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THE EVOLUTION OF THE CANADA DEVELOPMENT CORPORATION

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by

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ABSTRACT

This study has been divided into two levels of analysis. The first and most important level is concerned with examining the evolution of the Canada Development Corporation, hereafter referred to as the CDC. The emphasis of the thesis is on the factors which shaped the Corporation's form and functions. These include national and international economic variables, the personalities and political orientations of decision-makers, specific political circumstances and the decision-making process itself.

The most significant contribution that this thesis makes to knowledge is that it has developed an elite model for explaining the evolution of the CDC. It is argued that Canada's indigenous economic elite had the greatest input into the policy process which created the CDC. This is considered to be the most important factor which shaped the CDC's evolution. As a result of this elite's influence, the federal government structured the CDC so that its primary functions were to buttress and promote elitism and capitalism in Canada.

The second level of analysis is of a macroscopic nature. Here the focus has been on four questions. What does the CDC as a case study say about the role the state has played in the development of the Canadian economy since 1960? Is the CDC a defensive or offensive policy response to the problems of foreign investment, capital formation and economic growth in Canada? What have been the implications of using an elite model to analyze the Corporation and its evolution? And finally, what does the CDC's evolution say about the study of public policy?

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Finally, I am dedicating this thesis to my wife

Mary. I will be forever in her debt for the countless hours she spent typing the many drafts and the final manuscript of this paper. Without her patience, understanding and encouragement, this work would never have been completed.

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INTRODUCTION

This thesis was written for two basic reasons. First, the author has always been keenly interested in the CDC and its activities since it was created in 1971. Secondly, there is a need to examine policy as consequence of the distribution of power in Canadian society. For this author, the thesis has served to integrate his interest in the CDC with a power approach to public policy.

The purpose of this thesis is to examine the evolution of the CDC. By evolution, the writer means the gradual development or working out of the CDC from concept to conception. Many factors shaped this development. It is an analysis of these factors which constitute the crux of this thesis.

THE CDC: A FRAMEWORK FOR ANALYSIS

A variety of frameworks have been used by political scientists to examine the role that the state has played in the Canadian capitalist economy. This study will be conducted on two levels. The first and most important level is microscopic; it focuses on explaining the evolution of the Canada Development Corporation. The second level of analysis is macroscopic; it attempts to set the explanation of the CDC within the theoretical framework of the role the state has played in the development of the Canadian capitalist economy. More specifically, the CDC will be used as a case study for examining how the federal government has tried to come to grips with the interrelated problems of foreign investment and economic development in Canada since 1960.

It seems appropriate at the outset to present a brief summary of the creation and functions of the CDC. During the mid 1960's, Canadians became more concerned with the increasing penetration of the key mining and manufacturing sectors of their economy by American based multinational corporations. The federal government commissioned a study to investigate the future prospects of native industries and "recommend policy proposals for its future independent development."[1] On June 30, 1971, final assent was given to legislation which created the Canada Development Corporation. Act C-219 outlines why the CDC was created. It states;

> The purpose of this Act is to establish a corporation that will help development and maintain strong Canadian controlled and managed corporations in the private sector of the economy and will give Canadians greater opportunities to invest and participate in the economic development of Canada.[2]

Theoretically, the CDC was intended to serve three major functions. First, it was intended to stimulate Canadian economic development by being a vehicle of capital formation. It was to be financed in part by the state and "in part by the savings of a great many individual Canadians and indirectly on their behalf by life insurance companies and pension funds."[3] The CDC was designed to channel these savings into financing the initial development or expansion of large scale industrial enterprises in Canada. This relates to the CDC's second function. That is, it was designed to undermine the position of foreign owned corporations by strengthening the Canadian owned sector of the economy. Thirdly, the creation of the CDC was supposed to ensure that the key sectors of the Canadian economy would remain within direct government control or influence. This would better allow the government to plan for and give direction to economic development in Canada.

Most of this study will be focused at the microscopic level of analysis. The purpose of the study is to analyze the

CDC's evolution in order to determine which factors were most important in shaping the Corporation's objectives and structure. This raises two other issues which this study will address. First, this study will analyze the actual structure and functions of the CDC. And secondly, it will attempt to show how the various factors affected the CDC's structure and functions.

The approach to developing this explanation will stress the adoption of several perspectives of the CDC's evolution. That is, the CDC's evolution will be examined from several different vantage points. This study has been organized so that the reader will get an increasingly narrow perspective of the evolution of the CDC. The first perspective the reader gets is an analysis of the national and international factors which generated a consensus about the need for a CDC of some sort. This is followed by an examination of the political decision-making process which created the Corporation. The stress here is on how political events and personalities affected the Corporation's evolution. The third perspective emphasizes the structural evolution of the CDC. Next, there is an attempt to show how and why the CDC is dominated by a particular elite. An effort is made here to link the evolution of the CDC with the distribution of power and influence in Canadian society. Finally, two specific cases are presented as evidence supporting the study's explanation for the CDC's evolution, structure and functions.

All of this occurs at the microscopic level of analysis.

Once this has been done we will turn back to a broader perspective of the Corporation. This is the macroscopic level of analysis. Here we will deal with four basic questions. What does the evolution of the CDC say about Jeanne Laux's argument that it is primarily a defensive mechanism? Secondly, what does the CDC's evolution say about the role of the state in developing the Canadian economy? Thirdly, what are the implications of this paper for the power approach to studying public policy? And lastly, what does the CDC's evolution suggest about Canadian society and Canadian politics?

Since the decision to create the CDC was a policy decision by the government, it may be useful at this point to outline some of the basic theoretical approaches which have been used to examine public policy in Canada. These theoretical frameworks are useful because it is from them that political scientists have tended to derive their hypotheses about particular public policies. There have been five major theoretical frameworks used to analyze Canadian public policy. One approach views policy as a reaction to environmental factors. A second approach suggests that it is the institutional framework of Canada's political system which has the greatest impact on the formulation and implementation of public policy. Closely related to the institutional approach is one which stresses policy as being the result of a decision-making process. A fourth approach argues that it is change in ideas which is the most important factor influencing government policy. Finally, the fifth approach suggests that policy is the result of the distribution of interests in society and the resources available to those interests. It is the distribution of power and influence which is the key element for explaining patterns of policy.[4]

Richard Simeon has noted that there is a great need to link the study of policy with "the more traditional concerns of political science and in particular with the three most vital elements; power, conflict and ideology."[5] This study tends to link the CDC's evolution to three of Simeon's approaches. For example, the consensus that a CDC of some sort was needed was a reaction to certain national and international environmental factors. The CDC is also viewed in this study as being the result of a decision-making process. However, in the final analysis, this study tends to stress the link between power and the CDC's evolution. This was because a power model seemed to be the most useful in terms of generating some specific hypotheses and suggesting some tentative answers to the questions raised at the macroscopic and microscopic levels of analysis.

This attempt at linking a particular government policy with the concept of power raises a very crucial question. Which power model is the most appropriate for examining public policy? Each of the power models stress that policy outcomes are dependent upon the number of interests involved, the degree of conflict among them and the means of influence each can use to affect the policy process. The power approach to public policy can be subdivided into three fundamental types, each differing in its concept of power, how power is structured and how it is measured.[6] In essence, the utility of different power models as tools of analysis will therefore be assessed in this study.

Each of the three power approaches is associated with a particular view of society, politics and the state in countries characterized by advanced capitalism. Pluralists like Robert Dahl argue that power in Western societies is fragmented and diffused. Society is viewed as consisting of many different blocs of interests which are continually competing with each other. Because of the conflicting pressure generated by these blocs of interest, the state cannot favour one over the others. Instead it must attempt to reconcile all of the competing interests. As a result, Dahl suggests that every active and legitimate group can have input into the decision-making process. Dahl accepts that there are elites in Western societies but argues that they are not cohesive enough to be considered as a dominant class. He claims that power is distributed between several elites but that each elite is influential in a different issue area. Thus, their power is non-cumulative.[7]

This view of Western society does not reject criticism of the political, social and economic order. However, any criticisms are viewed as improving a society whose basic, democratic, capitalistic character is already established and considered to be desirable. This is particularly true when one is discussing the role of the state in the capitalist economy. State interventions do not represent a rejection of capitalism, but rather an improvement of it.

The second major power approach to the analysis of public policy is neo-Marxist class analysis. Neo-Marxists see the state in capitalist society as being the coercive instrument of the ruling class which is defined in terms of its ownership and control of the means of production.[8] It is argued that this small dominant class rules through the institutions which make up the state. Some of these institutions include the military, the government, the administration, police, judiciary and parliamentary assemblies. The state power is wielded by the people who occupy the leading positions in these institutions. Neo-Marxists argue that for many reasons the holders of state power are the agents of the holders of private economic power. The capitalist class rules through the holders of the state power but does not actually govern.[9] Thus, for the neo-Marxist, policy outcomes always reflect the interests of the ruling class.

The third type of fundamental power approach is that of the Millsian elitist. Like the pluralist, the elitist believes that the distribution of interests in society and the resources available to those interests are the important factors for understanding patterns of public policy. However, unlike the pluralist who argues that power is diffused among many competing interests, the elitist argues that power is concentrated among a few groups in society. The pluralist elite model is also different from the Millsian elite model in its conception of elite cohesion. Pluralists argue that elites are not cohesive and compete with each other. The Millsian model suggests that elites have a cohesive nature. Thus, for the pluralists, policy outcomes tend to be distributed widely among competing interests. However, for power elitists, policy outcomes are distributed among the few because only they can influence the policy process.

It is much more difficult to draw distinctions between the neo-Marxist and power elite approaches of examining public policy. In fact, there has been an attempt in recent times to "integrate elite and class analysis."[10] Early elite theorists such as Gaitano Mosca and Robert Michels were not concerned with this integration process and tended to argue that the formation of elites was inevitable and inherent in human relations. More current theorists such as John Porter, C. Wright Mills, G. William Domhoff and Wallace Clement have attempted to "place elites within the context of the class structure by analyzing the extent of particular class membership in various elite positions."[11] Domhoff defined elites as the "operating arm of the upper class."[12]

And yet, despite these attempts to integrate elite and class analysis it must be emphasized that they are distinct concepts. When neo-Marxists use the term "class" they are referring primarily to the economic groups defined by their position in the process of production.[13] Thus, one has slave or master, serf or feudal lord, worker or capitalist. Wherever private ownership exists, there will be a natural conflict between classes over the surplus of production.[14]

Wallace Clement contrasts this notion of class with the concept of elite in The Canadian Corporate Elite. For him, the concept of elite refers to the "set of uppermost positions within any given institutional sphere that is arranged in a definite hierarchy."[15] He also points out that the concepts of elite and class are not interchangeable.

Perhaps the best approach is to regard class and elite as complementary tools of analysis. They can be used separately or together to analyze some aspect of politics. It seems that class is a broader concept than elite. Thus, one may be a member of the upper class but not a member of the ruling power elite. Similarly, one may be a member of an elite and not a member of the upper class.

Each of the three power approaches has aspects which are useful for this study. The pluralist approach could explain the evolution of the CDC in terms of competing blocs of interests. According to this approach the Corporation evolved the way it did because of the competition between economic nationalists in Canada and businessmen concerned about another government intrusion into the private sector of the economy. A neo-Marxist might suggest that the CDC evolved the way it did because of the influence of the ruling upper class. Similarly, an elitist might argue that a ruling power elite wanted to use the CDC to protect its interests and hence affected the Corporation's evolution so that it performed this function.

Of these three, a ruling elite model similar to that used by Wallace Clement in The Canadian Corporate Elite was chosen as the framework for linking the CDC with the concept of power. This approach was chosen because it seemed to be the most useful in terms of generating interesting testable hypotheses. Unlike Clement, there will be no attempt to integrate class and elite analysis. Essentially, the utility of elite analysis for examining the CDC's evolution will be tested in this study.

Clement's Canadian corporate elite consists of the senior managers and directors of the dominant corporations in Canada. This corporate elite has three basic components. These are national or indigenous elites, satellite or comprador elites and foreign or parasitic elites.[16] An indigenous elite is one which originates or is produced naturally in a particular nation. Thus, Canada's indigenous elite would be one which "has independent Canadian controlled bases of power."[17] Comprador elites refer to those who operate the branch plants of the large multinational corporations. Those who operate these branch plants may be either foreigners or citizens of the country where these branch plants are located. The parasitic elite is composed of the heads of multinational corporations who make economic decisions outside the country where their branch plants are located.[18]

Clement implies that Canada's indigenous elite consists of two distinct but interrelated groups. The first group consists of the directors and senior managers of Canadian chartered banks and insurance and finance companies. The second consists of the directors and senior managers of large, privately owned Canadian companies which are or are about to become multinational corporations. Aside from the chartered banks, these large Canadian corporations form the major investment pools in Canada. Since 1900, about five thousand large companies in Canada have disappeared through mergers and takeovers.[19] Today, outside Canadian chartered banks, there are only five major investment pools in Canada. These are the Desmarais Group (Power Corporation), Brascan, Canadian Pacific Limited (CP Investments), WEP Investments (Argus Corporation), and the Bronfman Group (Cemp Investments). These five private investment pools combined with the chartered banks and insurance and finance companies constitute Canada's indigenous elite.

For the purpose of distinction, the two constituent groups of the indigenous elite will be referred to hereafter as the Canadian finance elite and the Canadian multinational corporate elite. It is important to note that there is a great deal of intermingling between the two constituent groups. Much of this intermingling assumes the form of interlocking directorships. Thus, Power Corporation, for example, has two interlocking directorships with the Royal Bank of Canada and the Canadian Imperial Bank of Commerce.

Throughout this discussion, the closeness between the Canadian finance and multinational corporate elites has been emphasized. However, there are some important differences between the Canadian finance and multinational corporate elite. First, the latter seems to have more diversified and international interests than the former. An examination of the corporate holdings of Power Corporation reveals that it consists of some seventy different companies.[20] The difference is functional in that chartered banks are primarily concerned with just finance whereas the Canadian multinationals are far more diversified. Furthermore, chartered banks must be concerned with such things as the Bank Act and the Bank of Canada whereas the Canadian multinationals are faced with an entirely different set of regulations and relations with the government.

Clement himself points out how the Canadian indigenous elite differs from the comprador and parasitic elites. He notes that the most important difference "hinges on the issue of territory."[21] The Canadian finance elite is dominant in the field of finance. The Canadian multinational corporate elite has holdings in this field as well as being dominant in the utilities and transportation sectors of the economy. These have been referred to as the passive growth sectors. In contrast, the foreign parasitic elite is involved with the resource and manufacturing or active growth sectors of the economy.[22] This difference of terrritory is very important if one is to fully understand the CDC's evolution.

Stuart Holland has suggested the active growth sectors of the economy are those which initiate the demand for investment and other goods and services. Modern manufacturing represents the most important active growth sector. For him, mechanical and electrical engineering, electronics and chemical products (including plastics) are the major components of any country's modern manufacturing sector. The passive growth sectors include mainly basic industries and services such as steel, fuel and power, transport, communications, insurance and banking. Holland maintains that in terms of growth promotion, these sectors are passive. They cannot initiate demand themselves but only grow with it. It is the growth of the active sectors which creates demand for the passive sectors and stimulates their growth.[23]

Holland suggests that the historical pattern of nationalization, particularly in Western Europe, first concerned mainly the passive growth sectors. He argues that it is not the already nationalized public enterprise but rather "privately owned and controlled intermediate manufacturing which constitutes the 'commanding heights'" of the western capitalist economies.[24] He further argues that any government which wants to raise the rate of growth of industrial investment should not only promote the active growth sectors through capital grants, tax benefits and long term purchasing contracts but should also "extend public ownership to other sectors than basic industry or services."[25]

The state is faced with some difficult problems when it tries to extend public ownership into the active growth sectors of the economy. First, there is a great deal of economic risk in becoming involved in these sectors. Costs are very high and the potential for success is often low. However, when success is attained profits are usually extremely high. The second problem is that the principle of public enterprise could be discredited if the government only nationalized isolated projects in which private enterprise had been unsuccessful because it failed to modernize or diversify. Thirdly, politicians could not follow the traditional pattern of nationalization and take over all the active sectors outright because this action would be economically and politically prohibitive in the short term.

Politicians dependant upon re-election could not risk the attempt at such a controversial action. Also, an attempt to nationalize all the active growth sectors would probably result in "capital flight, a run on the currency and an investment paralysis which could prove more vicious than the previous low-growth syndrome itself."[26]

And yet, there are some important advantages for public representation in the modern manufacturing sectors. Public ownership of companies in the active growth sectors allows the government to have some control over the rate of industrial investment. It also allows the government to deal more effectively with a problem of balance of payments by helping it plug import gaps or widen export bottlenecks.[27]

It is not necessary for the state to have complete control of a sector or to possess formal controlling interest of an individual company. A state firm can be used to influence private national or multinational firms without actually controlling them. The state can use its firm in a particular sector to influence price competition between products and the scale, rate and location of investment. For example, the state does not have to have formal control of an electronics company in order to directly influence its investment, location and price behaviour or indirectly influence competing private electronics firms.

One important point must be made about Holland's notions of active and passive growth sectors. These categories are not static. Technological advances and changes in economic and political circumstances may lead to a particular "passive growth" industry becoming part of the active growth sector. Holland, for example, suggests that fuel and energy resources are part of the passive growth sectors. However, changing economic, political and technological circumstances have resulted in many natural resource industries becoming part of the active growth sector. The petroleum industry, for example, has certainly not only sustained economic growth but initiated it through industrial investments. Likewise, it is possible for an active growth industry to become part of the passive growth sector of the economy.

Having clarified the analytical framework of this study, it is now necessary to present the hypotheses generated by that framework. These hypotheses focus upon the structure and functions of the CDC and the factors which affected the Corporation's evolution. There is also an emphasis placed on how and why these factors affected the CDC's evolution. One of the central hypotheses of this study is that the CDC evolved to play six basic roles. It will be argued that the two most important functions of the CDC are its roles as a "buttress" and "promoter" of capitalism and elitism in Canada. All of the Corporation's remaining functions flow from these two roles. It will be suggested that the next most significant function of the CDC is that it has evolved to be a mechanism for economic development in Canada. The CDC does this by mobilizing Canadian savings to invest in the development of new or the expansion of existing major enterprises on a Canadian controlled basis. The Corporation stimulates economic development by being a vehicle for capital formation in Canada.

The fourth role that the CDC has evolved to play is that it is a mechanism for "reprivatizing" capital in Canada. That is, the CDC "reprivatizes" public funds. The fifth role played by the CDC is that it has the legal potential to operate as a multinational corporation. It can keep foreign multinationals "honest" on prices and costs by providing a strong Canadian controlled presence. Finally, it will be argued that the least important of the CDC's functions is its role as a tool of economic nationalism. The least significant of its functions is to deal with the problem of foreign ownership in Canada. It may acquire foreign controlled firms operating in Canada if those firms are profitable.

William Andrew Dimma, in an extensive study of the CDC, identified and classified thirty-seven functions of the CDC. He placed them into four categories according to their nature. Fourteen of these functions dealt with economic development and the filling of gaps in the Canadian capital and entrepreneurial markets. Nine dealt with foreign ownership and control, five with the CDC as a multinational corporation and nine were miscellaneous. Dimma then used a 5 point scale to classify each function according to its level of significance. There were three categories of significance. These were primary functions, secondary functions and functions which would likely occur as by-product benefits. Using his terminology, it will be argued that the CDC's roles as a buttress and promoter of capitalism and elitism are primary functions. The same can be said for its roles as a "reprivatizing" mechanism and a vehicle of economic development. The CDC as a multinational corporation is a secondary function. Its role as a tool of economic nationalism is one which will occur as a by-product benefit.

The second hypothesis pertains to the structure of the CDC. It will be argued that the CDC evolved so that it structurally resembled a private corporation. It has not only evolved to become a member of the private sector but it is also managed by private sector actors. The CDC evolved so that its activities were to be managed by a small board of directors. This study will demonstrate that the largest number of these directors are drawn from the private sector. In fact, this study will show that most of these directors have been drawn from Canada's indigenous elite, particularly the multinational corporate group within that elite.

Structurally, the most important question about the CDC revolves around the issue of control. This thesis will argue that Act C-219 ensured that the CDC would be isolated from the political arena. By refusing to make the CDC a crown corporation and by financing it through a "lump sum" budgeting process, Ottawa guaranteed that it would be a part of the private sector. Thus, this paper will argue that the CDC is not legally responsible to any government agency. Furthermore, it cannot be controlled through the annual federal budget.

These then are the arguments which will be made about the functions and structure of the CDC. The question now is to determine what factors affected the CDC's evolution so that it fulfilled these functions and assumed this structure. It is also important to determine how and why these factors shaped the CDC's evolution.

The central hypothesis of this study is that several factors shaped the evolution of the CDC. It will be argued that the current CDC emerged from multiple causes. These factors range from environmental variables and political events to the input that Canada's indigenous elite had into the decision-making process which created the Corporation.

The first factors that this study deals with are of an environmental nature. These are the national and international factors which generated the original need for a CDC of some sort. It is these factors which explain why the CDC evolved at the particular time that it did. They also were responsible for creating a consensus among Canadian decision-makers that a CDC was needed.

These environmental factors were basically economic in nature. The international ones included the increasing integration of the world economy and the growing importance of the multinational corporation as an economic unit. These, coupled with national variables such as foreign ownership and the problems of capital formation and Canadian economic development played an important role in the original push for a CDC.

Once a consensus on the general idea of a CDC was achieved, several factors other than the environmental ones became more important. These included the decision-making process itself, the personalities and political orientations of those decision-makers most concerned with the CDC, political circumstances and the input that Canada's indigenous elite had into the decision-making process. Thus, the CDC's structure and functions were shaped by the process of decision-making in Canada. Similarly, personalities such as Walter Gordon, Mitchell Sharp and Maurice Strong affected the Corporation's evolution. Political circumstances such as minority government and ideological splits within Cabinet also shaped the CDC's evolution.

One of the key concerns of this study will be to integrate the elite model discussed earlier with the evolution of the CDC. This model generated some interesting hypotheses. The most important of these for this study concerns the influence Canada's indigenous elite had upon the CDC's development. It will be argued that Canada's indigenous elite, particularly the multinational corporate group within that elite, was the most significant factor which shaped the form and functions of the CDC. This elite had the greatest input into the decision-making process which created the Corporation and hence had the greatest influence upon its evolution. It will be further argued that the government, for reasons of its own, allowed this elite to affect the development of the CDC.

These arguments raise three other questions. How was the Canadian multinational corporate elite's influence manifested in the policy process which created the CDC? Why was that elite so concerned with the CDC? And lastly, why did Ottawa let this elite have such great input into the process creating the Corporation?

Once a consensus about the general need for a CDC had been achieved among political decision-makers, they were confronted with the task of trying to get a further consensus on the form and functions of the CDC. This proved to be a very difficult task. When the government decided to create the CDC it had four models from which to choose. There was the totally publicly owned CDC as advocated by the NDP. It can be contrasted with a completely private CDC. The final two models were mixed. One of these emphasized public economic nationalist functions such as buying back Canadian firms which were owned by foreigners. This was referred to as the Gordon model. The other, the Sharp model, emphasized the private aspects of the CDC. The government's only role would be to create and initially fund the Corporation. After that, the CDC would become a member of the private sector and be managed by private sector actors. Its main function would be to generate profit.

These four models are important indicators of how the concept of the CDC changed as the Canadian multinational elite's influence was brought to bear upon the policy process which created the Corporation. It will be argued in this study that the purely private and purely public concepts of the Corporation were never really seriously considered by the government. Genuine consideration was given only to the mixed models. Here, it will be suggested that a mixed CDC with emphasis on its public aspects was initially favoured by the government. However, because of the Canadian multinational corporate elite's influence, a mixed CDC with emphasis on its private aspects was created by Ottawa.

Initially, Canada's indigenous elite, particularly the finance elite, rejected even the general idea of a CDC. There were some exceptions to this negative attitude towards the CDC. Some members of the Canadian multinational corporate elite, such as Maurice Strong of Power Corporation, expressed approval of the idea but were worried about what form it would assume. However, once it became clear Ottawa was going to proceed with developing the idea of the CDC, Canada's indigenous elite wanted to make sure that the model most compatible with the private sector was adopted. This was the Sharp or private, mixed model.

The Canadian multinational corporate elite's influence was manifested in the policy process creating the CDC in two ways. First, members of that elite (eg. Maurice Strong) were invited by the government to participate directly in the process creating the CDC.

Secondly, this study will argue that there was a link between the rationale used for creating the CDC and an internal debate between two different factions of Canada's business community. That is, these two factions had different ideas about what the objectives and form of the CDC should be. The Canadian multinational corporate elite favoured a CDC which, as much as possible, resembled a private company. The second group, consisting of smaller Canadian entrepreneurs, favoured a mixed CDC with emphasis on its public aspects. The debate between these two groups was not only found upon the editorial pages of magazines and newspapers but also found its way into the political arena.

It will be further argued that during the CDC controversy, the latter faction was best represented in the political arena by Finance Minister Walter Gordon. He was a partner in the Toronto accounting firm of Clarkson, Gordon and Company. He has often been referred to as the initial architect of the CDC. His chief concerns were that the CDC should be used to offset foreign ownership and to fill gaps in the Canadian capital market.

It would be difficult to argue that Gordon did not have any impact on the evolution of the CDC. However, this study will argue that his concept of the CDC lost out to the more private, mixed model. In fact, it will be suggested that the continual delaying of Gordon's CDC legislation was the result of the opposition of the Canadian multinational corporate elite to his model of the Corporation. This elite's ideas about the CDC were best represented in the political arena by Mitchell Sharp. He had some significant corporate links with Brascan. When he succeeded Gordon as Finance Minister, the concept of the CDC was changed so that it was more acceptable to the Canadian multinational corporate elite. Thus, it will be suggested that when Edgar Benson finally created the Corporation in 1971, it resembled the Sharp model more than the Gordon model.

Initially, members of Canada's indigenous elite became concerned with the CDC because they feared it was an intrusion by the government into the private sector of the economy. However, some, like Maurice Strong, saw that the CDC could be a useful mechanism under certain conditions. Those conditions were that the CDC would have to be as much a part of the private sector as possible. And secondly, it would have to be managed and controlled by Canada's indigenous elite, particularly the multinational corporate group within that elite.

If these conditions were met, the CDC could provide some interesting benefits for the Canadian multinational corporate elite. First, one of the main ideas behind the CDC was that it would become involved in the active growth sectors of the economy. If members of the Canadian multinational corporate elite managed the CDC they would naturally have some direct influence upon the Corporation's investments in the active growth sectors. By getting involved here, the Canadian multinational corporate elite would no longer have to rely upon investment by the foreign elites in the active sectors of the Canadian economy. The multinational corporate elite would no longer have to depend upon growth in the foreign owned active sectors for the passive sectors to grow. Thus, the CDC would be a vehicle which would allow the Canadian multinational corporate elite to gain some control of the active growth sectors of the economy without taking any of the direct, financial risks involved in investing in those sectors. This greater control of the active sectors through the CDC would allow the Canadian multinational corporate elite to better coordinate the growth of its passive sectors and increase profits.

This study will argue that Ottawa willingly agreed to the Canadian multinational corporate elite's conditions for accepting the CDC. That is, the government purposely let this elite influence the policy process which created the CDC. It will be further argued that there were several reasons why the government followed this course of action. These reasons can be divided into those of a practical nature and those of a philosophical nature.

There were several practical reasons why Ottawa agreed to accept a private CDC which had the majority of its directors drawn from the Canadian multinational corporate elite. First, the government wanted to promote this elite through the CDC as a buttress against the increasing influence of the foreign parasitic elite in Canada. One way of doing this was to have the Canadian multinational corporate elite compete, through the CDC, with the parasitic elite. This would help "Canadianize" the active growth sectors of the economy.

Another way that the CDC promotes the Canadian multinational corporate elite is by allowing this particular group of individuals access to the resources of government without being controlled by it. The government's ex-officio directors, for example, can exchange information with the other CDC directors but cannot vote on any of the Board's matters.[28] This gives the Canadian multinational corporate elite a competitive advantage over the foreign, parasitic elite.

Such access to government resources and information has another important implication. Act C-219 does not require the directors of the CDC to divest themselves of their directorships in private corporations. During the debate on the CDC, this fact was one of the NDP's strongest objections to the way the Corporation was structured. In fact, on December 29, 1971, a motion by Stanley Knowles that the directors of the CDC sever their connections with private corporations was defeated by the Liberals and Progressive Conservatives.[29] The point that must be made is that there is no provision within Act C-219 which prevents CDC directors from using government information and resources to promote the interests of their own private corporations. Information about what the government intends to do economically can be a great advantage to a director of a private corporation. Furthermore, CDC directors can utilize the government's information gathering services for their own benefit.

No provision about conflict of interest was incorporated into Act C-219 because the government wanted to promote the Canadian multinational corporate elite. If CDC directors used any government information to promote greater activity by their private corporations in the active growth sectors of the economy, then the influence of the foreign, parasitic elite in those sectors would be undermined. The government preferred the Canadian multinational corporate elite because, unlike their foreign counterparts, the head offices of their corporations were located in Canada. This made them easier to control legally. In addition, if government information could help some Canadian based corporations to become successful multinationals, then Canada would benefit in both a national and an international sense. Nationally, Canada would benefit economically as the profits of these Canadian based multinationals flowed back to the head offices. Internationally, Canada's presence in the world economy would be strengthened.

A second practical reason why Ottawa agreed to the Canadian multinational corporate elite's conditions for accepting the CDC relates to the fact that the government needed the expertise of this elite to manage the Corporation if it was to be a successful venture. The government felt that only this elite had the knowledge and skills necessary to meet the challenge of the foreign multinationals. This expertise was needed if the CDC was to be an effective buttress against the increasing penetration of the Canadian economy by the foreign parasitic elite.

Finally, Ottawa was anxious to achieve a consensus on the form and functions of the CDC because it was to be part of the government's policy for dealing with the problems of increasing global economic interdependence, capital formation, foreign ownership and economic development. With respect to this, it will be argued that, for the most part, the CDC is part of Ottawa's defensive policy response to some important Canadian economic problems. This is evidenced by the fact that the CDC promotes the Canadian multinational corporate elite as a buttress against the increasing influence of the "parasitic elite" in Canada. The CDC is also a defensive mechanism in that it allows Canadians to better compete with foreigners in the active growth sectors of Canada's economy. Lastly, the Corporation is defensive in that it was meant to be a vehicle for securing a place for Canada in an increasingly integrated world economy and in what has been referred to as the "multinational game". These arguments are similar to those used by Jeanne Kirk Laux in her analysis of Canada's response to the increasing integration of the world economy. Her argument that the CDC is part of that Canadian defensive response is particularly relevant to this study and will be dealt with in greater detail in the next chapter.

Underlying all of these arguments of practicality there was another more basic reason why the government accepted the Canadian multinational corporate elite's idea that the CDC should be structured and managed like a private company. Essentially, the federal government assumed that it was best if Canada's indigenous elite developed the Canadian economy. How was this done? Simply by ensuring that the CDC, the state's most significant vehicle of capital formation and economic development, would be controlled by the Canadian multinational corporate elite. The government's philosophical rationale was that private entrepreneurs were better equipped to manage the active growth sectors of the economy than public officials. Thus, the CDC represents a mechanism which the [illegible] state used to buttress elitism and capitalism in Canada.

The CDC is representative of this attitude. Act C-219 establishes a CDC which was to be a mechanism for reprivatization of capital in Canada. The government turned over the CDC's funds to the Canadian multinational corporate elite because of a belief that this elite could use them more efficiently and productively than public officials. This notion of the CDC as a mechanism for removing certain kinds of productive activities from management by the state is further reflected in the fact that Act C-219 allows the Corporation to purchase and assume control of profitable crown corporations such as Eldorado Nuclear and Polymer Corporation.

To briefly summarize, the CDC's evolution has been shaped by a variety of factors. This study will suggest that the most important of these was the influence the Canadian multinational corporate elite had upon the policy process which created the CDC. This elite wanted a CDC which buttressed and promoted capitalism and elitism in Canada. The emphasis was on a CDC which structurally resembled a private company and was managed by private sector actors. Its primary objective was to be the generation of profit. This is exactly the CDC the government enacted with Act C-219.

In concluding this chapter, it is clear that this study will present a series of interrelated arguments about the CDC. That is, when one examines the Corporation one is immediately struck by the wide range of issues and themes which have continually dominated the debate about what the CDC should be. This study will try to draw together those themes and issues.

To understand the CDC, one must realize that Canada is "a private sector business-oriented society par excellence."[31] The Canadian economy is managed by private entrepreneurs. All of the elites, corporate, political and bureaucratic understand, accept and defend this notion. As long as the government respects an unstated but unambiguous inter-sectoral boundary, these elites are mutually supportive and cooperative.[32] Ottawa sets national objectives within the accepted capitalist framework and establishes the basic economic ground rules as long as they are not outside that framework. These ground rules are implemented through incentives and penalties to the private sector. Dimma's likening of the Canadian economy to a football game seems particularly appropriate. Private entrepreneurs are the owners and players whereas the government represents the officials of the game.[33] Clearly, the environment and setting for the CDC are important for understanding its evolution. This is the subject of the next chapter.

FOOTNOTES

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17. Wallace Clement, Continental Corporate Power, (Toronto, 1977), p. 180.

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20. Ibid., p. 50.

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29. Canada, House of Commons Debates, December 29, 1971, p. 3443.

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31. William Andrew Dimma, The Canada Development Corporation:Diffident Experiment on a Large Scale, (Ann Arbor, 1973), p. 21.

32. Loc. cit.

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THE SETTING FOR THE CDC

Since the decision to create the Canada Development Corporation was a policy decision taken by the government, it is necessary to have some understanding of the contemporary environment or setting for policy making in Canada. That setting generally has an effect on the formulation and implementation of any particular public policy. The CDC was no exception.

This chapter will be concerned with identifying and evaluating those elements of the contemporary Canadian setting for policy making which are crucial for developing an understanding of the evolution of the CDC. Essentially, two interrelated questions are being raised in this chapter. Why did the CDC evolve at all? And secondly, why did it evolve at the particular time that it did? That is, why was the CDC created in 1971 instead of say, the 1920s or the 1930s?

To answer these questions one must adopt a broad perspective of the CDC's evolution. Thus, this chapter will not involve an examination of the actual decision-making process which created the Corporation. Instead, the factors which created a consensus among Canadian politicians about the general need for a CDC will be examined. This involves, in Simeon's terms, an analysis of the CDC as a reaction to environmental factors. That is, both national and international environmental factors must be studied if one is to understand why the CDC evolved at all and why it evolved when it did.

Four elements of the Canadian setting for policy making have had the greatest effect upon the CDC's evolution. These elements are national and international in nature. The first element which must be considered is the increasing economic interdependence of the countries of the world. Canadian decision-makers have to formulate and implement national economic policies within the framework of an international political economy characterized by the interdependence of nation-states.

Secondly, the changing pattern of state intervention in the Canadian capitalist system has to be evaluated. The last two elements of the contemporary setting for policy making in Canada are most closely linked to the CDC. The role of the state in capital formation in Canada since 1960 must be analyzed if one is to have a better understanding of the CDC. Fourthly, the problem of the state and foreign investment in Canada must be considered. It is important to note that all of these elements of the setting for policy making in Canada are interrelated. State intervention in Canada, particularly in the areas of foreign investment and capital formation, is related to global economic interdependence. This chapter will attempt to establish the links not only between these four elements but also between them and the CDC.

The first and most important link which must be established is the one between global economic interdependence and state intervention in national economies, particularly in Canada. Many observers have commented that throughout the world, the state has increasingly become involved in economic matters. In fact, Jeanne Laux has argued that;

> The increasing intervention of the state in the economy has become a cliche of our time-in the Third World where "state capitalist" regimes seek to regain some control over the direction of industrial development; in the "Second World" where despite ideological commitment to the withering away of the state, centralized "state socialism" persists; and even in the "First World" of the most industrialized nations where the phrases "big government" and "mixed economy" express the enlarged share of the public sector in economic life.[1]

Why have governments become increasingly involved in economic affairs? A large part of the answer can be found in the growing economic interdependence of the nation-states of the world. However, when one examines the nature of the world economy one must adopt a broader perspective than political scientists have in the past. Traditionally, they have been most interested in studying the relations between governments. To properly understand the interdependent nature of the international political economy analysts have, in recent times, become involved in a broader field of study referred to as transnational relations.[2] Those in this field are concerned with analyzing the "contacts, coalitions, and interactions" that occur across the borders of the nation-states and are not controlled by governments.[3]

By and large, analysts of transnational relations have concentrated on examining the behaviour and effects of large transnational organizations, especially multinational enterprises. The definition of multinational enterprise has been a source of disagreement among many writers. The debate has centred around what criteria should be used in defining multinationals. Size, nationality of ownership, listing on foreign stock exchanges, decision making structure, number of foreign subsidiaries, the degree of internationalization of the proportion of foreign sales, profits, assets and employees have all been used as criteria for defining multinational enterprise.[4] For this study, the term multinational corporation will be used to refer to large, hierarchically structured businesses which operate internationally. That is, a multinational enterprise is a "business enterprise with significant operations in several countries, whose foreign subsidiaries are responsive to, if not totally controlled by, decisions of the parent."[5]

It is primarily because of these multinational corporations that the question as to whether or not any single government can independently shape domestic economic development has been raised. To what extent has international economic interdependence undermined the power of national governments to control domestic economic development? How can the state develop effective economic policies given global economic interdependence? How has state intervention in the national economies of advanced capitalist countries been affected by the interdependent nature of the international political economy?

For this analysis, the term global economic interdependence will be used to refer to "the reintegration of the world capitalist economy after 1945 and its ongoing transformation through the overlapping processes of the internationalization of trade, capital and production."[6] It has been argued that the capitalist economy is not global in scope because of the existence of communist governments in countries such as the Soviet Union and China. Within these countries, the government owns the means of production. However, when these governments conduct economic relations with the rest of the world they must deal with the capitalists within the rules of the capitalist game. The primacy of profit and other capitalist principles must be accepted before communist governments can have any economic links with the capitalist states. The capitalists simply are not interested in such links unless they are profitable. Communist governments realize this and conduct their economic relations accordingly despite the fact that they may ideologically reject capitalism as an economic system. Furthermore, some of the Communist states have allowed some direct foreign private investment in their countries. This illustrates that they too may be becoming part of the global capitalist economy.

Several factors have contributed to global economic interdependence. The three most important factors have been the growth of international trade, the internationalization of money and the internationalization of production. After the Second World War, the governments of advanced capitalist countries institutionalized their commitment to reintegrating the global capitalist economy in the GATT, the IMF and the OEEC (OECD).[7] However, it has been the internationalization of production through the multinational corporations which has made global economic interdependence a reality today.

This interdependence has created a new setting for formulating public policy in advanced capitalist societies. Multinational corporations have global objectives and operations whereas the state's jurisdiction has remained national in scope. National governments must take international economic developments into account when they formulate national economic policies. All such policies are at the mercy of changes in the world economy. The state can only control that part of transnational economic interactions which takes place within its own national boundaries.

Furthermore, the state cannot control how its economic policies will affect the world capitalist economy. Multinational corporations have "stimulated interaction between national economies and reduced the effectiveness of national controls."[8] In short, the interdependent character of the world capitalist economy has reduced the ability of national governments to direct domestic economic development.

Not only has interdependence reduced national autonomy but it has led to increased state involvement in the economies of advanced capitalist nations. Interdependence causes economic and political uncertainty. The state is forced to deal with this uncertainty as well as with newer and more complex problems of economic control. And yet, the paradox is that the state is unable to deal effectively with this uncertainty because it has little control over economic forces beyond its borders. The result is that the state has become more involved in domestic economic matters and in external economic relations. The state has intervened to achieve more control over domestic and international economic matters. This is the link between increasing global economic interdependence and increasing state intervention in the economy.

We must apply these notions of increasing state intervention and global economic interdependence to Canada. In order to develop an understanding of the CDC it is necessary to draw the link between international economic interdependence and the changing pattern of state intervention in Canada. From this link will flow the other two elements of the contemporary Canadian setting for policy making which have had a great impact on the evolution of the Canada Development Corporation; namely the problems of foreign investment and capital formation in Canada.

Much has been written about the pattern of state intervention in the economy of Canada. Virtually all writers agree that one cannot fully understand Canadian capitalism without understanding the role that the state, both at the federal and provincial levels, has played in the economic development of Canada. Although this study focuses on the role of the state at the federal level, it is recognized that the provincial governments have played an important role in Canada's economic affairs.

How does Canada, as an advanced capitalist nation, fit into the pattern of increased state intervention in economic affairs? Although most analysts agree that state intervention has increased in Canada, there is little agreement as to how and why it has increased. Leo Panitch, Wallace Clement, and Dennis Olson argue that the state intervenes in the Canadian economy not "at the command of the capitalist class but for its interests or, more correctly in its general interests."[9] Neo-Marxists see the state as a coercive instrument of the ruling class of Canada.[10] All state intervention in the economy is for the protection and promotion of the interests of that class.

There are several variations of non-Marxist interpretations of state intervention in the Canadian economy. The liberal or "collectivist" interpretation as espoused by writers such as Alexander Brady and Harold Innis suggests that in Canada the state has intervened in the economy in particular cases where the capitalist system does not seem to operate efficiently. The building of the CNR and the introduction of social measures such as family allowances, old age pensions and medicare are pointed to as specific examples of the necessity of state intervention in the economy because of some of the inherent weaknesses of capitalism. This interpretation views intervention in the Canadian economy by government not as a fundamental rejection of capitalism but rather as a buttressing of the market economy.[11]

Hugh Aitken has offered another variation of the liberal interpretation of state intervention in the Canadian economy. His approach suggests that in Canada the state has always participated in economic development. According to Aitken, the state has encouraged expansion of the Canadian economy by intervening in such a way as to facilitate the production and export of staple products. He further argues that the state has intervened in Canada's economy to contain the expansion of the larger and stronger American economy and to preserve "a distinct political sovereignity over the territory north of the present international boundary."[12]

In short, the state has tried to promote expansion of the Canadian economy as a defense against American economic expansion.

This study is not concerned with attempting to resolve the debate between Marxists and non-Marxists about the role the state has played in the Canadian economy. Instead, the CDC will be used as a case study for determining how the state has responded to specific problems such as economic development, foreign investment, capital formation and global economic interdependence. As such, the CDC will serve as an indirect indicator of how the size, scope and quality of state intervention has changed in Canada in the last century, especially since 1945.

When one examines the Canadian experience, Jeanne Laux's argument about how the size, scope and quality of state intervention has changed in the last century is quite convincing. The state has increasingly intervened in the economy and since 1945 the quality of that intervention has changed "from occasional to permanent, from regulation to production."[13] Laux goes on to provide examples which support her argument. She says;

> By the end of the nineteenth century, the form of state intervention had already extended to production, most commonly indirect (i.e. underwriting investment by private capital). (In Canada the development of the Canadian Pacific Railway is a classic instance.) The dramatic changes in the twentieth century have been, firstly, a secular

> trend to increasing size as measured by government expenditures (the rise of the "welfare state"), secondly the shift from sporadic to permanent intervention (the Keynesian revolution) and, finally, the postwar shift in emphasis not only to a more extensive indirect role in production but also to a more consistent direct role (state enterprise).[14]

The central argument made by Laux is that ever since the mid 1960's there has been a qualitative shift in the state's intervention in Canada's economic development. That shift has been made towards what she calls statism. By statism Laux means that the state has been substituted for "private sector actors in order to fulfill economic functions (e.g., the state as entrepreneur, the state as banker and the state as trader)."[15] It is further argued that the state has intermittantly intervened directly in the economy since Confederation, but that from the mid 1960's onward statism as a basic orientation in public policy has been increasing and will continue to increase in the future.

Laux attempts to provide evidence for her arguments by examining the response of the Canadian state to international economic interdependence. It is suggested that Canada has responded in two ways to the problems generated by increasing interdependence. One way has been offensive and the other defensive. On the offensive, the Canadian state "has extended its traditional function of underwriting investment into the international arena."[16]

The state promotes direct foreign investment by Canadian based companies. Defensively, the state has followed two complementary strategies. First, it has " extended its traditional gatekeeper function to regulate the inflow of direct investment capital."[17] This is best evidenced by the creation of the Foreign Investment Review Agency. The second defensive strategy pointed out by Laux involves the state assuming the role of entrepreneur. Here, the state attempts to become an equal partner in or takes control of certain industries in the key sectors of the economy. The purpose of this is to prevent the further loss of control of industrial development to foreigners. Laux suggests that the CDC is Canada's main vehicle for implementing this second defensive strategy.

She points to the state's assumption of the unfamiliar role as entrepreneur as evidence of a shift towards statism. The federal government has not only retained some wartime crown corporations which were geared for producing key goods such as chemicals and atomic energy. Laux argues that new crown corporations have been created not only to "play an ancillary, non-profit role, supplying transportation or cheap power to industry" but rather to engage in the production and sale of goods on the international and national markets.[18] It is pointed out that there are some fifty-six crown corporations that the state can use to further its role as entrepreneur.[19] And yet, with all these crown corporations, Laux argues that the CDC has been the principal vehicle the state has used to promote its role as entrepreneur. The CDC represents the major component of Canada's defensive response to increasing international economic interdependence.[20]

Before one can evaluate the CDC as the major component of Canada's defensive response to global economic interdependence, one must know what the problems generated by that interdependence are for Canada. Two key problems arise which are essential for understanding the evolution of the CDC. These are the interrelated problems of capital formation and foreign investment in Canada.

About one third of all business undertakings in Canada are controlled by foreign enterprise.[21] Much of the direct foreign investment in Canada has occurred through multinational corporations. The Gray Report recognized this fact and suggested that the government would need new powers to meet the challenge of multinational enterprise. Canada has been viewed by some writers as the foremost example of the penetration of a national economy by multinational businesses.[22] It has even been argued that Canada has served as a catalyst for the growth in numbers of multinational firms. The success of foreign owned subsidiaries, particularly American owned ones, "in Canada has motivated many a parent firm to extend its international operations."[23] This is a significant step in the evolution of any multinational firm.

Most of the world's multinational corporations are headed by American parent companies. Some observers have estimated that perhaps three out of four multinationals are owned by Americans.[24] By the end of the 1960's, multinational corporations not only produced fifteen per cent of the three trillion dollar total value of world production but were also leaders in their home economies.[25] In the United States, for example, American based multinationals produced more than thirty per cent of the total American manufactured output.[26]

Of all the industrialized countries in the world, Canada has the highest degree of foreign ownership and control of industry. Most of this industry is in the hands of Americans. Thus, it is not surprising that when Canadians discuss the problem of foreign investment they are referring to American investment.[27] However, it is important to note that although Americans have been the major investors, others, particularly the British, have invested in Canada.

In any case, since the Second World War, foreign investment in Canada has been in the form of direct investment rather than the portfolio investment which was characteristic before the 1930's.[28] American direct foreign investments throughout the world have grown immensely since 1950, primarily through multinational businesses. Total American direct foreign investments have grown from 11.79

billion dollars in 1950 to 31.82 in 1960 to 78.18 in 1970.[29] Total American direct investments in Canada for those respective years has been 3.58 billion dollars, 11.18 and 22.79.[30] Thus, in 1950, 30.4 per cent of all American direct investments were in Canada, in 1960 the figure was 35.1 per cent and in 1970, 29.2 per cent.[31]

It is important to note that it is whole industrial sectors in Canada and not just individual corporations which are controlled by foreigners. In 1948, 43 per cent of Canada's manufacturing sector was controlled by foreigners.[32] By 1963 the figure was 60 per cent and by 1967 it had declined slightly to 57 per cent.[33] American control of manufacturing has gone from 39 per cent in 1948, to 46 per cent in 1963 to 45 per cent in 1967.[34] Foreign control of the petroleum and gas industry remained at 74 per cent for the period between 1963 and 1967.[35] Of that 74 per cent, 60 per cent was controlled by Americans in 1967.[36] In 1948, foreign control of mining and smelting was 40 per cent and rose to 59 per cent in 1963 and to 65 per cent in 1967.[37] For the same years, American control of mining and smelting was 37 per cent, 52 per cent and 56 per cent respectively.[38] By the end of 1973, Statistics Canada reported that 59 per cent of all manufacturing, 96 per cent of the automotive manufacturing industry, and 98 per cent of rubber production were controlled by foreigners.[39] Furthermore, 86 per cent of the chemical industry, 57 per cent of mining, and 76 per cent of the oil and gas industry were also controlled by foreigners.[40]

In April of 1978, the Globe and Mail published further statistics to illustrate the extent of foreign ownership in Canada. These figures appear in Table 1 of this study. They show that foreign ownership of Canadian industries has remained at extremely high levels. The newspaper also noted that 60 per cent of Canada's 200 largest companies (ranked by sales) were foreign controlled.[41]

Since 1945, Canadians have become increasingly concerned with foreign investment and the multinational corporations in their country. A poll by the Canadian Institute of Public Opinion in August of 1978, found that 52 per cent of Canadians favoured buying back majority control of American companies operating in Canada even if it meant a reduction in the Canadian standard of living.[42] ~~This represented an increase of 11 per cent from a similar~~ poll taken in 1977.[43] The 1978 poll also found that 69 per cent of Canadians believed that there was enough or too much American capital in Canada.[44]

Why have Canadians become more concerned with foreign investment in the last two decades? Observers have provided several answers to this question. It has been suggested that a resurgence of Canadian nationalism, a general questioning of the social responsibility of corporations and hostility to the United States have resulted

TABLE 1

Foreign Ownership in Canada by Industry as of April 25,1978

INDUSTRY	% FOREIGN OWNED
Wood Products	28
Pulp and Paper	44
Food	49
Manufacturing	57
Mining (Including Gas and Oil Production)	59
Electrical Products	65
Machinery	68
Chemical Products	78
Transportation Equipment	80
Petroleum Products	100

Source: Bruce F. Wilson and Hugh G. Morris, "Nationalistic Medication for Economic Hemorrhage,", Globe and Mail, April 25, 1978, p. 7.

in Canadians making a closer examination of the problems generated by foreign investment. Others have argued that American control of Canadian industry became more prominent after 1945 and this prompted new Canadian concerns about foreign investment.

Underlying all Canadian concerns about foreign investment is a fear that Canada will be swallowed up culturally, economically and politically by the United States. Canadians have had foreign ownership for years but the presence of multinational corporations and an increasingly integrated world economy have heightened Canadian fears of being dominated by the United States. Canadians are afraid of what Kari Levitt refers to as the "Extra-territoriality" of the multinational corporations.[45] Multinational corporations have the power, within certain limitations, to avoid being controlled by any one government. These corporations are independent actors with private foreign policies which may conflict with or impinge upon a national government's policies. Furthermore, the government of the country where the head of the multinational enterprise is located may insist that its laws apply to the Corporation's subsidiaries in other countries. As Levitt points out;

> The subsidiary is faced by the question: which law is to be respected, the law of the land in which the firm is located or the law of the country in which the owners reside?[46]

Thus, Canadian subsidiaries of American based multinationals can be placed in a situation where there is a conflict of jurisdiction between Canadian and American law. In addition, the American government could influence a parent multinational to ensure that its Canadian subsidiary will follow a particular course of action. In other words, the American government could influence policy decisions by the Canadian government through the political and economic control of the subsidiaries of an American based multinational.

The extra-territoriality of the multinational corporations creates other types of economic problems for Canadians. It is an accepted fact that businessmen have considerable influence over public policy in Canada. Probably only businessmen themselves would not accept the idea that they have a great deal of influence on government policy. In any case, when these businessmen are foreigners or the Canadian managers of foreign controlled firms their influence upon public policy may not be in Canada's best national interests. More generally, their concern with profit may be inconsistent with Canada's national interests.

Foreign control of Canada's economy has two other interrelated consequences for Canadians. It militates against both research and development in Canada and greater employment opportunities for Canadians. The branch plant economy restricts the opportunities for Canadian managers, scientists and technologists. The senior positions in these fields are generally held by foreigners. Furthermore, because Canadian subsidiaries are forced to rely upon their foreign parent companies for research and the development of new products, Canadian personnel do not get any experience in these fields. Canadian scientific and technical talent remains underdeveloped, and thus suffers in terms of upward job mobility.[47]

Foreign ownership has some other significant economic consequences for Canadians. Decisions on the location of the new plants, promotion of senior personnel and the expansion of markets are usually made at the American head office. In the manufacturing sector, foreign firms tend to import parts from their parent companies instead of developing alternative sources of supply in Canada. Finally, branch plants are sometimes discouraged from developing export markets that might compete with the parent firm.[48]

Fear of foreign control and a greater awareness of the problems created by foreign ownership have resulted in Canadians becoming more concerned with that issue. This is evidenced by the number of public inquiries which have been commissioned recently to study the problem. There was the Royal Commission on Canada's Economic Prospects in 1956 and 1957, the Watkins Report of 1968, the Wahn Report of 1970, the Gray Report of 1972 and the reports of the

Select Committee of the Ontario Legislature on Economic and Cultural Nationalism in 1974. All of these suggested that foreign firms do not necessarily operate in the best interests of Canada. The simple fact is that Canada will continue to be faced with this problem as long as 60 per cent of its largest firms are controlled by foreigners.[49] And yet, the question as to why Canada has not only accepted foreign investment but continues to do so even today needs to be answered. Much of the debate about the answer has centred around the problem of capital formation in Canada.

There is no standard definition of capital formation and some economists have even questioned the desirability of one.[50] In this study, capital formation means that "society does not apply the whole of its current productive activity to the needs and desires of immediate consumption but directs a part of it to the making of capital goods."[51] The term has been applied not only to the making of real material capital goods such as tools, machines, instruments and transport facilities but also to the making of human capital; that is to say that an investment is made in providing people with education, health care and training in special skills. Although the latter are important investments, for this study the definition of capital formation will be restricted to the accumulation of material capital since this appears to be the prime and almost exclusive concern of the CDC. In short, capital formation involves society's diverting "currently available resources for the purpose of increasing the stock of capital goods so as to make possible an expansion of consumable output in the future."[52]

There are several factors which account for variations in capital formation in different societies. The growth and movement of population is a very important factor in the process of capital formation. There is a positive correlation between the rate of capital formation and population growth.[53] Population has been an important factor in capital formation in Canada.

Kenneth Buckley, for example, argued that there was a strong relationship between population movements and capital formation in Canada. He claims that the economic opportunities provided by technological changes or the development of new products and commercial markets led not only to an increase in capital formation but also to population movements within Canada. He further argued that such population movements created new demands for social capital goods such as railways, roads, housing and urban services. These new demands "induced investment throughout the economy in major secondary and tertiary industries."[54] Buckley uses the example of the economic opportunity provided by the production of wheat on the Canadian prairie to illustrate how population movements affected capital formation and the economic development of Canada between 1896 and 1930. For him, the whole process of capital formation was over when the demands of growing populations for social capital goods were fulfilled.

The growth and movement of population is a very important factor in the process of capital formation. However, there are some other significant factors which also must be considered. One such factor which is of particular relevance to this study concerns savings as a determinant of capital formation. Capital formation varies directly with the ability to save. The more savings there are, the more capital is available for investment. Thus, it has been argued that a rise in the income per capita will be accompanied by a rise in capital formation because more money will be available to be saved. A similar argument has been made with regard to profits. The argument reads simply that increased profits lead to increased capital formation. The same has been said about the relationship between capital formation and the supply of money. A rising supply of money generated in relation to increasing "real" income increases capital formation whereas a declining supply reduces it. Some of the other factors which affect capital formation include technological advances, the amount of public investment and the distribution of income.[55]

Two things must be noted about the effect public investment has upon capital formation. First, in sectors where it is possible for private entrepreneurs to operate profitably, public investment may have a negative effect on capital formation because it (public investment) competes with private investment. On the other hand, public investment can have a positive effect on capital formation. Every capitalist country has a range of uses for capital which the private sector finds difficult or impossible to exploit.[56] Projects may be too large or risky, the economic benefits too long deferred or the benefits may not be all of an economic nature. In these instances, there is a real need for social capital. However, once the initial public investment has been made, numerous opportunities for profitable private investment may arise and capital formation will be stimulated.

Technological advances generally have a positive effect upon capital formation. However there may be some regional variation. For example, the resources of a region, which were unimportant before, may become more important with advances in technology. Capital formation in this region would be stimulated by the need to develop those resources. Similarly, another region's resources may become less important and hence capital formation here may stagnate or even decline.

Distribution of income is closely linked with the propensity to save as a factor affecting capital formation.

An increase in income per capita usually leads to an increase in capital formation per capita; that is, savings per capita vary directly with "the excess of income over necessary expenses."[57] However, as the distribution of income in a society approaches equality there is a tendency for capital formation to decline. This is because some income classes such as those with high and upper middle incomes save more than others. In short, absolute differences in saving increase faster than real differences in income.

The question which is important for this study is as follows: how are capital formation and foreign investment in Canada interrelated? Traditionally, two arguments have been made in support of foreign investment in the Canadian economy. The first is that restrictions on foreign investments will damage Canada economically. The standard of living enjoyed by Canadians will drop and fewer new employment opportunities will exist. The second recurring argument is that there is a lack of capital in Canada and thus foreign investment is needed. It is further argued that this need for foreign capital is temporary and will disappear once the Canadian economy matures to the point where enough capital can be produced and saved to reinvest in the Canadian economy. The suggestion is that only a mature Canadian economy can be independent.[58]

This argument that capital formation in Canada has been insufficient and that reliance on foreign investment is necessary for Canada's economic survival has been rejected by several political analysts. Professor Kari Levitt's research and analysis has shown that these two basic arguments for foreign investment are not grounded in fact. She argues that although capital formation may have been insufficient during Canada's early history, this is not the case today. Her research indicates that foreign investors, particularly multinational corporations, either send the profits they make in Canada to the parent company in the United States or invest them in other Canadian industries, hence increasing foreign control of Canada's economy. Frequently, the Canadian subsidiaries of American multinationals borrow capital from Canadian financial institutions to invest in the Canadian economy. Thus, a situation arises where foreign multinationals are using the savings of Canadians to increase their control of the Canadian economy.

The problem is in determining when the Canadian economy is mature. Levitt argues that it is mature now and that capital formation in Canada is sufficient as evidenced by the use of the savings of Canadians by multinational corporations. Foreign capitalists save Canadian capital, borrow Canadian capital and invest Canadian capital in Canada for profits which flow back to the United States.[59] The irony is that this whole process only serves to increase foreign control of the Canadian economy.

Levitt has shown that capital formation is not a problem in present day Canada. This should have been no surprise, given the determinants of capital formation. Since Confederation, Canada's population and labour force have grown, per capital incomes have risen, and more savings have been accumulated. These have all acted to promote capital formation in Canada. The problem has been that the major vehicle for exploiting Canadian capital is the multinational corporation. The question facing the federal government in the 1960's was how to create a Canadian instrument for investing Canadian capital in Canada. If foreign investment in Canada was to be more restricted, Ottawa would need an investment vehicle to maintain the standard of living to which Canadians had grown accustomed and to create new employment opportunities. The economic slack left by foreign investors would have to be picked up by this instrument of Canadian investment. The question which must be answered is has the CDC served that function?

Having outlined the two major problems generated by international economic interdependence which are of relevence to the evolution of the CDC, it is now necessary to critically examine Jeanne Laux's argument about the CDC as part of the Canadian state's response to the increasing integration of the world economy. She views the CDC in three ways. First, she suggests that it, along with Eldorado Nuclear and Petrocan, are part of the Canadian state's defensive response to global economic interdependence. Secondly, the CDC is seen as an example of the state acting as entrepreneur. And lastly, Laux views the Corporation as a manifestation of statism.

Throughout this study it will be argued that Laux is essentially correct in her analysis of the CDC as a defensive mechanism. However, two slight modifications will be made to her argument. First, it will be argued that although the CDC may be similar to crown corporations such as Eldorado Nuclear and Petrocan in its defensive functions, its radically different structure gives it the legal potential to be an offensive mechanism. The key structural difference is that the CDC, unlike Petrocan and Eldorado Nuclear, is virtually a completely independent body. As section thirty-one of Act C-219 states;

> The company is not an agent of Her Majesty or a crown corporation within the meaning of the Financial Administration Act.[60]

This means that the CDC has few effective ties with the government. The same cannot be said for Petrocan and Eldorado Nuclear.

The second modification is that this study, unlike Laux's, recognizes the legal potential of the CDC to be an offensive mechanism. Laux defined the state's offensive response as the underwriting or promoting of "direct foreign investment by firms based in Canada."[61] That is, the state in Canada has begun to assist Canadian firms which are about to go multinational. Section 7, Subsection 1, Paragraph E of Act C-219 allows the CDC to perform this function. It states that the Corporation has;

> the power to invest in anticipation of profit in a business carried on outside Canada when in the opinion of the Board of Directors such investment would assist in furthering the objects of the company.[62]

In addition, Paragraph G states that the CDC has;

> The power to lend money to or guarantee the contracts of or otherwise assist any corporation, society, firm or person.[63]

These provisions clearly allow the CDC to operate as a multinational corporation and to assist Canadian firms which want to become multinationals. Presently, the CDC has not been primarily concerned with these functions. As Dimma has suggested, the Canadian market is still large and underdeveloped enough to engage the CDC's undivided attention.[64] Furthermore, two of the major reasons why the CDC was created were to fill gaps in the Canadian capital market and to create a stronger Canadian presence in the domestic economy. This would tend to mitigate against the CDC operating as a multinational corporation in the forseeable future.

Presently, Laux is correct in her analysis of the CDC as a defensive mechanism. The fact that Act C-219 provides the legal potential for the CDC to be an offensive mechanism is a rather academic point given that the

Corporation's directors have not been interested in realizing that potential. However, Laux should have acknowledged the offensive potential of the CDC because it is possible that the point will not always be academic. Furthermore, her definition of the state's offensive response may have to be re-examined because in the future, one may be able to suggest that, in her terms, the CDC's best defensive strategy will be to be an offensive mechanism.

This study will also tend to substantiate Laux's suggestion that the CDC is an example of the state acting as entrepreneur. However, one very important qualification will be made to this argument. In the case of the CDC it will be argued that the state did not directly attempt to become an equal partner in or take control of certain industries in the key sectors of the economy. Instead, the state played its role as entrepreneur in a much more indirect way. It provided the Canadian multinational corporate elite with the funds and legal structure (the CDC) to secure control of certain industries in the key economic sectors.

Through its relationship with this elite, the state would be able to prevent the further loss of control of industrial development to foreigners. It was also assumed that the state would be in a better position to develop a coherent industrial strategy if there was greater Canadian representation in the key industrial sectors of the economy.

In short, Ottawa felt that if it strengthened the "Canadian content" of the key economic sectors, it would be in a better position to legally control those sectors.

Laux's view of the CDC as a manifestation of statism will not be a central focus of this study. However, it will be suggested that in the case of the CDC, the state was not substituted for private sector actors in order to fulfill specific economic functions. Instead, the state created a CDC which was a member of the private sector. Ottawa hoped to fulfill specific economic functions such as developing an industrial strategy through cooperation with the private sector rather than through public control of the key industrial sectors of the economy.

In conclusion, this chapter has been primarily concerned with describing and evaluating the national and international environmental factors which created the general need for a CDC. Four of these factors were identified as crucial for understanding the evolution of the CDC. Global economic interdependence, capital formation, foreign investment and the changing pattern of state intervention in the economy all helped create a general consensus that there was a need for a CDC if Canada was to develop economically. A consensus on what the form of the CDC should be was not as easily attained.

FOOTNOTES

1. Jeanne Kirk Laux, "Global Interdependence and State Intervention," in Brian W. Tomlin, ed., Canada's Foreign Policy:Analysis and Trends, (Toronto, 1978), p. 110.

2. David Leyton-Brown, "Canada and Multinational Enterprise," in Norman Hillmer and Garth Stevenson, eds., A Foremost Nation Canadian Foreign Policy and a Changing World, (Toronto, 1977), p. 63.

3. Joseph S. Nye Jr. and Robert O. Keohane, "Transnational Relations and World Politics: An Introduction," in Robert O. Keohane and Joseph S. Nye Jr., eds., Transnational Relations and World Politics, (Cambridge, 1972), p. xi.

4. Ivan R. Feltham and William R. Ravenbauch, "Canada and the Multinational Enterprise," in H. R. Hahlo, J. Graham Smith, and Richard W. Wright, eds., Nationalism and the Multinational Enterprise, (Dobbs Ferry, 1973), p. 46.

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14. Ibid., pp. 111-112.

15. Ibid., p. 111.

16. Ibid., p. 119.

17. Loc. cit.

18. Ibid., p. 114.

19. Loc. cit.

20. Ibid., p. 119.

21. Canada, Foreign Direct Investment in Canada, (Gray Report), (Ottawa, 1972), p. 5.

22. David Leyton-Brown, "Canada and Multinational Enterprise," in Norman Hillmer and Garth Stevenson, eds., A Foremost Nation Canadian Foreign Policy and a Changing World, (Toronto, 1977), p. 64.

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24. Raymond Vernon, "Multinational Business and National Economic Goals," in Robert O. Keohane and Joseph S. Nye Jr., eds., Transnational Relations and World Politics, (Cambridge, 1972), p. 344.

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THE ORIGINS OF THE CDC

In order to understand the evolution of the CDC it is necessary to have a knowledge of the course of events which led to its creation in 1971. Thus, the focus of this chapter will be much different than that of the last. A much narrower perspective of the CDC's evolution will be adopted. The emphasis will not be on the larger national and international factors which generated an acceptance of the idea of a need for a CDC. Instead, the emphasis will be on how the political process affected the Corporation's evolution. In Simeon's terms, this chapter will examine how the political decision-making process influenced the evolution of the CDC. This is quite different from the environmental factors which were stressed in the last chapter.

More specifically, this chapter will present a descriptive, chronological survey of the events which led to the CDC's creation. This survey will serve several purposes. It will illustrate, more concretely, how the idea of the need for a CDC was gradually accepted by those operating within the Canadian political process. Secondly, an explanation will be offered as to why it took more than ten years for the CDC to move from concept to conception.

Lastly and most importantly, this descriptive survey will lead to an explanation of how the political process affected the objectives of the CDC and the form that it eventually assumed. That is, one must have an understanding of the events which led to the creation of the CDC if one is to develop an understanding of why it evolved to become a member of the private sector and why it is more concerned with economic development and capital formation rather than foreign investment in Canada. Similarly, this descriptive survey is necessary to show how the decision-making process affected the CDC's evolution so that it came to be dominated by the Canadian multinational corporate elite.

Clifford Halliwell, in a research paper presented to Carleton University in 1976, suggested that the CDC was "first and foremost the brainchild of Walter Gordon."[1] Halliwell traced the origins of the Corporation to the 1957 Royal Commission on Canada's Economic Prospects which was chaired by Gordon. On February 21, 1956, Gordon Ball, President of the Bank of Montreal, presented a brief to the Commission which called for the creation of a private agency which would invest in new ventures and provide expansion funds for existing small ventures. Ball dubbed this organization the Canadian Development Corporation and maintained that it would need an initial capital of at least fifty million dollars to properly fulfill its objectives. Ball's CDC was designed not only to supply the needed capital but was also to assist in the development and organization of the ventures themselves. His Corporation would sell its investments once they had "matured to the point where they could be taken up readily by other private investors."[2]

Several studies were conducted to supplement the Gordon Commission's analysis and recommendations. In one of these studies, William Hood critically evaluated the Ball CDC. Hood doubted that Ball's CDC would be effective if it invested simultaneously in both large and small industrial ventures. In addition, he suggested that if Ball's CDC hoped to be competitive it would have to have a scale of operations which extended beyond Canada's national boundaries.[3] Despite these criticisms Ball's proposal was, for the most part, supported strongly by Canada's chartered banks. They viewed the proposal as a useful one for filling gaps in the Canadian capital market. And yet, despite the moral support of the chartered banks, little came of Ball's proposal except that it generated a great deal of discussion, and for this reason it was an important step in the evolution of the CDC.

The most significant comment that the Gordon Commission made in its Final Report related to the apparent existence of a gap in the Canadian capital market. It was suggested that "Canada did not have the kinds of large capital pools concentrated in the hands of a single or few enterprises" which were needed to invest in large scale industrial projects.[4] As a result of this lack of Canadian capital, large industrial ventures in Canada were financed by foreign interests. The level of foreign ownership and control of the Canadian economy was increasing rapidly. As part of the solution to this problem, the Commission recommended that it might "be necessary to devise new mechanisms for concentrating available venture capital and for spreading the risks more wisely."[5] It is important to note that although none of the Gordon Commission's reports made any specific reference to a CDC, they did give the idea a certain degree of legitimacey.

There is some truth in Halliwell's assertion that the CDC had its earliest origins in the 1957 Royal Commission on Canada's Economic Prospects. Moreover, Walter Gordon's later role in the creation and evolution of the CDC cannot be ignored. In 1961, Gordon expanded upon some of the Commission's recommendations and called for the creation of a "National Development Corporation to sponsor and invest in large economic undertakings that may not be expected to pay returns for a considerable period."[6] This Corporation was to be financed by the savings of individual Canadians, pension and life insurance funds and guaranteed government loans, bonds and debentures.[7]

However, there is some evidence to suggest that the CDC was not merely Gordon's "brainchild". The idea of creating a national development fund to allow Canadians to invest in their own country was not a new one in 1961. Some have even suggested Gordon may have stolen the idea. Ed Broadbent, for example, has said;

> I should like to cite a few more examples of NDP ideas that have been taken over and bastardized by the Liberals- and this gem that they have come up with is a perfect historical example of what they normally do. You may recall, Madam Speaker, that it was the New Democrat Party who originally proposed the Canada Development Corporation. We proposed that it be publicly-owned and controlled, one that would operate independently of the marketplace. I would remind the hon. member that in our founding convention back in 1961 before even dear old Walter Gordon heard of this idea, this corporation was advocated by the New Democratic Party.[8]

Broadbent's assertion that the NDP was the first Canadian political party to openly support the idea of a CDC is essentially correct. However, this support can be traced back further than the New Democrat Party's founding convention in 1961. When Ball was talking about his private CDC in 1956, the CCF party, predecessor of the NDP, was calling for greater government intervention in the savings and investment process. One of the CCF's campaign planks in the 1957 federal election was to promote Canadian development by using Canadian capital. The CCF had abandoned the Regina Manifesto in favour of the more moderate Winnipeg Doctrine of 1956. The Winnipeg Doctrine was the basis of the party's 1957 election campaign. In it the CCF called for the;

> Establishment of a publicly owned National Investment and Development Bank through which the savings and reserves of Canadian institutions and corporations will be made available for the development of Canada's industries and natural resources, and thus decrease our reliance on and need for foreign capital.[9]

The CCF also campaigned for the creation of a National Investment Board which would channel investment funds into public, cooperative and private industrial projects.[10] These campaign planks clearly reflect the CCF's acceptance of the notion of an investment vehicle designed to channel investment into Canadian industries.

These CCF ideas crystallized at the NDP's founding convention in 1961. The NDP's New Party Declaration of 1961 said that if an NDP government was elected;

> A Canadian Development Fund would be set up to give Canadians a greater opportunity to invest in the future of their own country. It would mobilize and channel the funds of insurance, trust and similar companies and would be available to individuals with small amounts to invest.[11]

In short, the origins of the CDC can be traced to several sources. Some individuals and groups have had a greater impact on the creation and evolution of the CDC than others did. However, what is significant to note is that during the early sixties the idea of a CDC seemed to come of age. The notion of the federal government intervening in the economy in order to offset foreign investment and to create opportunites for Canadians to invest in their own country was slowly gaining acceptance. As the idea became more acceptable, the debate over the CDC tended to focus on the structure it was to assume.

It is important to note that there were significant differences between the NDP and Ball proposals for a CDC. Ball's CDC was a private organization which would draw its initial capital from chartered banks and insurance companies. In contrast, the NDP's CDC was a publicly created and funded organization. Despite these differences, both proposals shared a common goal. Both were intended to marshal the savings of Canadians and to channel them into sectors where foreign investment had traditionally played a major role.

The discussion generated by these proposals led to the government's first consideration of the idea of a CDC. The Progressive Conservatives were the first federal party in power to seriously examine some of these concepts. The 1957 federal election had left Canada with a Conservative minority government and led to the selection of Lester Pearson as new leader of the Liberal party. The twenty-third Parliament was to be the shortest in Canadian history. Prime Minister Diefenbaker called a general election in 1958 and swept to power capturing 208 of 265 seats.[12] He appointed Alvin Hamilton as Minister of Northern Affairs. Hamilton, who later became Minister of Mines and Resources, was the first member of the Diefenbaker Cabinet to think seriously about creating an agency for channeling Canadian savings into investment.

Hamilton preferred a positive approach to the problem of foreign ownership. He did not want to be involved in measures which directly limited or monitored foreign ownership. Rather, he preferred measures which helped indigenous ventures and Canadian entrepreneurs. Thus, he saw the need for and desired an organization which was predominantly, but not exclusively, controlled by Canadians and was concerned with funnelling Canadian savings into Canadian economic ventures. Hamilton received Cabinet approval to prepare a plan for such an institution. He enlisted the help of economists and senior civil servants and together they worked until 1961 developing a concept "which Hamilton labelled the National Development Corporation (NDC) but which others dubbed irreverently 'Alvin's Mutual Fund'".[13]

The NDC was to be a private sector organization which the government would help to form. Hamilton's plan stressed voluntary investments by individual Canadians. However, voluntary investments by Canadian financial institutions and the federal government were also included in the plan. Capital for the NDC was to be raised through the sale of both common shares and government guaranteed bonds.[14] No dividends were to be paid on the shares for a number of years. This reflected the long term nature of the investments, which were to be made in large scale resource development projects. The ratio of shares to bonds was to be flexible, depending upon investor demand.[15]

Hamilton's NDC was to be supplemented by a research and advisory staff which would evaluate investment opportunities. This staff would concentrate on trying to get a good mix of high and low risk investments for the NDC. Hamilton wanted such a mix because he felt it would attract a wider spectrum of investor interest. Furthermore, such a mix would also permit greater flexibility in the ratio of shares to bonds. The staff of the NDC was to consider three areas of investment. The first was investments in corporate bonds.[16] Secondly, the NDC would invest in debentures of public and private utilities, local governments and "certain intragovernment obligations (as federal government loans to its own agencies)."[17]

The NDC's third area of investment was its most important function. It would purchase shares in both new and established domestically controlled ventures. In the case of Canadian controlled ventures, the NDC would not seek to have control of the majority of the shares. Instead, the NDC would be content with portfolio investment and hold no more than 25 per cent of the issued shares.[18] It would not matter to the NDC who held the remaining shares as long as the shareholders were Canadians. In the case of foreign controlled industries, the NDC would occasionally seek to purchase the majority of shares. However, Hamilton viewed this as a secondary, more long range objective of his NDC.[19]

In 1961, Hamilton unveiled his NDC concept to the rest of the Cabinet. It was not received well by the more right wing members of the Cabinet. What is most important is that Donald Fleming and George Nowlan, successive Ministers of Finance, completely rejected Hamilton's proposal. Fleming said;

> To my knowledge this monster first reared its ugly head seriously in the summer of 1960. I fought it off while I held the portfolio of Finance. My views on it remain unchanged.[20]

Such strong ministerial protest coupled with a feeling among the senior civil servants of the Department of Finance that the NDC would get a hostile reception from Canada's business community resulted in the shelving of Hamilton's proposal for the next two years. The proposal was referred to a subcommittee of the Cabinet for further study.

Hamilton himself felt that the slow progress of the NDC was the result of its being low on the Cabinet's list of priorities. This is certainly partially true. In 1961, the government's high priority item was the National Productivity Council. Early 1962 was taken up by another federal election in which the Conservatives were reduced to 116 seats and formed a minority government.[21] In late 1962, the top priority was the Economic Council of Canada. On February 6, 1963 the Conservatives lost a vote of no confidence on the issue of Canada's purchase of the Bomarc missle. The result was another election and on April 8, 1963 the Liberals, led by Lester Pearson, won 129 seats and formed a minority government.[22]

It took three different Liberal finance ministers to transform the idea of a national development corporation into a reality. Walter Gordon's support of Lester Pearson's successful bid for the leadership of the Liberals had allowed him (Gordon) to have greater impact on Liberal party policy and election strategy. Thus, during the election campaign of 1963, the Liberals promised to create a national development corporation to "increase Canadian production and to reverse the trend towards absentee ownership of Canadian industry."[23] When the Liberal minority government was elected, Pearson selected Gordon to be his Minister of Finance.

The two highlights of the Liberals' initial "sixty days of decision" were supposed to be Gordon's first federal budget and his proposal for the creation of the CDC. Gordon was assisted by Martin O'Connell, David Stanley and Geoff Conway in preparing his first budget and related proposals. Of these three special advisors, it was Stanley's responsibility to develop a proposal for the CDC.[24] Using the ideas outlined in Gordon's book, <u>Troubled Canada</u>, Stanley had a draft bill prepared in six or seven weeks and on May 16, 1963, the Speech from the Throne announced that;

> A measure will be placed before
> you to establish a Canada development

> corporation, by means of which Canadians can more readily direct their savings to the building of new Canadian industries and to increasing Canadian ownership of existing industries, which is one of the important objectives of the government.[25]

It seems clear that if there had not been a budget crisis, Gordon would have brought in legislation which created the CDC. Work on the CDC proposal had begun simultaneously with work on the budget and the draft CDC bill was ready even before the budget. Pearson tried to alleviate American fears by informing President Kennedy that the CDC's purpose was to assist Canadians in buying into industrial companies in a manner that would not prompt any legitimate criticism from Americans.[26] Two days after Pearson's May 11 meeting with Kennedy, Gordon prepared the speech which he intended to make when the CDC bill was introduced. Soon after budget day, June 13, 1963, Gordon sent a short memorandum about the CDC to the Cabinet which "approved the terms of a resolution to be placed before the House of Commons as the first step in the legislative process."[27] On June 20, the House of Commons officially received this resolution from the Cabinet.

The House never debated the resolution for three reasons. First, the budget crisis intervened and made any immediate progress with the CDC impossible. It was the reaction to Gordon's first budget which scuttled his attempt to introduce the CDC bill. The financial and business communities' openly negative reaction to the provisions of the budget, particularly the proposed thirty per cent tax on foreign takeovers of Canadian firms, discouraged the Liberals from introducing any other controversial economic measures. Furthermore, the Liberals did not want to damage the ties they had established over the years with the financial and business communities.

The second reason why the CDC resolution was not debated in the House of Commons relates to the general difficulties any minority government faces when attempting to govern. Controversial legislation tends to be avoided for fear of losing power. This, coupled with the unpopularity of Gordon's budget, and a tough Conservative opposition led by John Diefenbaker discouraged the Pearson government from introducing a CDC bill.

The final and perhaps most important reason that the resolution was never debated by members of Parliament is that the issue of the CDC had badly split Pearson's Cabinet.[28] Mitchell Sharp, Minister of Trade and Commerce, and C. M. Drury, Minister of Defense Production and later the Minister of the Department of Industry, were the chief opponents of Gordon's CDC. Both Sharp and Drury had close ties with Canada's business community and held the orthodox business view that the state should intervene as little as possible in the free marketplace. Thus, Cabinet disagreement over the relationship of the state to business, and a broader atmosphere of controversy on the issue of economic nationalism, reduced Gordon's prestige and placed the CDC proposal at a lower level on the government's priority list.[29]

For several months after the budget controversy Gordon treated the CDC proposal with a great deal of caution. Even though the matter was often brought up by opposition members, Gordon managed to evade questions by maintaining that the CDC was still government priority which would be introduced in due time. However, in November, Prime Minister Pearson decided to postpone the issue until the next session of parliament.[30] That same month, Gordon received a memorandum from his advisors which pointed out the difficulties faced by the CDC proposal and suggested some alterations in the concept. Doubt was expressed about the political feasibility of the proposal because "the lay public seemed indifferent to the problem and the business community possessed too large a stake in the existing financial structure to regard the proposal with any favour."[31] The memorandum went on to speculate that hostility to the CDC proposal would only disappear if the public became more conscious of the dangers of growing foreign control of the economy, and if the Canadian business community viewed this trend as a threat to their own interests.

It was further asserted that the popular appeal of the CDC would be undermined by technical difficulties with the proposal. The entry of the Corporation into the New

York market for debt capital would require the approval of American authorities. Would American reaction to the Corporation be negative or positive? The memorandum expressed doubts about the CDC's ability to ever offer a high or stable yield for the individual investor, and recommended that shares not be placed on the private market for a long time.[32] These problems, coupled with the expected resistance of the business community, caused Gordon to proceed cautiously with his proposal. Pearson, although sympathetic to Gordon's ideas, was anxious to avoid economic action which would create problems in Canada's relations with the United States and probably lead to economic retaliation.[33]

Throughout 1964 Gordon slowly moved forward with his preparations for creating the CDC. Alan Hockin, an assistant deputy minister of finance, worked together with a civil servant named Reiner Hollback to draft legislative proposals for the CDC. Legal drafting was done by a Calgary lawyer named Ritchie Love. He was assisted by Maurice Strong, then president of Power Corporation and Alex McIntosh, a senior partner in a Toronto law firm.[34] These men endeavoured to create a CDC which would be consistent with Gordon's goals for it, and yet be acceptable to the private sector.

When Parliament convened again in February of 1964 the Speech from the Throne contained no reference to the proposed corporation. Gordon continued to evade the questions in the House about the proposal and it was clear that the

CDC was no longer near the top of the government's list of priorities. In March, Gordon was prepared to propose that the Polymer Corporation, Eldorado Mining and Refining Company Limited and the Canadian Overseas Telcommunications Corporation, three of the government's most profitable crown corporations, be transferred to the proposed CDC in order to provide an economic foundation upon which the agency could build. Such attempts to clarify the proposal did not increase its acceptability and informal consultations outside the Department of Finance about the response of the business and financial community still proved to be discouraging. Gordon's next budget was far more cautious than his one of a year earlier. Throughout 1964 it appeared as if Gordon and the government were "biding their time awaiting a more favourable opportunity when relations with the financial community and Gordon's own political prestige were improved."[35]

In February 1965 officials within Gordon's department presented him with another memorandum about the CDC. After two months of revisions and informal discussions with members of the business community, Gordon presented his memorandum to the Cabinet for approval of the principle to create the CDC. Approval was granted and on April 28, 1965, Gordon presented another resolution to the House of Commons to authorize legislation creating the CDC.[36]

This resolution was never debated despite the fact that it was a more detailed description of the CDC than the 1963 resolution. On April 28, 1965 Gordon moved that the House of Commons go into committee of the whole at its next sitting to debate the merits of his resolution. As it turned out, he never did manage to introduce the proposed legislation in 1965.

It was a combination of factors which prevented Gordon from doing so. The Liberals gambled that an expansionary budget would placate the fears of the business community and moderate objections to the CDC. As it turned out, the government was wrong. The private sector's negative response to his resolution discouraged Gordon and made him reluctant to diminish further his standing in political and financial circles. As in 1963, the Pearson government was somewhat taken aback by the level of resentment which Gordon and his CDC resolution evoked among members of the private sector.

A second factor was that many Liberals felt constrained as a minority government. They felt that a growing and productive economy gave them a good chance of forming a majority government if a federal election were called. Gordon himself was one of those recommending an early election. He may have felt that a parliamentary majority was necessary before the government could attempt to introduce legislation creating the Corporation.[37]

In addition, the Cabinet was still divided over the CDC. The consensus among Cabinet ministers was that the CDC bill should be held back until after the federal election. The CDC was simply too controversial an issue to deal with as a minority government. In any case, Gordon used the rest of 1965 to engage in discussions with members of the business community and to defend his CDC proposal.

Halliwell has pointed out that a considerable debate about the CDC was generated by this process. Reactions were varied, ranging from those violently opposed and skeptical of the CDC to those openly favourable to the proposal.[38] Gordon himself admitted that when the initial proposal for an investment fund in the form of the CDC first appeared in newspapers, more than "half the comments published about the fund were nervously critical."[39]

Criticism of the proposal came from both the corporate and political arenas. The prevailing ethic among businessmen was "predominantly and vehemently opposed to any widespread extension of government power or limitations on private sector power."[40] Critics of the proposal suggested that the CDC represented another dangerous government intrusion into the private sector of the economy and that the corporation would undermine capitalism in Canada. The CDC was viewed as a state agency which would compete with private financial institutions for Canadian savings. Businessmen saw the CDC as part of a disturbing trend in Canada. The state was already competing with the private sector in developing natural resources and operating manufacturing businesses.[41]

Much of the criticism of the CDC was caused by two factors. First, the halting manner in which the government proceeded with the CDC proposal generated much confusion. Some of the negative response to the CDC was based upon rumours and not facts. This was because the government was reluctant to reveal the details of the CDC and its operating methods. Part of the government's reluctance was based upon its fear of presenting a controversial idea while it was in a minority position in the House of Commons. This, coupled with Cabinet division, resulted in no CDC legislation being presented to the House.

The second factor which contributed to business fears of the CDC is that few were aware of what the relationship would be between the government and the CDC. There was a fear that the CDC would be an instrument of the state directly responsible to appointed or elected officials. Some went even as far as to suggest that the CDC represented the first step towards socialization of the economy.[42] Neil McKinnon, chairman of the Canadian Imperial Bank of Commerce, charged that since the government was to be the largest single shareholder, "no one should be deluded into thinking the Canada Development Corporation would be free from political influence."[43] Similarly, G. Arnold Hart, the chairman and president of the Bank of Montreal, stated that the creation of the CDC would place;

> ...in the hands of government enormous control over the allocation of financial resources...Such a pronounced move in the direction of state socialism can only be viewed with considerable alarm by those who believe, as I do, that dynamic expansion of the private sector of the economy is the best assurance of future growth and prosperity for all Canadians.[44]

The corporate reaction to the CDC was most vividly reflected in the editorial pages of Canada's major newspapers. Newspapers such as the Globe and Mail, Vancouver Province, Montreal Star, Toronto Daily Star, Vancouver Sun and the Financial Post published material which reflected the corporate world's negative view of the CDC. Critics of the CDC were not satisfied to dismiss the Corporation as a large, new socialist project. They further suggested that the government was hiding behind the issue of foreign investment to intrude into the capital market. This argument was supported by businessmen who maintained that there was no evidence that foreign investment had proven harmful to the Canadian economy. Finally, opponents of the CDC were quick to point out that Canadians invest more per capita in the United States than Americans did in Canada.

At this time, the chief critic of Gordon's CDC in the political arena was Donald Fleming. In a speech he gave to the Trust Companies Association of Canada on April 29, 1965, Fleming presented twenty-one specific criticisms of Gordon's CDC. Most of these criticisms focused upon one common theme. That theme was that the CDC should not be created because it represented another government intrusion into the private sector. Fleming's basic argument was that the government should stay out of the Canadian savings market. He supported this argument by attacking the CDC on two fronts. First, he suggested that the CDC could not possibly be free of political influence since the government was the principal shareholder and appointed the Corporation's board of directors. He also suggested that the government would be abdicating its responsibilities if it did not play an active role in an agency it would fund.

Fleming's second line of attack was to try and point out the undesirability of the CDC in economic terms. He doubted the Corporation would be successful in marshalling more Canadian savings.[45] He felt private enterprise was competent in this area and that there was no need for government to be involved here. Fleming simply could not justify government competition in the Canadian savings market. Furthermore, he argued that a CDC which would buy Canada back was both impractical and unprofitable. He felt the same way about using the CDC to prevent foreign takeovers of Canadian firms. It was suggested that these two functions coupled with Gordon's proposal to have the CDC invest in large, expensive, high risk, long term projects would result in a heavy financial burden for Canadian taxpayers.[46] Fleming also feared that the CDC would be so large it would disrupt capital markets. For example, the CDC's emphasis on the small investor could severely damage the market for Canadian savings bonds. Finally, Fleming felt that the CDC was too risky a venture to permit crown corporations to be transferred to it.[47]

Many of these criticisms of the CDC had been forseen by the government. Gordon was prepared to deal with his opponents' familiar arguments that the CDC fulfilled no pressing need and was a dangerous government intrusion into the private sector of the economy. On May 3, 1965 Gordon replied to Fleming in the House of Commons. Gordon argued that the CDC was conceived because the majority of Canadians were becoming increasingly worried about foreign control of their businesses and resources. He pointed out that the CDC would help in filling gaps in the Canadian capital market. As a large, new source of capital, the CDC would make long term investments in new projects in the resource and manufacturing fields. The Corporation would also invest in Canadian businesses which might be purchased by foreigners. Finally, Gordon noted that Fleming was associated with several investment firms and that he was probably defending their interests over those of the majority of Canadians who wanted to invest in their country.[48]

Despite the fact that the CDC would compete with investment firms for savings and investment projects, Gordon realized that he needed their support to make the CDC a reality. Thus, throughout 1965 he engaged in further consultations with members of the business community. He requested advice from the Investment Dealers Association and other groups which would be affected by the CDC. He hoped that these consultations would strengthen his political position and allow him to bring in legislation creating the CDC in the spring of 1966.

During this controversial period in the CDC's evolution, Gordon was buoyed by the support the CDC received from officials of Power Corporation. Maurice Strong, then president of Power Corporation, openly supported the principle of the CDC. He argued that the CDC would be a good investment vehicle for Canadians if it was handled properly. For Strong the CDC was to be "a creature born of government growing up and living in the private sector."[49] He believed that the government's role in the CDC would be limited to creating the agency. After that, it would be a private company operating in the free marketplace. Strong praised the government's attempts to create a CDC which was acceptable to those involved in the private sector of the economy.[50] The support and advice Strong gave to Gordon led to his being privately invited by the Prime Minister and Minister of Finance, to become the first president of the Corporation. The Power Corporation president indicated his willingness to accept the appointment and continued to work with Gordon throughout the summer of 1965 developing the CDC proposal.[51]

During 1965 Gordon remained committed to and optimistic about his CDC proposal. He believed that once members of the banking and finance community understood that the CDC was not to be a government intrusion into the investment business they would favour it.[52] For their part, business interests remained skeptical but resigned themselves to the inevitability of the CDC. Their criticisms now tended to be directed at making the CDC as acceptable as possible, and frequently took the form of suggestions about the structure of the corporation. These suggestions were designed to reduce the agency's impact on the free market and to ensure it was to be free of political control. The Investment Dealers Association, for example, accepted the coming of the agency as inevitable and so decided "to present a brief to the Minister of Finance outlining their recommendations relating to the role, structure and operation of the CDC."[53] Gordon, for his part, was willing to compromise and accept some of these suggestions in order to create an environment in which the CDC would be able to survive in harmony with the business community.

All indications were that the legislation creating the CDC would be introduced in the spring of 1966. However, since late 1964 Gordon had been advocating a federal election because he felt the Liberals needed a majority to implement some important policies. Throughout the summer of 1965 he pressured Pearson for a fall election. He promised to resign as Finance Minister if the Liberals did not form a majority government. Pearson finally agreed and called the election of September 7, 1965 in which the Liberals again formed a minority government. Gordon's resignation was accepted by Pearson and Mitchell Sharp became the new Finance Minister.

It has generally been conceded that the replacement of Gordon as Finance Minister by Mitchell Sharp was part of "a general turn to the right on the part of the Liberal party."[54] Within the Cabinet there were those who thought that Gordon's "left wing" policies had alienated business and resulted in the Liberal failure to form a majority government. Halliwell has pointed out that it is not really clear what happened to the CDC during the Sharp years and that the government's position on it was, for the most part, ambiguous.[55] Evidence of the government's ambiguous position on the CDC was provided at a Young Liberals convention held in April of 1966. There, Robert Winters, the Minister of Trade and Commerce, "said that he doubted very much whether there was any value in this development corporation."[56] Later at that same convention Paul Martin, the Secretary of State for External Affairs, read a lecture on how the CDC was a necessity and said that the government would be introducing legislation to create the agency.[57]

It is clear that during Sharp's tenure as Finance Minister there was some division within the Cabinet over the CDC proposal. By and large, it was Sharp himself who contributed the most to the government's ambiguous position on the CDC between 1966 and 1968. He was not violently opposed to the proposal to the point where he wanted to shelve the CDC, but neither was he entirely comfortable with the idea. He certainly was not as enthusiastic or as dedicated to the CDC proposal as Walter Gordon had been. This is evidenced by several facts. First, Sharp had opposed the Gordon CDC in Cabinet. Secondly, he was one of those most responsible for deferring a CDC bill in both 1963 and 1965. Thirdly, he openly expressed his concern for regaining the private sector's confidence in the Finance Department. And finally, there was widespread speculation that when Sharp first became Finance Minister that he would put Gordon's CDC to rest.[58] All of these facts suggest that the CDC was far lower on Sharp's list of priorities than it had been on Gordon's.

The Throne Speech of January 1966 stated that the House of Commons would "be asked to approve legislation to establish a Canada Development Corporation."[59] However, no legislation creating the CDC was ever introduced in the Sharp years. Sharp was repeatedly questioned in the House of Commons as to whether or not the government intended to introduce legislation creating the CDC and if so, when it intended to take this action. The Minister of Finance reaffirmed the government's intention to create the CDC, and when questioned further on the matter by Tommy Douglas, leader of the NDP, Sharp retorted;

> There are questions of priority and I have also said publicly that we are restudying the provisions of the legislation to put it in the form best suited to Canada's needs.[60]

A year after the Throne Speech, Sharp indicated that he had doubts as to whether or not the CDC legislation would be introduced during that session of Parliament. However, on January 26, 1967, Prime Minister Pearson included the CDC on a list of legislation to be considered before the summer, but Parliament recessed before the corporation could be considered.

There were several factors responsible for creating the delay in the introduction of the CDC legislation during the Sharp years.[61] First, Sharp ordered a revision of the CDC bill because his notions of the CDC were different from those of Gordon. Officials in the Department of Finance were directed to restudy the proposal. They dealt with questions about the CDC's structure, who controlled it, who owned shares in it and to what extent it should be profit oriented.[62] Halliwell notes that the Department of Finance was so worried about reaction to the CDC that the Cabinet was considering using "an unusual legislative procedure whereby draft CDC legislation would be introduced and brought before the Banking and Finance Committee prior to Second Reading."[63] The government would than allow the original CDC legislation to die on the order paper and use the presentations made by the general public to the committee as the foundation for formulating a revised bill.[64]

Two other factors contributed to the delay in introducing the CDC legislation. The first was that the government had great difficulty in presenting legislation revising the Bank Act, an undertaking which both Gordon and Sharp considered more important than the CDC proposal. Delays in this legislation created a delay in the introduction of the CDC bill. The second factor is that the flag debate and the Spencer, Munsinger and other scandals which rocked the Pearson administration during this period tended to push the CDC into the background of Canadian political life.[65]

Finally, one of the most important factors which delayed CDC legislation in the Sharp years was division within the Cabinet over the Corporation. Judy LaMarsh, Paul Martin and Allan MacEachan, all of whom had supported Gordon's CDC, remained at odds with Sharp and Drury over the Corporation. The former group's influence had been seriously weakened by Gordon's resignation, but still remained a potent force within the Cabinet. The conservative group, led by Sharp, had been strengthened with the addition of Robert Winters to the Cabinet.[66] Winters was a prominent and respected member of the business community.

In January of 1967, Walter Gordon rejoined the Pearson Cabinet. After his resignation as Finance Minister he had written <u>A Choice for Canada</u> in which he again called for the creation of the CDC as part of a "comprehensive programme for regaining a measure of control of the Canadian economy."[67] He further noted that the large pools of Canadian capital accumulated by Canadian firms such as Argus Corporation, Canadian Pacific Investments and Power Corporation were not sufficient and that the CDC was needed to "supplement and round out the efforts of existing institutions."[68]

Despite the fact that Gordon's influence within the party was diminishing, he still had considerable support in the Liberal caucus. His attempt to resign his seat in the House led to pressure on Pearson to ask the former Finance Minister to rejoin the Cabinet as Minister without Portfolio. Gordon agreed to rejoin the Cabinet if the government created a task force to study the foreign ownership problem and made a committtment to proceed with the CDC bill. Pearson agreed to these terms, and the May 8, 1967 Speech from the Throne again informed members of the House of Commons that they would "be asked to consider a bill to establish a Canada Development Corporation."[69]

In January of 1967, Gordon had appointed Melville Watkins from the University of Toronto as head of the task force examining foreign ownership in Canada. Together they selected the remaining members of the task force. Watkins, Stephen Hymer and Abraham Rotstein were the most nationalistic of the task force members. Four other members were selected on a regional basis and A. E. Safarian was "added to give the Mitchell Sharp position a voice."[70] In April, Gordon was made President of the Privy Council and it was in this capacity that the task force reported to him.

In February of 1968, the task force that Gordon had demanded released what came to be known as the Watkins' report. How did the task force's work come to be known as the Watkins' Report? Mel Watkins, one of the authors of the report, suggests it was because many prominent members of the Cabinet associated the report with socialism and were afraid of being branded as socialists. He says;

> Preparing the task force under Walter Gordon, I worked under a subcommittee of the Cabinet that included Ministers like Mr. Sharp and Mr. Turner, not all of whom had Mr. Gordon's interest in getting something done quickly. We kept them informed of everything we were doing but when we handed them the final document they said "What? What? I'm not going to advocate that."[71]

Gordon had to push to have the report published and even after it was released it was instantly disowned by the government, particularly by the Sharp group within the Cabinet. The report was not even named after Gordon because of fears that this would be viewed as something too closely associated with the Cabinet and its Privy Council President. As a result, the report was named after Watkins by default.

The Watkins Report not only dealt with the problems generated by foreign ownership of Canadian industry but also made recommendations about how to resolve some of them. One of those recommendations was that the CDC be established "as a large holding company with entrepreneurial and management functions to assume a leadership role in Canada's business and financial community in close co-operation with existing institutions."[72] The Watkins' CDC was not to be a "buyer of last resort" or a vehicle for buying Canada back, but rather a quasi-public institution which would take the risks of providing entrepreneurial capital and would participate in the profits arising from that investment of capital.[73]

A short time after the Watkins Report had been released the minority Pearson government lost a vote on a tax measure in the House of Commons. Instead of resigning and calling an election as tradition dictated, Pearson called and won a formal vote of confidence. The controversy that this action generated in the Canadian media did not create a receptive attitude for the Watkins Report within the Cabinet. It was viewed as a document which would require controversial legislation to become a reality.

It is unlikely that the Cabinet would have endorsed the Watkins Report even if the controversial vote incident had not occurred. The incident simply strengthened the ideological and political position of the dominant conservative faction within the Cabinet. This group now had a practical reason to reject the Watkins Report. It was simply too controversial for a minority government to handle. This practical reason reinforced the conservative group's "ideological disinclination to act on or even debate seriously problems related to the dominance of foreign ownership and control."[74]

Once it became clear to Gordon that the government did not even want to associate itself with the Watkins Report, let alone implement it, he left the Cabinet. No legislation creating the CDC was ever passed by the Pearson government. In 1968, the Liberals became concerned with selecting a new party leader to succeed Pearson. Clifford Halliwell contends that the race to succeed Pearson further delayed the CDC bill because Cabinet ministers needing funds for their leadership campaigns were not going to take a chance promoting legislation which did not have the enthusiastic support of the business and financial community.[75] Pierre Trudeau won the leadership campaign and swept into power in the next federal election with a majority government. Edgar Benson was appointed as Trudeau's first Finance Minister.

In August 1968 Benson presented a draft CDC bill to the Cabinet for approval in principle before it went to committee study. His proposal differed from Sharp's in that Benson had returned to Gordon's idea of structuring the CDC so that it appealed to the small investor. Benson's proposal was not a detailed bill but rather just a basic outline of what the CDC was to be.[76] This outline was used in yet another Throne Speech as the basis for a renewed government commitment to create the CDC.

After the Throne Speech of September 12, 1968, little work was done on the CDC by the Department of Finance because both Benson and Trudeau had given top priority to the preparation of the White Paper on Tax Reform. On May 23, 1969, the Prime Minister was asked by Tommy Douglas to make a statement on foreign investment in Canada, and how the government intended to deal with it. Trudeau responded;

> No, Mr. Speaker, I had not planned to make such a statement except on the occasion when the Canada Development Corporation bill is introduced. It will be a matter of how much time we have left to introduce it and proceed with it in this session. There is beginning to be some doubt whether we will be able to proceed with all the subjects which were announced in earlier statements by the house leader.[77]

Six days later Trudeau confirmed that the House would not be dealing with any CDC legislation before the summer recess.

In the summer of 1969, the Cabinet approved the CDC in principle and with the publication of the White Paper on Tax Reform in November, officials within the Finance Department turned their attention to drafting a detailed CDC policy resolution. In November of 1969 a Canadian computer firm, Computel Systems Limited, was being bought out by the University Computer Company of Dallas. On November 26, Benson was asked by Robert Stanfield in the House of Commons whether the CDC would be established in time to prevent the takeover. In his reply, Benson indicated that the CDC legislation would be ready in the spring and that it was not "the intention of the Canada Development Corporation to act in such a situation."[78] Thus, although Benson agreed with Gordon that the CDC should appeal to the small investor he, unlike Gordon, also believed the CDC should be divorced from the foreign ownership question. In this instance, Benson agreed with Sharp that the corporation should not be a "buyer of last resort" preventing Canadian firms from falling into the hands of foreigners. Further evidence that Benson intended to divorce the CDC proposal from the foreign ownership question is provided by the fact that it was he who submitted the proposal to Cabinet which led to the creation in 1970 of the Gray Task Force on foreign investment in Canada. Since the CDC bill was to be introduced in the spring, this meant that the agency was not going to be developed in conjunction with the government's overall policy on foreign ownership, for which the Gray Report was to provide the background.[79]

By April of 1970 the Department of Finance had the finished CDC legislation ready for introduction in the House of Commons. However, by May it was clear that a crowded legislative timetable was going to delay introduction of the bill until after the summer recess.

This delay only served to underline the fact that the Trudeau Cabinet, like Pearson's, was divided over the CDC. Spokesmen for the more conservative or right wing group within the Cabinet included Paul Hellyer, Bud Drury, Mitchell Sharp and John Turner. They were opposed by a smaller and less powerful group which still supported Gordon's ideas about economic nationalism in Canada. Eric Kierans, a vocal economic nationalist, was the leader of this more left wing group.

As for Trudeau, he had indicated to Walter Gordon prior to the 1968 leadership convention that he was sympathetic to the views expressed in the Watkins' Report and A Choice for Canada. However, Trudeau managed to emerge from the leadership convention and the subsequent election campaign without making any concrete commitment to any policy on foreign investment.[80]

In any case, the conservative group within the Cabinet insisted that the legislation be introduced before the summer recess and allowed to die on the order paper. It was argued that the bill should be made public as soon as possible so the government could evaluate public response to it. The second group in the Cabinet argued that the CDC should not be made public until the fall of 1970 when it was expected the government would clarify its overall policy on foreign ownership based on the findings of the Gray Task Force.[81] As it turned out, the Gray Report was not published until 1972. Neither group won this battle over what precedure to use to introduce the CDC legislation. Benson's CDC proposal was ready and he was not prepared to let it die on the order paper or to have it delayed until the Gray Task Force reported its findings. Benson decided to introduce the CDC legislation after the summer recess.

In August of 1970, the Standing Committee on External Affairs and National Defense published what came to be known as the Wahn Report. This report gave Benson further impetus for introducing his CDC bill in the fall because, like the Watkins Report, it strongly favoured creating a CDC. Furthermore, the Wahn Report agreed with Benson that the corporation should not be a vehicle for buying back Canadian firms or for outbidding American businesses trying to buy Canadian concerns.[82]

Two factors prevented Benson from introducing his CDC legislation in the fall and winter of 1970. First, the October crisis occupied much of the government's time during this period. And secondly, Benson had difficulty in finding financial executives willing to be directors of the CDC. Maurice Strong, Benson's choice for president of the corporation, had taken up a post at the United Nations, and Benson was having difficulty replacing him.[83] Since it had always been intended that the management of the CDC and not the government would run the agency, it was clear that Benson needed a quality management drawn from the financial and business community to make it acceptable to that community. He had difficulty in hiring financial executives for the CDC because members of the business and financial community did not want to commit themselves before they saw what the final form of the CDC would assume. They opposed a non-profit orientated nationalistic CDC and were fearful of the impact of economic nationalism on the federal government's policies.[84]

Finally, on January 25, 1971, Benson introduced Bill C-219, "An Act to Establish the Canada Development Corporation," in the House of Commons.[85] Act C-219 represented a victory for the conservative group within the Trudeau Cabinet. As will be pointed out in the next chapter, Act C-219 implemented the Sharp model of the CDC.

There were several reasons for the conservative factions victory. First, it was, at that time, the strongest group within the Cabinet. Secondly, the government's indifference to the foreign ownership question resulted in Eric Kierans resigning from the Cabinet. The government had implemented few of the recommendations of the Watkins' Report and it was becoming increasingly clear to Kierans that the Gray Report was not going to be taken seriously by his Cabinet colleagues. He had seen the "writing on the wall as far as the long awaited foreign ownership policy was concerned."[86] The resignation of Kierans seriously weakened the position of the economic nationalists within the Cabinet. No one was left in the Cabinet to take up the tradition of Gordon and Kierans.

A third factor which contributed to the victory of the conservative faction was that Trudeau himself rejected nationalism of any sort and believed in the international free market. It was clear that he had as little time for economic nationalism as he had for political nationalism. There is little doubt that Act C-219 and the government's indifference to the foreign ownership question reflected the "continuing influence of Mitchell Sharp and C. M. Drury in the Trudeau Cabinet, and the growing influence of John Turner."[87]

On February 22, debate on Second Reading began and both opposition parties criticized the government for bringing in the legislation before the Gray Report. For the most part the Conservatives criticized the CDC for being another step towards socialism. On March 2, 1971, Robert Stanfield said;

> This is why it is inevitable that any sort of publicly-sponsored development corporation of this kind would be embroiled up to the hilt in political pressures of all kinds. If it succumbs to these pressures, the shareholders will suffer, and if it does not there will be a tremendous amount of disillusionment on the part of those who really see this organization as an instrument for preserving Canada as they see Canada.[88]

The New Democrats argued that under Bill C-219, the Canadian economy was "being sold out to the corporate elite of Canada."[89] It was suggested that the CDC would advance private interests instead of the national interest.

Most of the debate in the House of Commons focused on the conflict of objectives between the national interest and the profit motive. Once the bill reached the Committee hearings stage, concern shifted from the philosophy and objectives of the bill to its technical aspects. Interested groups such as the Canadian Bar Association, the Canadian Chamber of Commerce and the Investment Dealers Association all presented briefs at this stage in the legislative process. After some minor technical adjustments, Act C-219 was approved by the Senate and given Royal Assent on June 30, 1971.[90]

This chronological survey of the CDC is necessary to develop an understanding of the facts of the Corporation's evolution. However, this history of the Corporation does not provide an explanation of what the CDC is today and why it has assumed that form. An explanation of the CDC's structure and objectives must be developed. Developing this explanation will involve two steps. First, changes in the structure and objectives of the CDC from the Gordon to the Benson era must be examined. And secondly, the CDC as it is today must be analyzed. This is what we shall turn our attention to in the next chapter.

FOOTNOTES

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THE STRUCTURAL EVOLUTION OF THE CDC

The chronological survey of the CDC that was offered in the previous chapter was necessary to develop an explanation of how the political process affected the objectives of the Corporation and the form that it eventually assumed. This chapter will endeavour to develop that explanation in greater detail. In this sense, the perspective of the CDC's evolution has again been narrowed.

The focus of this chapter will be on an analysis of how the CDC's objectives and form have changed from the time it was an idea to the present when it is a reality. An explanation for those changes will also be developed. The reason for this analysis of the structural evolution of the Corporation relates to the issue of control.

The key question in the whole CDC debate has been and remains centred around the issue of control. Who controls the CDC? Who determines in what projects the Corporation will invest? Does the government control the agency it has created and funded? It is the issue of control which is at the heart of the explanation of what the CDC is today and why it has assumed that form. In this chapter, an attempt will be made to identify who controls the CDC by examining its structure. This is significant because it is an agency's structure which provides an indication of who will have effective control of it. The first step in this structural analysis of the CDC involves an examination of changes in the Corporation's structure and objectives from the Gordon to the Benson era. The second step is to analyze the structure and objectives of the Corporation as it exists today.

The central argument which will be presented in this chapter is that the relationship between the federal government and Canada's indigenous elite, particularly the multinational corporate group within that elite, was the key component of the political process which shaped the form and objectives of the CDC. It was this relationship which was the deciding factor in resolving the controversy over what the CDC's objectives should be. More specifically, with respect to the CDC, this relationship is best described as being of a symbiotic nature; that is, the government and the Canadian multinational corporate elite within the CDC were involved in a sort of parasitism in which each gained from the other.

The Canadian multinational corporate elite was willing to accept the idea of a CDC as long as it was a part of the private sector and as long as it (the Canadian multinational corporate elite) directly controlled the Corporation. The advantages of the CDC for this elite were twofold. First, the Corporation allowed this elite to gain a measure of control of the active growth sectors of the economy without taking any of the direct, financial risks involved in investing in those sectors. The Canadian multinational corporate elite would no longer have to depend upon growth in the foreign owned active sectors for the passive sectors to grow. Greater control of the active sectors would allow the Canadian multinational corporate elite to better coordinate the growth of its passive sectors and increase profits.

The second advantage the CDC provides is that it allows the Canadian multinational corporate elite access to government information and resources without being controlled by the government. Norma Michael, the CDC's manager of business analysis, suggested that there is an arms length relationship between the government and the Corporation.[1] However, she also commented that she would have better access to government information than the average Canadian because of her position with the CDC.[2] Finally, Bill C-219 does not require the directors of the CDC to divest themselves of their directorships in private corporations. Thus, CDC directors can potentially use government economic information to further their own corporate interests.

In return for its acquiescence to the conditions set by the Canadian multinational corporate elite for accepting the CDC, the government derived several benefits. First, the CDC became a reality. Ottawa had successfully created an agency which would supposedly help alleviate three of Canada's most serious problems. These were the problems of capital formation, foreign investment and economic development, particularly the development of a coherent industrial strategy for Canada.

The CDC was to fill gaps in the Canadian capital market and be an outlet for Canadian capital. The Corporation is structured as a large holding company and was intended to help Canada join the "multinational game". It was to secure a place for Canadians and their capital in an increasingly integrated world economy. Through the Corporation, Ottawa hoped to promote the Canadian multinational corporate elite as a buttress against the increasing influence of the foreign "parasitic" elite, particularly in the active growth sectors of the economy. And finally, the CDC would be a mechanism which would help develop Canada economically. By undermining the influence of the foreign elite, Ottawa, in consultation with the Canadian multinational corporate elite, would better be able to develop an industrial strategy for Canada. The point that must be emphasized though is that the CDC would be a mechanism which would use Canadian capital to finance Canadian industrial development.

The federal government benefitted in two other respects. First, it acquired the Canadian multinational corporate elite's expertise to manage the Corporation. This was important because if the CDC was to be a successful venture, it would have to be managed by those most familiar with the Canadian and world economies.

The second benefit Ottawa obtained is somewhat more intangible. By ensuring that the CDC, the state's most significant mechanism of capital formation and economic development, would be controlled and managed by the Canadian multinational corporate elite, Ottawa was reaffirming the desirability of the free market system. Ottawa was saying that private entrepreneurs were better equipped to manage the active growth sectors of the economy than public officials. The assumption was that private enterprise could develop Canada's economy more efficiently and productively than public enterprise.

This rationale brought two benefits for the federal government. First, it cemented relations with and guaranteed continuing cooperation from Canada's business and financial communities. Secondly, the CDC helped provide government economic policies with a degree of consistency. Act C-219 allows the CDC to purchase and assume control of profitable crown corporations such as Eldorado Nuclear and Polymer Corporation.[3]

Having described the symbiotic nature of the relationship between Ottawa and the Canadian multinational corporate elite within the CDC, it is now necessary to examine how that relationship was manifested in the political arena. Such a "gentlemen's agreement" about the CDC did not happen overnight. It was a very slow process which took ten years and three finance ministers to become a reality. The structure and objectives of the Corporation were continually redefined during this ten year incubation period. This whole period was characterized by an ongoing, sometimes brutally frank dialogue between Ottawa and Canada's indigenous elite about how the CDC should be structured and what its objectives should be. The key issue for this chapter is to understand how such a dialogue shaped the form and objectives of the CDC and was reflected in the political process. One must begin with Walter Gordon's ideas about the structure and objectives of the CDC.

Throughout his writings and the CDC debate Gordon has maintained that the primary purpose of the CDC is to fill a gap in the Canadian capital market. He has suggested that the large pools of Canadian capital accumulated by Canadian firms such as Argus Corporation, Power Corporation and Canadian Pacific Investments are still not enough to fill this gap.[4] Despite the fact that certain writers such as E. P. Neufeld and Kari Levitt have questioned the existence of this gap, Gordon maintains that one exists and that because of it Canadians have always had to rely upon foreign capital to expand economically. He saw the CDC as the "new vehicle needed for channelling Canadian savings into equity holdings on a large scale."[5] His CDC was to be primarily a new investment vehicle which would participate in the expansion of large existing interprises as well as investing in new, large scale business undertakings.[6] In this way, the CDC would supplant foreign capital and provide Canadians with a greater opportunity for participating in the ownership and control of major business enterprises in Canada.

Gordon also saw the CDC as having two other, more secondary purposes. It was these which generated much of the controversy in the CDC debate. These purposes were;

> (a) To acquire a controlling or a substantial minority interest in existing Canadian companies which otherwise might have to be sold to foreigners or to their established subsidiaries in Canada.
>
> (b) Where suitable opportunities occur, to purchase Canadian businesses or resources now held by non-residents, and to provide an additional source of funds where foreign owners want to associate themselves in their enterprises here with substantial Canadian interests.[7]

Thus, Gordon saw the CDC as a "buyer of last resort" which would ensure that Canadian firms would not fall into the hands of foreign interests. If no Canadian investment firm was large enough to buy a Canadian company which had to sell out, then the CDC would purchase it. In addition to this function, Gordon also believed that the Corporation should serve as a vehicle for buying back Canadian firms from foreign interests when the opportunity arose and if no other Canadian investor could afford to purchase it. Gordon did not perceive the "buyer of last resort" and "buy Canada back" functions of the CDC to be as important as its "gap filling" function. When questioned in the House of Commons about the purchase of Labatts Breweries by an American company Gordon stated that the "Canada Development Corporation was not designed to prevent takeovers."[8]

The "buyer of last resort", "buy Canada back" and the "gap filling" functions of the CDC were not to be its only objectives. Gordon maintained that the Corporation's overriding objective was to generate profits and satisfy the interests of its shareholders.[9] The Corporation would not invest in social capital or make work projects.[10] The CDC was to be governed by the profit motive.

In order to fulfill these objectives, Gordon intended to structure the CDC to be a large source of equity capital. He proposed that the CDC have an authorized share capital of one billion dollars to be raised through investments from individual Canadians, pension funds and life insurance companies.[11] These investors would receive mutual fund type shares in the Canada Development Corporation. Although he placed special emphasis on the small investor, Gordon realized that not all of the CDC's funds could be supplied by them. Thus, the federal government, through guaranteed loans, bonds or debentures, was also to be a source of the CDC's equity funds. All shares in the CDC were to be held only by resident Canadians and no single investor was allowed to hold more than three per cent of the shares.[12]

The government's share was to be restricted to ten per cent because Gordon wanted to undermine the fear of private business that the CDC represented a dangerous intrusion of the state into the capitalist economy.[13]

Although Gordon did not object to institutions as shareholders he purposely structured the CDC so that it appealed in particular to the individual Canadian investor. Shares were to be priced between five and ten dollars each and the minimum purchase was to be one hundred dollars.[14] This was to encourage the broad distribution of shares among Canadians. These shares were to be sold through a wide variety of financial houses so that each potential individual investor would have access to CDC shares.

Throughout his years as finance minister, Gordon was continually trying to allay the fears that the private sector had about the CDC. He deliberately structured the CDC so that it would resemble a private company.[15] It was to be governed by the profit motive and only commercial and business criteria were to be applied in the management of the Corporation's affairs. Gordon emphasized that there would be no government interference in the CDC's activities.[16] Ottawa would appoint the CDC's first president and Board of Directors. After that, shareholders would elect the directors who, in turn, would elect the president of the Corporation. Ottawa, as a shareholder, would still appoint a small number of directors to the Board, but it would have no more influence on the

Corporation's decisions and activities than any other directors.

The directors and management of the CDC were to be drawn from the private sector. They were supposed to inhibit any government interference in the Corporation.[17] They were also expected to exercise their independent, financial judgement in assessing investment opportunities for the CDC. These directors were given the authority to reduce Ottawa's interest in the CDC to ten per cent.[18] And finally, the directors were not expected to make unprofitable investments simply to fulfill government objectives and policies. Instead, the emphasis would be on long term investments in which a high rate of return was expected.

Gordon also tried to overcome business fears of the CDC by doing two other things. First,he compared the CDC to the Industrial Development Bank. Here, he pointed out that the federal government had never been accused of interfering in the Bank's management.[19] He maintained that the CDC would be similar in this respect.

To "sweeten" the proposal even more, Gordon suggested that profitable crown corporations, particularly Polymer, be sold to the CDC to provide it "with an immediate flow of profits and facilitate the marketing of CDC shares."[20] This is significant because Polymer was regarded with suspicion by some members of the private sector. They agreed that Polymer had been necessary during World War Two. Polymer had been formed as a crown corporation during the war to provide synthetic, rubber and latex products for Canada's military. Private entrepreneurs could not understand why Polymer had remained as a crown corporation once the war had ended. Gordon's proposal was an attempt to reprivatize Polymer through the CDC. Dimma has noted that "a collective sigh of ideological relief went up" when Ottawa eventually sold Polymer to the CDC in 1972.[21]

Mitchell Sharp did not completely agree with Gordon's notions about the objectives and structure of the Canada Development Corporation . Gordon's sucessor did accept the argument that the CDC was to be a vehicle for filling the gap in the Canadian capital market. To Sharp, it was clear that Canadians did not have sufficient pools of capital to risk in investing in imaginative, large scale, industrial projects.[22] However, he rejected the secondary functions that Gordon had given to the CDC. Instead of being a "buyer of last resort" or a "buy Canada back" agency, Sharp visualized a CDC which "rationalized" Canadian industry by promoting and funding the merger of existing small, inefficient, unproductive Canadian firms into larger, efficient, more productive ones. He argued that the chief disadvantage in the level of foreign ownership in Canada was that it created a branch plant economy of inefficient, small industrial firms. The purpose of the CDC for Sharp was to consolidate these firms, thereby improving Canada's level of production.

At the structural level, Sharp proposed that some changes be made to Gordon's CDC. William Dimma has argued that unofficial reports indicated that Sharp wanted a smaller and more compact CDC than Gordon's one billion dollar agency.[23] Furthermore, Sharp was not as receptive as Gordon to the idea of the CDC raising its equity capital by selling shares to individual Canadians. Sharp felt that individual investments could not supply the capital necessary for the Corporation. He favoured a CDC which raised its money primarily by selling shares to financial institutions. By emphasizing institutional investors, Sharp hoped to soothe the fears of the financial community and make his job of finding Directors for the Corporation much easier. Other than these differences, Sharp agreed with Gordon that the management of the Corporation should be left in the hands of the Board of Directors.

The differences between the Gordon and Sharp models of the CDC are quite significant in that they reflect the link between the rationale used for creating the CDC and the internal debate between two different factions of Canada's business community about what the form and objectives of the Corporation should be. In the political arena, Gordon represented the smaller Canadian entrepreneur. He was a partner in the Toronto accounting firm of Clarkson, Gordon and Company. In contrast, Mitchell Sharp represented Canada's indigenous elite, particularly the Canadian multinational corporate elite. In the 1930's, Sharp had been involved in the investment business. Later, he became vice president of the Brazilian Traction, Light and Power Company which until recently was owned by Brascan Limited. Today, Sharp is the northern pipeline agency commissioner responsible for the construction of the Alaska Highway pipeline in which Stelco and the Interprovincial Steel Company of Regina have a major stake.

As described in the previous chapter, Walter Gordon's initial proposal for a CDC generated a largely negative reaction. Much of the opposition to his proposal came from Canada's indigenous elite. Neil McKinnon, chairman of the Canadian Imperial Bank of Commerce and Arnold Hart, president of the Bank of Montreal, are two examples of members of Canada's finance elite who rejected Gordon's CDC on the grounds it was another government intrusion into the economy. Donald Fleming, the Conservative critic of the CDC, was associated with several investment companies and the Investment Dealers Association. Most of the members of the Canadian multinational corporate elite either disapproved of Gordon's CDC or expressed qualified approval about it. For example, Maurice Strong, then president of Power Corporation, supported the principle of the CDC while simultaneously suggesting that more work was needed on the proposal to make it acceptable to those in the private sector. Strong's guarded optimism about the CDC resulted in his being invited by the government to work on the proposal so that it would be more acceptable to Canada's indigenous elite.

The problem for Gordon was not simple. He could not accept the NDP proposal for a completely public CDC because that would alienate Canada's corporate elite. He was not willing to accept a totally private CDC as suggested by Gordon Ball in 1956 because it would not come to grips with the problem of foreign investment in Canada. Thus he had to choose between two hybrid models of the CDC. One would emphasize the public aspects of the CDC while the other would emphasize the private aspects.

Gordon chose a CDC which, for the most part, resembled a private company. However, in comparison with the Sharp and Benson models, Gordon's CDC put greater emphasis on its public aspects. It was the inclusion of the "buy Canada back" and "buyer of last resort" functions into his model of the CDC which activated the most vocal opposition to Gordon's proposal. These functions made Gordon's CDC too public. Critics suggested these two functions would link the Corporation to the government. The CDC would not be free of political influence. Furthermore, these two functions were perceived as being contradictory to the overriding objective of profit. The Corporation would be expected to invest in unprofitable projects to fulfill government policy.

Despite his many attempts to clarify his model and soothe the fears of Canada's indigenous elite, his commitment to the "buy Canada back" and "buyer of last resort" functions haunted Gordon throughout his tenure as finance minister. In the House of Commons, both the Conservatives and NDP suggested that the profit motive and achievement of national goals could not be reconciled in one institution.[24] The Conservatives, like Canada's indigenous elite, feared that the national goal objective would dominate. The NDP felt the profit motive would dominate.

Within the Liberal Cabinet, Gordon was opposed by Mitchell Sharp. Sharp, representing the views of the Canadian multinational corporate elite, rejected the "buyer of last resort" and "buy Canada back" functions of Gordon's CDC. Gordon was viewed as being too left wing in his thinking. The opposition to the Corporation, both inside and outside the Cabinet, coupled with the Liberals' minority government position, resulted in the continual delaying of a CDC bill during the Gordon years. By the end of Gordon's tenure as finance minister, there was a growing consensus that the CDC would be more useful as a tool of industrial development than of government policy. It was becoming clear "that combining in one organization the negative aspects of control and the positive aspects of economic growth and profits was more counterproductive than complementary."[25] There is some evidence that Gordon had partially accepted this idea.[26]

To summarize then, no CDC bill was passed during the Gordon years because of the opposition of Canada's indigenous elite, particularly the multinational corporate group within that elite. This group, represented by Sharp in the political arena, wanted a CDC which, as much as possible, resembled a private company both in form and objectives. That is, it preferred a mixed CDC with emphasis on its private aspects. The CDC would be created and funded by the government. Its first staff would be selected by the government. However, this staff would be selected from the private sector. The Corporation would operate like a private company. And eventually, the CDC would be owned by the private sector. In contrast, Gordon and smaller Canadian entrepreneurs favoured a mixed CDC which resembled a private company in its structure but had some primary "public" and national economic objectives. Gordon's faction lost out because their objectives were perceived to be too statist and too left wing.

And yet, when Sharp became finance minister, he too failed to introduce any CDC legislation. During his tenure as finance minister, the CDC was low priority. This, coupled with an attempt to redefine the CDC as primarily a tool of industrial development, resulted in the CDC becoming dormant during the Sharp years.

Despite their roles in the evolution of the CDC and their proposals as to how it should be structured, neither Gordon or Sharp was Finance Minister when the Corporation was created. There is no doubt that they both had a significant influence on the shape the CDC finally assumed. However, it was not the "pure" Gordon or "pure" Sharp model of the CDC which was eventually adopted by the government. The CDC which was created in 1971 also bore the mark of Finance Minister Edgar Benson. It was he who introduced the legislation creating the agency. To examine the Benson CDC is to examine the current CDC. There have been virtually no structural changes in the agency since it was established. The remainder of this chapter will involve an examination of the current structure of the CDC. In order to get a proper understanding of the agency between 1971 and 1979 one must begin by assessing Act C-219, the legislation which created the Corporation.

Throughout this chapter it will be argued that the provisions of Act C-219 do not allow the government to control the activities of the Canada Development Corporation. Act C-219 makes it very difficult for the government to interfere with the Corporation. The CDC, as it is structured today, is not responsible to the Cabinet or the legislature and cannot be influenced or regulated by the Treasury Board or through the budgetary process. Structurally, the CDC resembles a private company. Decisions are made by a small, independent Board of Directors rather than by the government. Act C-219 makes it clear that it is the Board which controls the CDC and not the government. In order to substantiate these arguments it is necessary to examine the objectives of the Corporation as outlined in the legislation creating the agency.

The purpose of the Canada Development Corporation Act as outlined by Benson was to create a corporation which would;

> First, help develop and maintain strong Canadian-controlled and Canadian-managed corporations in the private sector of the economy and, second, to give Canadians greater opportunities to invest and participate in the economic development of Canada.[27]

More specifically the corporate objectives of the CDC are;

> (a) to assist in the creation or development of business, resources, properties and industries of Canada;
> (b) to expand, widen and develop opportunities for Canadians to participate in the economic development of Canada through the application of their skills and capital;
> (c) to invest in the shares or securities of any corporation owning property or carrying on business related to the economic interests of Canada; and
> (d) to invest in ventures or enterprises, including the acquisition of property, likely to benefit Canada;
> and shall be carried out in anticipation of profit and in the best interests of the shareholders as a whole.[28]

The objective's of today's CDC are similar to those of Gordon's 1965 CDC. The primary role of both the Gordon and Benson models of the CDC was that it was to be an investment catalyst designed to support Canadian owned business ventures.[29] Benson accepted Gordon's argument that the CDC was needed to fill a gap in the Canadian capital market. One of Benson's hopes when he created the CDC was that it would not compete with existing Canadian financial institutions but rather pick up the slack left by them when they did not have the capital to invest in those areas of the economy which were promising in terms of profit and where Canadian participation seemed unlikely.[30] One official in the Department of Finance suggested that if other Canadian investors were present, then "the CDC shouldn't be there."[31] And yet, Benson's CDC was intended to fill not only a gap in the Canadian capital market, but also an entrepreneurial gap. He felt that Canada did not have enough managerial expertise to develop the large, efficient, productive corporations needed to compete in the international market. It was hoped that the CDC would also be a vehicle for developing the managerial expertise of Canadians.[32] The CDC was to fill these capital and entrepreneurial gaps by investing in new corporations, existing firms and corporate expansions.

Despite the fact that Benson agreed with Gordon about the "gap filling" function of the CDC, he created a Corporation which was divorced from the question of the level of foreign ownership of the Canadian economy. In this sense he disagreed with Gordon and agreed with Mitchell Sharp. He, like Sharp, argued that the CDC's objective of profitability clashed with Gordon's ideas of the CDC as a "buyer of last resort" and as a vehicle for "buying Canada back".

The key to this whole issue is the CDC's objective of profitability. It had always been intended that a consideration of profits would determine any investments made by the CDC. All three Finance Ministers agreed that if the Corporation was to raise its capital by selling shares, it would have to invest in projects which would be profitable. The Canada Development Corporation Act stresses that the agency pursue its objectives and carry on its business in a practical and profitable manner.[33] At the beginning of each of the CDC's annual reports it is emphasized that one of the primary purposes of the Corporation is "to operate profitably and in the best interests of all the shareholders."[34]

It is clear that this objective of profitability clashed with Gordon's notion of the CDC as a "buyer of last resort". Benson was not prepared to create a CDC which would invest in worthy losers in an attempt to achieve national aims. He argued;

> Every time something is sold to the Americans I can see people saying that the CDC should buy it. They could end up with a lot of duds if that happened.[35]

Thus, the CDC, since its creation in 1971, has never been designed to prevent foreign takeovers.

Similarly, the current CDC was never intended to be an agency for repatriating Canadian firms. Benson agreed with Sharp that the CDC should not attempt to repatriate firms if they were not profitable. Economically, unprofitable firms would not be a sound investment for a CDC concerned with making profits. A simple change in ownership in an unprofitable company would not help Canada's productivity. In addition, given the high level of foreign ownership of the Canadian economy, "the activities of the CDC in this regard would only be a drop in the bucket."[36]

Thus, the CDC created by Benson in 1971 stressed profit over economic nationalism. An industrial CDC was preferred by Benson because he thought a CDC constrained by profit was an impractical means of dealing effectively with the problem of foreign ownership of the Canadian economy.[37] The actual CDC is concerned with economic nationalism only in an indirect way. Growth in the Corporation might slightly increase the percentage of domestic ownership and control of the Canadian economy. Furthermore, although the Corporation does not have official "buyer of last resort" or "buy Canada back" functions, it is not prevented from performing either of these functions if they prove profitable.

The CDC that Benson established in 1971 was also designed to alleviate some of the inefficiencies in Canada's industrial structure. Benson agreed with Sharp that the CDC should play a role in promoting mergers of small, inefficient, unproductive Canadian firms into larger, more efficient and productive ones. From the description given thus far, it seems clear that the CDC created in 1971 resembled the Sharp model of the Corporation. For the most part, this is true at both the functional and structural levels. The only substantial difference is that Sharp favoured a compact CDC which was much smaller than Gordon's proposed agency. The CDC created by Benson is very large. It has an authorized share capitalization of three billion dollars. This is three times larger than the original CDC proposed by Gordon.[38]

This one structural difference can be partially explained by six years of inflation.[39] Furthermore, Benson wanted to ensure that the CDC had sufficient capital to invest in large industrial projects in the future. That is, he had to take into account any future inflation because a CDC isolated from the political arena would not be receiving any more authorized share capital from the government. The Corporation was expected to use the profits generated by this capital to finance its future activities.

The key difference between the Gordon and Benson models of the CDC is that the latter did not have any "buyer of last resort" or "buy Canada back" functions as its primary objectives. Gordon and Benson attached different levels of significance to these functions. For Gordon, the Corporation's primary function was to serve as a tool of economic nationalism. Industrial development was a secondary concern.[40] However, towards the end of his tenure as finance minister, even Gordon reluctantly admitted that the "buy Canada back" function might not be compatible with the profit motive. He insisted, though, that the "buyer of last resort" function could be made compatible with the notion of profits if the government was willing to introduce stronger legislation preventing foreign takeovers.[41]

In contrast, Benson saw the CDC as essentially a tool of economic development. Economic nationalism was not a primary consideration.[42] The CDC would only buy foreign owned businesses in Canada if those businesses were profitable. The CDC would only affect the level of foreign investment in Canada in specific cases where profitable opportunities existed. As the CDC grew and became profitable the chief by product benefit would be a gradual "Canadianization" of the economy.[43]

In short, the most important overriding consideration in any investment which the CDC makes today is profit. Norma Michael stressed that profit was necessary if the CDC was to be a successful venture.[44] In this respect, the Corporation closely resembles a private company. The difference between the two is very subtle. Private companies are concerned with the immediate maximization of profit. The CDC must make investments which are profitable in the long run. Michael's comment that the CDC's potential for earnings is very high underlines the Corporation's emphasis on long term, profitable investments.[45] Nevertheless, profit remains as a common denominator.

The question which now must be answered is how did Benson structure the CDC in Act C-219 so that it fulfilled its objectives, especially the profitability objective? There has been considerable confusion about the structure of the CDC. Wallace Clement has lumped it in as a crown corporation with Air Canada, Atomic Energy of Canada, the Bank of Canada, Sidbec, Eldorado Nuclear, Polymer, the Industrial Development Bank and Canadian National Railways.[46] Yet section thirty-one of the Canada Development Corporation Act clearly states;

> The company is not an agent of Her Majesty or a crown corporation within the meaning of the Financial Administration Act.[47]

This provision, more than any other, reflects the true nature of the CDC. Section thirty-one represents a deliberate attempt by the government to insulate the CDC from political influence. Benson wanted a CDC which would "operate within the private sector of the economy with the capabilities and constraints of a private corporation."[48] This would mitigate the fears felt by the business and financial community and would help Benson attract capable individuals from that community to run the agency. To insulate the CDC from political influence Benson had to deal with two problems. The first was how to ensure that the CDC would not be controlled by the Cabinet or the legislature. The second was to make sure that the government did not control the purse strings of the Corporation. He dealt with these problems by structuring the CDC so that it was different from other government created agencies in two ways.

First, Act C-219 provided that the CDC was not to be a crown corporation. By not conferrring crown corporation status on the CDC, it not only created a unique bureau but also restricted the control that the executive and legislative branches of government would have over the activities of the CDC. The Company "has no statutory obligation to give an accounting of its activities" to the Finance Minister, the Prime Minister, the Cabinet or Parliament simply because it (the CDC) is not a crown corporation.[49]

The second method Benson used to isolate the CDC from the influence of the Cabinet and Parliament relates to the administrative structure of the CDC. The corporate structure of the agency has gotten steadily larger since 1971 but the administrative structure has remained relatively unchanged. Corporate structure refers to the number of companies or corporations in which the CDC owns the controlling percentage of shares. Administrative structure is a term used to describe the mechanisms of the decision-making process in the Corporation.

When one focuses on the administrative structure, it becomes clear that the Benson CDC is largely a centralized, non-bureaucratic type of organization. Section eleven of the Canada Development Corporation Act provides for the establishment of a Board of Directors to manage the affairs of the Corporation. The statute states;

> Until otherwise determined by a by-law passed by the directors and sanctioned by at least two-thirds of the votes cast at a special general meeting of the shareholders called for the purpose, the affairs of the company shall be managed by a Board of Directors consisting of not less than eighteen or more than twenty-one members as may be fixed from time to time by the Board.[50]

When the CDC was initially created, the Cabinet had the responsibility of appointing the first Board of Directors. After these directors had been appointed it became their responsibility to appoint any new directors or replace any who died or left the CDC. In short, the Cabinet surrendered its power to appoint any new directors except those who represented the government. Yet even when the Cabinet was appointing the first Board, much care was taken to select members who would "operate completely free from federal persuasion" and would be able to convince Canada's business community that the CDC had no political links.[51] Thus, the CDC's first directors were drawn from the private sector.

Any qualified Canadian can be a director but any director who ceases to be a Canadian is automatically terminated as a director. At all times the majority of directors have to be Canadian residents. Eleven directors constitute a quorum of the Board.[52] When vacancies exist on the Board, the remaining directors may exercise all the powers of the Board as long as a quorum of the Board remains in office. Because a director may have or develop character traits which may damage the reputation or the integrity of the Corporation, Act C-219 also provides that any director could be removed by a four-fifths vote of the other directors or by a two-thirds vote of the shareholders of the company.[53]

Initially, Ottawa appointed the President and Board of the CDC. However, once this was done, it became the responsibility of the Board to elect future directors, presidents, vice-presidents, chairmen and vice-chairmen of the Board and all other officers as they were required. It is interesting to note that it would seem possible for the Board to continually select a self-perpetuating elite to manage the Corporation. The Board of Directors of the CDC consists primarily of people from the business environment who have maintained their links with private industry.[54] Louis Desmarais, for example, has maintained his links with Power Corporation.

Because Ottawa was funding the Corporation it was necessary for the federal government to be represented on the Board of Directors. Section forty of Act C-219 provides that the Minister of Finance may, after consulting with the rest of Cabinet, appoint no more than four members of the Board of Directors.[55] Even though the government can have up to four representatives on the Board, Ottawa still does not control any activities or decisions taken by the Corporation. The influence that these four directors can have on a Board of 18 to 21 directors is limited. Government directors constitute a minority on the Board. Their influence is reduced even further when one considers that the majority of the directors are from the private sector. This point was driven home further by Norma Michael who suggested that there was a conscious attempt to insulate the CDC from all political influence.[56] The major duties of the government directors are to act as the token protectors of the government's interests, participate in discussions and advise the Cabinet what its priorities should be with respect to the problem of foreign ownership in Canada.

Section forty-one of Act C-219 is a special provision which outlines a specific procedure if the government holds more than fifty per cent of the total number of issued and outstanding voting shares of the CDC. If the government does hold more than fifty per cent of the shares then the Deputy Minister of Finance and Deputy Minister of Industry automatically become "members of the Board ex officio without affecting the membership of the Board."[57] All ex officio members are not allowed to vote at any of the meetings of the CDC.

A small permanent staff to advise and assist the Board of Directors was initially appointed by the federal government. After these intitial appointments the Board was given control over "the management, administration and investment of the company's property."[58] The hiring and firing of all officers, employees and agents of the company became the responsibility of the Board. This management staff, which was to assist the Board, was to be recruited primarily from Canada's financial community.

It is clear that Benson's response to the problem of isolating the CDC from Cabinet or Parliamentary interference has been successful. He deliberately created a CDC with a centralized, non-bureaucratic administrative structure. This freed the CDC from interference by the Cabinet or Parliament in that all policy decisions were to be made by the Board of Directors. The Corporation's decision-making process was deliberately centralized in the Board. Two things were done to insulate the Board's policy decisions from political influence. First, the government was to have only a maximum of four representatives on a Board of 18 to 21 directors despite the fact that initially Ottawa owned 100 per cent of the CDC's shares. Currently, Ottawa holds 67 per cent of the CDC's shares. Secondly, profit was made to be the CDC's chief consideration when it was determining whether or not to invest in a project.

Benson intentionally created the CDC so that legislative and executive oversight would not be effective means of controlling it. The Cabinet does have input into the agency but that input is greatly reduced because federal representation on the Board is insufficient and has deliberately been rendered ineffective. Critics of the CDC have suggested that the Company become "a crown corporation directly responsible to parliament through a ministry" but the Cabinet has remained steadfast in upholding the original legislation and has done nothing to change it.[59] It has been further suggested that the Minister of Finance table the annual report of the CDC and that the Commons should refer it to a Standing Committee for examination and report, but this suggestion has also been ignored by the Cabinet.[60] The CDC simply does not have any statutory obligation to report to the Prime Minister, Parliament, the Finance Minister or the Cabinet. This is reflected in the House of Commons where although many questions have been raised about the CDC, the government has invariably maintained that "public disclosure of information concerning the internal operations of the corporation is at the discretion of the CDC board of directors."[61]

The CDC, as it is structured today, closely resembles a private company. Like a private company, its chief consideration in making investments is profit. It has a centralized decision-making process in the form of a Board of Directors like most private firms. It has shareholders. Finally, the CDC, like most private companies, is essentially a non-bureaucratic firm. Right from the beginning the

Corporation has had a small, permanent staff and relied on consultants and outside experts to make assessments of companies which the CDC is considering purchasing. There has been a deliberate attempt to "avoid building up a huge overhead and hosts of people on staff."[62] In 1973, there were only seventeen members on the CDC's permanent management staff.[63] There has been no substantial increase in the number of bureaucratic officials in the CDC despite the agency's expanding corporate structure. The CDC takes an interest in, but does not direct the management of, the companies in which they hold investments. These companies are run by their own boards and management.

Benson's structuring of the CDC so that it had no statutory responsibility to the Cabinet or Parliament was not a sufficient guarantee that the agency would operate free of political influence. If any agency is reliant upon the government's budgeting process for capital, it (the agency) can be controlled through that process. Benson had to structure the CDC so that it could not be controlled through the budgeting process. If he did not, the fears of Canada's business community that the CDC was another government intrusion into the private sector would be well founded. He would not be able to attract the best qualified individuals to manage the Corporation. Isolating the CDC from the budgetary process was necessary if Benson hoped to create an environment in which the CDC would be able to survive in harmony with the business community.

Benson approached the problem in two ways. First, he structured the CDC so that it did not receive any funds through the annual federal budget. All procedures for the financial administration of federal agencies are contained in a piece of legislation known as the Financial Administration Act.[64] It is this legislation which establishes the budgetary process as an important means by which the federal government can influence or control the acitivies of its bureaucrats. However, Act C-219, the legislation which created the CDC, explicitly states that the Corporation is not to be subject to the budgetary control outlined in the Financial Administration Act.[65]

Secondly, Benson structured the CDC so that it had its own budget with which the government could not interfere. To ensure that the Company could not be controlled through the annual federal budget, the government gave the CDC an authorized capital of "200 million common shares without par value and 1,000 million preferred shares."[66] Each preferred share was to have a nominal or par value of one thousand dollars.[67] Eventually, the CDC was to have a capitalization of one billion dollars in preference shares.[68] The two hundred million voting shares were to be sold for at least ten dollars each to Canadian individuals and institutions.[69] The total authorized share capitalization of the CDC comes to three billion dollars.[70]

Act C-219 provided that the federal government would make a maximum of 250 million dollars available to the CDC by undertaking to purchase voting shares in it.[71] Of this 250 million dollars, 100 million was made available by the end of the CDC's first year of operation, and 75 million was made available in each of the following years.[72] Act C-219 further provided that no matter how many voting shares the government had in the CDC, the Board of Directors could redeem those shares at any time to a level where the government had no more than ten per cent of the voting shares.[73] With the single exception of the federal government which was restricted to owning ten per cent of the shares, all other investors in the CDC had to be Canadian and could not hold more than three per cent of the outstanding voting shares.[74]

The CDC also has other sources of income. The Canada Development Corporation Act provides the government with the authority to lend up to one hundred million dollars to the Corporation.[75] Furthermore, the government was authorized to sell several profitable crown corporations, Polymer, Eldorado Nuclear, Panarctic Oils and Northern Transportation to the CDC for cash, shares or securities in the agency, or a combination of all three.[76]

One would think that because the government will always be the largest stockholder in the CDC, federal officials would be able to effectively control the activities of the Company. However, this is not the case given the federal government's representation on the CDC's Board of Directors. Because of the manner in which Benson centralized the CDC's decision-making process in the Board of Directors, the federal government has no vote as to how its money will be used. Ottawa simply gave the Corporation a lump sum of 250 million dollars of equity capital to use as the Board saw fit.[77] Not only did the government participate in this form of "lump sum budgeting", but it also gave the CDC other independent sources of income in the form of profits generated by the crown corporations bought by the CDC. Finally, the basic notion behind the CDC was that it would use the capital provided by the government to generate profits and its own budget.

Thus, the government cannot control the CDC through the annual federal budget or through the CDC's own budget. Benson deliberately gave the directors of the CDC complete control over investment, administration and management of the Company's property.[78] Act C-219 gave the directors of the CDC almost unlimited discretion as to how best to use the Corporation's human, material and financial resources. In essence, Benson gave the Board of the CDC a formal assurance that the internal activities and policies of the company would not be regulated or controlled through the federal budget.

Because of this formal assurance, the CDC has never had to give a financial report to the Treasury Board, the Public Accounts Committee, the Auditor-General or any standing legislative committee. The CDC has never had to appear before the Treasury Board and justify its expenditures or present a list of its estimated expenditures for the coming fiscal year. The Board of Directors do not have to open their books for the inspector of the Auditor-General. All the Corporation is required to do is release an annual report outlining its objectives, activities, administrative structure and financial status. Even this annual report is not subject to inspection by any standing legislative committee or the Public Accounts Committee of the House of Commons. The only time that the CDC is subject to review by the federal government is in the unlikely situation where the CDC went bankrupt or broke the law of the land.

The question of who is financially and legally liable in the unlikely event that the CDC should go bankrupt is an interesting one which this study could not adequately answer. Material on this subject was very difficult to unearth. The indications are that the CDC's Board of Directors would be legally liable if the Corporation went bankrupt. When questioned about this issue, Norma Michael emphasized that the federal government would not be responsible.[79] She indicated that the CDC was a legal entity in itself and thus would be legally and financially liable in the event of bankruptcy. The implication of this was that the CDC would pay as many of its debts as possible and then be declared bankrupt and be placed in receivership. However, she did not say whether or not the members of the CDC's Board of Directors would have to use their personal financial assets to offset debts incurred by the Corporation. This whole issue of legal responsibility in the event of bankruptcy warrants closer examination.

Throughout this chapter certain elements about the evolution of the CDC's structure and objectives have been emphasized. One major theme has been that the enacted CDC more closely resembles the Sharp model of the Corporation than the Gordon model. Gordon's model was rejected because it was perceived to have conflicting objectives. The profit motive could not be reconciled with an active concern about foreign ownership within the framework of a single institution.[80]

A second theme which has been emphasized is that in the case of the CDC, Canada's indigenous elite, particularly the multinational corporate group within that elite, had great input into the political process which created the Corporation. Maurice Strong of Power Corporation is the most glaring example of that input. Thus, a CDC which stressed profit as its overriding objective won out because Canada's indigenous elite was concerned with ensuring that the CDC be a part of the private sector. This elite influenced the policy process by engaging the support of the political and bureaucratic elites to create a CDC which resembled a private company and was insulated from the political arena. Canada's indigenous elite was able to engage this support because Ottawa needed its members to manage the Corporation.

Another element that this chapter has stressed has been the emphasis of Act C-219 on a CDC which was free of political influence. This fact implies something very interesting about the nature of the symbiotic relationship between the government and the Canadian multinational corporate elite. It suggests that in the case of the CDC, the government has surrendered all decision-making to the Canadian multinational corporate elite. In effect, Ottawa formally "opted out" of the CDC in order to obtain this elite's expertise to manage the Corporation.

The last element stressed in this chapter has been the issue of control. In fact, the crucial question for this whole study revolves around the matter of who controls the CDC. Essentially, the answer to that question is that it is the agency's Board of Directors which controls its activities. This raises another question. Who is on the Corporation's Board of Directors?

FOOTNOTES

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9. Walter L. Gordon, *Speech to Canadian Club*, October 7, 1965, Sarnia, Ontario.

10. Walter L. Gordon, *Speech to Canadian Textiles Institute*, June 3, 1965, Ste. Adele, Quebec.

11. *Loc. cit.*

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55. Canada, Statutes of Canada 1970-71-72, Chapter 49, (Ottawa, 1972), p. 1111.

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77. John Meyer, "Will the CDC Lead to Total Socialization of the Economy?," _Executive_, March 1971, p. 13.

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CANADA'S INDIGENOUS ELITE AND THE CDC'S BOARD OF DIRECTORS

It has been intimated in the previous chapter that the most significant element for understanding the links between the Canadian state and the CDC centres around the issue of who controls the Corporation's activities. Clearly, Act C-219 structured the CDC in such a manner that its activities were to be managed by a small board of directors.[1] The government intentionally insulated the CDC from political influence by refusing to confer crown corporation status upon it. Furthermore, by financing it through a "lump sum" budgeting process, Benson ensured that the Corporation could not be controlled through the federal government's annual budget.

This formal assurance by the federal government that the CDC would not have any direct contacts with or be responsible to the political sphere which created it raises two interesting questions. Who is on the CDC's board of directors? Why did the government select those particular individuals to manage the Corporation? In this chapter, it will be suggested that the answers to these questions can be found in an assumption made by the federal government about who in Canadian society should be developing Canada economically. It will be argued in this chapter that when one examines the CDC's directors it becomes clear that the largest number of them are or were members of what has been referred to in this paper as Canada's indigenous elite. Furthermore, it will be suggested that Ottawa tended to favour the multinational corporate rather than the financial group within that elite. This is especially true when one examines the CDC's executive committee. Finally, this chapter will argue that Canada's bureaucratic and political elites have always supported the idea that the indigenous elite manage the Corporation through its dominant membership on the board of directors.

The reasons why Ottawa selected members of Canada's indigenous elite to manage the CDC have been outlined in chapter one and again in chapter four of this study. To briefly reiterate, these reasons can be divided into two categories. First, there are the reasons of practicality. Ottawa wanted to promote the multinational corporate group within Canada's indigenous elite as a buttress against the increasing influence of the foreign parasitic elite in the active growth sectors of the economy. Hopefully, through the CDC, the Canadian multinational corporate elite would be able to reduce the "parasitic" elite's control of the active growth sectors. Ottawa needed the expertise and knowledge of the Canadian multinational corporate elite to manage the CDC if it was to be a successful venture.

All of these reasons of practicality were grounded in some philosophical assumptions made by the federal government. Ottawa assumed that it was best if Canada's indigenous elite developed the Canadian economy, rather than the government itself. The CDC represents a mechanism which the Canadian state used to both the existing elite structure of Canada and the idea that Canada's indigenous elite was best equipped to develop the Canadian economy.[2] The assumption was that if the government aided this elite by creating and funding an investment vehicle for its use, then the state would be aiding all other groups in Canadian society. The basic philosophy was that private enterprise could develop Canada economically better than public enterprise.

It has been suggested throughout this study that the CDC has many roles. First, it is a "buttressing" mechanism. The Corporation provides an outlet for Canadian capital and provides Canada with a presence in a world economy which is increasingly emphasizing the multinational corporation as an economic unit. Secondly, the CDC is a mechanism for removing productive activities from the state. The government turned over the CDC's funds to the Canadian multinational corporate elite because of a belief that this elite could use them more efficiently and productively than public officials. In essence, private capital which had become public capital through the collection of taxes was "reprivatized" through the CDC.

Finally, Ottawa has used the CDC as a vehicle for promoting Canada's indigenous elite. It is this role which is the subject of this chapter.

As outlined in chapter one of this study, the Canadian indigenous elite consists of the senior managers and directors of the dominant Canadian corporations.[3] This elite has two basic characteristics: it is purely Canadian and, most importantly, its bases of power, the corporations it manages, are based in Canada.[4]

Canada's indigenous elite consists of two basic, distinct but interrelated groups. One group consists of the directors and senior managers of Canadian chartered banks and insurance and finance companies. This group has been referred to as Canada's finance elite. The second group is the Canadian multinational corporate elite. It consists of the senior managers and directors of Canadian based multinational corporations and Canadian corporations ready to become multinationals. It is these corporations and the chartered banks which form the most significant sources of investment capital in Canada. The 1975 Inter-Corporate Ownership Report provides detailed information about the web of ownership and investment of many of Canada's largest companies. The three volumes of this report not only provide charts showing the corporate connections of Canadian firms but also provide information about the holdings that such foreign multinationals as Rothmans, CBS, International

Telephone and Telegraph Corporation and Exxon have in Canada.

Peter Newman has suggested that Power Corporation, Argus Corporation, Cemp Investments, Brascan and CP Investments are, aside from the chartered banks, the major investment pools in Canada.[5] By and large, the Inter-Corporate Ownership Report confirms Newman's assertion. However, the report does not use the same terminology as Newman. The report concerns itself with tracing corporate links to the ultimate owner. As a result, Power Corporation is viewed as an extension of what the report calls the Desmarais Group.[6] Similarly, Cemp Investments is referred to as an extension of the Bronfman Group.[7]

The report suggests that the major Canadian corporations consist of the Desmarais Group,(Power Corporation), Brascan, Canadian Pacific Limited (CP Investments), WEP Investments (Argus Corporation), the Bronfman Group (Cemp Investments), the Bentley-Prentice Group, the K. C. Irving Group and Noranda Mines Limited. Of these, the Desmarais Group is the largest, consisting of more than 175 corporations.[8] It is interesting to note that the Weston Group consisting of 150 companies was considered foreign owned by the report becuse Garfield Weston had taken out British citizenship before he died.[9] However, this may change because Weston's son has assumed control of the family business and is a Canadian citizen.

Thus, the directors and senior managers of these large firms are part of Canada's indigenous elite. They are certainly not the only members. There are other large Canadian corporations and their directors and managers are also part of Canada's indigenous elite. This will become even more evident when the membership of the CDC's board of directors is examined.

However, these particular firms are of interest to this study for two reasons. First, they, along with the chartered banks, constitute the major Canadian investment pools. Because the CDC is also primarily concerned with investment, these corporations become especially important to this study. Secondly, the managers and directors of these particular corporations are members of the Canadian multinational corporate elite. They are the heads of Canadian firms which are already multinational corporations or are on the verge of becoming multinationals. In order for this study to illustrate that the CDC's board of directors has been and is dominated by members of the Canadian multinational corporate elite, it is necessary to consider these particular corporations. Thus, this chapter will attempt to draw the links between the directors of the CDC and the directors and managers of the Desmarais Group, Brascan, Canadian Pacific Limited, WEP Investments, the Bronfman Group, the Bentley-Prentice Group, the K. C. Irving Group and Noranda Mines Limited. Of these, the first five are particularly important because of their larger size and their ability to raise huge amounts of investment capital.

The senior managers and directors of the Bronfman Group provide a good example of what is meant by the Canadian multinational corporate elite. This group is owned and managed by the Bronfman family of Montreal. Their major corporate interests are based in Canada and include Cemp Investments and the Seagram Company Limited.[10] Their primary corporate interests are liquor and oil. However, they have assets throughout the world including the United States, Asia, Mexico, South America, Australia, Europe, Africa and the West Indies.[11] Thus, the Bronfman Group controls such firms as Seagrams Ireland, Seagram de Mexico, Myers Rum in Jamaica, the Highland Bonding Company in Africa, and the Texas Pacific Oil Company which has holdings in Britain's North Sea.[12]

In order to understand the links between the CDC directors and Canada's indigenous and multinational corporate elites it is necessary to have an understanding of some basic concepts of corporate control. Here, the 1975 Inter-Corporate Ownership Report is very useful because it defines these concepts through the use of examples. Suppose, for example, corporation A directly or indirectly possesses more than fifty per cent of the exercisable voting rights of corporation B. This is called direct control.[13] Using the same example, suppose corporation B possesses more than fifty per cent of corporation C's voting rights. The control of C by A is then referred to as indirect control.[14] Finally, there is what is called cumulative indirect control. If corporation A directly controls corporations B and C, and indirectly controls D and E, and D and E collectively possess more than fifty per cent of corporation F, then corporation A is said to have cumulative indirect control of F.[15]

The last type of control is referred to as control through interlocking directorates. In this case, corporation A has, directly or indirectly, less than fifty per cent of the voting shares of corporation B. However, if the majority of the directors on B's board are on A's board or a corporation controlled by A, then B is said to be controlled by A through interlocking directorates.[16]

There is another interesting dimension to interlocking directorships. As mentioned in chapter one, they account for much of the intermingling between the two constituent groups of Canada's indigenous elite. They are the formal links which relate members of Canada's finance elite to members of Canada's multinational corporate elite. Thus, frequently, members of the Canadian multinational corporate elite sit on the boards of chartered banks and members of the finance elite sit on the boards of Canadian corporations. Charles Bronfman, for example, is a director and sits on the audit committee of the Bank of Montreal.[17] Similarly, Fred McNeil, chairman and chief executive officer of the Bank of Montreal is on Seagrams' board of directors.[18]

The point that is being made is that the interlocking directorships are the mechanisms which formally link members of Canada's indigenous elite. Peter Newman has described the Seagrams' board which contains four of Canada's most important business establishment figures as "a fairly cosy club of men well attuned to their mutual self-interest."[19] The four figures are McNeil, Paul Desmarais, chairman of Power Corporation, Ian Sinclair, chairman of Canadian Pacific, and Ted Medland, president of Wood Gundy, the leading investment and underwriting house in Canada.[20] An indication of the "coziness" created by interlocking directorships can be found in the reaction of some senators to the government's plan to "relax the qualifications for membership on the board of directors of chartered banks."[21] The government wants to open bank boardrooms to more academics, consumer representatives, women, small businessmen and ordinary bank users. A large group of senators, many of whom hold directorships on some of Canada's largest corporations, have opposed these changes because they feel that the root of commercial and corporate law is that "those individuals responsible for the policy direction of a corporation should have a financial interest in the operations of the company."[22] Finance Minister Jean Chretien has indicated he will alter his directorship proposals if he is convinced by this argument. Clearly, interlocking directorships constitute very significant formal and informal links between members of Canada's indigenous elite.

One last term which must be understood is joint equal ownership. In this case the voting rights of an enterprise head are held directly or indirectly by two or more different enterprises. If the two greatest voting rights percentages are equal then the enterprise is "called a JEO and the relationship with the holding companies is called joint equal ownership."[23]

It is essential that one understand these basic concepts if one is attempting to determine the linkages between the Canadian multinational corporate elite and the CDC's directors. Before proceeding with a detailed examination of the membership of the CDC's board of directors it is necessary to make some general observations about the board itself. First, it must be pointed out that the CDC has a large board. Norma Michael commented that the CDC's board of directors is larger and more powerful than the board of the average Canadian corporation.[24] It is about twice as large as the board of a typical Canadian business.[25] The size of the CDC's board (21 directors excluding ex-officio directors) has its merits and disadvantages. The most significant advantage of a large board is that as a whole it has a wide range of specialized knowledge about both resource and manufacturing industries. However, it must also be remembered that the members of the board are busy individuals who run their own businesses, sit on several other boards, committees and governing groups. Naturally this creates a problem of limited time to deal with the activities of the Corporation.

This problem of time has caused the CDC's board of directors to become quite reliant on the Corporation's permanent management staff. The board tends to rely on management consultants to provide them with the raw information on specific projects. In essence, the board is the CDC's decision-making body. But, to some extent, management controls the board in that it is the permanent staff which screens and controls the information the board receives. Usually, the CDC's directors must make a decision based on selective alternatives submitted to them by management.[26] Members of the board simply do not have the time to analyze and evaluate every detail of each individual investment decision.[27] Thus, there is a tendency within the CDC for management's proposals to be translated into policy.

However, two things must be remembered about management's control of information. First, all permanent staff members of the CDC are hired by the board of directors. Secondly, Act C-219 clearly gives the board complete authority to make all decisions. Furthermore, according to Dimma, the CDC's permanent management staff has endeavoured to keep the board informed and allowed it to develop as the Corporation's sole decision making body.[28] Norma Michael agreed with Dimma on this point.

The CDC's board of directors has established three committees to make the Corporation's activities simpler, more efficient and more productive. Of these, the newest is the communications committee. It was established in 1976 to review and guide "the public relations activities and shareholder relations functions of the Corporation."[29]

The Corporation's other two committees have been in existence since the CDC began operations. The audit committee is the shareholder's financial watchdog. This committee is responsible for monitoring the CDC's financial accounting and control procedures to make sure they are accurate and efficient. The Corporation's quarterly financial statements are reviewed by it. In addition, it works with auditors in examining and recommending to the board that the year end financial statements be approved.[30]

The CDC's most important committee is the executive committee. Section 13 of Act C-219 gives the board the authority to "select and delegate powers to an executive committee."[31] This committee has two major functions. The first is to deal with routine matters between meetings of the directors. Secondly, and more importantly, the executive committee is responsible for analyzing, in detail, investment proposals, financing alternatives and operating plans before they are presented to the board. The committee can also offer suggestions as to what decision should be made.[32] Generally speaking, directors who are members of the executive committee devote more time to the CDC's affairs and play a more active role in strategy formulation than other board members.[33]

Let us now examine the composition of the board. By the fall of 1971, the initial slate of directors had been selected. Once each potential board member had indicated that he or she was willing to serve, he or she received a letter, signed by the Prime Minister, which emphasized that the board would have complete control of the CDC's activities and that there would be no government interference. This was the climax of the hands off approach the government had used to attract good directors.

The original board consisted of twenty-one directors and was roughly balanced regionally. Eight directors were from Quebec, seven from Ontario, two from the Maritime provinces and one came from each of the four western provinces.[34] Six directors had French as their mother tongue. All of the directors with the exception of two had strong business backgrounds in modern manufacturing, resource development, service industries and finance. No bankers, accountants, lawyers or investment dealers were selected because this would have complicated the CDC's attempt to select organizations to provide these services. No heads of foreign subsidiaries operating in Canada were selected. The two members without strong business backgrounds were a senior labour union official and a female academic, "both appointments reflecting a token concession to the representation of other constituencies than the business community."[35]

Sixteen directors have remained with the Corporation since it began operations in 1972. These are Laurent Beaudoin, Pierre Côté, Louis R. Desmarais, John Edward Patrick Gallagher, H. Anthony Hampson, Gordon Frederick Hughes, Douglas Nevill Kendall, Sydney Maislin, Hugh Martin, H. Harrison McCain, William Cooper Young McGregor, Maurice J. Moreau, Frederick William Sellers, Frank H. Sherman, Jack N. Turvey and Allan F. Waters.[36] These directors plus Rodolphe B. Casgrain, Francois E. Cleyn, Marshall A. Crowe, John Henderson Moore and Livia Thür were the original directors of the Corporation.

In 1973, the CDC lost three of its directors. Francois Cleyn died November 26, 1973. Marshall Crowe resigned to become chairman of the National Energy Board. John Moore had agreed to serve for only one year and declined to stand for re-election at the 1973 annual meeting of the shareholders. Phillippe de Gaspe Beaubien and Alfred John Ellis were elected as two of the replacements on March 28, 1974.[37] In December of that year, Livia Thür resigned to join the federal Ministry of Science and Technology in a senior management capacity.[38] This left two vacancies on the board. These were filled in 1975 by Mrs. Arthur Pigott and Sol Simon Reisman.[39] Reisman had been Deputy Minister of Finance and an ex-officio director of the CDC. He became a voting director on April 1, 1975. He decided not to stand for re-election as director of the CDC in 1976. Pigott also resigned in 1976 because she had been elected to Parliament in a federal by-election. These two vacancies were filled by Mary Lamontagne and Murray Bernard Koffler.[40] In 1976, Rodolphe Casgrain chose not to stand for re-election because of the pressure of his own business. Early in 1978, H. Harrison McCain resigned for similar reasons leaving two vacancies on the board of the CDC.[41] Late in 1978, Doctor Catherine Wallace of the Maritime Provinces Higher Education Commission filled one of these vacancies.[42]

The original executive committee consisted of Crowe, Desmarais, Gallagher, Hampson, Kendall, Moore and Reisman who was an ex-officio director at the time.[43] This shrunk to five directors in 1973 when Crowe and Moore resigned from the CDC's board. In 1974, Alfred John Ellis became a member of the executive committee. In 1975, Reisman became a voting director but still remained on the executive committee. Thomas K. Shoyama, his successor as Deputy Minister of Finance, replaced Reisman as ex-officio director on the executive committee. When Reisman resigned as a CDC director in 1976 he was replaced on the executive committee by Frederick Sellers. Pierre Côté was added to the executive committee in 1977.

The initial audit committee consisted of Cleyn, McGregor, Sellers and Thür. After Cleyn's death in 1973, Waters and Moreau were added to the committee. Thür's resignation in 1974 left one vacancy on the audit committee which was filled in 1975 by Mrs. Arthur Pigott. In 1976, Sellers became a member of the executive committee and Beaudoin and Turvey became members of the audit committee. Pigott's resignation in 1976 has left a single vacancy which to date has not been filled. The newly formed communications committee initially consisted of Beaubien, Ellis and Waters. In 1977, Koffler became a member of this committee.

This then represents a chronological history of the membership of the CDC's board of directors. It is now appropriate to draw out the linkages between those who are and have been directors of the CDC and Canada's indigenous elite. It is important to note several points here. First, almost every director is or has been a member of Canada's indigenous elite. However, although many of the directors have substantial links with the Canadian multinational corporate elite, not all of them do. Secondly, some of the CDC directors have or have had links with each other. Here, the interlocking directorship has been the key mechanism linking the directors.

Having made these qualifications, this study will proceed in the following manner. First, the links between the Canadian multinational corporate elite and the CDC directors will be examined. Those with links to the Canadian multinational corporate elite are naturally part of Canada's indigenous elite. The second step will be to examine the directors who do not have links with the Canadian multinational corporate elite. An effort will be made to determine if those directors are related to Canada's indigenous elite.

Table 2 illustrates the links between CDC directors and the Canadian multinational corporate elite. The best way to draw out these links is to deal first with those who have the most direct contacts. Some directors have clearer and more direct links with the Canadian multinational elite than others. Of the twenty-seven individuals who have been directors of the CDC, four have or have had very strong ties with the Canadian multinational corporate elite. These four are Phillippe de Gaspe Beaubien, Louis R. Desmarais, John Moore and H. Anthony Hampson. Of these four, three have some association with the Desmarais Group.

Louis B. Desmarais is the brother of Paul Desmarais who is the chairman and chief executive officer of Power Corporation of Canada. This is the chief holding company of the Desmarais Group. Louis is chairman and chief executive officer of Canada Steamship Lines, one of the largest corporations within the Desmarais Group. He is a director of Power Corporation, Texasgulf, The Canadian Home Assurance Company, the Canadian Lake Carriers Association, the American Management Association, the Dominion Marine

TABLE 2

CDC Directors and the Canadian Multinational Corporate Elite

CDC Director	Linkage	Mechanism of Linkage
Louis Desmarais	Desmarais Group	Director Power Corporation, Chairman Canada Steamship Lines
H. Anthony Hampson	Desmarais Group	Vice-President Power Corporation 1964-1968
Phillippe de Gaspe Beaubien	Desmarais Group	Chairman Telemedia Communications
Laurent Beaudoin	Desmarais Group	Interlocking Directorship Telemedia Communications
Alan F. Waters	Desmarais Group	Interlocking Directorships Power Corporation and Consolidated Bathurst
	WEP Investments	JEO of Master FM Limited
Frank Sherman	Desmarais Group	Interlocking Directorship Great Lakes Waterways Development Association
	Canadian Pacific Limited	Director Canadian Pacific Limited
Gordon Hughes	Desmarais Group	Cumulative Indirect Control Oxford Development Corporation
	Brascan	Interlocking Directorship John Labatt's Limited

CDC Director	Linkage	Mechanism of Linkage
Pierre Côté	Desmarais Group	Interlocking Directorship Systems Dimensions Limited
Livia Thür	Desmarais Group	1967 World Exhibition in Montreal
	Brascan	Interlocking Directorship Bell Canada
Alfred John Ellis	Desmarais Group, Bronfman Group	Interlocking Directorship Bank of Montreal
H. Harrison McCain	Desmarais Group, Canadian Pacific Limited	Interlocking Directorship Bank of Nova Scotia
John Henderson Moore	Brascan	Chairman Brascan
Marshall Crowe	Brascan	Interlocking Directorship Imperial Bank of Commerce
Sydney Maislin	Bronfman Group	JEO of the LaSalle Development Corporation
Hugh Martin	Canadian Pacific Limited	Director CP Air, Direct Control of Shaughnessy Place
Jack Turvey	Canadian Pacific Limited	Interlocking Directorship Interprovincial Steel and Pipe Corporation

Association and the Great Lakes Waterways Development Association. He is also a past president of Provincial Transport Enterprises Limited.[44]

H. Anthony Hampson, the president and chief executive officer of the CDC, was the vice-president of Power Corporation between 1964 and 1968. In 1965, he was also president of Capital Management Limited. Hampson was also a credit analyst for the Bank of Montreal and a past chairman of the General Adjustment Assistant Board for the federal Department of Industry.[45]

Phillippe de Gaspe Beaubien is the chairman and chief executive officer of Telemedia Communications Limited. Telemedia used to be Power Corporation's broadcasting holding company.[46] Prior to the investigation of the Special Senate Committee on Mass Media, Power Corporation divested itself of its involvement in broadcasting. In 1971, Beaubien purchased 42 per cent of the voting shares of Telemedia from Power Corporation.[47] The remaining shares were held by the Montreal Trust Company. Fifty per cent of this firm is owned by Power Corporation.[48] Telemedia's board of directors has not changed. Beaubien is also vice-president and a director of Opex Communications. He is a director of the Dominion Bridge Company, General Steel Wares, Systems Dimensions and the Sherwin Williams Company.[49] He had been director of operations of the Canadian Corporation for the 1967 World Exhibition (Expo 67), chairman of the Sports Council and president of Sport Participation Canada.

John Henderson Moore is linked to the Canadian multinational corporate elite through Brascan Limited. He is chairman and chief executive officer of Brascan. He is also the chairman of the board of John Labatt's Limited. He is a director of Candian Pacific Limited, the Canadian Imperial Bank of Commerce, London Life Insurance, the Canadian Corporate Management Corporation, Bell Canada, Allied Breweries and the Hudson's Bay Company. His directorship on the board of Cadillac Fairview Corporation provides him with a direct link to the Bronfman Group.[50]

These four men are clearly members of the multinational corporate group within Canada's indigenous elite. This raises two very important questions. How does one decide who is a member of Canada's indigenous elite? And how does one decide who is a member of the multinational corporate group within that elite? A person is a member of Canada's indigenous elite if he or she is a director or senior manager of a dominant Canadian corporation. The second question is far more difficult to answer. By and large, a person is a member of the Canadian multinational corporate elite if he or she, has been, or is a director or senior manager of a Canadian based multinational corporation or a Canadian company which is on the verge of becoming a multinational. For this study, the Desmarais Group, Bronfman Group, Canadian Pacific Limited, Brascan and WEP Investments are the particular corporations which are multinationals or are apt to become multinationals. Directors or senior managers of these firms are members of the Canadian multinational corporate elite.

And yet, there is one more qualification which must be made about the Canadian multinational corporate elite. One may be related to or part of this elite through an interlocking directorship. What this study is arguing is that most of the CDC's directors are members of Canada's indigenous elite. Furthermore, most of them are either members of the Canadian multinational corporate elite or have links with that elite through interlocking directorships and other forms of corporate control (direct or indirect). CDC directors such as Louis Desmarais are clearly members of the Canadian multinational corporate elite. However, many of the other CDC directors have ties with this elite which are not as discernable. These ties will now be examined.

Laurent Beaudoin is the president of Bombardier and MLW Ltd. His link to the Canadian multinational corporate elite is through an interlocking directorship. Charles Leblanc, vice-president of Bombardier Limited is also a director of that recent offspring of Power Corporation, Telemedia Communications.[51]

Alan F. Waters is the president and director of CHUM Limited. One of the other directors of CHUM is Arthur Deane Nesbitt. Nesbitt is also a director of Power

Corporation, TransCanada Pipelines, Manufacturers Life and Consolidated Bathurst. Consolidated Bathurst is controlled by the Desmarais Group.[52] Nesbitt assumed his father's position of chairman and chief executive officer of Nesbitt and Thompson Company, investment dealers. It was Nesbitt's father who organized Power Corporation in 1925.[53] Nesbitt's father-in-law, Ross McMaster, is a director of Standard Life, the Bank of Montreal and the Steel Company of Canada. His brother-in-law is a director of National Trust and Consolidated Bathurst. Thus, Waters has a director on his own firm's board who is directly linked to the Desmarais Group. In addition, Waters has a direct link with WEP Investments (Argus Corporation). CHUM Limited, the CBC, Radio Rogers Limited, Radio 1540 and CFRB Limited each own twenty per cent of the voting shares of Master FM Limited.[54] CFRB is controlled by Argus Corporation. Thus, CHUM and Argus and the three others share in a joint equal ownership of Master FM.

Frank H. Sherman is the president, director and chief executive officer of Dominion Foundries and Steel Limited. He is a director of the Arnaud Railway Company, the Bank of Nova Scotia, Crown Life Insurance, Knoll Lake Minerals, the National Steel Car Corporation, the Wabush Lake Railway Company, CanRon Limited, and the American Iron and Steel Institute.[55] He has several links with the Canadian multinational corporate elite. First, he is a director of Canadian Pacific Limited. Secondly, like Louis Desmarais, he too is a director on the Great Lakes Waterways Development Association. And finally, Dominion Foundries and the Steel Company of Canada each own fifty per cent of the voting shares of Baycoat Limited.[56] Thus, Sherman has a link with Ross McMaster who is on the Steel Company of Canada board of directors. From here it may not be too improbable to suggest that this link can be extended to Power Corporation and CHUM Limited through A. D. Nesbitt.

Sydney Maislin is the president and chief executive officer of Maislin Industries. His link to the Canadian multinational corporate elite is provided through the Bronfman Group. Maislin Industries controls sixty per cent of the voting shares of Maislin Realty which in turn holds 49.6 per cent of the shares in the LaSalle Industrial Development Corporation.[57] Distillers Corporation Limited also possesses 49.6 per cent of the shares, making the LaSalle Development Corporation a JEO.[58] The Distillers Corporation is owned and controlled by the Bronfman Group through Cemp Investments.

Hugh Martin's link to the Canadian multinational corporate elite is through Canadian Pacific Investments. He is currently president of Western Construction and Engineering Research Limited. He used to be chairman of the Canadian Dredge and Dock Company, Marwell Dredging and Be Pen Oilfield Services Limited. However, he is one of the four defendants in the "Harbourgate affair" of 1975, and stands accused of conspiring to defraud the public of four million dollars by rigging dredging contract bids. Since Harbourgate Martin has sold all his share interest in his dredging companies to the Dillingham Corporation of Hawaii. He then formed Western Construction and Engineering Research Limited with Jack Turvey, a Vancouver industrialist, as his partner. Martin is also president of the Western International Hotel Company, Shaughnessy Place Limited, Hampshire House Holdings and Marwest Hotels. He is a director on the boards of the Bethlehem Copper Corporation, Calgary Inn Limited, CP Air, Frio Oil Limited, Bethex Explorations, W.I.H. Holdings Limited, Westlea Properties, Western International Hotels, Pan Canadian Petroleum Limited and the Interprovincial Steel and Pipe Corporation Limited.[59]

Martin's directorship on CP Air provides him with a direct link with Canadian Pacific Limited. However, he also has an indirect link through Shaughnessy Place. Western Construction and Engineering Research Limited has direct control of Shaughnessy Place, holding 60 per cent of the shares. However, the remaining 40 per cent is held by Marathon Realty which is directly controlled by Canadian Pacific Limited.

Jack Turvey's link with the Canadian multinational corporate elite is based on his business relationship with Hugh Martin. As mentioned previously they are partners in

Western Construction and Engineering Research Limited. Turvey and Martin are both on the board of directors of the Interprovincial Steel and Pipe Corporation but Turvey is the president of the company.[60]

Gordon Frederick Hughes is the president of Ocean Company Limited, the Evangeline Savings and Mortgage Company and Annapolis Travel Limited. He is a director of John Labatt's Limited, Olands Breweries, Sobey Leased Properties Limited and the Fidmor Mortgage Investment Corporation.[61] Hughes has two links with the Canadian multinational corporate elite. First, like John Henderson Moore, the president of Brascan, he is a director of John Labatt's. The second link is a very indirect one with the Desmarais Group. Ocean Company is the largest shareholder in Circuit Investments Limited. Circuit Investments Limited has direct control of the Evangeline Savings and Mortgage Company which in turn is the largest shareholder in the Empire Company. Empire is the largest shareholder in Halifax Developments. Durham Leaseholds Limited is a JEO with Halifax Developments and Oxlea Investments, each holding 50 per cent of the shares.[62] Oxlea Investments is directly controlled by the Oxford Development Corporation. The Desmarais Group holds 27.6 per cent of the latter's stock.[63]

Pierre Côté, president of Laiterie Laval Incorporated has a link with the Desmarais Group. He is the chief trustee and director of Heitman Canadian Realty. He has been a director on the National Dairy Council of Canada. Currently, he is a director of the Bank of Montreal, the Dominion Corset Company, Sedbec-Dosco Limited, CanRon, the Guarantee Company of North America, Place Quebec Limitee, Mutual Life of Canada, CAE Industries Limited, Ralston Purina of Canada and Systems Dimensions Limited.[64] Côté is also a member of the consulting committee of the Royal Trust Company. His directorship on CanRon links Côté with Frank Sherman. Through his directorship on Systems Dimensions, Côté has a link with the Desmarais Group. Phillippe de Gaspe Beaubien, the president of Telemedia, is also a director of Systems Dimensions Limited.

Livia Thür's links with the Canadian multinational corporate elite were quite difficult to unearth. Her husband is Otto Thür, the assistant Deputy Minister of Finance since 1972. He had been chairman of the economics department and assistant dean of the faculty of social sciences at the University of Montreal. He had also been economic advisor to the Canadian Corporation for the 1967 World Exhibition. It was here that the Thürs came into contact with Phillippe de Gaspe Beaubien. This was one link Livia Thür established with the Canadian multinational corporate elite. In addition, she, like John Moore, is also a director of Bell Canada.[65]

In doing this study it became clear that one of the ways that members of the Canadian multinational corporate elite are linked together was through interlocking directorates on the boards of chartered banks. The same can be said for the CDC. H. Harrison McCain, the chairman of McCain Foods Limited and McCain International is linked to Frank Sherman of Dofasco in that both are directors of the Bank of Nova Scotia.[66] Similarly, John Moore of Brascan is a director of the Imperial Bank of Commerce. Marshall Crowe was the economic advisor to the Canadian Imperial Bank of Commerce between 1961 and 1967.[67]

One of the most common links between CDC directors is interlocking directorates on the board of the Bank of Montreal. Alfred John Ellis was linked to the Canadian multinational corporate elite through Côté and Hampson. Hampson had been a credit analyst for the Bank of Montreal and Côté still is on its board of directors. Ellis had been vice-president, chairman and director of the Bank of Montreal.[68] This is particularly important when one considers the Bronfman connection with the Bank of Montreal.

These then are the links which exist and have existed between individual CDC directors and the Canadian multinational corporate elite. Some of these links are more distinguishable than others. Likewise, some are stronger than others. Of the 28 directors who have sat on the board of the CDC, at least 16 of them had a link with the Canadian multinational corporate elite. Currently, 11 of the CDC's

19 directors have some link with the Canadian multinational corporate elite.

Only twelve directors in the CDC's history have not had links with the Canadian multinational corporate elite. Of these twelve only two do not have a business background. As a doctor, Catherine Wallace is the professional representative on the CDC's board. Similarly, William Cooper Young McGregor is labour's representative on the CDC. He is a union official for the Brotherhood of Railway and Airline Clerks, vice-president of the Canadian Labour Congress, chairman of the Canadian Railway Labour Association, an executive member of the International Transport Worker's Federation and a member of the Economic Council of Canada.[69]

Seven of these twelve directors are not members of Canada's indigenous elite. They are Wallace, Young, Lamontagne, Moreau, Casgrain, Pigott and Cleyn. Lamontagne is a member of the Medical Research Council of Canada and Maurice Moreau is president of Geosearch Consultants Limited.[70] Rodolphe B. Casgrain is president of Casgrain and Company while Mrs. Arthur Pigott is the president and executive officer of Morrison Lamothe Foods.[71] Francoise E. Cleyn was president and chairman of Cleyn and Tinker Limited.[72]

The remaining five directors are members of Canada's indigenous elite. Sol Simon Reisman is a former Ottawa mandarin. He was deputy minister of finance. He is chairman of Reisman and Grandy Limited and a director on the boards of George Weston Limited, B. C. Packers Limited and Telesat Corporation.[73] His link with Weston may qualify as a link with the Canadian multinational corporate elite if the next Inter-Corporate Ownership Report considers the Weston holdings as Canadian instead of British owned.

John Edward Patrick Gallagher is the chairman and director of the oil firm Dome Petroleum.[74] Dome Petroleum owns several firms including Permanent Acceptance Limited, Dome Realty, Crownnite Industrial Minerals, Cochin Pipelines, Provo Gas Producers Limited, Producers Pipelines, Edmonton Liquid Gas, Steelman Gas and Trans Alberta Oil and Gas. Interestingly enough, the CDC considered purchasing Dome Petroleum and its holdings.

Douglas Kendall is vice chairman of Canada's largest electronics firm, Hermes Electronics. In addition he is a director of All Canadian Venture Fund Incorporated, Capital Dynamics Limited, Canadian General Investments Limited, Connaught Laboratories, Acadia Insurance Company, DeHavilland Aircraft of Canada Limited, Canadian Patents and Development Limited and Eucalyptus Pulp Mills Limited.[75]

Murray Bernard Koffler is chairman and chief executive officer of Koffler Stores. Koffler Stores consists of the large chains of Shopper's Drug Mart and Embassy Cleaners. He is also president of Life Products, vice-president of Four Seasons Hotel Limited and director of Rothmans Pall Mall of Canada.[76] Koffler will soon be joining the Canadian multinational corporate elite if his hotels become successful international ventures.

Finally, there is Frederick William Sellers. He is president of Spiroll Corporation and Spiroll International. Spiroll is a completely independent Canadian base of power. Sellers is also a director of Polysar, Ventures West Capital and Dome Petroleum.[77] His directorship on Dome links Sellers with Gallagher.

A total of ten directors have sat on the CDC's executive committee. All are or have been members of Canada's indigenous elite. Of these ten directors, four have had no links with the Canadian multinational corporate elite. These four are Douglas Kendall, Sol Simon Reisman, John Gallagher and Frederick Sellers. Three of the remaining six directors are members of the Canadian multinational corporate elite. These are H. Anthony Hampson, former vice-president of Power Corporation, Louis Desmarais of the Desmarais Group, and John Moore, the president of Brascan. Interestingly, Hampson and Desmarais have been members of the executive committee since the CDC's inception. It is clear that those directors who are members of the Canadian multinational corporate elite dominate the CDC's most important committee. In addition, Desmarais and Hampson have been officers of the CDC's board since the corporation was created. Desmarais has been vice chairman of the board and Hampson its president and chief executive officer.

It is clear from the evidence presented that most of the CDC's directors are members of Canada's indigenous elite. Since the CDC's inception exactly 75 per cent of its directors have been drawn from Canada's indigenous elite. Fifty-seven per cent of the CDC directors have been either members of the Canadian multinational corporate elite or had links with that particular elite. One hundred per cent of the CDC's executive committee has been drawn from members of Canada's indigenous elite. Sixty per cent has been part of or related to the multinational corporate group within that elite. Currently, 80 per cent of the CDC directors are members of Canada's indigenous elite while 55 per cent have links with the multinational corporate group within that elite.

Another interesting observation which can be made about the directors of the CDC is that a great number of them have links with the Desmarais Group. Eight of the CDC's current twenty directors can be linked with Power Corporation. Both senior officers of the CDC's board, Hampson and Desmarais, have direct contacts with Power. Currently three of eight of the CDC's executive committee members have links with Power Corporation. These links prompted one MP to remark during the debate on the CDC's acquisition of Polymer that;

> ...in the time of Caesar all roads led to Rome. In the time of Trudeau all roads lead to the Power Corporation of Canada.[78]

What is the significance of the CDC's dominance by members of Canada's indigenous elite, particularly the multinational corporate group within that elite? What is the significance of several of the CDC directors having direct links with Power Corporation? For the most part, these questions will be answered in the concluding chapter of this study. However some tentative answers to these questions can be offered here.

First, there can be no doubt that Ottawa intended to build a business bias into the CDC. This is significant because it reflects a belief on the part of the government that private enterprise is more efficient and productive than public enterprise. Secondly, a CDC managed by Canada's indigenous elite is an affirmation of the status quo in Canada. This elite is buttressed by the government, as is the existing distribution of political and economic power in Canada. Thirdly, the Canadian multinational corporate elite's dominance of the CDC's board since the Corporation's inception reflects a belief that this group is best equipped to compete with the foreign parasitic elite in the active growth sectors of the economy. The government purposely promoted this elite as a buttress against the parasitic elite. And finally, the links to Power Corporation are significant because they reflect the influence an elite can have upon public policy. In return for the open support and assistance Maurice Strong gave the government in its efforts to have the CDC accepted, Power Corporation was given the strongest voice on the Corporation's board of directors. The implication of this is that public policy in Canada benefits a small elite instead of the majority of Canadians. The assumption is that this elite will use the benefits it derives from public policy to benefit Canadians as a whole. This is a rather large and disturbing assumption for any government to make when it is attempting to develop and coordinate coherent, national economic and industrial strategies.

FOOTNOTES

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9. Ibid., p. XIX.

10. Ibid., p. XV.

11. Peter C. Newman, Bronfman Dynasty The Rothschilds of the New World, (Toronto, 1978), p. 289.

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22. _Loc. cit._

23. Canada, _Inter-Corporate Ownership Report 1975_, Volume I, (Ottawa, 1978), p. XLIV.

24. Interview with Norma Michael, Manager, Business Analysis, Canada Development Corporation, December 7, 1978, Toronto, Ontario.

25. William Andrew Dimma, _The Canada Development Corporation:Diffident Experiment on a Large Scale_, (Ann Arbor, 1973), p. 556.

26. Norma Michael, _op. cit._

27. _Loc. cit._

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THE CDC'S ACTIVITIES: TWO CASE STUDIES

The last two chapters of this study will deal with two issues. This rather short chapter will be a description of the two most significant operations the CDC has conducted since its creation in 1971. These are the first public issue of CDC voting stock and the Corporation's purchase of Texasgulf Incorporated. The concluding chapter will examine the relative significance attached to the CDC's many functions. Here, the Texasgulf purchase and the first public issue of CDC voting stock will be used as evidence to support the conclusions of the study.

It is interesting to note that both these case studies have some common denominators. Each operation generated a great deal of public controversy. In both instances, the CDC's Board of Directors had to overcome unexpected problems before the operations could be considered successful. And finally, each case study reflects the Corporation fulfilling its functions. This will be dealt with more explicitly in the next chapter. For now, we will begin by describing what occurred when the CDC made its first public issue of voting stock.

When the Corporation was first created, some critics suggested that it would be controlled by Ottawa because the government would always be its single largest shareholder.

This is not true for two reasons. First, the government can only have a maximum of four of 18 to 21 directors.[1] Thus their influence is very limited, especially in the light of the fact that the majority of the directors have been drawn from the private sector.

Secondly, Act C-219 never intended that the government would control the CDC by holding shares in it. The legislation allows the CDC directors to reduce the government's holdings in the Corporation to ten per cent whenever they so desire.[2] The remaining 90 per cent of the shares will eventually be made available to Canadian institutional and individual investors. No single investor could hold more than 3 per cent of the CDC's voting stock. Essentially, Act C-219 provided that the Corporation would eventually be owned by the private sector.

Until 1975, the government owned all of the CDC's voting stock. The CDC's directors wanted a public issue of CDC stock as quickly as possible but they were unable to do so because of poor market conditions. A planned sale in the spring of 1974 had to be cancelled because of the weak market. This provided more fuel to those critics who condemned the CDC as a tool of government. However, later in 1974, the CDC did issue by private placement to 18 institutional and industrial investors one hundred million dollars worth of nonconvertible Class A preferred shares.[3] These shares produced dividends at a rate of 5.75 per cent per annum.[4] Canada's chartered banks were well represented among the institutional investors in the CDC. The money that the CDC raised through this private issue was used to offset the capital the Corporation borrowed to purchase 30 per cent of Texasgulf Incorporated.[5]

In the summer of 1975, the CDC began to broaden its shareholder base by making its first public issue of voting stock in the Corporation. This was the first step "towards the ultimate goal of Canadians becoming the direct owners of up to 90% of the Corporation's voting shares."[6] The directors of the CDC encountered some interesting opposition at this time. It primarily came from certain members of the brokerage and institutional community who had always been opposed to the principle of a CDC.[7] In addition, Eric Kierans, one time president of the Montreal Stock Exchange and a former cabinet minister in Quebec and Ottawa, was opposed to the public issue. He argued that all of the voting stock should remain in government hands and that the CDC's directors should forget the whole idea of a public issue.[8]

The CDC intended to raise over 125 million dollars through its first public issue of voting stock.[9] Initially, the directors issued $100 convertible Class B preferred shares which paid an annual dividend of 7 per cent.[10] Opposition to the issue caused the shares to sell very slowly. It stagnated at about forty million dollars.[11] The task of telling the CDC directors why the investment industry could not sell the shares on these terms fell to Ted Medland, president of Wood Gundy. It was his firm which was underwriting the CDC's first public issue.

Two subsequent events helped the CDC's first public issue to be a success. First, Medland met with the CDC's directors on August 28 and they agreed to "sweeten" the issue. The annual dividend per share was increased to 8 per cent.[12] The money back guarantee period, which had originally been ten years, was shortened to five.[13] Furthermore, investors were to receive 2 common shares as a bonus for each Class B preferred share they purchased.[14]

The second circumstance which helped the CDC sell its first issue was the development of a backlash against Kierans. Those members of the financial community who opposed the CDC on philosophical grounds were very surprised to find themselves "agreeing with a man who supported more government control of business rather than less."[15] In essence, they were agreeing with Kierans that the CDC should not sell its shares to public investors at all. Those members of the financial community who supported the issue asked their opponents if they really wanted a CDC which was totally owned by the government. The CDC advocates argued if they didn't want this then "they should get into line."[16] Thus, the backlash against Kierans helped the CDC sell its stock.

The CDC was successful in raising 142.5 million dollars through its first public issue of voting stock.[17]

This was the largest public issue ever carried out entirely in Canada. The previous high had been one of 125 million dollars by Trans Canada Pipelines in 1972.[18] To appreciate how large this float was, it is useful to compare the American and Canadian capital markets. The American market is at least ten times larger than the Canadian. A comparative issue the size of the CDC's would be more than 1.5 billion dollars on the American market.[19] Needless to say, issues of this size are very rare on Wall Street.

The circumstances surrounding the CDC's first public issue of voting stock were nowhere near as complex as those surrounding the Texasgulf purchase. The controversy generated by the Texasgulf case was so great that the issue eventually had to be settled in court. As in the case of the voting stock, the CDC's directors managed to bring the operation to a successful conclusion. However, that success did not come without a struggle. It is that struggle which will be examined here.

On July 24, 1973, the CDC offered to purchase ten million common shares of Texasgulf at 29 dollars a share. At the time the CDC made its offer, it already had 748,800 of Texasgulf's common shares. Furthermore, another 20 per cent of the stock was owned by individual Canadians.[20]

Texasgulf is a multinational resource company which has four major fields of operations. These are oil and gas, exploration, mining and agriculture and chemicals. When the

CDC tendered its offer, Texasgulf's assets in Canada included Chieftan Mac Gas and TGS Hydrocarbons in Alberta, the Texasgulf Potash Company in Saskatchewan, the Massawippi and Rouanda Mining companies in Quebec and Ecstall Mining and 115,000 acres of woodlands in Ontario. The Ecstall Mining Company operated the Kid Creek Mine at Timmins, Ontario. This is the largest single zinc and silver producing mine in the world. In total, 68 per cent of Texasgulf's operating income came from its Canadian assets. The remainder came from its holdings throughout the rest of the world. These included a potash mine in Utah, sulphur mines in Texas, Louisiana and Mexico, 140,000 acres of woodlands in Pennsylvania and exploration interests in Australia and Africa.[21] Texasgulf also owned several liquid sulphur distribution terminals and gas sulphur recovery plants throughout the United States.

The CDC's offer of 29 dollars per share was not extended to those residents of Canada who held stock in Texasgulf. The offer was not made in Canada because the securities legislation of certain provinces required that the offer be made through prepaid mail. The CDC could not meet this condition because it did not have Texasgulf's shareholders list.[22] The offer could have been made to the residents of some Canadian provinces but the CDC's directors felt that Canadians in one province should not have greater investment opportunities than those in another province.

Furthermore, it could take up to a year to obtain Texasgulf's shareholders list, and by then the opportunity for profit could well have disappeared. The best solution was simply not to extend the offer to Canadian residents.

This action by the CDC's board of directors generated some controversy. Canadian brokers and investment dealers were quite upset about their exclusion from the CDC's offer. They felt that the Canadian investor and Canadian investment industry had been completely bypassed. They charged that the Corporation was not treating all of Texasgulf's shareholders equally. American and other foreign investors could get 29 dollars a share for their Texasgulf stock as long as they signed a letter stating they were not Canadian residents. In contrast, Canadian shareholders were left to get what they could for their Texasgulf stock. Members of the Canadian investment community suggested that instead of doing this, the CDC should have been content to acquire Texasgulf's Canadian assets rather than controlling interest in the multinational itself.[23]

In the meantime, the directors of Texasgulf held a series of meetings in New York to discuss their response to the CDC's offer. They decided to fight in court to retain control of Texasgulf.[24] They filed for and were granted a temporary order restraining the CDC from proceeding with its bid to assume control of Texasgulf. This restraining order was issued in a Texas court under a state statute that required the majority of company directors be residents of Texas.[25] At the time the restraining order was issued, the majority of Texasgulf's directors were not Texas residents. In any case, a court hearing was scheduled for August 6, just four days before the CDC's offer of 29 dollars a share expired. On July 31, Judge Woodrow Seals modified his restraining order to allow "attorney's and depositories to continue to hold and receive tendered stock."[26] However, the CDC and others acting for it were still not allowed to solicit tenders or make payment for shares tendered pending Seals' decision.

Texasgulf's case rested upon several charges. Lawyers for Texasgulf argued that the CDC's bid violated Texas laws which required that all firms incorporated in Texas be majority owned by American citizens. They charged that the CDC had been secretly buying shares in Texasgulf since March. Here they pointed to the 748,800 shares the CDC held in Texasgulf before it made its offer for controlling interest of the huge multinational. It was argued that if the CDC was allowed to purchase the ten million shares it desired, then it would own 35 per cent of Texasgulf. Couple this with the 20 per cent that Canadian citizens owned and Texasgulf became a foreign owned corporation. Texasgulf maintained that the CDC deliberately broke U.S. securities laws by failing to disclose this potential violation. It was also argued that under the Texas constitution, the state Attorney

General was required to seek the forfeiture of a company's state corporate charter if the majority of that firm's shares were not held by American citizens. This same constitution also allowed the Secretary of State to place such a company in the hands of a receiver.

The last charge in Texasgulf's claim against the CDC related to the fact that the Corporation had limited its offer to non-Canadians. It was charged that this was a violation of American security laws in that it constituted illegal discrimination between different classes of shareholders. Finally, Texasgulf maintained that its daily operations and the morale of its employees had been damaged by the CDC's bid.[27]

For its part, the CDC denied Texasgulf's charges. Lawyers for the Corporation argued that Texasgulf had inaccurately stated the substance of Texas law. Further to this, the CDC stated that the court did not have jurisdiction in this matter.

The CDC's attempt to take over Texasgulf was a bitterly fought contest which lasted from July to September of 1973. The whole case was complicated by new evidence which linked Noranda Mines with the CDC's bid to take control of Texasgulf. Officials for Texasgulf accused Noranda of secretly acting for the CDC in the bid for the ten million shares in the multinational.[28] Three new charges were filed by Texasgulf. It was argued that the CDC and Noranda secretly conspired together and used illegal and improper practices to try and get control of Texasgulf. The second charge was that the CDC and Noranda secretly purchased Texasgulf shares on the open market and that when it came time to make a public tender offer, they realized they could offer less money per share if no mining company was identified with the bid. The final charge was that E. Kendall Cork, vice-president of Noranda, wrote a letter to Anthony Hampson, the President of the CDC, on July 4, 1973 in which Cork said his company was no longer interested in taking over Texasgulf. Texasgulf maintained that this letter was a part of a cover up of the conspiracy between the CDC and Nornada to assume control of the resource multinational.[29]

The CDC denied these charges. Its position was supported by statements by Noranda and Gene M. Woodfin, the stock dealer who handled the CDC's tender offer for controlling interest of Texasgulf. Noranda admitted that it had been approached by the CDC about a possible joint investment in Texasgulf. During the time that it was considering the CDC's proposal, Noranda admitted it arranged for the purchase of Texasgulf shares for the Corporation. However, in June, Noranda rejected the CDC proposal and quit arranging the purchase of Texasgulf shares for it.[30] Similarly, Woodfin denied that the CDC had ever had a behind the scenes partner in its bid to purchase Texasgulf stock.[31] Woodfin's testimony supported the CDC's statements to the U.S. Securities and

Exchange Commission that it was the only participant in the tender offer.[32]

Because of the bitter court case, the CDC had to extend its offer to purchase shares in Texasgulf to August 17 and then to August 24. As the case dragged on the CDC continued to extend its offer until it exceeded the ten million shares of Texasgulf it desired. On September 6, Judge Seals ruled that the CDC had the right to purchase ten million shares of Texasgulf.[33] He ruled that the tender offer was merely an investment in Texasgulf. He dismissed the allegations of conspiracy and violation of American security laws. Texasgulf appealed the decision and the Fifth U. S. Circuit Court of Appeal issued another restraining order. However, upon considering the case for two hours, the appeal was rejected and the way was open for the CDC to purchase Texasgulf.[34]

Having overcome all the legal obstacles, the CDC began to purchase the Texasgulf stock that foreign shareholders had put on deposit during the court case. Amazingly, the CDC ran into still another problem when it began to purchase the stock. There was some confusion among brokers about the latest date that foreign shareholders could withdraw their offers to sell their Texasgulf stock to the CDC. Some believed the last withdrawl date was October 5 while others believed it was October 12.[35] Once the CDC had ascertained that the confusion was genuine, it agreed to let those who thought October 12 was the last withdrawl date keep their Texasgulf shares if they so desired. Any Texasgulf stock offered to the CDC before October 5 was considered purchased by the Corporation.[36]

During the court case, over ten million Texasgulf shares had been offered to the CDC. However, the confusion among brokers coupled with a steady rise in the value of Texasgulf shares resulted in many offers being withdrawn. This boost in the value of the stock to a figure over 29 dollars was the result of some Texasgulf announcements about increased profits and the expansion of the Kidd Creek Mine in Timmins. The root of the problem was that the "market price of Texasgulf shares rose well above the $29 offered by the CDC just about the time the offer became binding on those non-Canadians who submitted their shares in the takeover bid."[37] The result of this problem was that initially the Corporation purchased only 8.3 million instead of 10 million shares in Texasgulf.[38] The CDC eventually got its 10 million shares and 35% interest in Texasgulf when the market price of its shares dropped.

This chapter has been a chronological description of the two most important operations conducted by the CDC since its creation. One key question has been raised by this description. What do these case studies say about the level of significance attached to each of the CDC's functions? This is important because the explanation for the CDC's evolution can be found in the relative significance attached to its many functions. The concluding chapter of this study will address itself to this issue.

FOOTNOTES

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2. <u>Ibid</u>., p. 1109.

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4. Robert Jamieson, "Canada Development Issue May be Country's Biggest," <u>Financial Post</u>, March 16, 1974, p.17.

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6. Canada Development Corporation, <u>Annual Report 1975</u>, (Toronto, 1975), p. 4.

7. Robert Jamieson, "CDC's Shopping Basket Drops in Size," <u>Financial Post</u>, September 27, 1975, p. 17.

8. Hugh Anderson, "How Kierans' Hostility Helped Sell CDC Stock," <u>Toronto Star</u>, August 30, 1975, p. D10.

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24. Hugh Anderson, "Texasgulf Directors 'Rounding Up Ammunition' For a Possible Fight," _Globe and Mail_, July 27, 1973, p. B6.

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26. _Globe and Mail_, "Texasgulf Restraining Order Modified," July 31, 1973, p. B8.

27. _Loc. cit._

28. Irvin Lutsky, "Noranda Tied to Bid," _Globe and Mail_, August 8, 1973, p. B2.

29. _Globe and Mail_, "Texasgulf Action," August 9, 1973, p. B1.

30. Irvin Lutsky, "CDC Link is Admitted by Noranda," _Globe and Mail_, August 9, 1973, p. B1.

31. _Globe and Mail_, "Witness Claims no CDC Patner," August 18, 1973, p. B2.

32. _Globe and Mail_, "$29 a Share for Texasgulf Called Generous," August 17, 1973, p. B2.

33. _Globe and Mail_, "CDC Wins Right to Buy Texasgulf Shares;Minor Change Made," September 6, 1973, p. B1.

34. _Globe and Mail_, "Way is Open for CDC Purchase," October 11, 1973, p. B6.

35. *Financial Post*, "Another Snag Pulls at Offer," October 20, 1973, p. 9.

36. *Toronto Star*, "CDC Plans to Buy 8.3 Million Shares of Texasgulf at $29," October 11, 1973, p. C7.

37. *Toronto Star*, "Texasgulf Appears to Be in Bag but Drawstrings Aren't Closed," October 13, 1973, p. D6.

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THE CDC AND THE STATE

The preceding six chapters of this study have been concerned with basically two issues. The first was an examination of the CDC's evolution. The second was an analysis of the links between the Corporation and Canada's indigenous elite, especially the multinational corporate group within that elite. However, little has been said about the significance of those links or of the way in which the CDC evolved. What does it all mean? What has this study said about the CDC and its evolution? How are the CDC's links with the Canadian multinational corporate elite related to its evolution? What does the CDC as a case study say about the role that the state has played in the Canadian economy? What does this study say about the formulation of public policy in Canada? And finally, what are the implications of this paper for linking the study of public policy with the concept of power? These are some of the questions that this last chapter will try to answer.

The major purpose of this chapter is to try to pull together the key themes and issues which have been raised throughout this study; that is, the microscopic level of analysis will be linked with the macroscopic. The explanation of the CDC's evolution will be set within a theoretical framework about the role the state has played in the development of the Canadian economy since 1960. The first step in this process is to have a clear understanding of why the CDC evolved the way it did.

The explanation for the CDC's evolution can be found in the relative significance attached to its actual functions. Throughout this study, it has been suggested that the Corporation plays many roles. Essentially, it has six basic functions. It is a mechanism for filling gaps in the Canadian capital market. Thus, it deals with the problem of capital formation in Canada. Secondly, the CDC is a vehicle which promotes economic development in Canada. The emphasis here is on industrial development. Thirdly, the CDC is a means of reducing foreign investment in Canada. When it comes to dealing with this problem of foreign ownership of Canadian industries the CDC is a defensive mechanism. The fourth function of the Corporation is that it is a vehicle for "reprivatizing" capital in Canada. Fifthly, the CDC has the potential to function as a multinational corporation. In this sense it is an offensive instrument which can guarantee a Canadian presence in an increasingly integrated world economy. The final role that the CDC plays is that it promotes and buttresses both capitalism and elitism in Canadian society. Specifically, the Corporation promotes and buttresses Canada's indigenous elite, especially the multinational corporate constituent group of that elite.

It should be noted that these are general categories of function. Although William Dimma identified thirty-seven specific CDC objectives he too tended to place them in certain general categories.[1] He stressed the CDC as a mechanism for filling entrepreneurial and capital gaps in Canada. He also emphasized the CDC's role as a mechanism of industrial development and as an intrument for reducing foreign investment in Canada. Dimma's last two categories of function included the CDC as a multinational corporation and the miscellaneous objectives of the CDC. Most of these miscellaneous objectives were likely to occur as beneficial by products. Any reduction of regional differences in levels of unemployment and income in Canada is an example of a miscellaneous objective of the CDC which could occur as a result of the Corporation's activities.[2] Of his general categories, Dimma attached the greatest importance to the CDC's roles as a "gap filler" and an instrument of economic development.

I do not agree with Dimma that these are the two most important roles played by the CDC. Instead, I am suggesting that the buttressing and promotion of capitalism and elitism in Canada are the Corporation's most important functions. Dimma's concern is with determining which of the CDC's specific economic functions is most important. My perspective is broader and more political than his. My concern is with viewing the CDC's evolution in terms of the distribution of socio-economic power in Canada. I have tried to demonstrate how that distribution of power affected the political process and shaped the objectives and structure of the CDC.

THE CDC AND THE BUTTRESSING OF CAPITALISM

The structure of the CDC provides major evidence supporting the conclusion that the Corporation promotes and buttresses capitalism in Canada. The key issue here is the question of who controls the Corporation. Despite the fact that Ottawa created and funded the Corporation, it is structured so that it is more like a private company than a government agency. It is not a crown corporation and has no statutory obligation making it responsible to any organ of the government. It cannot be controlled through the federal budget because it has its own budget. The Corporation resembles a company operating in the private sector in that it is largely a centralized, non-bureaucratic type of organization. The CDC's internal decision-making process is very centralized. All decisions are made by a Board of Directors who have been drawn mainly from the private sector. The CDC further resembles a private corporation in that it has shareholders. Lastly and most importantly Act C-219 created a CDC which, like any other member of the private sector, was governed by the profit motive.[3]

In terms of structure, it is clear that it would be more accurate to place the CDC in the private than the public sector. Perhaps this is why the Corporation never appears on any organizational chart of the federal government. The fact that the CDC was structured by the government to be a corporation operating in the private sector is a reaffirmation of the desirability of capitalism. This reflects government acceptance of capitalism as the most desirable and legitimate form of economic activity in Canada.

The CDC promotes capitalism in two ways. First, it promotes the belief that private enterprise is more efficient and productive than public enterprise in developing Canada economically. And secondly, the CDC is expected to plow its profits back into the private sector. Thus, the CDC is a mechanism which strengthens the fibre of capitalism in Canada.

The CDC's first public issue of voting stock serves as an example of how anxious the government was to strengthen and renew the fibre of capitalism. Not only did Ottawa create the CDC to be part of the private sector but the federal government also forbade its people from buying stock in the Corporation. Gordon McNabb, Deputy Minister of Energy, Mines and Resources, told members of his department that they were not allowed to buy shares in the CDC because it might present a conflict of interest, since the Corporation has a large resource investment portfolio.[4] Similarly, members of the Department of Finance must square any investments in the CDC with their department's conflict of interest regulations.[5] Conflict of interest was not the only consideration here. The further insulation of the CDC from the public sector and the promotion of the Corporation as part of the private sector were also prime considerations.

The CDC's first public issue of voting stock is also an instance of the CDC operating as a private company in the private sector. With the issue, the CDC's directors began to reduce the government's holding in the Company. The first issue represented the CDC's initial step on the path to becoming a full fledged member of the private sector. Consequently, approximately 33 per cent of the CDC's voting stock is now in the hands of more than 20,000 Canadians.[6] The fact that the government holds the remaining 67 per cent is not that significant because the CDC directors can reduce it to 10 per cent whenever they so desire. Norma Michael indicated that the CDC's next public issue of voting stock would occur in the 1979-1980 fiscal year.[7] This would further reduce the government's holdings in the Corporation. One can also anticipate the CDC using the capital generated by the issue to make another major purchase. In short, the CDC has, since its inception, been evolving towards a condition where it will, like any other private corporation, be supported by a broad base of shareholders.

The CDC's first public issue of voting stock is also indicative of the Corporation's isolation from the political sphere and its emphasis on profit. The preliminary prospectives which accompanied the CDC's initial offer emphasized these points. It said;

> These securities are speculative. They are not guaranteed in any manner by the Government of Canada or any other government, nor has any government any direct or indirect obligation with respect to them.[8]

Like any private corporation, the primary objective of these speculative shares was to turn a profit.

The Texasgulf purchase in another example of how the CDC buttresses and promotes the capitalist economy. First, the whole transaction occurred in the private sector. There was no interference by the government. The takeover battle was strictly a conflict between private sector actors. Finally, the overriding objective of the CDC's purchase was to make a profit. This emphasis on profit certainly strengthens Canada's capitalist fibre. In fact, the CDC was so concerned that Texasgulf be profitable that in 1975 the board of directors sold it to a wholly owned Dutch subsidiary, CDC Nederland BV.[9] The CDC's board was purposely vague about the reasons for the sale, but it was well known at the time that the Netherlands was a tax haven to which several Canadian companies had fled to escape what they thought was excessive Canadian taxation.[10]

Texasgulf was also meant to be the CDC's vehicle for stimulating economic growth and industrial development in Canada's mining sector. This stimulation would further strengthen the Canadian capitalist economy in that all profits would be reinvested in the private sector. Texasgulf would have to be profitable in the long run if it was to make a substantial contribution to economic growth in Canada.

THE CDC AND THE BUTTRESSING OF ELITISM

The CDC also buttresses and promotes elitism in Canada. This function is very closely related to the CDC's role as a mechanism of buttressing and promoting capitalism. By buttressing and promoting capitalism the CDC is also buttressing and promoting elitism. This is because the directors and senior managers of the largest Canadian corporations are the key members of the private sector. They achieved this position through the workings of the capitalist economy. Thus, they constitute the strongest supporters of capitalism in Canada and the most vociferous opposition to government intervention in economic matters.

The evidence that the CDC buttresses and promotes elitism in Canada is overwhelming. Chapter five has documented the links between the CDC directors and Canada's indigenous elite. It also suggested that the majority of the CDC directors were either members of the multinational corporate constituent group of the indigenous elite or had links with that group through interlocking directorships or other forms of corporate control. Norma Michael commented that the CDC's board of directors consisted primarily of the cream of Canada's most astute, successful and prominent businessmen.[11] Thus, one has people like Louis Desmarais and Anthony Hampson of Power

Corporation, John Henderson Moore of Brascan and Frank Sherman of Dominion Foundries and Steel Limited on the CDC's board of directors. Similarly, when the CDC directors made their first public issue of voting stock, they dealt directly with Ted Medland, the president of Wood Gundy, Canada's largest investment and underwriting firm. This is not surprising, given the size of the issue and Medland's links with the Canadian multinational corporate elite. He, along with Paul Desmarais of Power Corporation and Ian Sinclair of Canadian Pacific, sits on the board of the Bronfman group's Seagram Company.[12]

The most important thing to note is that the CDC's board of directors has complete control of all of the Corporation's resources. The board is the Corporation's sole decision-making organ. All power lies here. Directors are responsible for making all decisions ranging from what investments to make to the hiring and firing of staff. More importantly, they select new directors. Thus, the likelihood exists that the CDC will always be managed by a self-perpetuating elite. That is, most of the directors will always be drawn from among members of Canada's indigenous elite, particularly from the multinational corporate constituent group of that elite.

Chapter five clearly shows that the CDC's board of directors is dominated by members of Canada's business community. Other constituencies of Canadian society simply have not had significant representation on the board. The vast majority of the CDC's directors have been male members of Canada's business community. Since its creation, the CDC has only had one of its directors drawn from the academic community, one from labour and one from professional groups. Furthermore, there have only been four female directors in the CDC's history. Two of them are on the current board.

Given these figures, it is difficult not to come to the conclusion that these appointments smack of tokenism. Clearly, the multinational corporate elite can dominate and still allow some token representation from the non-elite. This may even be necessary for public relations given the fact that the Corporation was created and initially funded by the federal government. The token representation has proven helpful in deflecting any public criticism about the membership of the board. This was evident in the interview with Norma Michael. She naturally denied that there were or ever had been "token" directors.[13] She tended to take issue with the definition of tokenism. However, in all fairness to her and the Corporation it must be remembered that the CDC does operate in the private sector of the economy. Thus, if it is to be successful and generate profits it needs to be managed by those who have the best knowledge of the workings of the capitalist society.

The significant representation that Canada's indigenous elite has on the CDC's board of directors supports the contention that the Corporation tends to buttress and promote elitism in Canada. The CDC is particularly concerned to promote and buttress the Canadian multinational corporate elite.

Two other facts support the conclusion that the CDC buttresses and promotes elitism. The first of these is the nature of the relationship between the CDC and the government. It is a one-way relationship. Clearly, the federal government has been successful in its attempts to isolate itself from the Corporation. All the government did was create the Corporation and provide it with its initial capital. Act C-219 ensured that once the Corporation was created it was to operate in the private sector free from political influence.

In contrast, the CDC gives its directors, the majority of who have links with the Canadian multinational corporate elite, potential access to the resources of government without being controlled by it. This access occurs through the government representatives on the board. It also is achieved through private social club interaction. Informal links between the majority, private sector directors and the minority government and ex-officio directors could conceivably lead to the Canadian multinational corporate elite getting some useful economic or technical information from the government. Norma Michael denied that the CDC had any special access to government resources.[14] Moreover, this type of access is difficult to document, particularly in the case of the CDC. However, the fact that the potential for special access exists reinforces the notion the CDC fulfills a function of promoting elitism in Canada.

A final factor supporting the conclusion that the CDC promotes elitism is that Act C-219 does not require the directors of the CDC to divest themselves of their directorships in private corporations. The potential is there for CDC directors to use any information they may get from the government to promote the interests of their own private corporations. Furthermore, a director of the CDC could conceivably be placed in a position where the Corporation might be considering to invest in one of his other corporate interests.

A blatant example of a conflict of interest occurred in the fall of 1972 when the CDC invested 4.5 million dollars in Venturetrek International Limited, a firm which specialized in providing venture capital to small companies.[15] This gave the CDC 32 per cent of the shares in Venturetrek.[16] Douglas Kendall, a CDC director, was the former executive officer of Venturetrek. When the CDC made its investment, Venturetrek's president was Kendall's son, Jeremy. This transaction was referred to in the House of Commons as legally being an investment by the CDC but in reality as being "a family self-help project from a good father to a delighted son."[17]

When questioned about the issue of conflict of interest Norma Michael admitted that the Corporation did not have any formal regulations or code of ethics for dealing with the problem.[18] However, she did indicate that the directors are governed by an unwritten, informal code of ethics about what is acceptable and what is unacceptable behaviour. She suggested that no CDC director would purposely place himself in a position of conflict of interest.[19] When asked about the Venturetrek case, she noted that Kendall abstained from voting and left the room so that the other directors could discuss and vote upon whether or not to make the investment.[20]

The lack of formal conflict of interest regulations in Act C-219 is representative of a CDC which buttresses and promotes elitism in Canada. By not requiring CDC directors to divest themselves of their private corporate interests the government gave its stamp of approval to the existing elite structure. Ottawa accepted the principle that an informal code of ethics was adequate protection against any conflict of interest which might arise. Thus, it is possible for CDC directors to use public funds to invest in their own corporate interests. There are no formal checks which prevent them from following such a course of action. The unwritten, informal code of ethics of the business world is the only check which limits the actions of CDC directors, the majority of who are members of Canada's indigenous elite.

The Texasgulf purchase is an example of the Corporation promoting and buttressing elitism in Canada. When the CDC invested in Texasgulf, the Canadian multinational corporate elite, through its membership on the CDC's board of directors, increased its influence in the active growth sectors of Canada's economy. As outlined in chapter six, Texasgulf had some significant assets (particularly resources) in those sectors. Since it was the CDC's board which conducted the transaction, the takeover served to enhance the role of Canada's indigenous elite as the key economic decision-makers in the country.

THE CDC'S EVOLUTION AND ITS REMAINING FUNCTIONS

This then is the evidence that supports the conclusion that the CDC's most important role is to buttress and promote capitalism and elitism in Canada. The question now is how is this evidence linked to the CDC's evolution and its remaining five functions. The government intentionally created the CDC so that these five remaining functions flowed from the most important function. The CDC was structured so that it fulfilled its economic objectives within the existing capitalist and elite structure of Canadian society. The CDC was not an attempt to redistribute socio-economic power in Canada but rather a buttressing of elitism and capitalism.In a sense, this is a role of self regulation. The CDC is not an example of the state regulating Canada's indigenous elite. Instead, the CDC is a mechanism which this elite can use to regulate its own activities in the capitalist economy.

This study has shown that Walter Gordon's efforts to legislate a CDC were, to a large extent, motivated by a concern about the increasing level of direct foreign investment in Canada. The efforts of Sharp and Benson were not motivated by economic nationalism but rather by a concern that the CDC should be a gap filling mechanism which operated in the private sector and emphasized economic development. The concern about foreign investment still existed but "the remedy shifted from limiting or controlling foreign to stimulating domestic direct investment."[21]

Chapter four of this study argued that the enacted CDC resembles the Sharp model of the Corporation more than it does the Gordon model. The major reason that the Gordon model was rejected and the Sharp model accepted relates to the influence that Canada's indigenous elite had upon the policy process which created the Corporation. This elite did not accept Gordon's CDC because of a fear that it was a Trojan horse designed to shift economic power from the private sector to the public sector. There was a great fear of public intervention in a field which had traditionally been a stronghold of the private sector. Capital formation and the investment industry are right at the heart of the capitalist economy. The vigorous objections of bankers like Neil McKinnon and G. Arnold Hart to Gordon's CDC is representative of the extent to which Canada's indigenous elite objected to any lowering of the traditional barriers between the public and private sectors.[22]

The problem for Gordon was that he needed members of Canada's indigenous elite to manage the Corporation if it was to be a successful venture. However, this elite did not agree with the objectives of Gordon's CDC. The "buy Canada back" and "buyer of last resort" functions were rejected outright by this elite. Throughout his tenure as Finance Minister, Gordon held many discussions with the members of this elite in an attempt to get them to understand and support his CDC. His failure to garner this support was reflected in the continual delaying of his CDC legislation.

The only real support that Gordon got for the idea of a CDC came from a section of the multinational corporate constituent group of Canada's indigenous elite. Specifically, he received the support of Maurice Strong, the President of Power Corporation. Strong did not agree with Gordon's particular model of the CDC, but he did agree with the principle of a CDC. He felt that with some modifications it could be a useful mechanism. His support of the basic idea of the CDC led to Strong's being invited into the policy process which was creating the Corporation. He was even offered the presidency of the Corporation. Gordon wanted Strong's ideas on how to make the Corporation more acceptable to Canada's indigenous elite. By the time the CDC was acceptable to the indigenous elite the concept of the Corporation had changed and Gordon was no longer Finance Minister.

Gordon's lack of support for his CDC among the members of Canada's indigenous elite was reflected in the political arena. Mitchell Sharp opposed Gordon's CDC in the Cabinet. Unlike Gordon who represented small entrepreneurs, Sharp represented Canada's indigenous elite in the political arena.

His significant ties with Brascan made him one of the key political spokesmen for the Canadian multinational corporate elite. Like most of Canada's business community, Sharp supported the traditional relationship between the public and private sectors of the economy. He and Gordon disagreed over the "practicality of the CDC influencing in any meaningful way the level of foreign direct investment in Canada without an unacceptably intimate relationship between the CDC and the federal government."[23] Sharp also rejected the "buyer of last resort" and "buy Canada back" functions of the CDC as being incompatible with its profit objective.

Essentially Sharp wanted a CDC which was as much a part of the private sector as possible. His model was structurally similar to a firm operating in the private sector. Its primary objective was the generation of profits and it was to be supported by a strong shareholder base. Sharp wanted a CDC which did not change or even threaten the socio-economic status quo in Canada. The main function of Sharp's CDC was to buttress and promote capitalism and elitism in Canada. It was his model of the Corporation which eventually won out.

The influence that the ideas of Strong and Sharp had upon the policy process which created the CDC cannot be overestimated. Both are members of the Canadian multinational corporate elite. Chapter five documents the links between the CDC's directors and the Canadian multinational corporate elite. It also documents the links between Power Corporation and the CDC's directors. It is no coincidence that members of the Canadian multinational corporate elite dominate the membership of the CDC's board of directors given the fact this elite had so much input into the policy process which created the Corporation. Much the same can be said about Power Corporation. This elite, particularly the representatives of Power Corporation, shaped the form and objectives of the enacted CDC. Once their version (the Sharp model) had prevailed, members of this elite were more than willing to manage the Corporation. What is significant about this is that their model was structured so that all of the CDC's economic functions flowed from its role as a bottress and "promoter" of capitalism and elitism in Canada.

THE CDC AND FOREIGN INVESTMENT

The CDC's evolution has been characterized by a decline in importance of the CDC as a mechanism for dealing with the problem of foreign investment in Canada. This objective was most important during Gordon's tenure as Finance Minister. However, as the Canadian multinational corporate elite influenced the policy process this function of the CDC was reduced in importance. Today, the CDC reduces foreign investment in a very indirect manner. This is a by product benefit which may or may not occur as a result of the CDC stimulating direct domestic investment in the Canadian economy. In other words, foreign investment would be reduced by strengthening domestic ownership or Canadianizing the economy rather than by imposing direct restrictions on foreign investors.

The Texasgulf purchase is a good example of how the CDC fulfills its function as a tool of economic nationalism. It must be emphasized that when the CDC bought Texasgulf it did so for one primary reason. That reason was that it looked like a sound investment which would generate a lot of long term profits. The fact that the purchase also resulted in the repatriation of some Canadian firms was purely a beneficial by product of the CDC fulfilling its capitalist functions. This idea that the CDC would reduce foreign ownership in Canada as a by product benefit was emphasized by Alastair Gillespie, Minister of Mines, Energy and Resources, in a bear pit session held at McMaster University in Hamilton in February of 1979.[24] Using foreign control of research and development in Canada, as his example, he suggested that the CDC could reduce foreign influence by investing its venture capital in profitable Canadian firms which stressed research and development.[25]

THE CDC AND THE REPRIVATIZATION OF CAPITAL

As the CDC's function as a tool of economic nationalism receded in importance, those functions most closely associated with the CDC as a buttress and promoter of elitism and capitalism in Canada became more important.

For example, the CDC as a vehicle for reprivatizing capital in Canada has become increasingly important. The Corporation has reprivatized capital in two ways. The fact that the Corporation itself is a part of the private sector represents a significant reprivatization of public funds. Taxes collected by the federal government were turned over to a CDC which operates in the private sector, is managed by private businessmen and has the objectives of a private company. Furthermore, any profits generated by the CDC's use of public funds were plowed back into the private sector.

The second sense in which the CDC has been a vehicle of reprivatization is in its purchases of crown corporations. The purchase of Polymer (since renamed Polysar) Corporation is an example of the CDC's reprivatizing public capital. Polymer was formed as a crown corporation in 1944 to supply the Canadian armed forces with synthetic rubber for the war effort. It was wholly financed by the public purse. When the CDC purchased Polymer it became part of the private sector. Act C-219 provided that the CDC could reprivatize other crown corporations including Panarctic Oils, Eldorado Nuclear and Northern Transportation Limited. The CDC's purchase of Texasgulf also represents an excellent example of the CDC fulfilling its reprivatizing function. In this case, the CDC used the funds the government provided to invest in Texasgulf, a member of the private sector.

The CDC's reprivatizing function flows directly from its primary objective of promoting and buttressing elitism and capitalism in Canada. The reprivatization function reflects a belief on the part of the federal government that private enterprise, especially Canada's indigenous elite, is more efficient and productive than public enterprise. Here again, the CDC is the government's stamp of approval on the free market economy and the existing distribution of socio-economic power in Canada.

THE CDC, CAPITAL FORMATION AND ECONOMIC DEVELOPMENT

The CDC's second most important function relates to it being a mechanism for stimulating economic growth in Canada. The Corporation fulfills this role in two ways. First, it has a gap filling function in both the Canadian capital and entrepreneurial markets. The original impetus for the creation of the CDC originated in Gordon's belief that there were gaps in the Canadian capital market that the private sector could not or would not fill. The CDC was designed to fill those gaps by being a vehicle for capital formation. It channels the savings of Canadians into the Canadian economy. Thus, it funnels the capital generated by such mechanisms as its first public issue of voting stock into long range, expensive, high risk but profitable Canadian industrial ventures.

The CDC also fills gaps in the Canadian entrepreneurial market. The Corporation is a mechanism for developing the managerial expertise of Canadians. In the past, Canadians have had to rely on the expertise of foreign managers to develop large, efficient, productive corporations. The CDC is attempting to rectify that situation.

The second way that the CDC promotes economic growth in Canada is by investing Canadian savings in the active growth sectors of the economy. That is, the CDC has some substantial investments in the most important active growth sector, modern manufacturing. Mechanical and electrical engineering, electronics, chemical products (especially petrochemicals) and more recently resource industries constitute the major components of any country's modern manufacturing sector.[26]

The CDC has significant investments in almost all of these components. Polysar is the CDC's vehicle company in the petrochemical field. Petrosar is another investment the CDC has in the petrochemical industry. In 1977, Petrosar opened the first integrated refinery-petrochemical plant in North America at Sarnia, Ontario. The CDC's company in the field of health care, Connlab Holdings, also owns some subsidiary chemical companies including Raylo Chemicals and Steele Chemicals Limited.[27]

The Corporation is also well represented in the fields of electronics and electrical engineering. Venturetrek owns 49 per cent of Hermes Electronics of Halifax.[28] In addition, the CDC has substantial holdings in the resource industry. These investments include Texasgulf Incorporated and CDC Oil and Gas Limited. In fact, Norma Michael indicated that the CDC was "resource heavy" and was trying to become more diversified.[29]

The fact that the CDC has a gap filling function and invests in the active growth sectors is also representative of the CDC fulfilling its role as a buttress of capitalism and elitism in Canada. Through the CDC, the Canadian multinational corporate elite can gain greater influence in the active sectors without taking any of the direct financial risks involved in investing in those sectors. This allows the Canadian multinational corporate elite to better co-ordinate the growth of its passive sectors and increase profits. In this manner, the CDC strengthens and promotes the Canadian free market economy while simultaneously buttressing the position of the Canadian multinational corporate elite within that economy.

By stimulating economic growth the CDC is supplementing private capitalism in Canada. The Corporation's purpose is to take up the investment slack left by the private sector. This strengthens the Canadian content of the domestic economy and makes Canadians more competitive in an increasingly integrated world economy. The best example of this to date has been the Corporation's purchase of Texasgulf.

THE CDC AS A MULTINATIONAL CORPORATION

This brings us to the CDC's role as a multinational corporation. Act C-219 gives the CDC the power to invest in profitable, foreign businesses. The Corporation has been structured so that it has the capacity to become a multinational corporation. It also may create other large scale corporations with international capabilities; that is, it may help other large Canadian corporations become multinationals. The interesting thing is that it is the corporations owned by the Canadian multinational corporate elite which are most likely to expand onto the international market. Whether the CDC will eventually fulfill its function as a multinational corporations remains to be seen. So far, the Texasgulf purchase has been the closest the CDC has come to acting as a multinational corporation. However, this purchase could hardly rate as a "kind of counter-invasion of other countries in response to the foreign MNC's ubiquitous presence in Canada."[30] After all, 68 per cent of Texasgulf's operating income came from its Canadian assets.

THE MACROSCOPIC LEVEL OF ANALYSIS

This chapter, like this study, has tended to focus on the microscopic level of analysis. Thus, it seems appropriate that this study will conclude on the macroscopic level of analysis by providing some tentative answers to three questions. What does the CDC as a case study say about the role the state has played in the development of the Canadian economy since 1960? Is the CDC a defensive or offensive policy response to the problems of foreign investment, capital formation and economic growth in Canada? What have been the implications of using a power model to analyze the Corporation and its evolution?

THE CDC: A DEFENSIVE OR OFFENSIVE MECHANISM

This study has substantiated Jeanne Laux's argument about the CDC as a defensive mechanism. For her, the CDC is defensive in that it involves the state's assuming the role of entrepreneur. Here, the state attempts to become an equal partner in or takes control of certain industries in the key sectors of the economy.

For this study, the CDC is a defensive mechanism because it promotes and legitimizes elitism in Canada. The emphasis is not on the state as entrepreneur because unlike Petrocan and Eldorado Nuclear, the CDC was structured so that it was not responsible to any government body. It was isolated from the Canadian state. However, the CDC is defensive in that it promotes the Canadian multinational corporate elite as a buttress against the increasing influence of the foreign, parasitic elite. The Corporation is also defensive in that it allows a specific Canadian elite to better compete with foreigners in the active growth sectors of the economy.

The CDC as an example of the state acting as entrepreneur was not completely rejected by this study. Instead Laux's idea must be modified. To use Stuart Holland's terminology, the CDC was not established in Canada as a form of public representation in the active growth sectors. In the case of the CDC, the state was not substituted for private sector actors. Instead, the state's major role in the CDC's history was confined to creating and funding it. To suggest that the state has been substituted for private sector actors in the case of the CDC flies in the face of the CDC's functions as a "reprivatizing" and "buttressing" mechanism.

The qualification which must be made to Laux's argument is that the state did not directly act as entrepreneur but rather fulfilled that function in an indirect manner. The state did not directly attempt to become an equal partner in or take control of certain industries in the key sectors of the economy. By providing the Canadian multinational corporate elite with the funds and legal structure (the CDC) to secure control of certain industries in the key sectors, the state was indirectly acting as entrepreneur. The state promoted this elite so that the informal and formal links between them could be used to develop Canada economically. These links between the state and Canada's indigenous elite would also facilitate more coherent economic planning, particularly with respect to a Canadian industrial strategy. Furthermore, the "Canadianizing" of Canada's active growth sectors would prevent the further loss of control of industrial development to foreigners.

This also reflects the defensive nature of the CDC.

With respect to the CDC as an offensive mechanism, it is clear that Act C-219 legally permits the Corporation to operate as a multinational corporation and to assist Canadian firms which want to become multinationals. So far, the Corporation has not operated as an offensive mechanism. However, it may do so in the future. Laux should have acknowledged this offensive potential. And yet, this potential offensive function has defensive overtones. The CDC's potential role as a multinational corporation serves as a defense against Canada's not being represented in an increasingly integrated world economy. This suggests that the terms "offensive" and "defensive" may need to be redefined.

THE POWER MODEL FOR ANALYZING PUBLIC POLICY

The implications of this study are that it may not be appropriate to examine policy in terms of its defensiveness or offensiveness. This describes policy rather than explaining it. The power model of studying public policy implies that it is more important to understand why a policy is implemented than to be able to describe its features. If one can understand why a particular policy evolved in a certain way one will have a better understanding of its features.

The use of power as the key variable for understanding public policy suggests that government's actions can be best explained by the distribution of interests in society and the resources available to those interests. However, in the case of the CDC, it was evident that power could not, by itself, explain the evolution of the Corporation. For example, it was international and national environmental factors which generated the consensus about the general need for a CDC of some sort. Political events also affected the Corporation's evolution. The same can be said for the decision-making process itself.

What does the evolution of the CDC say about the study of public policy? It suggests that no one factor can adequately explain patterns of policy. It may be, as Simeon asserts, that each factor makes a contribution and "policy emerges from multiple causes."[31] In any case, policy reflects society. More specifically, it reflects how power and influence are distributed in society. What does the pattern of the CDC say about Canadian society?

THE CDC, THE STATE AND CANADIAN SOCIETY

The pattern of the CDC's evolution suggests three things. First, it suggests that the few can exercise more influence in Canadian society than the many. That is, Canada's indigenous elite has greater power and more influence in the political decision-making process than most other groups within Canadian society. The suggestion is that elitism is natural in Canada. The second thing that is suggested by the CDC's evolution is that private enterprise is accepted in

Canada as being more productive and efficient than public enterprise. In the case of the CDC, the state's role in developing the economy has been to reaffirm the desirability of capitalism. Government policy about capital formation and economic growth has been to let private enterprise do it.

The third and perhaps most important thing that the CDC suggests about Canadian society relates to change. The Corporation supports the current socio-economic distribution of power in Canada. That is, the status quo is accepted as legitimate and most desirable. This undermines the ability of Canadian society to change as circumstances change. This resistance to change when it is needed can be very damaging to the political, social and economic fabric of Canadian society.

FOOTNOTES

1. William Andrew Dimma, The Canada Development Corporation:Diffident Experminet on a Large Scale, (Ann Arbor, 1973), p. 697.

2. Ibid., p. 694.

3. Canada, Statutes of Canada 1970-71-72, Chapter 49, (Ottawa, 1972), pp. 1087-1111.

4. Stephen Duncan, "CDC Stock is An Option Some People Don't Have," Financial Post, September 13, 1975, p. 22.

5. Loc. cit.

6. Canada Development Corporation, Annual Report 1975, (Toronto, 1975), p. 4.

7. Discussion with Norma Michael, Manager, Business Analysis, Canada Development Corporation, April 23, 1979, Toronto, Ontario.

8. Canada Development Corporation, Preliminary Prospectus July 25, 1975,(Toronto, 1975), p. 1.

9. John Saunders, "Texasgulf Shares Go to Holland and CDC Vague About Reasons," Toronto Star, February 5, 1975, p. C11.

10. Loc. cit.

11. Interview with Norma Michael, Manager, Business Analysis, Canada Development Corporation, December 7, 1978, Toronto, Ontario.

12. Peter C. Newman, Bronfman Dynasty The Rothschilds of the New World, (Toronto, 1978), p. 289.

13. Norma Michael, op. cit.

14. Loc. cit.

15. Canada, House of Commons Debates, March 23,1973, p. 2550.

16. Canada Development Corporation, Annual Report 1977, Book One, (Toronto, 1977), p. 13.

17. Canada, op. cit., p. 2550.

18. Interview with Norma Michael, Manager, Business Analysis, Canada Development Corporation, December 7, 1978, Toronto, Ontario.

19. Loc. cit.

20. Loc. cit.

21. William Andrew Dimma, The Canada Development Corporation;Diffident Experiment on a Large Scale, (Ann Arbor, 1973), p. 576.

22. Ibid., p. 579.

23. Ibid., pp. 576-577.

24. Alistair Gillespie, Minister of Mines, Energy and Resources, Address to the Engineering Department, McMaster University, Hamilton, Ontario, February 14, 1979.

25. Loc. cit.

26. Canada Development Corporation, Annual Report 1977, Book One, (Toronto, 1977), p. 8.

27. Canada Development Corporation, Annual Report 1977, Book Two, (Toronto, 1977), p. 10.

28. Canada Development Corporation, Annual Report 1974, (Toronto, 1974), p. 27.

29. Interview with Norma Michael, Manager, Business Analysis, Canada Development Corporation, December 7, 1978, Toronto, Ontario.

30. William Andrew Dimma, The Canada Development Corporation:Diffident Experiment on a Large Scale, (Ann Arbor, 1973), p. 532.

31. Richard Simeon, "Studying Public Policy," Canadian Journal of Political Science, (December, 1976), p. 566.

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