The Liberal industrial policy did not achieve third order change, but by introducing to society, to the bureaucracy, and at the political level, the concepts surrounding its industrial policy, it set in motion cultural changes that would be necessary for the implementation of any subsequent anticipatory industrial policy.

Chapter 6: New Democratic Party in Action: “Swimming Against the Currents”

6.0 Introduction

The previous chapter on the Liberal government industrial policy efforts concluded that the Premier’s Council process, and the resulting report, *Competing in the New Global Economy*,¹ legitimized the concept of anticipatory industrial policies at the provincial level in the Canadian federal framework, and global context. Given the fact the Liberals began a process of cultural change at many levels, one would have expected the NDP to have greater success in implementing a broadly comparable industrial policy agenda requiring third order change. The centrepiece of the NDP’s industrial policy, as outlined in the *Industrial Policy Framework*,² released in 1992, was a sectoral initiative, the Sector Partnership Fund. The success of this initiative and others are assessed in this chapter, before moving to analysis of the factors that constrained attempts to implement the IPF.

Interview respondents highlighted important similarities between the factors constraining NDP and Liberal attempts to implement anticipatory industrial policy, but also some key differences. As with the Liberals, the lack of political support, particularly at the highest level (i.e. the premier), made it very difficult to implement an anticipatory industrial policy. Wholehearted support of the premier might have been able to overcome other barriers to implementation. The approach taken by the NDP government to the provincial debt/deficit might have been different, freeing more resources for industrial policy, thereby removing fiscal or budgetary implementation constraints. Although the bureaucracy was less hostile to the IPF agenda than to the PCR agenda, the bureaucracy impeded implementation efforts to an extent. The entire approach of the NDP to

1 Ontario, Premier’s Council, *Competing in the New Global Economy: Report of the Premier’s Council, Volume I*, (Toronto: Queen’s Printer for Ontario, 1988).

2 Ontario, *An Industrial Policy Framework for Ontario*, (Toronto: Ministry of Industry, Trade and Commerce, 1992).

industrial policy represented an effort to affect third order change. By nature, bureaucracies tend to impede change of such magnitude, preferring incremental changes which do not threaten their organizational cultures. The attempt of the NDP to implement their “progressive competitiveness” agenda faced barriers to change at the societal level, the administrative level, and the political level.

The most significant difference is that unlike the Liberals, who made little effort to implement the PCR agenda, the effort to implement the IPF was much more genuine, if perhaps not much more successful.

6.1 Implementing the Industrial Policy Framework (IPF)

The IPF was about articulating a vision of economic development that combined a recognition that Ontario could focus on competitiveness in order to prosper in a global economy, with a belief that traditional NDP values such as the protection of labour rights and the environment could, and should, be pursued within such a focus. This vision has been referred to as ‘progressive competitiveness.’³ In an attempt to achieve various components of the ‘progressive’ agenda, the IPF lost clarity, making implementation more difficult. The IPF proposed few program initiatives, and few of the initiatives it did contain were accompanied by expenditure estimates. The Sector Partnership Fund (SPF) was the centrepiece of the IPF, focusing government support at the meso, or sectoral level. As a program, it was backed by a large pool of money, \$150 million, which was severely under-utilized. The SPF did have a number of modest successes, creating lasting sectoral infrastructure, and supporting a number of sectoral initiatives. One can only speculate what the long-term impact of the SPF might have been if the NDP (or the Liberals, for that matter), had been victorious in the 1995 election. The SPF had initiated an ambitious process of cultural change (what

3 Alan Ernst, “Towards a Progressive Competitiveness?: Economic Policy and the Ontario New Democrats, 1988-1995,” paper presented at the Annual Meeting of the Canadian Political Science Association, Université du Québec à Montreal, June 1995.

Hall refers to as third order change).⁴ This section examines key components of the IPF, including the SPF, the Ontario Lead Investment Fund, Trade Policy, and Human Resource policies.

6.1.1 Sector Partnership Fund (SPF)

The SPF is the embodiment of the emphasis during the NDP mandate of the importance of meso-level policy coordination. If the federal government was going to pursue macro level policies of continental free trade, the provincial government could appropriately pursue industrial policies at the meso level, capitalizing on the congruence of a meso-level government and an economy increasingly oriented to regional and international, rather than national economic conditions.

This \$150 million initiative, first announced as a three-year program in the 1992 Budget, was the centre-piece of the IPF's program initiatives.⁵ The SPF approach, based on the premise that both competition and cooperation contribute to economic performance, places an emphasis on the latter, stressing that "through cooperation, firms in a sector can accomplish projects that an individual company would not undertake. The benefits from this cooperation can be shared by all firms, enabling them to move to higher-value added activities."⁶

The Sector Partnership Fund has been identified as an example of the NDP moving towards a 'negotiated order' similar to that described by Moore and Booth in their analysis of economic policy making in Scotland.⁷ Moore and Booth observe that:

4 Peter A. Hall, "Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain," *Comparative Politics*, 25 (1993)."

5 One senior advisor noted that the government created a \$300m pool of money for new initiatives. The SPF's \$150m thus represented a major commitment by the government to this program. The commitment to the consultative, inclusive process which characterizes the SPF is also made evident. In retrospect, there seems to be a prevailing conception that the government might have been able to pursue its industrial policy goals better by allocating more resources to other programs, such as the Ontario Innovation and Productivity Service (OIPS).

6 Ontario, Ministry of Treasury and Economics, *Ontario Budget, 1992*. (Toronto: Queen's Printer for Ontario, 1992),12.

7 Simon Moore and Chris Booth, *Managing Competition: Meso-Corporatism, Pluralism, and the Negotiated Order in Scotland*, (Oxford: Clarendon Press, 1989). See David A. Wolfe, "Negotiating Order: The Sectoral Approach to Industrial Policy in Ontario," paper prepared for the Annual Meeting of the Canadian Political Science Association, Brock University, St. Catharines, Ontario, June 2, 1996.

The capacity for public agencies to intervene at a sector level will significantly depend on the organization of the private sector itself, and in particular the existence of, or potential for, associative order and a collective identity around specific strategies. Where the sector is fragmented, the possibilities of creating such unity are limited. In sectors where there is a high degree of indigenous control, which can be combined with a Scottish [i.e. regional] identity and the existence of sectoral organizations, distinctive negotiated relationships at the sectoral level can emerge.⁸

This section examines the SPF as implemented, assesses its successes and failures, attempts to identify what factors influenced the relative success of sectoral efforts, and discusses whether or not the SPF as implemented should be considered an example of negotiated order.

At the bureaucratic level, the SPF represented an innovative approach to governing. Although the Ministry of Economic Development and Trade coordinated the program, a number of other ministries were given the 'lead' for developing strategies with industrial sectors in their fields of expertise. Thus, for example, while MEDT worked with the industrial sectors responsible for aerospace, autoparts, biotechnology, telecommunications, and plastics, the Ministry of Environment and Energy worked with 'Green Industries,' the Ministry of Culture, Tourism and Recreation worked with cultural industries, and the Ministry of Health worked with health industries. Initiatives proposed for funding required approval not at the bureaucratic level, but instead, by the Cabinet Committee for Economic Development (CCED). The Sectoral Coordination Section at MEDT provided support for all proposals, taking on a role similar to that of a central agency when dealing with other Ministries' proposals.

As the government moved through the implementation of the Sector Partnership Fund (SPF), it had altered the basic principles guiding implementation. The principle of 'cooperation,' had changed so that "strategies or initiatives must have the broad endorsement of sector stakeholders, including *where possible* representatives of business, labour, government, and community (emphasis

and Michael Swayze, "The Evolution of Ontario's Industrial Policy from Davis to Rae: An Incipient Negotiated Order in a North American Region." paper prepared for the Annual Meeting of the Canadian Political Science Association, Brock University, St. Catharines, Ontario, June 2, 1996.

8 Moore and Booth, *Managing Competition*, 83,84.

added).”⁹ This rewording recognized that in some industrial sectors, not all of the government’s so-called ‘partners’ were organized to participate in such planning. In other instances, interests refused to participate.

The principle of ‘leverage’ had been clarified, requiring that “requests for government funding of strategies or initiatives must be met by stakeholder contributions of at least 50%.”¹⁰ a much more stringent criterion than the original wording noting government intentions to ‘encourage participants to commit resources.’¹¹

Operationally, sectors participating in the Sector Partnership Fund had to formulate sector-wide strategies “through a broadly-based multipartite consultation process....[including] all labour market partners in the sector.”¹² In theory, sectors were self selected, in part to avoid criticism that the government had been engaged in ‘picking winners.’ In practice, sectors received considerable guidance from government officials. Sectoral organizations could access up to \$500,000 in provincial assistance to develop sector strategies which were to identify directions for the sector furthering the province’s competitive fundamentals. Sector strategies approved by the CCED could then apply for funding of specific initiatives contained in the approved strategy.

The involvement of several sectors’ experience with the SPF is outlined below. Predictably, the level of success varied considerably from one sector to another. Examination of a few sectors allows us to draw tentative conclusions as to the factors that contributed to (or impeded) success. ‘Success’ is of course a relative term. For our purposes, measures of success of the sectoral approach include the following: approved sectoral initiatives arising from sectoral strategies; establishment of ongoing multipartite consultative bodies; and general acceptance or advancement of consultative decision-making. The extent to which each sector met the goals or objectives outlined in their respective

9 Ontario, Ministry of Economic Development and Trade, *Ontario Sector Snapshots: A Progress Report on the Sector Development Approach* (Toronto: Queen’s Printer for Ontario, 1995), 1-2.

10 Ontario, *Ontario Sector Snapshots*, 1-2.

11 Ontario, Ministry of Industry, Trade and Technology, “Industrial Policy Backgrounders: Sector Partnership Fund,” (Toronto: Ministry of Industry, Trade and Technology, 1992).

12 Wolfe, “Negotiating Order,” 18.

sector development strategies should also be considered an appropriate measure of success. It was not clear from interviews conducted whether the government had specific program evaluation objectives for the SPF. The measures suggested above are based, however, on impressions given by officials involved with the SPF.¹³

Aerospace Sector

The aerospace sector developed a sectoral strategy, through the Aerospace Ministerial Advisory Committee (AMAC), a body established by the Minister of Economic Development and Trade "to seek advice and encourage the sector stakeholders to work collaboratively on aerospace economic development through the principles of the Industrial Policy Framework..."¹⁴ The SPF contributed \$387,800 towards development of the sectoral strategy. Based on the strategy, \$400,000 was committed by the government towards the establishment of a permanent consultative body, the Ontario Aerospace Council.¹⁵ The relative success of this sectoral initiative (as determined through telephone discussions conducted in April 1997, and as evidenced by the establishment of a permanent consultative infrastructure), can be attributed in part to the widespread involvement of representatives of key components of the sector. Volume II of the Premier's Council report, "Competing in the New Global Economy" identified four categories in the aerospace industry: proprietary prime contractors, proprietary sub-prime contractors, satellite branch plants, and component makers.¹⁶ Each of these four segments of the sector were represented on AMAC. As well, both the Canadian Auto Workers (CAW) and the International Association of Machinists and Aerospace Workers (IAMAW) were well represented, co-chairing each of five task forces formed within AMAC. Labour prominence continued into the implementation stage, with both unions

13 Particularly confidential interviews #5 and #8, January 13, 1995, and #34, February 9, 1995.

14 Ontario Aerospace Ministerial Advisory Committee, *Ontario Aerospace Strategy*, (Toronto: Ontario Aerospace Ministerial Advisory Committee, 1994), 3.

15 Ontario, *Ontario Sector Snapshots*, 2-1.

16 Ontario, Premier's Council, *Competing in the New Global Economy: Report of the Premier's Council, Volume II*, (Toronto: Queen's Printer for Ontario, 1988), 127.

represented on the Ontario Aerospace Council, including a 1/3 representation on the Executive Committee.¹⁷ Government and Industry (i.e. 'capital') also each held 1/3 of the Executive Committee seats. This fits well with one of the key elements of negotiated order identified by Moore and Booth. They note that identification of parties involved is critical, with a representative of the state on one side, and on the other side "will be representatives of organized groups who have a particular self-interest to pursue."¹⁸ Labour's involvement in the Aerospace sector can be attributed in part to the high level of unionization, and the strength of the unions involved.¹⁹

Probably the most significant indicator of the strength of the sectoral infrastructure established is that in May, 1997, two years after the defeat of the NDP, the Aerospace Council continued to meet. The real test will be whether the Council survives beyond the government's original commitment of funds. The original legal agreement committed the government to support the Council through the 1997 Fiscal Year.²⁰

In evaluating the relative success of the Aerospace sector, special mention must be made of the role played by the province in bringing interests together through the OAMAC. Moore and Booth observe that structural factors can be created "providing the basis for relationships which fuse interest representation and policy responsibility. This provides the basis for collective action....The SDA [Scottish Development Agency] has played a 'ringmaster' role by bringing different interests together and by setting the policy parameters for such collective action."²¹ This description applies very nicely to the role played by MEDT in facilitating the preparation of the Aerospace Sector Strategy.

Automotive Parts Sector

In some respects, the Automotive Parts sector strategy stands in contrast to the experience in the aerospace sector. The role played by organized labour in the industry appears to be the most

17 Ontario Aerospace Ministerial Advisory Committee. *Ontario Aerospace Strategy*, ii-vii, 51.

18 Moore and Booth, *Managing Competition*, 115.

19 Alan Ernst discusses the role of labour in the sector process. *Progressive Competitiveness*, 21.

20 Letter of May 12, 1997 from David A. Reid, Senior Analyst, Ministry of Economic Development, Trade and Tourism.

21 Moore and Booth, *Managing Competition*, 79.

significant difference. Where the Aerospace Sector Strategy spoke highly of the process of consultation among sector partners, the Automotive Parts sector strategy demonstrates the tensions in the sector:

Part of the challenge of the Sector Partnership Initiative [SPF] was, and remains, that of developing effective working relationships among the different interests in the sector. Any "partnership" between representatives of different constituencies includes some obvious strains.

On the union side, the CAW is the major union in the sector, but a majority of companies remain unorganized....Certain parts of the industry have, as a result, not surprisingly expressed reservations or even hostility to the role of the CAW.²²

Not only was there animosity between business and labour representatives on the Council, but there was also a lack of unity among business representatives, who faced "divisions by nationality of ownership, size, relative success, competitive rivalries, and the reality that this sector is composed of a number of distinct "subsectors." In short, both labour and business were very fragmented.

Moreover, the 'partners' involved each represented national, as opposed to provincial, organizations, suggesting that the sectoral organization would have a great deal of difficulty developing a sense of a distinct regional interest among participants, one of the advantages attributed to negotiated orders by Moore and Booth.²³

That the automotive sector was able to put together an approved strategy and have a \$990,000 initiative approved masks the tensions that persisted throughout the sectoral process. One MEDT official noted that "they never wanted to come together. Business felt coerced by the NDP to get together with labour."²⁴ Moore and Booth observe that despite such tensions, some level of success can be possible as a result of shared concern for the future:

Class tensions and self-interest restrict the willingness of parties to be tied down by formal agreements. Yet, despite short term pressures there is a convergence on the longer-term needs or a recognition of an imperative to discuss those needs and formulate strategies.²⁵

The ability of the antagonistic parties in the automotive parts sector to achieve agreement, and thus access provincial support of nearly \$1.5m is testament to Moore and Booth's assertion.

22 Canadian Independent Automotive Components Committee (CIACC), "Strategic Action Plan: Final," in Ontario, Ministry of Economic Development and Trade, *Executive Summaries: Sector Development Strategies*. (Toronto: MEDT, 1995), 2.

23 Moore and Booth, *Managing Competition*, 116.

24 Confidential telephone interview, April 1997.

25 Moore and Booth, *Managing Competition*, 116.

Tourism Sector

The Tourism sector provides an example of a sector that lacked many of the characteristics of sectoral association. Both 'labour' and 'capital' were fragmented in their representation, and often indistinguishable.²⁶ Far from having peak associations speaking on behalf of the industry, there were several hundred representatives to the sectoral strategy. Although the Ontario Federation of Labour was represented on the Minister's Advisory Committee (indeed the vice-chair of the committee represented the OFL), tourism was not an industry that anybody could pretend to speak on behalf of either on the labour or industry side.

With provincial assistance of \$400,000, a sector strategy was developed. Rather than striving to advance the province's competitive fundamentals, the Tourism Council sought to "improve the *perception of value...responding to the expectations of more demanding, discerning customers [emphasis added].*"²⁷ Of the initiatives presented for funding, the government approved a \$1.1m signage project. One central thrust of the industry which effectively sidelined its strategy was an insistence that a major focus be on influencing government policies of taxation and regulation. "A re-balancing of government taxation and regulatory policies will provide an opportunity to improve the competitiveness and sustainability of the industry."²⁸ This approach contradicted the 'rules of the game' from the perspective of the government. Following on the heels of such unpopular legislation as the reform of the Ontario Labour Relations Act, the government had made it very clear that any discussion of the government's macro strategies was 'off the table.' The government was not interested in providing funds, or even infrastructure support, to a sectoral organization to facilitate their lobbying efforts directed at the provincial level. One ministry official noted that the tourism sector has subsequently formed a new association, the Tourism Federation of Ontario, with government lobbying as a primary activity. In that sense, the 'legacy' of the sectoral approach has

26 The nature of the industry is such that in many cases, those who own industries in tourism are the same people who work in the industry. A motel operator in Northern Ontario would be a case in point.

27 Advisory Committee on a Tourism Strategy for the Province of Ontario, *Ontario's Tourism Industry: Opportunity -- Progress -- Innovation*, (Toronto: Queen's Printer for Ontario, February 1994), 7.

28 Advisory Committee on a Tourism Strategy for the Province of Ontario, *Ontario's Tourism Industry*, 51.

survived, if in a form different from that intended by provincial officials.²⁹

When measured with the yardstick of traditional government programs, the performance of the Sector Partnership Fund can be viewed as a disappointment. Three years after the announcement of the fund, less than half (\$71.5 million) of the fund had been committed, with much less having flowed to approved sectoral initiatives.³⁰ As a result of the difficulties in committing the allocated funds, the original three-year window was extended, making it a six year initiative.³¹

A program such as the SPF probably should not be viewed in this traditional way. The primary objective of this program was to foster a cooperative approach to the development of various industrial sectors. One interview respondent noted that an approach involving widespread multipartite involvement, and a new approach to labour relations, was the best way to increase competitiveness:

Capabilities can be built in any sector. There are some philosophical undercurrents to it. [The IPF] argues that the best way to succeed in building capabilities is to have fairly wide buy-in. You've got to have agreement. Some traditional approaches to work-place relationships are probably inappropriate for the kind of world that we live in.³²

If bringing parties together to discuss potential solutions to common problems was one of the objectives of the SPF (it was), it should be considered a success. In all, 28 diverse sectors were involved in some way in the program, with over 2,000 stakeholders consulted. The SPF process brought together 22 unions, 93 industry associations, 28 colleges and universities, as well as several provincial government ministries.³³ Frances Lankin noted in interview that despite the challenges of the SPF, there were rewards as well:

Dealing with business and labour and insisting that they get in the same room around the same table, and that we weren't going to proceed until we had a basic agreement of groundrules, and how people were going to relate to each other and that they were going to be jointly responsible for the product, was not easy....[In some sectors] there developed a

29 Confidential telephone interview, April 1997.

30 Ontario, *Ontario Sector Snapshots*, 1-1.

31 All program initiatives of the Ministry of Economic Development, Trade and Tourism were placed 'under review' by the Harris Conservative Government. The SPF has been discontinued.

32 Confidential interview, August 10, 1994.

33 Ontario, Ministry of Economic Development and Trade, *Ontario Sector Snapshots*, 1-1.

whole new working relationship and respect for each other – and it was really rewarding to see.³⁴

Even if no government money had been spent on SPF initiatives, this process of building networks of communication in many of Ontario's industrial sectors qualified the SPF as a successful undertaking.

David Wolfe also counts this widespread involvement of industrial sectors as a "major achievement for the government, given the strong opposition by industry to some of its equity initiatives, such as a progressive reform of the industrial relations system, introduction of employment equity regulations and steady increases in the minimum wage."³⁵ Wolfe also notes, however the difficulties of moving this "major achievement" beyond the development of sectoral strategies to the implementation of concrete initiatives.

Others expressed reservations about the SPF. Rodney Haddow explains that some saw the NDP industrial policy as "'too passive;' instead of simply inviting firms to take up SPF grants...they suggest that the government should aggressively 'pick' sectors to favour with strategic support." Others questioned the ability of the SPF to generate new capital.³⁶ Neil Bradford noted critically that the SPF was less risky and ambitious than might have been the case: "The SPF did not delegate decision making authority to interest groups and therefore did not open up for debate fundamental questions about the mandate or purposes of industrial policy. Instead, central agencies, a lead ministry, and relevant line ministries managed program design, delivery and financing....The SPF limited its focus to a series of "competitive fundamentals" defined in rather conventional economic terms..."³⁷ Thus, while some felt the SPF went too far, others felt it did not go far enough.

34 Interview with Frances Lankin, July 19, 1995.

35 David A. Wolfe, "Harnessing the Region: New Perspectives on Canadian Industrial Policy," paper presented to the Conference on Regions, Institutions and Technology: Reorganizing Economic Geography in Canada and the Anglo-American World (Toronto: September 23-25, 1994), 25.

36 Rodney Haddow, "Ontario Politics: Plus Ça Change...?" in *Canadian Politics: 2nd ed.*, James P. Bickerton and Alain- G. Gagnon, eds., (Peterborough: Broadview, 1994), 484.

37 Neil Bradford, "Ontario's Approach to Sectoral Initiatives: Labour Market and Industrial Policy, 1985-1995," paper prepared for Conference on Sectoral Councils in Canada, Centre for the Study of Living Standards (Montréal: January 12-13, 1996), 37.

An evaluation of the factors contributing to success of sectoral initiatives suggests that preconditions are critically important. While having unified and established business and labour interests certainly helped, it did not guarantee, for example, that approved sectoral initiatives would emerge, or that sectoral objectives would be achieved. Peter Hall notes that third order change does not necessarily follow from a series of first or second order changes. Yet Wolfe notes that the two largest sectoral initiatives approved by the NDP “went to sectors that had actually developed their strategies under the previous Liberal government -- the Guelph Food Technology Centre and the Ontario Winery Adjustment Program.”³⁸ The importance of coordinating cultural change at societal, administrative, and political levels has been discussed above. The experience with the SPF suggests that where those processes of cultural change had been set in motion by a previous government, success was more easy to achieve. The SPF marked a clear movement towards negotiated order at the provincial level. It failed to achieve that objective, however, largely due to the inability to reconcile conflicts among, and between, sectoral partners. That pattern would repeat itself with the NDP government’s other major sectoral initiative, OTAB.

6.1.2 Education and Training: Development of Human Resources

At the level of the economy, competitiveness is the result of economic and social development processes....Social development is important to competitiveness because it enables more people to participate productively in the economy, strengthens the health and welfare of our citizens, and builds the education and skill level of our workers. Our competitiveness in the future will depend fundamentally on our people, their skills, their capacity to innovate.... (*Industrial Policy Framework*, 10).

Atkinson and Chandler note that anticipatory industrial policies are those which take a broad view, incorporating micro, macro, and meso level interventions towards achievement of IP objectives. The NDP industrial policy explicitly included education and training as part of the broader, anticipatory agenda spelled out in the IPF. The pursuit of what Ernst calls ‘progressive competitiveness’³⁹ was

38 Wolfe, “Negotiating Order,” 25.

39 Ernst, “Towards a Progressive Competitiveness.”

the primary objective of NDP industrial policy. Both the 'progressive' and the 'competitive' components of that agenda required that human resource policies be pursued along with more traditional, micro level policies. The IPF focus on human resources grew out of the Peterson Premier's Council's *People and Skills in the New Global Economy*, and the need to keep traditional NDP supporters 'onside.' Budget Paper E noted the central importance of this focus to the pursuit of the NDP's "new economic strategy."⁴⁰ Indeed, "new approaches to public education and job-specific skills training to provide people with the knowledge and flexibility to respond to the changing economic environment of the 1990s" topped the list of issues upon which the government would focus to achieve "integrated and innovative economic and social policies."⁴¹ Important initiatives consistent with this emphasis included the creation of the Ontario Training and Adjustment Board (OTAB), the establishment of a Royal Commission on Learning, and the creation of a *Task Force on Lifelong Learning* within the Premier's Council on Economic Renewal.

The emphasis on human resources is consistent with the growing belief that human resources, rather than natural resources, are increasingly relevant in the global economy of the 1990s and beyond. Through human resource policies, the NDP could capitalize on Schmandt's observation that a first-class educational system is a key ingredient determining economic success in the global economy, and that regional governments are ideally situated to implement such policies.⁴² Human resource policies arguably provide provincial governments with the opportunity to shape economic development in the 1990s through expenditure and exhortation, in much the same way as provincial governments in the early 20th century had been able to through regulatory instruments such as tariffs

40 Ontario, Ministry of Treasury and Economics, "Budget Paper E: Ontario in the 1990s -- Promoting Equitable Structural Change," in *Ontario Budget, 1991*, (Toronto: Queen's Printer for Ontario, 1991), 101.

41 Ibid. Although the listing does not explicitly suggest the ordering was intended to indicate a hierarchy of priority, the ordering was probably intentional. Other priorities included the development of policies to facilitate the acceptance of change by workers; industry and/or sectoral strategies to facilitate firm-specific adaptability; investment in infrastructure, technology, and innovation; and the exploration of ways to channel the province's capital resources to finance restructuring and promote regional development.

42 Jurgen Schmandt, "Regional Roles in the Governance of the Scientific State," in *Growth Policy in the Age of High Technology*, Jurgen Schmandt and Robert Wilson, eds., (Boston: Unwin, Hyman, 1990), 32.

and natural resource laws, and public enterprises such as Ontario Hydro.

Ontario Training and Adjustment Board (OTAB)

The creation of OTAB was a critical component of the NDP government's 'progressive competitiveness' anticipatory industrial policy agenda. In Leslie's conception of major policy orientations, the creation of OTAB furthered the Rae government's position as 'interventionist-provincialist.'⁴³ The commitment to proceed with OTAB had come first from the Peterson government, prior to its defeat in 1990. The creation of OTAB had been a primary recommendation of the Peterson Premier's Council, in the 1990 report, *People and Skills in the New Global Economy*. Largely inspired by the success of the bipartite sectoral initiative in the steel industry between the major steel manufacturers and the United Steelworkers (collectively the Canadian Steel Trade and Employment Congress), the Council recommended the creation of OTAB as a "bipartite management and labour authority to provide strategic direction for the funding and delivery of workplace training and adjustment activities in the province."⁴⁴ This bipartism was consistent with the NDP approach to government, in which all interests were involved in consultative decision-making. However, by removing OTAB from the direct control of government, it broke new ground.

The Board's mission statement, adopted in October, 1993, outlines the intended direction for the new training regime:

Through its labour market partners, OTAB creates and sustains an effective, accessible and equitable system of training and adjustment programs and services in Ontario that

- leads to the improvement of the lives of workers and potential workers;
- represents an investment in Ontario's prosperity in the context of a global economy; and;
- contributes to the development of life-long learning and skills enhancement.⁴⁵

This mission statement "asserts that a merging of social and economic policies, and the creation of

43 Peter M. Leslie, *Federal State, National Economy*, (Toronto: University of Toronto Press, 1987), 171.

44 Ontario, Premier's Council, *People and Skills in the New Global Economy*, (Toronto: Queen's Printer for Ontario, 1990), 140.

45 Ontario, Ontario Training and Adjustment Board, *Co-Chair's Report*, (Toronto: OTAB, 1994), 2.

a seamless training system will address social inequities and improve Ontario's economic competitiveness."⁴⁶ OTAB's training initiatives were seen as an "Investment in Prosperity," intended to "attract and support business investment in Ontario by creating and maintaining a training and adjustment system which will ensure a flexible, adaptable, highly skilled workforce."⁴⁷

Despite sharing common objectives with the IPF, as well as a meso-level focus, OTAB was only very tenuously linked to the IPF. Indeed, the only mention of OTAB in the IPF is found in Chapter 3: "Changing the Way We Invest For The Future," in which the document states that:

The Ontario Training and Development Board (OTAB) will improve the training system so that it better serves the needs of employers, worker and employable people not currently in the labour force.⁴⁸

OTAB was typical of the IPF in the sense that it was not clear whether OTAB should be considered part of the government's industrial policy. One OTAB official interviewed offered the following comments on the relationship between the IPF and the OTAB Board:

They're not distinct, in the sense that an agency of the government can't operate in total disregard for the government's economic framework....I think you could see them [the Board] as considering themselves as a support to an economic framework, which doesn't exclude their interest in maybe wanting to develop their own ideas on how one should proceed.⁴⁹

Like many NDP initiatives, the OTAB initiative was perhaps overly ambitious. Liberal support for OTAB had been indicated prior to the transition of 1990. The NDP committed itself to proceeding with OTAB in the 1992 Budget, with the legislation lagging a further 18 months later, in October 1993. By March 1995, OTAB was still struggling to emerge from a self-imposed cocoon, following a lengthy process of building up a complicated infrastructure involving several committees made up of "labour market partners."⁵⁰

Although OTAB had assumed responsibility for government programs and initiatives in training

46 Ibid., 2-3.

47 Ibid., 4.

48 Ontario, *Industrial Policy Framework*, 21.

49 Confidential Interview #32, March 27, 1995.

50 Primarily representatives of "labour," and "business," but also representatives of special interests such as "women," "educators/trainers," "racial minorities," "persons with disabilities," and "francophones."

and development, by mid-1995, no significant changes had been made to the programs previously delivered by several government ministries. The lack of coordination which had in part promoted the creation of OTAB, had been perpetuated under the new organizational structure, while the 'growing pains' of OTAB were more than either the government or its 'partners' had anticipated.

As with the SPF, the OTAB experiment represented an attempt by the NDP to broker 'third order change,' in an environment not prepared to accommodate change of such magnitude. Neither business nor labour was prepared to work together, or with the government, to achieve meso-level agreement on training issues. Neil Bradford suggests that the process faced an uphill battle for several reasons. "In retrospect, it seems that business leaders were prepared to endorse the Premier's Council process and products in the expectation that a Liberal government would be the implementing agent." As well, the NDP government had exhausted any goodwill in the business community through initiatives such as reforms to the Ontario Labour Relations Act (OLRA), which imposed costs on business deemed detrimental to competitiveness.⁵¹ Although his comments were directed specifically at OTAB, they apply equally to the SPF, indeed to the entire 'progressive competitiveness' agenda contained in the IPF. Bradford explains that there was a risk that the diversity of opinions inherent in NDP multipartite discussions,

rooted in divergent labour market world views among the partners, would breed less creativity and more conflict. Business had accepted the original Premier's Council version of OTAB as an opportunity to use the discourse of competitiveness and skill development to orient publicly funded programs and service toward the type of competency-based and applied skills training deemed most useful to employers. Labour's vision of training was different, located within a view of power relations in the workplace."⁵²

Bridging such a chasm was not something the NDP government was capable of.

The 'progressive competitiveness' agenda of the NDP was based in part on retaining the support of a wide range of progressive interest groups. Bradford explains that the OTAB process caused

51 Neil Bradford, "Ontario's Approach to Sectoral Initiatives: Labour Market and Industrial Policy, 1985-1995," Paper Prepared for Conference of Sectoral Councils in Canada, (Montreal: January, 1996), 38.

52 Bradford, "Ontario's Approach to Sectoral Initiatives," 20.

traditional NDP supporters to turn on each other, focusing on divergences in their interests:

[L]abour representatives were also wary of social equity issues, especially when they say equity concerns threatening their own agenda. Some labour representatives were worried that funding for workplace-based training would be diverted to equity programs...⁵³

The NDP efforts to pursue sectoral level policy implementation were hampered by unrealistic expectations of how quickly cultural change can occur. Ontario does not have a history of corporatist decision making, or even more modest pursuits of 'negotiated order.' Change would have been required at societal, political, and administrative levels in order to pursue third order policy innovations in training. Such change was not effected during the NDP mandate.

Royal Commission on Learning

The appointment of a Royal Commission on Learning in 1993, co-chaired by Monique Bégin and Gerald Caplan, further illustrated the commitment of the NDP government to the development of Ontario's human resources. The Order-in-Council creating this commission explicitly noted that "the Government of Ontario, in support of its commitment to economic renewal and social justice, has identified the need to set new directions in education to ensure that Ontario youth are well-prepared for the challenges of the 21st century."⁵⁴ This explicit recognition of the mutual importance of economic and social issues was a continuing major theme of the NDP government. Their explicit recognition of the importance of elementary and secondary education to the achievement of provincial objectives in these areas further illustrates the central role played by the development of human resources.

The recommendations of the Royal Commission, and the reaction of the Rae government to them, are beyond the scope of this study. The Report of the Royal Commission emerged only months before the 1995 provincial election. The government prudently decided not to make any

53 Bradford, "Ontario's Approach to Sectoral Initiatives," 23.

54 Ontario, Royal Commission on Learning, *For the Love of Learning: A Short Version*, (Toronto: Queen's Printer for Ontario, 1994), vii.

drastic moves to implement the recommendations, perhaps sensing that the education system in Ontario is under enough stress without risking a change of government mid-way through implementation. The significance of the Royal Commission, outlined above, is that the government quite explicitly linked provincial economic development to education at the elementary and secondary levels. To invest the full resources of a Royal Commission in the examination of the development of the quintessential 'renewable resource,' our children, exemplifies the importance of human resources to the Rae government.

Task Force on Lifelong Learning

The Task Force on Lifelong Learning emphasized "the links between lifelong learning and economic renewal," extending the premise upon which the Royal Commission on Learning was founded, beyond the years of elementary and secondary education, to encompass the extension and improvement of learning throughout the productive years of life.

The task force noted that "constant change will be a major feature of our new economy and society and that our ability to manage change and to prosper in the climate it creates will depend heavily on whether or not our skills can meet the challenge," and furthermore, that "with knowledge becoming the most fundamental *resource* in the economy, learning is becoming the most important *process* in society."⁵⁵ Among the fundamental observations by the Task Force, was the recognition that "people no longer make 'one pass through the [education] system,' but continuously enter, leave, and re-enter it throughout their lives."⁵⁶ As the importance of education throughout the productive lives of Ontario citizens increases, the importance of jurisdictional control over education clearly increases also. If, as the Task Force notes, learning is becoming the most important process in society, then control of that process is critical not only to social, but also economic development.

55 Ontario, Premier's Council, *Lifelong Learning and the New Economy*, (Toronto: Queen's Printer for Ontario, 1994), 2.

56 *Ibid.*, 5.

In order to facilitate lifelong learning, the task force suggested a number of courses of action, in the following areas:

- creation of a consensus among stakeholders including government, educational and training institutions, business and labour, and the general public;
- a focus on learners, accommodating a wider range of learning activities, and employing non-traditional delivery methods such as distance learning, and computer-based interactive learning systems;
- reliance on innovative approaches, including the full and equal involvement of affected stakeholders in the design and implementation of solutions to training problems, and new linkages between schools, other educational institutions, workplaces and communities;
- establishment of a rigorous regime to establish accountability by measuring success; and
- the active involvement of leaders from all sectors involved in education, training, and the economy.⁵⁷

This action plan set out by the Task Force signified a commitment to pursue fundamental reforms in the development of human resources. These actions fit with the pattern of other important components of the 'progressive competitiveness' agenda. They are too broad in scope to make success achievable, particularly in a single term of office. Fundamental reforms require that change occur at the level of society, administration, and politics. When reaching for significant (or third order) change at the level of policy, a single electoral cycle is not likely adequate.

The emphasis on the development of human resources may have marked a departure from previous practice in Ontario. It did not, however, represent a departure from current thinking. Rodney Haddow notes that "there is an increasing consensus among economists and politicians in many countries that improving human capital, especially by training workers better, is the key to future success in the global economy."⁵⁸ This trend suggests that provincial jurisdiction over education, and concurrent jurisdiction over training, will be an increasing source of provincial control over their economic destinies. This apparently was the thinking of the NDP government.

57 Ibid., 10-20.

58 Rodney Haddow, "Federalism and Training Policy in Canada: Institutional Barriers to Economic Adjustment," *New Trends in Canadian Federalism*, François Rocher & Miriam Smith, eds., (Peterborough: Broadview, 1995), 338.

6.1.3 Trade Policy as Component of Industrial Policy

The focus of the NDP government on trade resulted from an understanding that Ontario's economic health depended on an acceptance of the changing world economy. In a context of globalization and free trade agreements, trade policy and industrial policy based on pursuit of competitiveness are inseparable. The IPF recognized the implications of economic change for trade in Chapter 5, "Changing The Way We Manage Economic Change," where the government pledged to benefit from US trade, while moving to a more global set of trading patterns. Government assistance "in situations where a government presence is helpful in winning foreign contracts" was promised, as was a commitment "to advocate Ontario's trade interests to the federal government and vigorously assist Ontario exporters caught in trade disputes." The third commitment made was to re-orient assistance programs to small and medium sized firms, including the establishment of better information services.⁵⁹

As Figure 6.1 demonstrates, Ontario became increasingly reliant on the US economy during the NDP mandate, with US exports rising from 24% of provincial GDP in 1990, to almost 35% in 1994.



Figure 6.1

Source: Ministry of Industry, Trade & Technology, "Ontario Exports and Imports, 1985". (Toronto: Queen's Printer for Ontario, 1986), & Ontario Economic Outlook, 1994, Table 16: Ontario - International Trade by Region.

59 Ontario, *Industrial Policy Framework*, 35.

Preferring not to see Ontario's economy tied too tightly to the North American continent, the NDP concentrated efforts on developing international trade outside of the North American sphere. In a January, 1995 speech to the Canada/U.K. Chamber of Commerce, for instance, Rae noted the desirability of further extending Ontario's trade relationships across Europe:

Let me conclude by expressing the strong hope that trade between Canada and the United Kingdom, and indeed all of Europe, expands steadily. It is in all of our interest that the creation of the World Trading Organization be followed by a steady reduction in trade barriers and friction between trading partners. While Canada accepts the reality of continental interdependence, we do not want to see solitudes or not so splendid isolation becoming the order of the day between trading blocs. The post-war vision of an Atlantic becoming ever smaller is worth advancing once again.⁶⁰

His message at a 1994 economic seminar in Germany was similar:

Ontario has an abiding interest in Germany as a trading partner. Germany is Ontario's third-largest export market after the United Kingdom and is a priority market in Ontario's objective to expand trade beyond North America. It is in Ontario's interest to strengthen its trade links in growth areas of Europe and Asia.⁶¹

Despite these efforts, the proportion of Ontario's trade with Western Europe declined during the NDP mandate (see Figure 6.2).

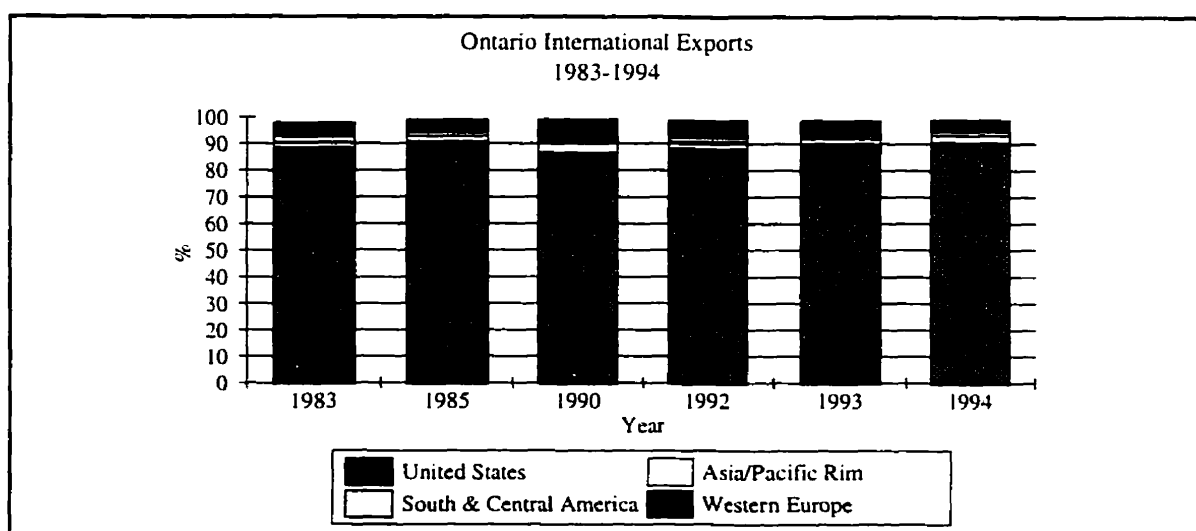


Figure 6.2

Source: Ministry of Industry, Trade & Technology, "Ontario Exports and Imports, 1985," (Toronto: Queen's Printer for Ontario, 1986), & Ontario Economic Outlook, 1994, Table 16: Ontario - International Trade by Region.

60 Premier Bob Rae, "Speech to the Canada/U.K. Chamber of Commerce, London, England," January 25, 1995.

61 Ibid.

Like the Liberals, the NDP was essentially supportive of the GATT, and the movement to expanded international trade which it represented. The government pursued a multi-faceted approach based on the premise that the approaches of the past, with provincial trade representatives in several countries, were no longer the most effective way to encourage international trade. In tight fiscal times, 'bricks and mortar' approaches requiring significant expenditures to physically contain international representatives, are difficult to justify.

The new approach, dubbed 'Ontario Canada International,' builds on the province's commitment to a 'Team Canada' approach to trade and investment. The province signed a memorandum of understanding (MOU) with the federal government, outlining the respective roles of the federal and provincial governments in representing Ontario's interests abroad.

The Ontario Investment Service (OIS), one component of the Ontario Canada International initiative, was created in response to a report prepared for the Premier's Council on Economic Renewal's Task Force on Investment in Ontario, which noted the importance of developing a centralized, province-wide investment information centre. The report noted that "municipalities want the province to...provide a source of meaningful, easily accessible, market intelligence and comparative data."⁶² The OIS was created as a private organization created by government, but falling outside of government's accountability, which essentially acts as a broker of information for those interested in Ontario as a potential investment site. Through the OIS, multimedia information was made available at the touch of a button on Ontario's industry sectors, business climate, communities, labour force, real estate and more.

This innovative undertaking of the NDP's was criticized for "selling off exclusive seats on the board of a new international trade agency [OIS] for \$250,000 each."⁶³ The *Star* further noted that

62 Stephen Chait Consultants Ltd. and John Mitsopoulos, *The Appropriate Roles for the Province and Municipalities in Facilitating Investment Attraction and Retention*, (Toronto: Premier's Council, 1993), 19.

63 *Toronto Star*, "NDP Selling Seats on Board," September 23, 1994, A1. Although the original plan was for 12 Board seats to be sold to "equity members," by February 24, 1995, only six of those had been purchased, by the Ontario Real Estate Association, Bell Canada (Ontario), Ontario Institute of Chartered

“Big businesses able to cough up a quarter of a million dollars will get special access to government officials, input on shaping government policy on trade and investment – even a laptop computer is thrown in.”⁶⁴ In defence of the government, the Ontario Chamber of Commerce wrote:

The government has finally recognized the strong potential for Ontario of a structurally sound, properly planned joint initiative between the public and private sectors, a departure from the past which sends encouraging signals to business after a long hiatus....The suggestion that business can, or needs to, purchase access to a cabinet minister, regardless of the cost, is entirely unrealistic. Business is prepared to work on a project of this magnitude for a far more logical reason: attracting investors to Ontario keeps the economy vital and creates solid prospects for the future.”⁶⁵

These words of praise for the OIS concept from the Chamber of Commerce might be seen as evidence that the NDP had ‘sold out to business.’ A more credible explanation for the misperceptions created surrounding the OIS is that the government’s communications people failed to present the initiative accurately. Flawed communications strategies left the government open to such criticisms.

A second focus of the Ontario Canada International approach was the launching of the ‘Ontario Special Envoy Program’ [OSEP], which “uses the reputations, contacts, and knowledge of private sector individuals to represent Ontario internationally at special trade and investment initiatives.”⁶⁶ Like OIS, this initiative was designed in part to compensate for the closure of Ontario’s international offices. Through the Special Envoy Program, 25 appointees were named to accompany Rae and other key government ministers on overseas trade missions, where they made corporate calls, presented position papers, and generally represented the province’s trade and investment interests. Unlike the SPF, the OSEP and OIS initiatives survived the transition to the Harris Conservative government in 1995. The OSEP initiative was renamed the ‘Business Ambassadors’ program.

Accountants, Ontario Hydro, Consumers Gas and Union Gas (one share) and the Canadian Bankers Association. Eight board seats were held by government appointees.

64 Ibid.

65 Stu Verge, “Cutting Edge Partnership to Help Revitalize Economy” letter to editor in *Toronto Star*, (Toronto: October 8, 1994), A20.

66 Ontario, Ministry of Economic Development and Trade, “Background: Trade and Investment Initiatives to Strengthen Ontario’s Economy,” (Toronto: Queen’s Printer for Ontario, September, 1994), 6.

Although there is much in the Ontario Canada International approach to suggest the NDP became a party 'like the others' in its approach to business,⁶⁷ traditional supporters should note that the Special Envoy Program allowed the government to recognize its 'roots.' Among the special envoys appointed by the Premier were former CLC president Shirley Carr, former Ontario NDP leader Stephen Lewis, Ontario Federation of Labour president Gord Wilson, and Lyn Williams, past international president of the United Steelworkers of America.⁶⁸

The appointment of a handful of 'party faithful' as special envoys does not alter the fact that NDP trade policies were not in any essential way distinct from those of their predecessors. Rather than viewing this as evidence of a 'sell-out' to business interests, a fairer interpretation would be that it recognizes that Ontario's economy is extraordinarily dependent on trade.⁶⁹ and that implementation of the NDP's 'progressive competitiveness' agenda required the government to solicit a certain degree of support among the business community.

6.1.4 Ontario Lead Investment Fund (OLIF)

The Ontario Lead Investment Fund (OLIF), was created as an innovative way to use the vast resources of provincial public sector pensions to create a fund to spur investment. The initiative was a dismal failure. Announced in November 1993 as a financial partnership between the Ontario Government and the private sector, the creation of OLIF followed through on an April '93 Throne Speech commitment. The disparity between the original conception for OLIF and the fund that emerged starkly illustrates the extent to which the government's ideas surpassed both their expertise and their wallets. A discussion paper outlining the role for the fund suggested a target size for the

67 In an article highly critical of the NDP's "economic failings," Mel Watkins cites an Environics poll which stated, with respect to political parties, "thanks to Rae, there's a growing perception that 'they're all the same anyway'." See Mel Watkins, "Ontario: Discrediting Social Democracy," in *Studies in Political Economy* 43 (1994), 147.

68 *Toronto Star*, "Rae Names 'Special' Trade Envoys," (Toronto: February 24, 1995), B12.

69 Over the course of the decade from 1984-1993, Ontario's exports as a proportion of Gross Domestic Product (GDP) averaged 55%. See Ontario, Ministry of Finance, *Ontario Economic Outlook, 1994-1998*, (Toronto: Queen's Printer for Ontario, 1994), Table 3.

fund of up to \$2 billion over five to seven years.⁷⁰ The \$70 million fund that emerged 18 months later was less than ½% of this target, and was intended to be spread over a longer time frame (ten years, rather than 5-7 years). This range of discrepancy cannot be explained away as the result of excessive optimism!

The range of participants in the emerging fund was also much different than originally envisioned. With evident aspirations to create a fund comparable to the Caisse de dépôt et placement du Québec, the discussion paper made it abundantly clear that the principal source of investment should be the numerous public sector pension funds.⁷¹ Instead, the six initial investors were all private financial institutions, many of which have subsequently established comparable investment funds of their own.⁷²

It was a fund created to address the perceived lack of financing available to small and medium-sized innovative growth companies. As a minority shareholder in the fund (40% of the ten-year OLIF pool of \$70m), the Rae government appointed two of the eight directors to the OLIF's Shareholder's Committee. Financing of up to one third was available to Expert Investment Corporations (EIC) created to access the fund. Although the Fund had existed for over a year by the time the NDP government was defeated, in June 1995, no EICs had been formed. An official with the Ministry of Economic Development, and Trade suggested that a common difficulty of those wishing to form EICs had been an inability to meet the capitalization requirements of the initiative.⁷³ He also noted that demand for this initiative had been significantly reduced by the fact that the shortfall in availability of financing for small and medium firms identified when the OLIF concept was originally introduced, was subsequently addressed by private sector initiatives, and by the

70 Ontario, Ministry of Treasury and Economics, *The Ontario Investment Fund: A Discussion Paper*. (Toronto: Queen's Printer of Ontario, 1992).

71 Unlike its Quebec counterpart, the Ontario fund would not *require* public pensions to invest.

72 The six investors were the Canadian Imperial Bank of Commerce, the Bank of Montreal, the Bank of Nova Scotia, the Toronto Dominion Bank, and brokers Scotia-McLeod and Goldman Sachs Canada. *Toronto Star*, "Fund for Start-ups Unveiled" November 19, 1993, E1.

73 EIC proponents were required to contribute at least 20% of capitalization costs, and to be able to raise at least one third of the costs through the private sector.

“explosive growth of Labour Sponsored Investment Funds,”⁷⁴ another NDP financing mechanism.

It is not surprising that the government was unable to meet the ambitious goal for the fund – it is not realistic to simply create a fund comparable to Quebec’s Caisse in a province that lacked the statist tradition of Quebec Inc. Ontario was not ready, at either a societal, administrative, or a political level, to proceed with such a fund. As Peters points out, without preconditions in these three areas, change at the level of public administration would not be possible.⁷⁵ What is surprising, is the size of the gap between vision and reality. The specific impediments to implementation of the OLIF fit the general pattern of constraints to the NDP agenda.

6.2 Constraints on the NDP Industrial Policy

Our analysis of the Liberal attempts to implement anticipatory industrial policies often noted that despite a failure to implement the PCR agenda, in many instances, they set in motion processes which might serve future governments. There was a sense, particularly among supporters on the left, that where the Liberals had failed, the NDP would succeed. Party supporter Hugh Mackenzie suggested the Peterson report, *Competing in the New Global Economy*, should provide the new government with a starting point for industrial policy:

A few months ago [before the defeat of the Liberals], the value of the report would have been measured by the fact that it put onto the agenda a number of concepts that can play a useful role in progressive thinking about the economy in Canada. It now has the potential to inform actual government policy in Canada’s largest and most sophisticated provincial economy.⁷⁶

Mackenzie apparently believed that where the Liberals had talked about industrial policy, the NDP government would act.

Partisan supporters of the NDP government placed unrealistic policy expectations on the

74 Telephone interview with MEDT official, July 1995.

75 B. Guy Peters, *The Politics of Bureaucracy*, 3rd edition, (New York: Longman, 1989), 41.

76 Hugh Mackenzie, “Dealing with the New Global Economy: What the Premier’s Council Overlooked,” in *Getting on Track: Social Democratic Strategies for Ontario*, Daniel Drache, ed. (Montreal & Kingston: Queen’s University Press, 1992), 15.

government, including in the area of industrial policy. The NDP's industrial policy was among the areas of disappointment, despite the establishment of processes, such as the Sector Partnership Fund, which might in time have fostered cultural change at societal, administrative, and political levels. The government's failure to proceed aggressively with anticipated industrial policy initiatives must be examined at three levels. The most general level relates to the difficulties faced by provincial governments in formulating and implementing industrial policies in the Canadian political economy of the late 20th century. This issue will be addressed more extensively in the concluding chapter. At a more concrete level, we must examine the failure of the NDP government to enunciate a coherent industrial policy. The *Industrial Policy Framework* issued by the government in July 1992 did not meet the test of unity, clarity, and coherence. At the most specific level, lies an analysis of the government's failure to implement the industrial policy agenda set out in the IPF.

A number of factors combined to prevent the NDP government from living up to the expectations of supporters such as Mackenzie. Interviews conducted indicated that most respondents felt the fiscal/budgetary situation played a significant role in shaping the NDP's industrial policy accomplishments. Interviews primarily indicated, however, that there were cultural/attitudinal barriers which existed at the bureaucratic level, and among industrial policy 'partners' such as the business and labour communities, which proved formidable, preventing achievement of third order change. As well, the government did not provide the political leadership necessary to alter significantly the relationship between industry and the provincial state. The premier's vision for the relationship between the state, the economy, and society was too ambitious to be achieved over the course of a four- or five-year mandate. Like Peterson, Rae failed to give his government's industrial policy (the IPF) his wholehearted support. Ultimately, these and other constraints prevented the government from achieving its policy objectives.

6.2.1 Policy Enunciation/Political Follow-Through

It is virtually impossible to make impressive inroads in any policy area without first having a clear, agreed upon strategy.⁷⁷ The NDP did not have such a policy, or strategy, upon taking power in 1990. Nor did the release of the *Industrial Policy Framework* in July 1992 remedy this shortcoming. The government's attempt to articulate an industrial policy is documented Chapter 3. A government that is unable to articulate a coherent industrial policy will, by extension, be unable to implement a coherent policy. In attempting to pursue an industrial policy that was both 'progressive' and 'competitive,' the NDP government faced cultural barriers at the societal, administrative, and political levels, preventing achievement of third order change. Thus, we see the "progressive competitiveness" agenda contained in the IPF trying to reconcile contemporary economic wisdom, as borrowed from Michael Porter, with an ambitious social agenda. Partisan activist Hugh Mackenzie emphasized the need to pursue these objectives concurrently:

This [commitment to promoting investment and innovation] does not imply that governments should neglect social development issues. Building flexibility into a modern economy requires that workers have security, that they have alternatives and opportunities in the event of displacement and that they have the right to a say in how their workplaces operate. The government's social agenda supports economic renewal.⁷⁸

Although responsible social policy helps create a healthy, productive workforce, successful pursuit of linked agendas is generally more difficult to achieve than when each agenda stands on its own merits.

The final report of the Rae Premier's Council, released in the wake of the NDP's June 1995 electoral defeat, epitomized the belief that societal development must reconcile occasionally divergent concerns. This body had undergone several incarnations over the course of the NDP mandate, progressing from two distinct, broad-ranging councils created in 1991, to a single,

77 Such policies need not be based on long-standing philosophical positions, however. For example, Brian Mulroney's pursuit of free trade was contrary to his earlier position, yet the justification for free trade provided by the RCEU gave his government a clear strategy to follow.

78 *Ibid.*, 19.

comprehensive council based on a desire to address in a single council, the economic, health, environmental, and social concerns of the province. The final report, *Ontario Beyond Tomorrow*,⁷⁹ argued for “a balanced approach to governing by giving equal weight to economic, social and environmental considerations when drafting policy.”⁸⁰ The report further stated that “by embracing change, harnessing the creative energy of our people, and integrating the concerns of the economy, environment, and social well-being in a holistic way, a stronger, more productive, and just society can be created.”⁸¹ Achieving the level of change required to meet these objectives proved to be very difficult, constraining the extent to which the government’s objectives were met in each sphere (economic, environmental, social).

The Premier’s Council reflected the premier’s state of mind. Rae was aware of linkages between the economy, the state, and society. Recognizing the desirability of a coordinated approach to societal development, and implementing such a broad agenda are distinct tasks. Given Rae’s views, which have been criticized both for lacking focus and for being overly ambitious, it is ironic that he noted the inability of the modest IPF to spark significant change:

I think that the major reality that we have to face up to is that we can help to promote certain kinds of investment, we can help to promote certain kinds of activity, and we can make some critical decisions as to whether certain companies will be allowed to restructure and whether we will participate in their restructuring. But, fundamentally, these are decisions that are made in the marketplace, taken by individual companies and taken by individual investors. And given our own economic [fiscal] constraints, that we’d confronted already in 1991, 1992, the reality was there was less money to go around. I think to a considerable extent, you mustn’t make the mistake of thinking that a government document equals some real level of economic activity.⁸²

Rae’s statement suggests that Rae did not expect to pursue a ‘real level of economic activity,’ in implementing the IPF. His apparent lack of support for the anticipatory industrial policy contained in the IPF suggests his expectations of it were very modest. Interviewed after his defeat,

79 Ontario, Premier’s Council and Round Table on Environment and Economy, *Ontario Beyond Tomorrow*, (Toronto: Queen’s Printer for Ontario, 1995).

80 David Crane, “Let’s hope Harris cabinet can keep eye on tomorrow,” *Toronto Star*, September 19, 1995, C2.

81 Premier’s Council, *Ontario Beyond Tomorrow*, 9.

82 Interview with Bob Rae, August 29, 1995.

in the summer of 1995, he may have been reflecting on the fact that the impact of the Rae government on the economy was felt much more significantly in areas such as fiscal policy, and through ad hoc, reactive industrial policy initiatives such as facilitating the retention of major manufacturing employers like Algoma and deHavilland.

Rae demonstrated that the underlying assumptions of the IPF, particularly the importance of meso-level involvement, and the coexistence of cooperation and competition within industrial sectors, was not a vision he had fully embraced. Rae had been involved in the discussions leading up to the release of the IPF, but seems to have preferred to focus his – and his government’s – attentions on reactive projects, such as the jobsOntario family of initiatives, particularly those capital projects which would stimulate immediate employment creation while putting in place infrastructure critical for long-term growth.⁸³ Although the jobsOntario initiatives involved government ‘partners’ in the decision process, the types of capital expenditures undertaken through both jobsOntario and the 1990 \$700 million anti-recession initiative were typical for Ontario, regardless of partisanship of government. Essentially, NDP capital initiatives consisted of repackaged Liberal programs.

Rae’s support for ‘concrete’ economic development policies appears to run contrary to the commonly held vision of him as a cerebral man enamoured of grandiose agendas such as that outlined in *Ontario Beyond Tomorrow*. To view Rae in this fashion sells him short, though. Certainly, there is that side to Bob Rae. There is also a side of Rae that was extremely pragmatic. Rae’s pragmatism, evident in social contract discussions in 1993, alienated traditional NDP supporters who had expected the government to give ‘progressive’ elements of the NDP agenda top priority.

Many traditional partisan supporters felt Rae had sold out to the business community. A number of interview respondents noted that Rae in particular (but also Frances Lankin) enjoyed a level of personal credibility among the business community, despite its continued hostility towards the NDP

83 Confidential interview #34 (Cabinet Office official), February 9, 1995.

government. One official noted that “face to face with business, he [Rae] talks the talk; he walks the walk.”⁸⁴ Whether this pragmatism emerged only upon achieving office would be difficult to determine. Certainly, though, this aspect of Rae made it less likely that he would play a key role in pursuing an anticipatory industrial policy that would have required third order change in order to be widely successful.

Even the Ministry responsible for the IPF, the Ministry of Industry, Trade, and Technology (MITT), had little reason to be optimistic about the IPF’s prospects for implementation. Under the direction of the ministry’s Communications Branch, a number of focus groups were conducted with industry representatives both before and after the release of the IPF. Despite a cool response from these representatives the government proceeded with the July 1992 release of the IPF.

It was released anyway, but we had a very low key release. We didn’t play it up at all, because we knew that there was a certain audience for this, and it was other policy people, who did relate to it, but it was not industry.... it didn’t have the same audience, or the same thrust or focus, as the original industrial policy, done by the [Peterson] Premier’s Council.⁸⁵

Having laboured for over eighteen months to determine a direction for an appropriate industrial policy, when the time came to ‘go public’ with an industrial policy vision, the NDP government failed to ‘sell’ the vision to its ‘partners’ in the industrial policy community. This impression has been reinforced by research work undertaken by David Wolfe, after his stint as Executive Coordinator of CCED. Wolfe notes that detailed surveys of seven sectors involved in the SPF showed that “virtually none of the respondents were familiar with the Industrial Policy Framework.”⁸⁶

A number of focus groups conducted with eighteen senior executives from small and medium sized businesses in November 1992 by the Angus Reid Group, demonstrated the extent to which implementation efforts would face an uphill battle. The report noted that:

84 Confidential interview #3 (MEDT official), January 19, 1995.

85 Confidential interview #3 (MEDT official), January 19, 1995.

86 Wolfe, “Negotiating Order,” 22.

respondents were left wondering where the specific MITT Industrial Policy Framework fit within the overall context of the government's economic initiatives for renewal. In fact, virtually all of the respondents felt that the Government of Ontario lacked a clear economic renewal plan.....The tone of the [focus] groups was...one of resignation in the belief that the government was totally out of touch with reality.⁸⁷

The failure of the NDP to politically manage the release and implementation of the IPF echoes the experience of the Liberals. Like the Liberals, NDP attempts to implement an anticipatory industrial policy were hampered by a lack of leadership at both the political and bureaucratic levels. The Premier's attentions were distracted by concerns deemed more urgent, including major battles with the business community over the reforms to the *Ontario Labour Relations Act*, and the Charlottetown constitutional agreement. Like Peterson, Rae dedicated considerable time and energy to the national unity portfolio. One senior official interviewed noted that during the lead-up to the Charlottetown referendum in October, 1992, Rae had little time for other things:

During that time, he [Rae] was out of circulation completely, for anything else, so that everything else that was happening in government was totally relegated to the back-burner, and that was very harmful. Things just did not move forward.⁸⁸

Others also noted this preoccupation. Ehring and Roberts suggest that during the early part of the NDP government's term of office, the Premier was "obsessed" with constitutional affairs.⁸⁹ This 'obsession' prevented him from concentrating his efforts on industrial restructuring. Following the failed referendum campaign, other important issues followed, notably the social contract, and, more generally, a widespread attack on the deficit.

Without full support of the premier, successful implementation of an industrial policy was probably doomed. Anticipatory industrial policies require considerable political nurturing. Achieving 'third-order change,' such as was implied by the IPF agenda, requires that change be affected at societal, administrative, and political levels. The preconditions for anticipatory IP at the

87 Angus Reid Group, prepared for Ontario, MITT, "Focus Groups Concerning the Ontario Government's Industrial Policy Framework Presentation: Interim Report," (Toronto: Angus Reid Group, Inc., 1992), 5, 10.

88 Confidential interview #3 (MEDT official), January 19, 1995.

89 George Ehring and Wayne Roberts, *Giving Away a Miracle: Lost Dreams, Broken Promises and the Ontario NDP*, (Oakville: Mosaic Press, 1993), 306.

level of the Ministry responsible for implementing the IPF were also lacking. Leadership within the Ministry of Industry, Trade, and Technology (later the Ministry of Economic Development and Trade) was lacking for much of the NDP mandate. Until the arrival of Peter Barnes as deputy minister midway through the NDP's mandate, the ministry had operated as a revolving door for deputies since the departure of Patrick Lavelle in 1988. The ministry's problems were further hampered in the early years of the NDP mandate, by a minister, Ed Philip, who lacked the political influence to navigate a coherent policy through Cabinet.⁹⁰ Yet Frances Lankin, who replaced Philip as minister, chose to use her political influence as a strong minister to pursue a component of the economic renewal agenda for which she could claim a greater level of 'ownership.'

Left with the task of implementing the IPF, a document prepared when her concentration was firmly on the challenges of her portfolio as Minister of Health, Lankin chose to put her own mark on the ministry's policy, focusing her efforts on certain components of the IPF, such as the community economic development focus of JOCA (jobsOntario, Community Action).⁹¹ This program produced projects that were manageable in size and scope, allowing Lankin to get involved at the community level in specific projects with demonstrated economic development components, but without necessarily fitting into any 'bigger picture.' A cynic might suggest this approach would yield greater political dividends, gaining the government a profile at the community level. Relatively small amounts of money can be targeted to communities for public projects, yielding impressive 'photo-ops' for either Lankin or a local (NDP) MPP.

Lankin's lack of a personal investment in the development of the IPF, combined with keen political acumen, appears to have resulted in a focus that encompassed only strategic components of the IPF agenda. Had she sat as minister during the formulation of the policy, it would have been

90 Mr. Philip's name was notably absent from discussions with most officials, elected and appointed, concerning the evolution of the IPF.

91 A number of government initiatives, including JOCA, were mentioned in the IPF, but were not generally considered to be part of the IPF agenda. They were apparently added to create the impression that the document represented a coordinated, comprehensive approach to economic development.

interesting to see not only how the implementation of the agenda might have proceeded differently, but also, how the document itself would have been different.

Rae sent mixed messages on the importance of the province's industrial policy through his ministerial appointments. Governing with a thin cast of talented Cabinet Ministers, he placed his most respected Ministers, including Floyd Laughren, Frances Lankin, and Dave Cooke, in 'superministries,' following a reorganization and downsizing of the government's ministerial structure. As Minister of Economic Development and Trade, Lankin apparently had the Premier's confidence to proceed with the IPF agenda, yet he did not commit much of his own political capital to its implementation. He supported some of the main themes in the IPF, such as involvement of industry 'partners' in consensual decision making, yet his comments cited above clearly indicate he had modest expectations of what could be achieved. Without more complete support at the highest political level, successful implementation of the anticipatory agenda of the IPF was probably not possible.

6.2.2 Fiscal/Budgetary Constraints

Patrick Monahan lays much of the blame for Rae's "disappointing performance" on the fiscal situation facing the government, explicitly rejecting the view that Rae sold out his social democratic roots:

What Bob Rae discovered is that there are limits to the amount of money that governments can spend and borrow. If governments want to institute expensive programs, they have to find a way to pay for them. If they are unable or unwilling to raise sufficient tax revenues to cover the costs of the programs then, for a time, they can try to cover the costs through borrowing. But sooner or later, the bills will come due. When you haven't got the money, the program has to be reduced or eliminated. It's really as simple as that.⁹²

Rae made it very clear in my interview with him that he also rejected the view that he had sold out. "I think it's a very superficial, and if I may say so, not a very international perspective....I don't think

92 Patrick Monahan, *Storming the Pink Palace: The NDP in Power: A Cautionary Tale*, (Toronto: Lester, 1995), 238.

that what I was doing had anything to do with selling out. It had to do with an evolution of how modern governments respond. Social democrats have explicitly recognized the existence of the mixed economy, and celebrated it, in practice, since 1921, so I don't see how this is some huge change on my part."⁹³ As Monahan recounts, it was the province's fiscal situation which forced Rae to accept this evolution of how modern governments respond. "He came to understand that if he didn't change course immediately, the international lenders to whom Ontario was beholden would make the necessary adjustments for him."⁹⁴

The fiscal situation inherited from the outgoing Liberals was much worse than had been expected. While this has perhaps become 'standard operating procedure' during transitions between governments of different stripes, in this case the gap between expectation and reality was remarkable. Although the Liberal Treasurer, Bob Nixon had projected a moderate surplus, by the time the NDP took control of the government, provincial finances were headed towards a \$3 billion budgetary deficit. As Figure 4.1, above, clearly shows, this deficit cloud continued to hover throughout the NDP mandate, ballooning to \$12.4 billion in 1992-93, before declining to \$8 billion for 1994-95. This situation was further exacerbated by 'deficit shifting' at the federal level. As shown earlier, (Figure 4.5 and Table 4.1), federal deficit shifting cost the province \$19.4 billion between 1990/91 and 1994/95. In a sense, even this may have been an understatement. Informetrica Ltd. has calculated that federal deficit shifting up to the end of 94/95 would have a cumulative effect on the provincial debt of almost \$41 billion! This calculation included the costs of federal monetary policies, as well as the differential rate of financing at the provincial level.⁹⁵

Most interview respondents agreed that the fiscal situation hampered the ability of the government to pursue industrial policy. One official noted, for example, that "[w]ith finances the

93 Interview with Bob Rae, August 29 1995.

94 Monahan, *Storming the Pink Palace*, 239.

95 Informetrica, for Ontario, Ministry of Intergovernmental Affairs, "The Consequences of Deficit Shifting for Ontario." (Toronto: Informetrica, 1993), 10.

way they are right now, the likelihood of new, big-dollar government programs is reduced considerably.” Frances Lankin noted that the general state of the economy not only restricted the government’s finances, but it also dictated a policy response based on short term demands:

In the first number of months, we were *reeling* from the very sudden downturn of the economy, and its effects on the fiscal situation of the government, and obviously, the economic and job and human impacts and costs within the province and the economy.... Our first couple of initiatives in response were quite short term stimuluses in approach. Traditional short-term job-creation through construction, the anti-recessionary package, to try to get some things going out there.⁹⁶

The economic situation facing the province, particularly the recession and slow recovery which plagued the NDP throughout its mandate, caused a number of difficulties. Rather than being able to focus resources – fiscal and political – on long-term industrial policy, the more immediate concern of the government was on the jobs front. As a result, the various components of ‘jobsOntario’ received a significant share of the government’s attention, and resources. While many of these jobs were in infrastructure projects, such as the extension of the major freeways in the Greater Toronto Area (GTA), which arguably will facilitate long-term provincial economic growth, the jobsOntario focus did not pretend to be a comprehensive industrial strategy. The recession thrust upon the government a situation where ‘the urgent displaced the important.’⁹⁷

In some ways, these claims ring hollow, however. The ability of the government to implement hypothetical spending programs may have been limited by the fiscal situation, but there was little in the IPF that required extensive expenditure. Rather, the success of the IPF depended to a greater degree on the willingness of sectoral partners to forge multipartite decisions. The failure of the SPF and OTAB to meet the objectives set out for them was not the result of inadequate funding

The recessionary situation did impede some industrial policy initiatives, but not in the expected sense. Many programs, such as the Sector Partnership Fund, were based on the principle that

96 Interview with Frances Lankin, July 19, 1995.

97 This phrase summarize a sentiment expressed by many interview respondents. Many spoke of the recurring need to focus attention on political ‘brush fires’ at the expense of longer term initiatives.

government funding should leverage private sector funds, with public funds available only when the private sector 'partner' had demonstrated adequate interest in the program by committing significant financial resources. In the case of the SPF, program take-up was very slow. In difficult economic times, industry is reluctant to commit funds, particularly to experimental programs such as the SPF. One program official stated that "The SPF...was introduced on the down-side of the economic cycle. Money was scarce, it was really very scarce, but we stipulated that this is really a partnership sort of thing, and you have to come to the table with a contribution. We've...been faced with people who have very little cash."⁹⁸

The implementation of the Sector Partnership Fund, the centrepiece of the NDP industrial policy, illustrates how the fiscal situation shaped the government's approach to industrial policy. Political and bureaucratic officials interviewed argued that the real success of the SPF lay in the sector consultation process, rather than the implementation of sector development strategies. This not only allowed them to claim success despite the fact that few sectors were able to proceed to the implementation stage, but it allowed them to claim a moral victory of sorts, without having spent much of the \$150 million program budget. One official jokingly noted that "we saved the tax-payers the full \$150 million that first year."⁹⁹ The policy instrument emphasized was constrained by the fiscal situation facing the province.

The emphasis of the SPF on 'partnerships' and 'consultation' also highlighted the NDP view that government should not be the only stakeholder with a commitment -- financial or otherwise -- to industrial policy initiatives. This view applied not only to the SPF, but also to most other industrial policy initiatives. The SPF experience emphasized the vulnerability of such initiatives to the ability, or willingness, of its various 'partners' to participate fully. This vulnerability created a situation where government programs were dependent on the vitality of both public and private sector

98 Confidential interview with MEDT official, January 13, 1995.

99 Confidential interview #5 (MEDT official), January 13, 1995.

economies. During the NDP years in Ontario, neither of these was in any shape to underpin a significant industrial policy .

6.2.3 The Culture of Change/Partnership

Although the recession created barriers to the successful implementation of an industrial policy, another significant set of constraints was cultural. This is the dimension which interviews were most useful in highlighting. We have noted that achievement of third order policy change as outlined in the IPF would have required widespread cultural change at a number of levels. Change of that magnitude is not accomplished easily. Guy Peters points out that culture exists “at three distinct levels: societal, political, and administrative.”¹⁰⁰ Each of these levels influences the realm of public administration, with “a constant interaction of culture and politics...redefin[ing] the role of government.”¹⁰¹ Because of the complex interrelationships between each of these levels, there must remain a certain degree of synchronicity between them for public administration to function effectively. Thus, “third order change” at one level must be accommodated at other levels.

American researchers have noted that there is a congruence between political culture and the selection of subnational (state) development strategies:

Policies to promote growth raise fundamental questions about the aspirations of a society and the role of government in realizing the goals of its citizens. To the extent that policymakers are socialized into their state’s [province’s] prevailing culture, they will view development in terms that are consistent with underlying values, and pursue an appropriate strategy.¹⁰²

Hanson further emphasizes the relative stability of cultural orientation, and its influence in shaping policy:

If cultural orientations inform developmental strategies...their influence continues over time. The relative stability of cultural values implies that modifications will tend to reinforce

100 Peters, *The Politics of Bureaucracy*, 40.

101 Ibid.

102 Russell L. Hanson, “Political Culture Variations in State Economic Development Policy,” *Publius* 21 (1991), 64.

existing strategies by increasing activity in policy areas already emphasized by policymakers....The effects of culture on development policy are cumulative....¹⁰³

The NDP government brought priorities to the policy table which differed fundamentally from those of the Liberals, and which did not 'fit' with the prevailing political culture of the province. This lack of congruence made implementation very difficult.

Cultural constraints on the implementation of the NDP's industrial policy fall into three main categories. The first can be summarized simply as resistance to change. The substance of the NDP industrial policy agenda may not have seemed very different substantively from that of the Liberals, or the Davis Conservatives, for that matter, but their approach was very different. The processes of consultation on which the NDP relied so heavily represented a fundamentally different approach to governing. Graham White notes that apparent similarities between the two Liberal and NDP governments

tend to obscure fundamental differences...many of which derived from differences in party ideology and in party culture. In terms of the role of the state in the economy, the proper mix of social welfare measures, and the like, the ideological contrast between the Ontario Liberal party and the Ontario NDP are substantial. New Democrats favour a more interventionist state...Once in office the NDP wanted to make substantially more far-reaching policy changes than had the Liberals.¹⁰⁴

The different culture of the NDP affected the process of governing as well as the substance of policies pursued. White recounts that the Liberals

were generally comfortable with the structures and processes [of governing] they inherited...[but that]...as a party of social activists, suspicious of established centres of power, the NDP was much less accepting of the traditional operations of government. New Democrats tend to believe that they bring a 'different approach' to governing that is neither understood nor accepted by the senior bureaucracy. The hostility they exhibit towards the public service is rooted in philosophy and is thus more difficult to dispel...¹⁰⁵

This cultural difference created apprehension in both the bureaucracy and among the various sectoral partners whose cooperation was required to implement the IPF agenda. The challenges of

103 Hanson, "Political Culture Variations," 74.

104 Graham White, "Traffic Pile-ups at Queen's Park: Recent Ontario Transitions," in *Taking Power: Managing Government Transitions*, (Toronto: Institute of Public Administration of Canada, 1993), 116.

105 *Ibid.*, 116, 117.

implementing the Sector Partnership Fund prove illustrative. One official at MEDT noted that:

[I]t was very difficult to get people to act on new ways of doing things, which is what was called for in the *Industrial Policy Framework*....The new and different program is going to involve new untested concepts, so uncertainty is created. This may not be a successful program. You're asking people to become associated with something that might be a complete bust in their view. Who wants to work really hard, go through the pain of change, endure the uncertainty and then come out with egg all over their face?¹⁰⁶

Not only were people reluctant to embrace change, many were uncomfortable with the substantive direction of that change under the NDP. This second dimension concerns the 'culture of partnership' which was the underlying philosophy of the SPF. This philosophy proved a difficult thing to adjust to, particularly when so many of the 'partners' were used to being in adversarial relationships with each other. Many industrial participants in the SPF, accustomed to treating both government and labour as adversaries, were apparently reluctant to accept that through cooperation 'win-win' scenarios could be achieved.

The literature surrounding the experiences of the NDP in power makes a great deal of the ideological bridge that the government was asking both business and labour to cross to facilitate cooperative efforts. Much less attention has been paid to the fact that the sectoral approach utilized in both the SPF and OTAB, often required normally cut-throat competitors to act as 'sector partners.' Again, change of this magnitude (third order change) faced considerable resistance. The program requirement that sector partners share sectorally relevant knowledge was also problematic for many.

At the root of prevailing reservations about the general philosophy underlying the SPF was a reluctance to accept one of the "distinguishing features" of the IPF: that "competition and cooperation are complementary."¹⁰⁷ This principle of the SPF, which led to one of the "competitive fundamentals," the importance of networks and developing linkages and networks, reflected David Wolfe's interest in Michael Best's work, which found its way into both the IPF and Budget Paper

106 Confidential interview #33 (MEDT official), February 14, 1995.

107 Ontario, *Industrial Policy Framework*, ii.

E.¹⁰⁸ In his own work, Wolfe writes that “through cooperation with other firms in a sector, individual firms may be able to accomplish projects that would be too large for them to contemplate individually or they may be able to create infrastructure that will potentially benefit a wide range of firms in the sector.”¹⁰⁹ This principle of cooperation may have been dismissed as “the stuff of academics and not the real world,” just as the focus group respondents dismissed the entire presentation on the IPF.¹¹⁰ One Ministry of Finance official interviewed obviously shared this disdain for the theoretical views embraced by both Wolfe and Riel Miller, noting that their views made it difficult to achieve consensus.¹¹¹ While the attempts of Wolfe and Miller to apply their theoretical knowledge in the Ontario context may have been problematic for some, the attempt to redefine the province’s business culture was a more significant barrier. Wolfe writes that:

the NDP strategy was an attempt to influence the business culture of the province in the direction of creating *socially* organized, firm-based systems for learning, collaboration, cooperation and regulation. This objective runs counter to the prevailing Anglo-American business culture, which has long been recognized as dominated by the ideal of rugged individualism, self-sufficiency and competitive rivalry.¹¹²

Given the magnitude of this task, those modest successes achieved with the IPF -- particularly the institutionalization of dialogue between government, labour, and business, deserve notice.

6.2.4 Bureaucratic Constraints

As the principal ministry responsible for implementing the NDP vision of the economy and society enunciated in the IPF, the Ministry of Economic Development and Trade (MEDT) is the focal point for our discussions of bureaucratic constraints. As an organizational entity, MEDT experienced four

108 Michael Best, *The New Competition: Institutions of Industrial Restructuring*. (Cambridge, U.K.: Polity Press, 1990), cited in Ontario, Ministry of Treasury and Economics, “Budget Paper E: Promoting Equitable Structural Change,” 88. See also Ontario, *Industrial Policy Framework*, 17.

109 David A. Wolfe, “Harnessing the Region: New Perspectives on Canadian Industrial Policy,” Paper presented to the Conference on Regions, Institutions and Technology, (Toronto: September, 1994), 23.

110 Angus Reid, “Focus Groups Concerning the Ontario Government’s Industrial Policy Framework,” 9.

111 Confidential interview #10 (Finance official), February 9, 1995. Wolfe was the Executive Coordinator of Economic Policy; Miller was Special Assistant to the Treasurer.

112 Wolfe, “Negotiating Order,” 20.

types of cultural change which created friction, impeding implementation of the IPF. It underwent an internal re-organization; it was asked to take a fundamentally different approach to the delivery of services to its clients; it experienced internal friction between policy staff and operational staff; and it experienced friction with the Ministry of Treasury and Economics as the politics (and finances) of deficit control took hold. As Schein points out, organizational culture grows out of a series of assumptions and beliefs shared among organizational members, with a common bond arising from an organizational survival mechanism.¹¹³ This view of organizations also recognizes that each unit of an organization can develop its own group culture (or 'subculture'). Thus, not only can the Ministry of Economic Development and Trade be properly seen as a group entity in the broader Ontario Public Service, but each organizational component of MEDT -- such as the Policy Division, or the Industrial and Technology Policy Branch -- should be expected to develop its own organizational or group culture.

MEDT staff had been subjected to several ministry reorganizations over the course of the decade, the most recent occurring after the IPF had been produced. One official interviewed noted that after a series of four or five reorganizations, MEDT faced "total paralysis in the Ministry."¹¹⁴ In my interview with Bob Rae, he suggested that the Ministry inherited by the NDP required dramatic change in order to meet the challenges of the 1990s: "[I]f I may say so, we inherited a very weak and incoherent bureaucratic structure. The ministry [MITT] was not strong. It did not have strong leadership. It was not prepared for the extent of the restructuring that was brought on by the recession in 1990."¹¹⁵ The 1993 reorganization of the ministry was designed to rectify these weaknesses. One official with MEDT noted that "what we're doing now...is trying to do the cultural shift that's involved in taking us from a ministry of industry to a ministry of economic

113 Edgar Schein, *Organizational Culture and Leadership*, (San Francisco: Jossey-Bass, 1985), 6.

114 Confidential interview #19 (Municipal Affairs official), February 13, 1995.

115 Interview with Bob Rae, August 29, 1995.

development.”¹¹⁶

These periods of reorganization provide a shared sense of organizational survival, but also leave the door open for internal power struggles, as bureaucrats jockey for influence in the new organizational entity. Organizational transformations like the replacement of MITT by MEDT, should be opportunities to change unproductive elements of the organizational culture, while identifying and preserving those essential elements of culture.¹¹⁷ Although weaknesses perceived by Rae hampered early efforts at implementation, the changes made should have proven helpful in the longer term.

Along with structural changes, ministry personnel were asked to revamp their approach to the delivery of services to Ontario’s industrial community. The Ministry of Economic Development and Trade’s “Strategic Directions” document, released internally in 1994, noted the “shift away from the delivery of specific programs towards meeting the particular needs of individual clients”¹¹⁸ This approach, coupled with the government’s overall thrust to “control spending and to achieve more with fewer resources”¹¹⁹ represented a real threat to bureaucrats who saw a very direct connection between ‘their’ programs and their jobs! The importance of this factor cannot be overstated. One MEDT official attempted in interview to summarize the difficulties posed by change at the bureaucratic level:

Think what the implications of the new approach, the new ideas are. Then you’ve got to have people who will implement those approaches. That’s going to require people to do things differently from the way they’ve always done them.... Whether you’re talking people within the ministry, or other ministries, like bureaucrats, who have programs and they understand the policies that they’ve operated under in the past, and the programs, and they’ve worked out what the operational implications are of the policies and programs that they’ve got. And they’ve been doing a good job within the parameters of those programs. Now there’s a suggestion that they should do things differently. I would say that [t]here is an understandable, natural human reluctance to change just because somebody comes along

116 Confidential interview #7 (MEDT official), February 1, 1995.

117 See Schein, *Organizational Culture*, 270-296.

118 Ontario, Ministry of Economic Development and Trade, “Strategic Directions” (Toronto: Queen’s Printer for Ontario, 1994), 6.

119 Ontario, Ministry of Finance, *Ontario On the Job and Looking Ahead* (Toronto: Queen’s Printer for Ontario, 1995), 18.

saying that you should change, or "We've got a bright idea for you. Why don't you change?" Change involves the uncertainty -- "Which new programs might you have, and will I still be a part of those programs?"¹²⁰

This opposition to change at the bureaucratic level often manifests itself in a conflict between the policy development function, and the policy/program implementation function. The term 'conflict' is perhaps too strong. This suggests something akin to 'open warfare' between two factions, or subcultures, within a government ministry. Instead, the constraining forces work at a more subtle level, with program officials dragging their feet on new initiatives, protecting their programs, and their budgets, as long as they can. Schein claims that in established organizations, culture can act as a constraint on innovation.¹²¹ Guy Peters has observed that "there is a tension...between the role of the bureaucracy as advocates of innovation in policies and their role as conservers of procedures."¹²² The potential for this tension to impede policy implementation is often increased, when, as in the case of MEDT, these two roles are institutionalized in distinct 'sides' of the ministry. The subculture of the policy division squares off against the various operational units. One respondent noted that "now [after the 1993 reorganization], the policy shop doesn't talk to the operations side."¹²³ If, in time, operational officials become enthusiastic supporters of new initiatives, the damage done by 'foot-dragging' in earlier phases of development has already been done. The four to five year window offered by our electoral system for decisive policy action seems adequate, but is eroded seriously when a government takes over eighteen months to formulate a policy (as was the case with the IPF), and embraces a pre-election 'holding pattern' almost as long before the following election. Six months of foot-dragging while initiatives move between the policy level and the program level may be inconsequential as a proportion of a five year term, but as a proportion of a 'window for action' of less than two years, it takes on a greater

120 Confidential interview #33 (MEDT official), February 14, 1995.

121 Schein, *Organizational Culture*, 272.

122 Peters, *The Politics of Bureaucracy*, 187.

123 Confidential interview #19 (Municipal Affairs official), February 13, 1995.

significance. This is the pattern that corresponds to the NDP experience.

The NDP experience with bureaucratic constraints differs somewhat from the Liberal experience, in that the level of tension between bureaucratic agencies seems to have been lower. This may reflect the Premier's desire to formulate, and implement, government-wide (rather than single ministry) policies. The attempt to situate the IPF as the *government's* industrial policy, rather than just the policy of MEDT was discussed in Chapter 3. The interdepartmental dynamic, particularly the relationship between MEDT and Finance, continued to play a role in shaping the government's attempts to implement the IPF agenda..

The relationship between the Ministry of Finance and MEDT can be understood in part by examining it from the perspective of Savoie's 'guardian-spender' dichotomy, where Finance is the central agency 'guardian', and MEDT is the 'spender.'¹²⁴ This relationship inevitably creates tensions which hamper policy implementation. One program official at MEDT noted that "we obviously try our damndest to work as cooperatively as possible with our colleagues in Ministry of Finance and even though there will be a number of times where we don't see perfectly eye to eye. I think that we have been able to make compromises that ensure [the] fiscal framework and at the same time, preserve the creation of a competitive environment."¹²⁵

Public Administration literature has long held that budgets are the source of competition between government agencies, with bureaucrats acting to maximize budgets.¹²⁶ More recently, Niskanen has suggested that it is not the size of total budget that gauges success in bureaucratic management, but rather, the size of discretionary budget.¹²⁷ As 'restraint-budgeting' has taken hold -- in Ontario particularly since the second year of the NDP mandate -- the ability to measure bureaucratic

124 Savoie, Donald, *The Politics of Public Spending in Canada*, (Toronto: University of Toronto Press, 1990).

125 Confidential interview #10 (Finance official), February 9, 1995.

126 See Peters, *The Politics of Bureaucracy*, 187-189; W.A. Niskanen, *Bureaucracy and Representative Government*, (Chicago: Aldine Atherton, 1971).

127 William A. Niskanen, "A Reflection on *Bureaucracy and Representative Government*," in *The Budget-Maximizing Bureaucrat: Appraisals and Evidence*. André Blais and Stéphane Dion, eds., (Pittsburgh: University of Pittsburgh Press, 1991), 18-19.

performance based on the size of either total or discretionary budgets is suspect. Instead, bureaucratic agencies seek to maximize power or influence. These qualities can be inferred through such things as the calibre of minister and deputy minister, and the support for ministry initiatives at the political level. This change in focus threatens the traditional source of power for agencies like the Ontario Ministry of Finance. As the central agency responsible for distribution of budgets, the organizational culture of Finance (previously Treasury) has arguably been threatened by this shift in emphasis.

Part of the organizational culture of Finance staff is a belief that they have a monopoly on understanding the Ontario economy. Finance staff particularly resent so-called 'experts' infringing on their intellectual domain. One Finance official expressed hostility towards both David Wolfe and Riel Miller, two 'leftist intellectuals' with senior advisory positions, noting their areas of expertise were not applicable in Ontario:

None of them knew a damn thing about the Ontario economy. They knew nothing....David Wolfe thought he knew about the Italian economy. Riel Miller, I don't know what European economies he thought he knew about, but he had quite different views from David Wolfe. Neither of them knew a damn thing about the Ontario economy. That was another inconvenience....They were saying all these things, that were interesting philosophy points, but didn't actually relate to the economy. So, it was an impossibility that you'd ever get data [for Budget Paper E] to support them, because it was for some other economy than the one we were in.¹²⁸

Such hostility at the bureaucratic level brings into question how seriously Finance staff took the IPF agenda, largely moulded by Wolfe.

Rae noted his explicit efforts to break down 'bureaucratic silos.' The administration of the SPF was one example of this philosophy at work. The Sector Development Division, at MEDT, responsible for the SPF, played a role in the SPF process similar to that of a central agency, acting as the 'global coordinating mechanism' for the entire government. Because several different ministries sponsored SPF projects in industrial sectors related to their respective responsibilities,

128 Confidential Interview #10 (Finance official), February 9, 1995.

there was a need to coordinate these initiatives. The Ministry charged with this oversight function was MEDT, rather than Finance. Officials from MEDT would even coordinate the presentation of SPF proposals from other ministries before the Cabinet Committee on Economic (and Labour) Policy. While this move does not seem to have created any open hostilities between the two ministries, it apparently reinforced the existing tensions.

6.2.5 Trade Agreements/Globalization

As discussed in Chapter 4, trade agreements such as the GATT and the NAFTA are properly seen as specific symptoms of the broader trend towards globalization. The constraints imposed on industrial policy making in Ontario by these agreements and by globalization each occur at different levels. The first level is at once the most significant, and ironically, the least identifiable. This is a contextual level, and it shapes the social and economic environment in which public policy is made. Essentially, what this contextual constraint boils down to is an understanding that a globalized economy is one in which the range of policy alternatives available to governments, including provincial governments, is narrowing, not necessarily because some policy instruments contravene trade agreements, but because the effectiveness of government policies in shaping investment decisions is increasingly circumscribed. Political observers and participants, including the Rae government, have increasingly accepted this general contextual constraint in recent years.

Rae not only accepted the inevitability of the growing interdependence of the world economy, he apparently embraced it, making speeches throughout Europe, in particular, in efforts to stimulate Ontario's trade relationships beyond North America. Yet the fact that Rae projected a positive international image does not negate the fact that the forces of internationalization placed constraints on the ability of the Rae government to shape economic development.

Such constraints should be more evident when they take the form of specific restrictions resulting from actual trade agreements such as the GATT/WTO, FTA/NAFTA, and the Internal

Trade Agreement. Interestingly, however, interview respondents did not identify any potential program initiatives which these agreements prevented. Rather, the agreements created a context within which government policy was made.

So far, the agreements do not seem to be a significant constraint on the kinds of policy that we proposed. And, you recognize the trade rule environment, and so you work, once the decision has been made -- those are in place -- then you work within those constraints. Because obviously, it would not be a professional, public service to recommend policies that would immediately fly in the face of the signed trade rules. But I would say that we haven't felt really frustrated, that there are things that we wanted to do, but, gee, if only we hadn't signed, if we didn't have the constraint of the trade agreement, we could go ahead and do this. But given NAFTA, or given the FTA, we can't. I wouldn't say that that has been our experience.¹²⁹

A senior official from MEDT's policy division echoed this view:

My view was 'Let's recognize that those are the rules of the game and get good at it'....[W]e know now that the international financial markets, for whatever reasons, grabbed a lot of what used to be the sovereignty of nations, away from them. You can despair, or you can try to get a handle on it, and try to find other ways to achieve the directions that you want to go.¹³⁰

Trade constraints did dictate certain policy directions, though. For example, the sectoral focus of the Sector Partnership Fund was designed in part to accommodate the potential difficulties resulting from firm-specific assistance programs. The government's fiscal situation was not the only reason to move away from such assistance. Under U.S. domestic trade laws, direct financial assistance from government to industry can be considered countervailable. NAFTA does not reduce that threat. One official interviewed noted ministry concerns about trade agreements:

[The existence of trade agreements] has an impact on how we do our business. Under GATT and NAFTA there's things about subsidies, and you have to be careful about countervail duties, so in terms of how you structure your programs and the kinds of assistance you give, it sets some limits on what you can do....

Countervail is generally only a problem when you're talking about major levels of assistance, or specific-firm assistance, so one of the things that came to play when we structured the IPF, the whole idea of the sector focus, for example, is if you're providing assistance strongly to the sector, then you don't have to worry as much about countervail, and so on.¹³¹

129 Confidential interview #33 (MEDT official), February 14, 1995.

130 Confidential interview #29 (MEDT official), March 23, 1995.

131 Confidential interview #7 (MEDT official), February 1, 1995. This official apparently links the threat of countervail to the NAFTA. The threat of American countervail measures derives from U.S. domestic law, not from NAFTA. One can state, then, that NAFTA does not additionally constrain Canadian policy through countervail measures.

While sector specific assistance is generally considered 'safer' than firm specific assistance (particularly when that assistance is not heavily weighted towards spending, but relies primarily on the establishment of consultative processes), the SPF was one step safer, being explicitly open to all industrial sectors. The NDP government was not going to be accused of picking winners and losers, especially since many of the 'rust belt' industries generally seen to be in decline were disproportionately represented by partisan supporters.

If the SPF as designed was 'trade agreement friendly', the program as implemented was even more so. Because the success of the SPF lay in the ability of the government to foster fora of consultation, and a series of partnerships between and among government, industry, labour, and communities, it has, in practice, fallen even more safely within the parameters of the trade agreements in question. In this critical respect, the SPF was not constrained by trade agreements.

Bob Rae's response, when asked whether the existence of trade agreements has altered the government's approach to industrial policy, suggests the paradoxical effect of such agreements:

The fact that those agreements have been reached and really are the framework in which Canada's going to be living, and Ontario is going to be living, has an enormous effect. From a simple point of view, it means that there are limits on what governments can do. We are not as free as we might like to be to make the kinds of decisions that we would like to make, or in another time would have liked to have been able to make.¹³²

His response suggests that in another time, before globalization limited what governments could do in the field of industrial policy, his government might have made more extensive use of policy instruments generally restricted by free trade.

The impression consistently conveyed by respondents, and substantiated by the actions of the government, was that the trend towards globalization and interdependence placed limits on what governments -- particularly subnational governments -- can do in shaping economic development, which specific agreements such as the GATT/WTO reinforced, by allowing states to impose

132 Interview with Bob Rae, August 1995.

countervailing duties.¹³³ As the factors of production, particularly capital, become more mobile, the ability of government to shape economic development is limited. In that sense, globalization and free trade agreements limit the effectiveness of government, without necessarily preventing any specific policies.

Like the Liberal position on the FTA, the NDP government appeared to reach a point where opposition to the NAFTA was set aside. Accepting the inevitability of the NAFTA, Rae embraced the opportunities for expanded trade that such an agreement afforded. Throughout the NDP mandate, the Ontario economy became increasingly dependent upon the US economy, with US trade accounting for 86.5% of the province's exports in 1990, rising to 89.2% by 1993 (see Figure 6.2).¹³⁴ The export sector was largely responsible for boosting Ontario out of its recession. Rae wisely chose not to bite the hand that fed the health of the Ontario economy. Despite legitimate concerns that traditional labour supporters might be hurt by the opening up of Canada's borders, Ontario's NDP government, or at least its leader, Bob Rae, had apparently grown comfortable with the belief systems surrounding liberalized world trade. Neither Rae nor his trade minister, Frances Lankin, offered apologies for largely abandoning their public opposition to the NAFTA. Lankin, in fact, left the impression that the government's economic development priorities were being met within the NAFTA framework:

There was a pretty heavy plate, with Social Contract, and other sorts of things, that needed to be done, and we were making real progress on implementing programs, like Sector Partnership, like the Ontario Investment Service, changing the trade strategy. There was a lot of work going on with the business community and others, [and] a lot of investment being attracted. [There was] not much that could be won by continuing the high profile stuff on the anti-NAFTA. It essentially started to evaporate...¹³⁵

The NDP government may have paid a political price for abandoning its opposition to the NAFTA, but there was no indication that either Rae or Lankin questioned their decision to move away from

133 Negotiators of the FTA and NAFTA accepted this principle, while accommodating dispute settlement.

134 Ontario, Ministry of Industry, Trade and Technology, "Ontario Exports and Imports, 1985," (Toronto: Queen's Printer for Ontario, 1986), and Ontario, Ministry of Finance, *Ontario Economic Outlook, 1994*, (Toronto: Queen's Printer for Ontario, 1994), Table 16: Ontario - International Trade by Region.

135 Interview with Frances Lankin, July 19, 1995.

this position.

The world trade environment curtails the ability of governments to shape economic development. Agreements such as GATT and NAFTA reinforce this general trend. To the extent that the IPF was prepared in this context, policy *formulation* may have been constrained, with previously available policy options no longer available. Neither NAFTA nor GATT, however, constrained the ability of the NDP to *implement* the IPF.

6.2.6 Constitutional/Federalism Constraints

The Constitution of Canada, specifically the federal system, has shaped the NDP approach to economic development at two levels, similar in many respects to the impact of the various trade agreements. First, the division of powers places jurisdiction for treaty making in the hands of the federal government. As a result, those constraints imposed as a result of the various trade agreements signed, can be attributed, in part, to the division of powers spelled out in the Canadian constitution. Similarly, federal cutbacks in transfers to provinces, particularly the 'cap on CAP' discussed above, significantly constrained the province's ability to pursue large-scale industrial restructuring through grants and subsidies, as had been the practice in the past. While this did not preclude the development of new policy instruments, it did limit the extent to which any new initiatives could rely on the spending of large sums of money.

The Constitution places control over monetary policy in the hands of the federal government. There is ample evidence to suggest that the health of Ontario's economy was detrimentally affected by the direction taken by the Bank of Canada during the NDP mandate. Many interview respondents suggested that control over monetary policy was certainly a tool that would have altered the provincial government's approach to economic development. A technical paper prepared by

Ontario's Ministry of Finance in April 1995¹³⁶ demonstrated the negative effects of the Bank of Canada's unnecessarily tight monetary policy. If the Bank of Canada's inflation reduction targets had been met, rather than 'overshot,' 1992 real GDP in Ontario would have been 4.7% higher, unemployment would have been 1.2% lower, and almost \$2 billion would have been shaved from the 1992 provincial deficit. Because the demand for manufactured goods, on which Ontario's economy is heavily reliant, is interest-rate sensitive, the impact on Ontario's economy of tight monetary policies may be greater than for the nation as a whole.¹³⁷

The implications of this assessment of federal monetary policy are many. First of all, the estimated \$2 billion added to the provincial deficit in 1992¹³⁸ could have been applied to various policy areas, including industrial policy. Second, the fact that federal monetary policy has a harmful effect on many provincial economies demonstrates why there have been several suggestions that the Bank of Canada be made more responsive to the federal nature of Canada, that it be transformed into an institution of intrastate federalism. Such a proposal would give Ontarians greater control over the health of their economy.

I do not mean to suggest that the success of the IPF was significantly hampered by federal control of monetary policy. What is clear, however, is that monetary policy is an important economic lever, and it is a lever over which provincial governments have little, if any, control. Bob Rae stated that the lack of provincial control over many such levers significantly constrains the ability of provincial governments to achieve goals such as those articulated in the IPF:

[There was]...an unrealistic assumption as to how much government, a provincial government, can and cannot do. We don't control monetary policy. We don't control tariffs -- no one does now -- there's a whole series of assumptions about what provincial governments can and cannot do. Provincial governments have to be very focused on what they can do. We can promote a climate for investment, we can promote good education, we

136 Ontario, Ministry of Finance, *The Role for Monetary Policy in Supporting Job Creation and Deficit Reduction*, Toronto: Ministry of Finance, 1995.

137 Ibid, 3.

138 The focus on 1992 should not be taken to indicate this is the only year in which federal monetary policies had a harmful effect on Ontario. Other years throughout the recession of the 1990s likely saw similar negative impacts on the Ontario economy.

can promote good infrastructure, and from time to time, through hydro, and grants, and other things, we can say if you come, we will do this for you and this will allow you to restructure. But beyond that, I don't think provincial governments have got a role. I think there is always a tendency, not an NDP tendency, necessarily, one that didn't simply come from our party's philosophy, or one that was part and parcel of the bureaucracy, always an exaggerated sense of what they can achieve.¹³⁹

These thoughts of Mr. Rae's indicate not only that he was aware of a wide range of constraints, but also that, as a result of such constraints, his expectations of what could be achieved in fulfilment of the IPF agenda were also necessarily quite modest.

6.3 Conclusions

No single factor accounts for the failure of the NDP to implement anticipatory industrial policies consistent with the party's traditional position on the appropriate role of the state in the economy. Instead, a number of factors played a role in constraining not only the vision that was articulated, but also the ability of the government to implement that vision. The argument presented here suggests that without political support at the highest levels, pursuit of interventionist-provincialist, anticipatory industrial policies coordinating micro, meso, and macro level initiatives, is a non-starter. The scale of change required of political, bureaucratic, and societal actors in order to implement the IPF agenda, was considerable (third-order change). Neither Rae nor his government was able to effect such widespread change.

Part of the difficulty of pursuing the IPF agenda was that although certain components were fairly clear, it was less clear how other components fit into the broader agenda. When the party came to power unexpectedly in 1990, it lacked a clear vision of what it wanted to accomplish on the economic development front. With the release of the IPF in July 1992, notice was given that the party still lacked a clear, workable set of policies. In an effort to reconcile conflicting views of the economy and society, a document emerged which superimposed an 'NDP view of the world' --

139 Interview with Bob Rae, August 29, 1995.

sensitive to environmental and social issues – on MITT’s typical policy terrain, focusing particularly on creating ‘competitive advantage’ along the lines advocated by Michael Porter. In an attempt to articulate what Ernst calls “progressive competitiveness,”¹⁴⁰ the IPF suffered from a lack of clarity. This lack of clarity or cohesiveness made it difficult for bureaucrats to implement the broader agenda of the NDP industrial policy, although lack of clarity was not responsible for impeding progress on specific initiatives such as the SPF.

Without the unqualified support of the premier, a comprehensive industrial strategy was not viable. Even with the full support of Rae, it is not clear that governments today have the influence necessary to significantly alter the course of provincial development. Provincial capacity to influence development has declined considerably since the period of time studied by H.V. Nelles in *The Politics of Development*. The sovereignty of states (including provincial states) is being steadily eroded in favour of the forces of internationalization of the economy. For the Rae government, this trend manifested itself in trade agreements such as the NAFTA and the GATT. There was, however, nothing in these agreements that impeded the ability of the NDP to implement the IPF.

The election of the NDP was widely perceived to represent a significant change from the centrist approach taken by the governments of the Peterson Liberals and the Bill Davis PCs. Interviews conducted highlighted the challenges faced by the NDP government in its attempt to facilitate third order cultural change. In trying to forge ‘partnerships’ with the business community, and in encouraging multi-partite bodies including business competitors and labour and community representatives, the NDP government had to overcome significant barriers. These barriers were equally intense within the provincial bureaucracy, where program officials were uncomfortable shifting their focus from a program-centred one, to a client-centred one. Not only did these barriers make implementation difficult, they also proved very costly in terms of time spent ‘gearing up.’ Major cultural change cannot reasonably be achieved in a short period of time. The nature of

140 Ernst, “Towards Progressive Competitiveness.”

electoral mandates in our system of governance thus favours incremental change. Without a wider 'window of opportunity,' the NDP approach stood little chance of success.

Other constraints, such as the bleak fiscal and economic picture facing the province, also hampered the Rae government's industrial policy efforts, constraining the ability of both the private sector and the public sector to 'jump-start' the economy. Where significant public sector funds were made available, as in the SPF, private sector partners were reluctant to commit matching funds necessary for the program to proceed. Federal government cutbacks in transfers to Ontario, particularly the 'cap on CAP,' compounded the province's own fiscal situation, leaving even fewer resources available for program spending. There is no question that the NDP faced fiscal constraints on its ability to pursue industrial policies relying on government spending as their policy instrument of choice. The most significant industrial policy initiatives were more about process than expenditure, however. If the establishment of sectoral level infrastructure, as described by Moore and Booth,¹⁴¹ is the objective, government spending power becomes much less important.

Ultimately, the failure of the NDP government to successfully implement a comprehensive, anticipatory industrial policy cannot be attributed to a single factor, but rather to the coincidence of many factors. Like the Liberals, the most significant factor seems to have been political, followed in turn by cultural constraints, bureaucratic constraints, and fiscal constraints. Neither the constitution nor trade agreements seem to have impeded implementation efforts. It is not clear whether leadership with a singular focus on industrial policy can overcome constraints facing anticipatory industrial policy. What is clear, is that neither the Ontario Liberals, nor the Ontario NDP, had such leadership.

141 Moore and Booth, *Managing Competition*.

Chapter 7: Conclusions

7.0 Introduction

This thesis has explored the reasons underlying the failed attempts of two provincial governments to pursue anticipatory industrial policies within the continental/global economy and a federal political framework. This concluding section extends the experiences of these two governments in an attempt to determine viable approaches for provincial governments to take to industrial policy. The examination of the conditions that led to failure also allows speculation of what types of policies might be successful in similar situations.

7.1 Reasons for the Ontario Liberal and NDP Industrial Policy Implementation Failure

There are both important similarities and differences between the reasons the Liberal and the NDP governments failed to implement the anticipatory industrial policies outlined in their policy documents. While the constraining factors themselves were generally the same (political, bureaucratic, and budgetary constraints), the relative influence of each differed. Both governments indicated a movement towards establishing a form of negotiated order in industrial policy making. Achieving negotiated order in the Ontario economy, or even in selected sectors, would have required what Peter Hall calls third order change, indicating a shift into a new policy paradigm.¹ Because affecting cultural change at the level of public administration requires commensurate change at political, societal, and administrative levels, attempts to foster change without first establishing the preconditions for change, will meet resistance at each of these levels. This was the experience for both the Liberals, and to an even greater extent, the NDP.

The agenda outlined in the Premier's Council report (PCR), *Competing in the New Global Economy*, was prepared in the context of the constitution, globalization, and the Canada-United

¹ Peter A. Hall, "Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain," *Comparative Politics*, 25 (1993).

States Free Trade Agreement. These factors are not found to have impeded implementation of either the broad PCR agenda, or the specific recommendations contained in the PCR. Rather, political, bureaucratic, and budgetary constraints (in descending order) are concluded to have hampered implementation.

The NDP implementation efforts were impeded by political, budgetary, and bureaucratic (in descending order) considerations. Efforts to pursue sectoral level 'negotiated orders' featuring cooperation and consultation among and between business, labour, and government, faced the task of trying to impose a new business culture, replacing the traditional relationships based on competition and antagonism. Such attempts were largely unsuccessful.

7.2 Viability of Provincial Industrial Policies

It is tempting to conclude from the experience of the Liberal and NDP governments in Ontario between 1985-1995, that anticipatory industrial policies are not possible in the current economic context, in a subnational jurisdiction such as Ontario. Such a conclusion is premature, however. The failures of these two governments might better be seen as part of a process. If "precipitating a paradigm shift" is the objective of government -- as it was for the NDP government, if not for the Liberals -- failures should be expected. Indeed, Peter Hall notes that "instances of policy experimentation and policy failure are likely to play a key role in the movement from one paradigm to another."²

Governments intent on pursuing anticipatory industrial policies need to foster the preconditions for such policies, by affecting change at the political, administrative, and societal levels. Public administration results from the convergence of cultures that have social, cultural, and administrative components. Ontario is not a jurisdiction that is amenable to 'one-step' paradigm shifts. The NDP movement towards negotiated order in Ontario was most successful in those sectors where some of

2 Hall, "Policy Paradigms, Social Learning, and the State."

the groundwork had already been laid by previous governments. Sectoral initiatives approved for the greatest amount of SPF funding were in sectors where the Liberal government had guided the development of sectoral strategies prior to defeat in 1990. The whole process of bringing labour, business, and government around common sectoral tables may not have been possible had the Peterson Premier's Council not legitimized the concept of multipartite policy making in Ontario. The Liberal initiative, in turn, benefited from the experience of the Davis Conservatives, in which bipartite (government and business interests) policy discussions were common. The NDP experiences with multipartite sectoral initiatives can perhaps best be seen as consistent with a common policy trajectory, that taken in total, represents a paradigmatic shift. Rather than focusing on the failure of certain specific initiatives, one can look at modest successes, particularly at the level of process. In some sectors, by the end of the NDP mandate, a broader understanding of shared interests and concerns had developed between previously antagonistic parties. Rather than seeing the failure of the SPF to utilize its entire \$150 million budget, one should perhaps view the budget itself as the 'carrot' that brought reluctant interests to the discussion table.

While free trade and globalization are often portrayed as 'enemies of industrial policy,' the experience of the two governments studied here suggests that is not a fair assessment. Neither free trade nor general economic trends associated with globalization impeded efforts to implement the anticipatory industrial policies prepared by the Liberals and the NDP.

Ironically, democratic electoral cycles may be the greatest enemy of anticipatory industrial policy in jurisdictions that lack either a strong-state tradition or widespread acceptance of state intervention in the economy. Reactive industrial policies utilizing ad hoc policy initiatives fit very well with the typical 4-5 year electoral cycle, reaping appropriate electoral benefits for those responsible for preventing the closure of a local industry, or for providing training subsidies for employees 'in transition' between jobs. Anticipatory industrial policies, on the other hand, are by nature long-term undertakings. Three different political parties have governed Ontario in the last

ten years. What incentive is there for such governments to pursue long-term strategies? Perhaps only governments with very stable coalitions of support (such as the Lougheed Conservatives in Alberta) can reasonably pursue long-term industrial policies. Jurisdictions with strong state traditions, particularly a strong bureaucratic presence (e.g. Japan), may be able to 'stay the course' despite the vagaries of elections and government changes, but the Ontario bureaucracy is a long way from that level of permanency or power.

Alternatively, jurisdictions where the ideological variation between political parties is not extreme may be able to pursue policy trajectories that cumulatively have the effect of precipitating third order policy change. While the Harris government and its "Common Sense Revolution" wasted no time dismantling much of the apparatus of the NDP industrial policy, a Liberal government probably would have retained much of the focus of the NDP approach. If policies under consideration have a reasonable chance of surviving transitions of government, governments might be willing to pursue long-term policies despite not reaping short term electoral benefits.

In order for provincial governments to shape economic development, they must concentrate efforts on policies that meet the needs of a global economy and fit within the constitutional division of powers. The emphasis of both the Peterson and Rae governments on education and training reflects a desire to develop strength in areas of provincial competence. There is room for provincial governments, particularly wealthier provinces, to pursue a more active role here, one that places its citizens and businesses in a better position to excel in the global economy. Given the importance of investment in human resources, the ability of provincial governments to shape economic development would clearly benefit from assuming exclusive control over all related components, including education, training, and labour/employment. Another advantage of this focus is that it fits with established cultural expectations – Ontarians expect the provincial state to ensure excellence in education. Indeed, at the societal, political, administrative, and public administration levels of culture, there is a consensus that the provincial state should foster the development of human

resources. This consensus is critical to the success of any industrial policy initiative. Former Clerk of the Privy Council, Gordon Osbaldeston, noted the importance of consensus: "I think industrial strategy requires some kind of consensus if it is going to survive the afternoon's newspapers....I wasn't really anxious to go into the marsh into which a number of my predecessors dashed to disappear forever."³

The success of earlier industrial policy efforts in Ontario facilitated the development of the provincial economy into an advanced, sophisticated economy with strong manufacturing and service sectors. The irony of this is that the economy has grown -- both in size and complexity -- beyond the point where the provincial state can play a decisive role in shaping its development. A 2-cent decrease in the value of the Canadian dollar, *vis a vis* the American dollar, does much more to strengthen the Ontario economy -- by boosting the export sector -- than does anything within the powers of the Ministry of Economic Development and Trade. This is consistent with Boeckelman's assertion "that given the power of external economic forces, subnational efforts may only make a difference at the margin anyway."⁴ Ironically, smaller, less complex economies may be more amenable to provincial industrial interventions. One of the provinces that has had greatest success in shaping economic development through industrial policy over the past decade has been New Brunswick. The wholehearted support of the Premier, Frank McKenna, over the course of an extended tenure as government, has allowed New Brunswick to formulate and implement development policies. Unfortunately, the strategies useful to New Brunswick are not applicable to an economy such as Ontario's.

The successful pursuit of sector-based policies by meso level governments (e.g. provincial governments) depends to a large extent on the existence of a regional or provincial sense of identity.

3 In W. Dodge (ed.), *Consultation and Consensus: A New Era in Policy Formulation?* (Ottawa: The Conference Board in Canada, December 1978), 75-76, cited in Richard French, *How Ottawa: Planning and Industrial Policy Making, 1968-1980*, (Toronto: Lorimer, 1980), 121.

4 Keith Boeckelman, "Federal Systems in the Global Economy: Research Issues," in *Publius*, 26 (1996), 9.

The Peterson government took very tentative steps towards a realization of Ontario's capacity as a regional economy. The NDP government, led by David Wolfe in his capacity as Executive Coordinator of Economic Policy, took much more decisive steps in this direction, spearheading the emphasis on sectors characteristic of the Sector Partnership Fund, and emphasizing spatial/locational characteristics of innovative-growth firms. The Rae government also fostered a sense of provincial identity in its campaign against federal government fiscal policies that discriminated against Ontario as one of the three wealthiest provinces. At a time when Ontario was facing annual budget deficits exceeding \$10 billion, the NDP government spoke up for Ontario's 'fair share' of federal funds. Whether either government successfully created a significant sense of provincial identity remains questionable but future efforts to sustain distinct provincial industrial policies should focus more on the fostering of a provincial identity among citizens, business interests, and the labour movement. This is even more critical when the delivery mechanism for policies is through consultative fora such as the sectoral associations created for the NDP's Sector Partnership Fund.

Developing a sense of regional identity complements another policy instrument that is increasingly relevant in the current political and economic atmosphere: information brokerage. The creation of the Ontario Investment Service (OIS) by the NDP government plugged Ontario into the world, and *vice versa*, providing potential investors outside the province with a wealth of electronic information summarizing the strengths of Ontario at the touch of a button. While perhaps not a satisfactory replacement for strategically located trade representatives, it aimed to stimulate investment in a cost effective manner. The mobility of capital requires that every possible advantage be highlighted by jurisdictions hoping to attract, and keep, investment. Access to information on communities in Ontario, for example, allowed OIS to emphasize less tangible dimensions of Ontario such as quality of living. Information brokerage has the advantage of fitting appropriately with any type of industrial policy, and with virtually any ideological predisposition of government. It is this dimension that makes it particularly appropriate, since the concerns articulated above concerning

continuity between political parties should be minimized.

Another instrument of IP utilized by the NDP, and retained by the Harris government, is the trade envoy initiative. This initiative borrows from the logic of networking, and extrapolates it to the world stage. It also fits, albeit indirectly, with the notion that human resources are invaluable resources. By tapping into a network of well connected Ontarians, the government essentially operates an investment attraction service with no overhead, and no salaries. Similar initiatives linking human expertise with industrial problems, particularly among small and medium sized enterprises (SMEs), provide the government with exceptional value for money, increasingly a concern as jurisdictions focus on deficit/debt reduction.

Notably, most of the policy areas identified above can be pursued in a relatively ad hoc fashion. There is no need to provide philosophical or ideological linkages between them. Indeed, it may be better not to. Given the prevailing business culture, broad-based anticipatory industrial policies face a huge hurdle simply because they are broad-based anticipatory industrial policies. Governments raise all sorts of red flags when they claim to know what is best for the economy in their jurisdiction. In that sense, a series of industrial policy components may stand a greater chance of succeeding if they are not explicitly linked, but rather are presented as ad hoc initiatives with specific, focused objectives.

With the benefit of hindsight, one can more objectively assess the legacy of the Peterson and Rae industrial policies. This requires a brief examination of where the Harris Conservative government has taken industrial policy. If either the Liberals or the NDP had been successful in achieving third order policy change, it would have been no simple matter to erode the achievements made. Almost immediately upon taking office, the Harris government placed all MEDT programs 'under review.' Most of the program components of both the PCR and the IPF have been terminated, although because legal commitments had to be honoured, the death of many programs has been tortuously slow. The cornerstone of the IPF, the Sector Partnership Fund, was terminated, although several

sectors continue to receive funding, honouring previous legal commitments. The Development Corporations, a key component of industrial policy for both the Liberals and the NDP, have been wound down. Most of the program components of the Technology Fund (renamed Technology Ontario under the NDP), also have been wound down. The notable exception has been the Centres of Excellence program, the cornerstone of the Peterson government's industrial policy, to which the Harris government has recently pledged continued support through the end of 2002.⁵

Predictably, program cuts have been accompanied by funding cuts. While the 1994/95 Estimates showed the Ministry of Economic Development and Trade with \$597 million in funding (\$458 million operating, \$139 million capital), 1996/97 Estimates showed the expanded Ministry of Economic Development, Trade, and Tourism with only \$306 million in funding (\$285 million operating, \$21 million capital), almost a 50% reduction.⁶

Although the rapidity with which Harris acted to dismantle the NDP industrial policy was striking, there remain remnants which have shown impressive staying power. Specifically, some sectoral groups have continued to meet. This suggests there may have been adequate cultural change to sustain such bodies. To the extent that such multipartite bodies have survived, one can claim a degree of success for both the NDP's sectoral approach, specifically the SPF, and the Peterson government's Premier's Council, which legitimized multipartite decision-making in Ontario. Because third order change requires that commensurate change occur at societal, administrative, and political levels, progress towards such change is not easily eroded. Efforts to implement both the Liberal and NDP industrial policies required tentative steps towards third order change. As a result, lessons were learned -- particularly lessons about the importance of bureaucratic and political support -- which should well serve future provincial governments inclined to pursue anticipatory industrial policies.

5 David Crane, "Let's hear it for Centres of Excellence," *Toronto Star*, October 21, 1997, D2.

6 Ontario, Ministry of Finance, *Expenditure Estimates: 1994-95, Vol. 1*, (Toronto: Queen's Printer for Ontario, 1994), and Ontario, Ministry of Finance, *Expenditure Estimates: 1996-97, Vol. 1*, (Toronto: Queen's Printer for Ontario, 1996).

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Appendices

Appendix 1: Sample Interview Request Letter

71 Pirie Drive
Dundas, Ontario
L9H 6X6

[Date Code]

Dear **FIELD(2)**:

I am a Ph.D. student at Queen's University (I have enclosed a letter of introduction from my supervisor, Professor Peter M. Leslie). I have received funding from the Social Sciences and Humanities Research Council of Canada to study the formulation and implementation of industrial policy in Ontario during the Peterson and Rae years of government. My primary objective is to explore the various constraints on the pursuit of such policies, with a particular focus on the role played by the Canadian federal system in shaping the ability of provincial governments to pursue development strategies independent of, or in conflict with, federal policies.

I am currently embarking on a fairly extensive interview process, focusing on the process of policy-making, as well as the substance of emergent policies. I will be interviewing provincial officials in key ministries and agencies, including the Ministry of Economic Development and Trade, and the Ministry of Finance, as well as agencies such as OTAB and the Premier's Council.

Your **FIELD(3)** provides you with a perspective on Ontario's recent economic development policies which would be invaluable to my research efforts. I am thus very interested in speaking with you in the near future. I would, of course, consider the content of our discussion as confidential, and would use the results in such a way as to guarantee your anonymity, if that is your preference. To permit a careful consideration of your responses, and to minimize mistakes on my part, I hope you would allow me to tape record the interview. This has become standard practice in studies of this nature, and I would be pleased to provide you with a copy of the transcript if you wish. I would also be willing to proceed without the tape recorder, if you prefer.

I understand that you have a busy schedule. I will be conducting the first round of interviews during the period January 9-24. I will telephone you during the week of January 2-6 to see if you might be free for an interview during this period. If you prefer to contact me, I can be reached at 905-627-3970, or by e-mail at 3djh9@qlink.queensu.ca.

Thank you for your assistance. I look forward to meeting with you.

Sincerely,

Douglas J. Hall
Doctoral Candidate

encl.

Appendix 2: Interview Format and Methodology

A generic set of questions are presented below. The questions were 'fine-tuned' for each interview to ensure the best possible fit between the questions asked and the experiences of the interviewees. Each subsequent interview could thus incorporate relevant information provided by previous interviewees. I was able, for example, to draw to Bob Rae's attention that someone had suggested he found the IPF 'woolly,' and to ask him to clarify his opinion of the document and the industrial policy it contained. Methodologically, this interview strategy combines many of the strengths and weaknesses of both formal questionnaires and depth interviews.¹ Relying on a highly structured questionnaire would have artificially constrained the questions posed, disregarding both the potential for unique contributions from each interviewee, and the importance of being free to follow whatever tangential discussions emerged. Catherine Hakim notes that relatively unstructured personal interviews typically yield a wealth of information:

The great strength of qualitative research is the *validity* of the data obtained: individuals are interviewed in sufficient detail for the results to be taken as true, correct, complete and believable reports of their views and experiences.²

If each interview yields a complete report of the views and experiences of the individual being interviewed, the goal when determining which individuals to interview should be to piece together enough 'pieces of the pie' to get a full sense of 'the big picture.'

Government of Ontario Telephone Directories provided vital information about what individuals were involved in either the formulation or implementation of industrial policies during each of the two mandates. Partial tables of organization were sketched for various stages of both governments to determine which individuals played important roles. Sketches were prepared of the career paths of individuals who appeared to fill pivotal roles (e.g. Manager of Policy Coordination, Industrial and

1 See Catherine Hakim, *Research Design: Strategies and Choices in the Design of Social Research*. (New York: Routledge, 1992), especially Chapter 3, "Qualitative Research," for a discussion of the 'depth interview'.

2 Ibid., 27.

Technology Policy Branch, Ministry of Economic Development and Trade). Individuals who had served in a number of relevant roles over the course of the decade were most likely to be selected for interviews. As a general rule, interviews were arranged to progress up the bureaucratic hierarchy, beginning at the Manager or Policy Advisor level, working up through the Director level to the Assistant Deputy Minister (ADM) level. Standard format letters of introduction were prepared by my thesis supervisor and distributed to prospective interviewees along with a letter appropriately tailored for each individual. Both for logistical reasons and in order to facilitate the hierarchical progression outlined above, prospective interviewees were targeted in three groupings of ten to twelve, with a few key interviews interspersed as opportunities presented themselves.

In total, thirty-five (35) personal interviews were conducted, at an average length of one hour. Interviews ranged in length from fifteen minutes to over two hours. Some individuals were subsequently contacted by telephone for clarification of various points of information. Except in a few circumstances, interviews were tape recorded. This permitted the use of direct quotations from the interviews, and freed the interviewer to engage interviewees in a more natural manner.³ Most interviews were subsequently transcribed, providing 'hard copies' from which quotations could be taken. Working from transcripts, it was much easier both to identify key statements from individuals, and to distinguish patterns developing across several interviews. The interviews were divided into a brief introductory section, distinct sections dealing with the Liberal years and the NDP years (with order depending on the involvement of the interviewee in these two governments), and more general questions designed to invite respondents to more deeply probe their views on the issues raised by the research. Where individuals were not actively involved in the industrial policy field during one or the other of the mandates, their opinions were sought on the policies and actions of that government, although the full slate of questions was not presented. This

3 Tape recording interviews can be 'sold' to the respondent as both a useful way to ensure their intended message is accurately reflected, and as a valuable device for expediting the interview process.

strategy was designed to reinforce the impression that the opinions of respondents were highly valued, while not infringing unduly on the time available for interview purposes.

The interviews started with a brief synopsis of the general research project, including an explanation of the 'intellectual journey' which guided the project. Respondents were then invited to place the work of their current organization in the larger context of the government's approach to economic development. This allowed them to get comfortable discussing relatively straightforward subject matters, and establishing the importance of their work. Interpreting interview responses was often complicated. In one case, the respondent suggested that the implementation of the Liberal policy agenda was not constrained, but rather, that the policy agenda emerging from the Premier's Council itself was so weak that there was not much there to implement. By the time this individual was interviewed a pattern had been established based on previous interviews, indicating that a significant constraint on implementing the Peterson industrial policy had been the lack of cooperation by officials within the Ministry of Industry, Trade and Technology. The individual in question had occupied a key role in the 'policy shop' at MITT under the Peterson government. Although this person's response suggests there may have been substantive problems with the policy agenda enunciated by the Premier's Council, it also fits quite nicely with the established pattern suggesting a failure on the part of the bureaucracy to embrace the PCR.

The heavy emphasis of this research on personal interviews may invite controversy. The dangers of relying on interview research have been noted elsewhere, with suggestions that the self-interest of officials prevents the interviewer from gaining accurate information, or at the very least, preventing the researcher from being confident of the accuracy of information gathered. Protecting against such dangers requires a three-pronged strategy. The first prong, and probably the most important, requires that the interviewer be aware of the potential pitfalls, and to be intentionally on guard for signs of clearly biased responses. The second prong consists of pursuing similar lines of questioning with other respondents, to either corroborate or refute the evidence offered by previous

respondents. Corroborating evidence is particularly convincing when one has reason to believe that self-interest 'should' produce responses different from those given. Thus, evidence gathered from politicians, line department officials, and central agency officials might be expected to differ, reflecting their different perspectives and interests. Where the information offered by diverse sources 'fits' a pattern, that information can be considered quite reliable. Where the information is contradictory, the challenge facing the interviewer is to discern which interpretation is most credible.

Finally, the information gathered through interviews must be compared to other sources of available information. If, for example, respondents cite budgetary constraints as playing a major role in determining policy responses, do the expenditure patterns bear this out? Do the actions of 'program officials' correspond to the words and policy statements of 'policy officials?' In other words, does the empirical evidence support the evidence gathered through interviews?

Inevitably, issues arise which complicate the issue of the reliability of evidence. For example, there were a number of instances where one individual who played a critical role in the unfolding of Liberal and/or NDP industrial policies was closely linked [e.g. by marriage] to another individual in the process. How does one, for example, weigh the validity of the statement of former Secretary of the [Peterson] Premier's Council, Helen Burstyn, that "they [the Peterson Council] had the best consultants," knowing that she married the primary consultant, David Pecaut of the Canada Consulting Group? This anecdotal example emphasizes a point critical to the research undertaken here. More important than the actual words of the interviewees, and the formal responses to questions posed, are the subtle nuances, the expressions, the implications, the suggestions, that the alert interviewer is able to pick up. Rather than arguing that the interview methodology employed here is 'scientifically rigorous,' I am instead suggesting that the interview approach used has revealed to me a number of unmistakable themes which can in turn be communicated to the reader.

Introduction

1. Tell me a little bit about the work of your Branch/Organization, and how it fits with the economic development policies of this government.

Peterson Liberals

1. To what extent was the Premier's Council *Report* (PCR) considered government policy after its release? How was it received at the political level? At the bureaucratic level?

2. What efforts were made to adopt the philosophy of the PCR? [as distinct from its specific recommendations]?

3. When you think of the general approach of the Liberal government to economic development, was the concept of an industrial strategy or industrial policy important to them? What initiatives demonstrate this conception?

4. What factors placed the greatest constraints on efforts to pursue this general approach to industrial policy?

5. What 2 or 3 factors influenced most strongly the Liberal position on the Free Trade Agreement (FTA)?

6. Did the Canada-US FTA have an impact on Ontario's approach to industrial policy/economic development?

7. Did Peterson's strong support for national unity, evidenced by his role in the Meech Lake round of constitutional discussions, lead to restraint in the pursuit of economic development policies counter to those prevailing at the federal level?

8. Did political considerations which accompany the normal electoral cycle affect the approach of the Liberal government to economic development? If so, how?

9. When you think of the general approach to economic development in Ontario, what groups [interests, lobbies, etc] influenced this approach the most?

Rae New Democratic Party

1. To what extent was the groundwork of what became the Industrial Policy Framework laid before the change of government? Did the change of government make a difference to the policy which emerged? What would you suggest I look at to demonstrate this?

2. What is the relationship between the ongoing work of the Premier's Council and the implementation of the IPF?

3. What obstacles have been most significant in constraining either the general approach of the NDP government to industrial policy, or more specifically, the implementation of the IPF?

4. To what extent have budgetary constraints altered the government's approach to industrial policy?

5. Have political considerations which accompany the normal electoral cycle affected the approach of the NDP government to economic development? If so, how?
6. What 2 or 3 factors most influenced the NDP position on the North American Free Trade Agreement (NAFTA)? What is the status of the government's opposition to the NAFTA?
7. Has the existence of these trade agreements altered the approach of this government to industrial policy in Ontario?. If so, how?
8. Did the constitutional situation, specifically the period of debate leading up to the referendum on the Charlottetown Accord, play a role in restraining provincial economic development initiatives running counter to those prevailing at the federal level?
9. How has the nature of the NDP's relationship with business evolved over the course of their mandate? How do you account for this change?
10. When you think of the general approach of the NDP government to economic development, which groups influenced them the most?
11. Are there new policy initiatives where the involvement of client groups is essential to their success?
12. The NDP has created a number of corporate entities which enjoy varying degrees of autonomy. I'm thinking here of the *Ontario International Trade Corporation, OTAB*, and the three infrastructure corporations (roads, sewer and water, and real estate.) Is there a message that we should draw from this pattern?

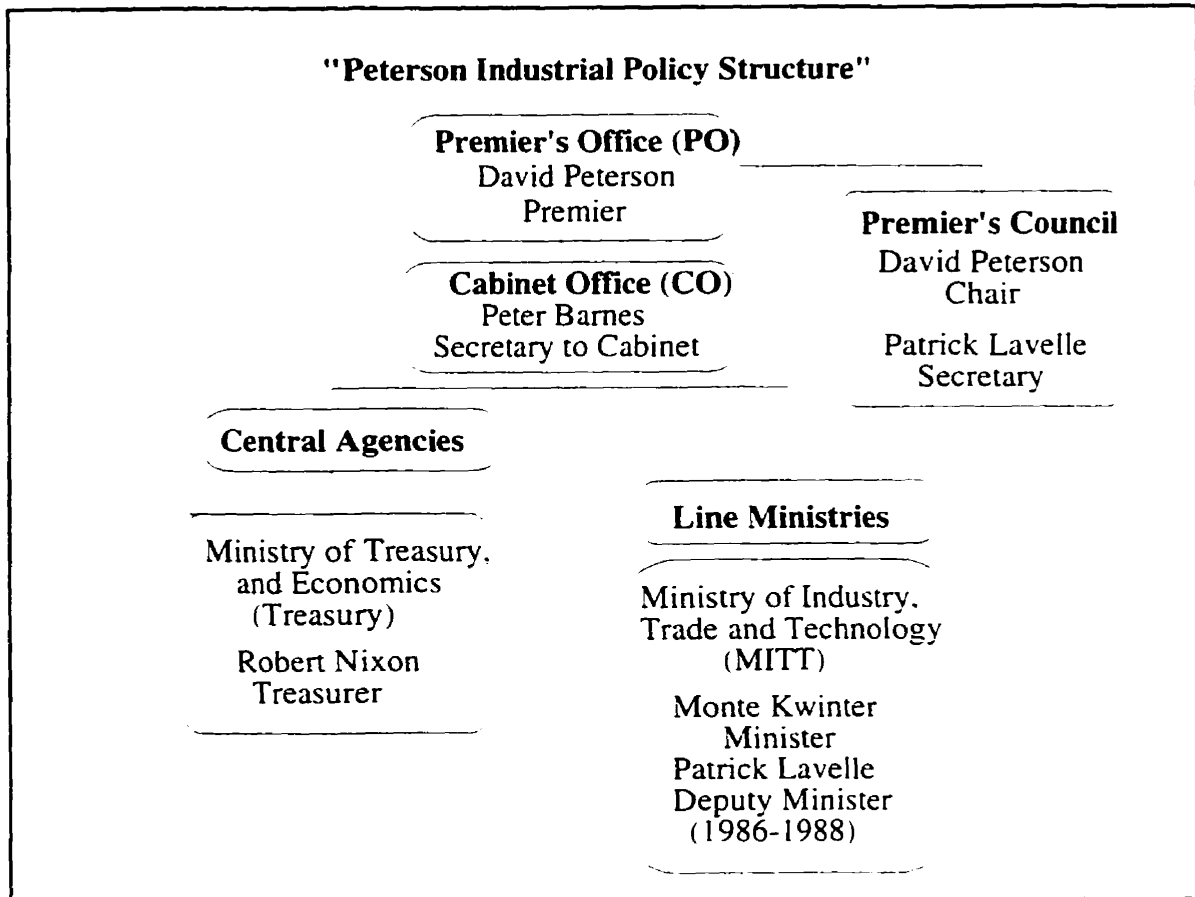
General

1. How often are you typically in contact with officials at the federal level? Are there areas in which the two levels of government tend to work cooperatively? Alternatively, are there areas in which there tends to be conflict or tension? What is the source of such conflict? Has this relationship changed over the course of the decade?
2. Does the provincial government have a role to play in shaping industrial development in Ontario as we move into the next century? What considerations determine the extent of that role?
3. Is a provincial government able to play an active role in industrial policy when the federal government is committed to the pursuit of a strategy based on continental free trade? What did the 1993 federal election mean for industrial policy in Ontario?
4. The Premier's Councils, both under Peterson and Rae, have provided a forum for multi-partite discussion. What are the prospects for the establishment of multi-partite boards with powers to take binding decisions in various industrial sectors in Ontario? Who would be most opposed to the establishment of such boards?

Appendix 3: Glossary of Terms/Acronyms

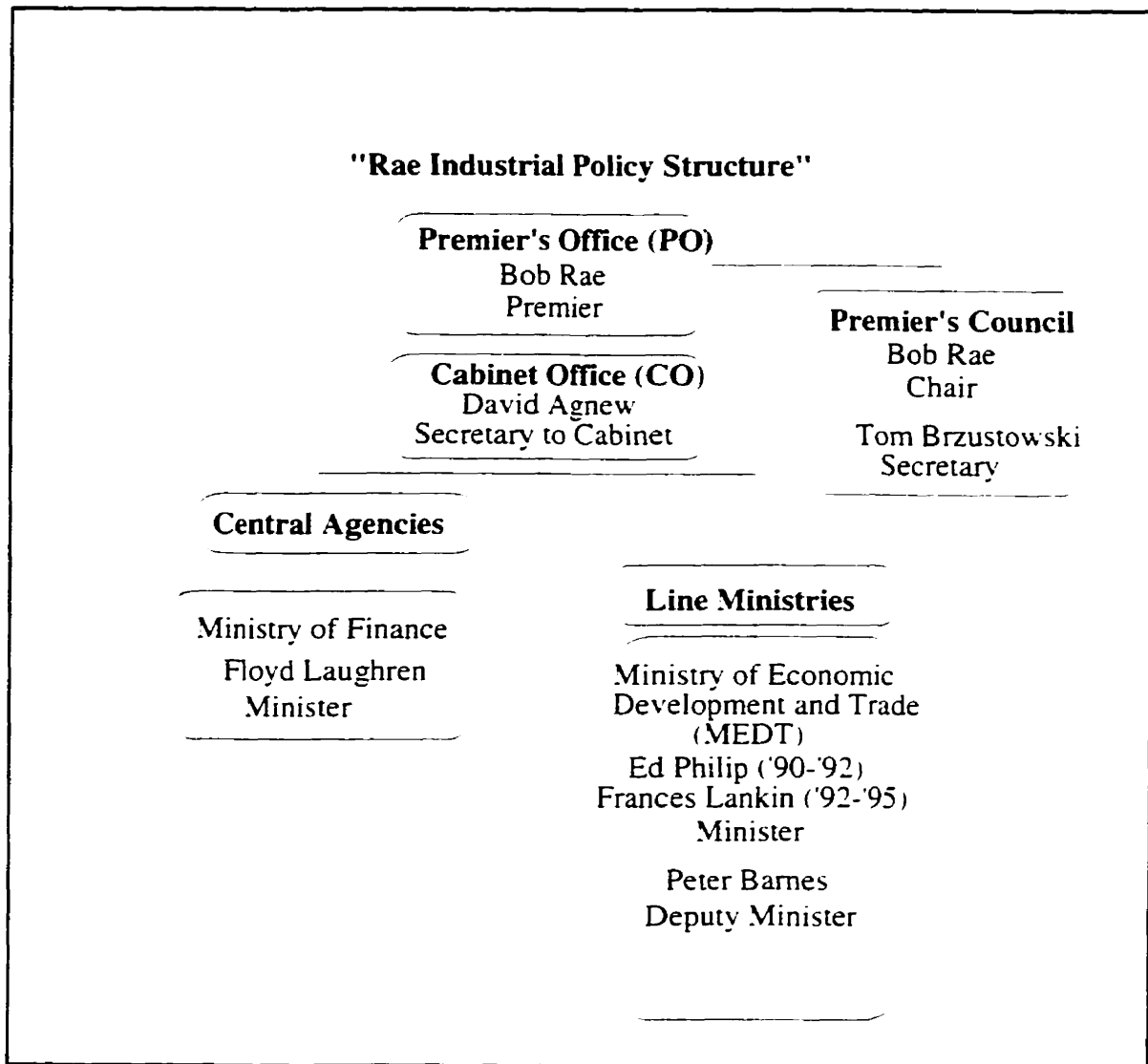
ADM	-	Assistant Deputy Minister
CO	-	Cabinet Office
CCELP	-	Cabinet Committee on Economic and Labour Policy
CCED	-	Cabinet Committee on Economic Development
DM	-	Deputy Minister
Finance	-	Ministry of Finance
FTA	-	Canada/United States Free Trade Agreement
GATT	-	General Agreement on Tariffs and Trade (Precursor to WTO)
IPF	-	Industrial Policy Framework
MEDT	-	Ministry of Economic Development and Trade
MIA	-	Ministry of Intergovernmental Affairs
MITT	-	Ministry of Industry, Trade and Technology (Precursor to MEDT)
MMA	-	Ministry of Municipal Affairs
MTE	-	Ministry of Treasury and Economics (Precursor to Ministry of Finance)
NAFTA	-	North American Free Trade Agreement
OIS	-	Ontario Investment Service
PCR	-	Premier's Council Report
PO	-	Premier's Office
SPF	-	Sector Partnership Fund
Treasury	-	Ministry of Treasury and Economics
WTO	-	World Trade Organization
TNCs	-	Transnational Corporations
JCPC	-	Judicial Committee of the Privy Council
NICs	-	Newly Industrialized Countries
MNCs	-	Multinational Corporations
R&D	-	Research and Development
RCEU	-	Royal Commission on the Economic Union and Development Prospects for Canada (The Macdonald Commission)
US[A]	-	United States [of America]
NDP	-	New Democratic Party
GATS	-	General Agreement on Trade in Services
TEIGA	-	Ministry of Treasury, Economics, and Intergovernmental Affairs (precursor to MTE and MIA)
OEP	-	Office of Economic Policy [central agency economic planning office in TEIGA, MTE, and Finance]

Appendix 4: Liberal Industrial Policy Structure



Appendix 4

Appendix 5: NDP Industrial Policy Structure



Appendix 5

Appendix 6: Premier's Council Recommendations⁴

Recommendation 1

An Ontario Recapitalization Plan should be established to attract investors to indigenous mid-size exporting companies going to public markets to raise new capital.

Recommendation 2

Ontario should put in place a sound industrial restructuring process focused on the traded sectors, requiring the active investment of business, labour, and government, and aimed at achieving timely and workable restructuring actions.

Recommendation 3

The Premier's Council should examine the labour adjustment issues of restructuring in Ontario's core industries and work with the government to develop a comprehensive approach to meeting the adjustment needs of workers in these industries.

Recommendation 4

The government of Ontario should initiate a full examination of the potential benefits of encouraging broader worker ownership in Ontario companies.

Recommendation 5

The Ontario Government should institute a special tax incentive for incremental R&D expenditures above a company's three-year rolling average of R&D performed in Ontario.

Recommendation 6

A strategic approach to procurement should be adopted throughout the Ontario government, including Ontario Hydro. Such an approach should include three initiatives:

- A Strategic Procurement Committee to be composed of independent business, academic, and labour leaders, as well as senior government representatives to lead the initiative.
- A health Care Procurement Commissioner to focus on pulling together Ontario's substantial buying power in the health care field to assist in the development of Canadian medical equipment and pharmaceutical firms, and in attracting foreign multinationals to carry out R&D and locate manufacturing facilities in the province.
- An Enabling R&D Contract Fund which, under the direction of the Strategic Procurement Committee, would receive proposals from all arms of the Ontario government and provide a means for developing competitive Ontario suppliers by awarding small developmental contracts prior to tendering major contracts.

Recommendation 7

The Government should create an Ontario Risk Sharing Fund to provide conditionally reimbursable matching loans to successful, established exporting companies for investments in new product development, prototype placement in export markets, and the establishment of new marketing offices outside North America.

Recommendation 8

The Government should accelerate the refocusing of the Ontario Development Corporations according

⁴ Ontario, *Competing in the New Global Economy*, 15-33.

to the competitive priorities identified in this report.

Recommendation 9

The Government should provide tax incentives for investments in a special class of early venture capital funds.

Recommendation 10

The Ontario government should offer investors in the initial public offerings of Ontario companies in traded sectors a tax incentive significantly above the base level tax credit or deduction offered under the Ontario Recapitalization Incentive Plan described in Recommendation 1.

Recommendation 11

Government should involve the private sector more effectively in university and government research and ensure that industrial priorities play a much more important role in guiding such research.

Recommendation 12

Ontario should establish a Technical Personnel Assistance Program to encourage small- and medium-sized firms to accelerate their hiring of R&D, engineering and other technical personnel.

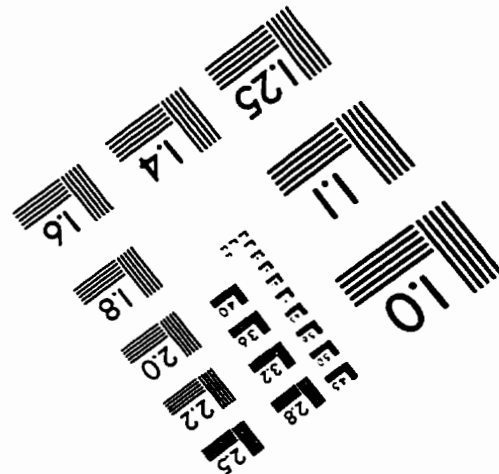
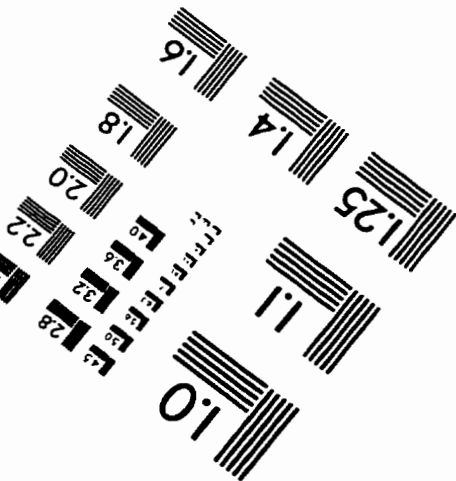
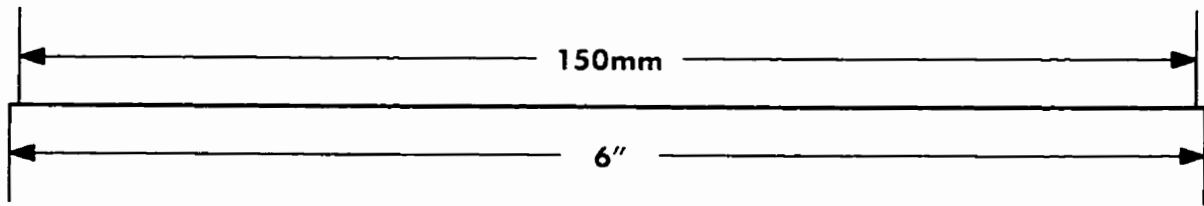
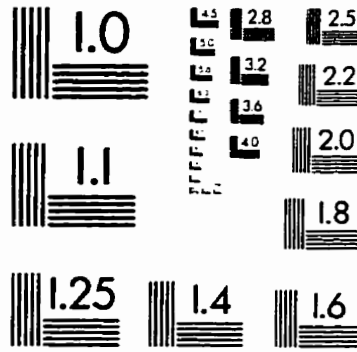
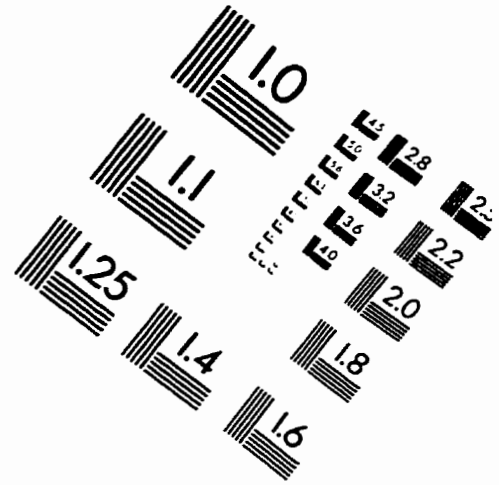
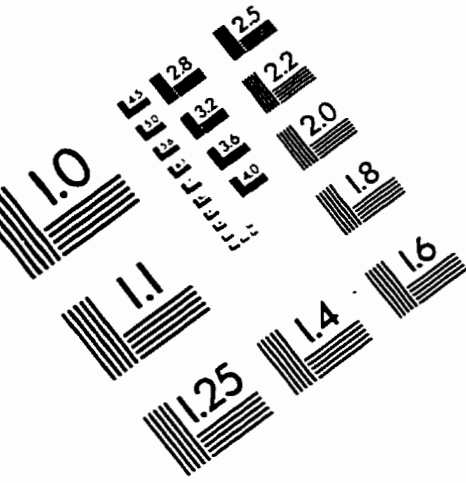
Recommendation 13

The Premier's Council should work with appropriate areas of government to develop a comprehensive people strategy that will address vital education, training, and labour market policy issues as an integral part of the next agenda.

Recommendation 14

The Ontario Excellence Awards should be created to give recognition to individuals for their special contributions to making a better economic future for the people of the province.

IMAGE EVALUATION TEST TARGET (QA-3)



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