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QUEBEC-U.S. RELATIONS
UNDER THE PARTI QUEBECOIS

by

D. Keith Heintzman

B.A., Wilfrid Laurier University, 1978

Thesis

Submitted to the Department of Political Science
in partial fulfillment of the requirements
for the Master of Arts degree
Wilfrid Laurier University
1986

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AFTER LEARNING THAT THE REGION IS GOVERNED
BY A LEFTIST JUNTA THAT DOESN'T EVEN SPEAK
ENGLISH, I HAVE DECIDED TO SEND A
MARINE TASK FORCE TO QUEBEC...



[This Magazine, vol. 18 #3, Aug. 1984, p. 19.]

"The Americans are not going to send in the marines. That's not done anymore. But psychologically, the Americans could delay things if they become stupidly negative. What is seen here as the giant next door could create fear. Like all colonized peoples, Quebecers have complexes. It is always easy to appeal to one of those complexes, fear. That is what our adversaries in Canada always do. They would love to see Washington say, 'No way' even if Washington has no business intervening in our votes. ... [Intervention] would create a virulent anti Americanism which does not now exist in Quebec."

[René Lévesque, quoted in the New York Times, 25 Jan. 1979, p. 4, in an article entitled: "Quebec Premier to Seek Neutrality on Separatism During Visit".]

"If I were you I would be a little bit worried. You worry about some Caribbean Island being destabilized. I would think that destabilization in this country north of you would be of some concern to some people."

[Pierre Trudeau, from a Transcript of the Prime Minister's Interview on the NBC-TV Program, "Meet the Press", 22 Feb. 1977, p. 7.]

"We are North Americans. We are not leftist radicals. When I read in American publications that there is a possibility that someone might take hold of the Quebec government or the Parti Québécois, that just doesn't make sense. They don't know what's going on here."

[René Lévesque, quoted in the New York Times, 20 May 1979, p. 67.]

Abstract

Quebec-U.S. Relations under the Parti Québécois

Quebec-U.S. interactions from 1976 to 1980 are analysed in relation to American apprehension over the election of the Parti Québécois and the P.Q. government's ability to accommodate the American economic community. Analysis of this interaction is conducted in terms of the risks to corporate operations posed by P.Q. policies and the effect of P.Q. communications on corporate perceptions of this risk. A formal bargaining model--developed using the concept from game theory of "critical risk"--forms the theoretical basis for explaining changes in the American response. Each province's economic transactions with the U.S. are described along with provincial influences on Canadian foreign policy. Quebec-U.S. interactions are viewed as a case study of the sub-national perspective in international relations.

Acknowledgements

On this page I am given the opportunity to express my gratitude to the persons who deserve credit for devoting their time, effort and interest in the following work. While it is customary to recognize that the worth of this thesis reflects equally on these persons, and that any errors or omissions are the responsibility of only the author, this form of acknowledgement is particularly pertinent here. I thank each of the members of my thesis committee equally, Dr. Steven D. Brown, Dr. D. Marc Kilgour, and Dr. John H. Redekop, for their patience and their willingness to bear with me the task of clarifying both the form and the substance of the following. Without their individual abilities, this work could not have come to a proper fruition. I also express my gratitude to the outside reader of the thesis defense, Dr. Terrence J. Levesque, who assisted on an informal basis in preventing me from making more errors than may be contained herein. The professorial staff and the students of Wilfrid Laurier University's Department of Political Science also deserve mention. Without their willingness to partake in both constructive criticism and support, this thesis would be less than what it now is. My wife deserves the greatest credit of all since without her tolerance during the past two years of research and writing, and without her particular skills in communication and comprehension, the effort expressed in these pages would have been seriously diminished. Finally, I wish to dedicate this volume to my daughter, Kathryn Ilyta.

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INTRODUCTION

In the field of international affairs the traditional academic approach has been to study relations between sovereign states. Even in studies of subsystems of the international system, such as the field of Canadian-American relations, the orientation has been to use Canada and the U.S. as the units of analysis. While more recent research has gone beyond the confines of government-to-government interaction, broadening the field to include the impact of multinational corporations and functional interaction between social entities (labour, religious and issue oriented (e.g. environmental) groups, etc.), the tendency has generally remained to connect these with the state as the geographical locus of analysis. However, the state--and especially a federal state--does not represent a homogeneity. This diffusion within the state is a particular characteristic of Canada and has implications for Canada's relations with the U.S.. A significant aspect of federal states is that the sub-national authorities are accorded control in functional areas which take on trans-border facets with the increases in international transactions. Domestic activities are becoming internationalized. Since the late 1960s, and principally during the 1970s, the Canadian provinces have been accorded, and sometimes unilaterally acquired, responsibilities in managing trans-international-border relations that have a bearing on the areas in which they are granted constitutional authority. This sub-national perspective on foreign policy is also a lacuna in the literature on Canadian-American affairs.

It is the general contention of this work that the activities of

the Canadian provinces do have an influence on foreign affairs and that this influence implies a profound complexity for the management of state-to-state external relations. The federal government has to deal with policy in two dimensions simultaneously: internally and externally. The assumption throughout this work is that governments persist in order to regulate the relations of persons. The complexity (just alluded to) is evident by the fact that control for this regulation is not vested in just one level of government. As a consequence, internal and external relations overlap which can lead to conflict as the persons involved (federal versus sub-national authorities, plus political interests in the population, in this case restricted to the economic interests of multinational corporations) become more active. Since this broadens the perspective beyond state-to-state relations, the question implied is: can sub-national governments manage policies which are externally connected in accordance with their own stated interests? Stated more precisely: when a sub-national government institutes policies which provoke extra-national reactions, leading to a sub-national/international interaction, is that government also able to retain influence in the direction of those policies under conditions of a multi-furcation of intra/extra-national strategic control? Quebec-U.S. relations are examined as a case study for this proposition, answering the question in the affirmative.

The 1976 Quebec election sent a shock wave not only through Canada but also created considerable apprehension in the U.S.. In effect, an essentially domestic crisis became internationalized. Much of the American concern focussed not only on the political issue of a separate

Quebec, but also on the P.Q.'s orientation to favour the enhancement of the Québécois economically rather than to accord priority to the requirements of the business elite (which the P.Q. regarded as foreign domination). The Canadian crisis transcended the international boundary due to this conflict of interests and was not ameliorated until the referendum on separatism in May, 1980. As a consequence, the period 1976 to 1980 presents an opportunity to study the ability of a provincial government to manage such a conflict. In fact, the period of conflict was relatively short, beginning in February, 1977, and ending by the middle of 1978.

Most of the research in Quebec-U.S. relations employs either of two orientations related to the concept of coercion. The first is the Quebec government's ability to regulate the private sector in order to achieve its socio-economic objectives. The second is the ability of the American corporate sector to coerce the P.Q. into modifying its policies in order to re-establish the situation prior to the P.Q.'s election. This is the initial orientation of the following analysis (see Chapters 2 to 5), but the use of the concept of coercion (defined as the use of punishment for deviation from a situation which has established rules of conduct) is limited in this case. In his analysis, Coleman aptly reflects on the use of coercion from the perspective of the policies of the P.Q.:

one would expect the PQ, being divorced from the corporate power-holders, to perceive those holders more as 'enemies' than simple 'deviants' needing reform. Consistent with this perception, one would predict further that the reforms of the PQ would be more coercive than 'assimilative' or persuasive when directed at this group. Finally, if reasonable discussion were to take place between the PQ and the

corporate sector, one might expect that the tendency toward coercion would be modified.(1)

In effect, the policy developed during the first mandate of the P.Q. emphasized persuasion and exemplified the ability of a provincial government to bargain with extra-national interests in order to reach an accommodation. Measures of American investment, trade and corporate location preferences all demonstrate this change; analyses of P.Q. policies similarly indicate an accommodation. A model of dynamic bargaining is then developed in order to provide an explanation for how an actor can manage interaction without relying solely on coercion. The model is designed to account for the process of accommodation (evident in the data presented) which static cost/benefit analyses of reciprocal coercion do not recognize.

The following chapters initially test the applicability of a coercive model, the "Open-Door" imperative, find it lacking, and indicate that the content of information communicated to the American economic community constitutes an intervening variable in this model. Subsequently, a bargaining model (derived from the concept of "critical risk") is developed which model incorporates the communication variable in terms of specific signals. These signals indicate an actor's orientation toward either conflict or accommodation, and constitute the bases for deriving manipulative bargaining tactics in order to explain whether conflict or accommodation should result. These manipulative

(1)

William D. Coleman, "From Bill 22 to Bill 101: The Politics of Language under the Parti Québécois", Canadian Journal of Political Science, 14 (1981), p. 473.

tactics are then addressed in terms of Quebec's interactions with the U.S. from 1977 to 1980. The movement is from a model to a test of that model, to an expansion of the tested model, to an application of the expanded model. Prior to this case study of only Quebec-U.S. interaction, Canadian-American relations from a provincial perspective are described in order to establish the basis for the analysis of Quebec and the U.S. as an example. As a consequence, a sub-national perspective in studies of international relations involving federal states is clearly identified as a requisite for foreign policy analysis.

The Chapters in Brief

Chapter 1 is an analysis of Canadian-American relations in the economic field from a Canadian provincial perspective since during the past decade Canadian foreign policy has been most strongly oriented to international economic transactions. The reciprocal influence of federal and provincial policies in this field is assessed through analyses of trade and investment in Canada by comparing provincial and national indicators with reference to the U.S.. Descriptively, the great stability of Canadian-American relations is evident for Canada as a whole, but this stability is illusory when the provinces are taken as the units of analysis. There is not only great diversity within Canada, but also a dynamism in each province which balances out for the nation as a whole. The American corporate presence in Canada enhances the Canadian-American equilibrium, but at the same time entails considerable disequilibrium for each province due to both the differentiation in the degree of foreign corporate control among the provinces and the differentiation in the degree of this foreign control within each province over time. This is set forth in relation to the concept of the international corporate market, linking trade and investment as a tentative explanation for both of these findings. The activities of the provinces in areas of foreign economic policy are also described, which activities indicate the growing complexity of control for the Canadian federal government. Concomitantly, federal policies in external relations have a different relevance for each of the provinces. In sum, this chapter develops the basic orientation of a sub-national perspective for Canadian-American relations which perspective is

subsequently applied to Quebec-U.S. relations as a case in point.

Chapters 2 to 5 analyse Quebec-U.S. relations in terms of the interactions involving the P.Q. and mainly the American economic community. "Hard" data are presented in the form of economic measures of trade and investment, and analysis is done in terms of how this data represents American perceptions of risk in Quebec-related operations. Accompanying this is "soft" data in the form of communications between Quebec and the U.S. through an analysis by examples drawn principally from: the U.S. economic media coverage of Quebec, statements by government representatives in both the U.S. and Quebec, and Quebec information aimed specifically at the U.S.. Only statements delivered to the U.S., reported in the U.S., or having the U.S. as the stated target are used. Similarly, only American statements and examples of American corporate activities as these bear on the Quebec situation are used. These statements are analysed in order to corroborate the findings of the "hard" economic measures. In this manner, the confluence between intended information and behaviour is achieved.

Chapter 2 deals with Quebec-U.S. relations in terms of the "Open-Door" model which predicts that: a leftward shift in a regime will result in a reduction of American investment in, and trade with, that regime as a punishment in order to induce a subsequent rightward shift by that regime. This model is then tested by using measures of American direct and indirect investment in Quebec, Quebec trade with the U.S., and Americans' preferences for corporate location in Quebec evident by the moves of head offices. All of these measures indicate

two general points of change. The first is a negative American reaction beginning in February, 1977, the month after Lévesque's speech to the Economic Club of New York (which corroborates the "Open-Door" model). The second is the middle of 1978, just after Quebec's Ministry of Intergovernmental Affairs instituted an information programme (Opération-Amérique) to ameliorate Americans' perceptions of the P.Q.'s economic orientation (which goes beyond the "Open-Door" model). Subsequent chapters deal with the explanation for this change.

Chapter 3 establishes the general contention that communication constitutes an intervening variable in the "Open-Door" model for the changes of the American reaction set forth in Chapter 2. This chapter presents an analysis of communication (intended information) and demonstrates that the American reaction was conditional not only on the perception of the regime, but on the specific content of the information communicated. As a general intervening variable, communication is assessed here as the significant factor, but communications' contents are not neutral. The cost/benefit component of information "covariance" (from Deutsch's communication theory) is set forth as the more significant and specific component of communication in this case study, which Chapter 4 develops into a model and Chapter 5 then applies.

Chapter 4 develops a bargaining model from the game theory concept of "critical risk". The formal model itself is simply a heuristic device, strictly logically derived, but it does permit the postulation of behavioural imputations which can be classified into manipulative tactics to induce concessions or which lead to conflict. In contrast to

the static nature of the "Open-Door" model, the "critical risk" model is dynamic. The derived manipulative tactics are: "disenchantment with the status quo", the "hard" and "soft" landings of punishment, and "optimal bargaining" or the method of reaching a new agreement by making concessions in areas most important to the respondent in order to induce the respondent's reciprocal concession. This chapter is restricted to the theory and its empirical imputations, linking the communication variable with the threat/counterthreat interaction to the signals implied by the manipulative tactics.

Chapter 5 applies the manipulative tactics to the salient issues of Quebec-U.S. interaction from 1977 to 1980. This is done by postulating Quebec as the initiator and the American economic community as the respondent in six policy areas. First, it re-addresses why "Opération-Amérique" had the effect it did (an accommodation in 1978) in relation to the operation of the international corporate market and Quebec. The second area is Quebec's language policy. The third involves the protracted negotiations for the purchase of Asbestos Corporation. The fourth analyses Quebec government borrowing in the U.S.. The fifth deals with three of Quebec's redistributive policies: the "anti-scab" legislation of 1977, the minimum wage, and the taxation revisions in the 1978 budget. The sixth deals with Quebec's efforts to retain the American government's neutrality in the independence debate in relation to P.Q. policies on continental defense. The conclusions also set forth other areas where the model employed in this case can provide fruitful insights in general areas of political studies.

CHAPTER 1

CANADIAN-AMERICAN RELATIONS FROM A PROVINCIAL PERSPECTIVE

[A]n analysis of Canadian regionalism that fails to view it in its North American context is incomplete and seriously misleading.(1)

In any evaluation of Canadian-American relations there exists a consensus on the remarkable stability of what is described as a "unique" or "special" relationship. It is a testimony to this stability that it is acknowledged by varied observers approaching the subject from either the academic's or the practitioner's vantage, irrespective of theoretical perspective, and in spite of the nationality of the observer.(2) Equally noteworthy is the fact that such stability is managed in the context of a tangible power ratio of at least ten to one in favour of the United States, making what John Holmes calls "the basic equilibrium we have slowly established on this continent"(3) a special case of the asymmetric dyad. The "special" nature of the

(1)

Garth Stevenson, "Canadian Regionalism in Continental Perspective", Journal of Canadian Studies, 15 (Summer, 1980), p. 18.

(2)

This is apparent in two recent analyses of continental interaction (which also begin with the generalization of stability), one by a Canadian, Stephen Clarkson, who views the state of the relationship as one of Canadian dependency on the U.S., and the other by an American, Charles Doran, who applies a framework of "intervulnerability" as a function of the salience of continental transactions. [See: Stephen Clarkson, Canada and the Reagan Challenge: Crisis and Adjustment, 1981-1985 (Toronto: James Lorimer & Company, 1985), Ch. 2; and Charles Doran, Forgotten Partnership: U.S.-Canada Relations Today (Baltimore: The John Hopkins University Press, 1984).]

(3)

John Holmes, Life With Uncle (Toronto: University of Toronto Press, 1981), p. 3.

Canadian-American relationship is all the more exceptional due to the high degree of comity that persists even though foreign policy priorities differ between the pair. While the U.S. is primarily preoccupied with strategic/military/international security obligations (what is termed "high politics"), Canadian foreign policy since the Second World War has tended to emphasize economic and social affairs ("low politics") in its external relations.(1) What makes the relationship so "special" is the relative calm that persists in spite of the diversity. This stability is nowhere clearer than in the field of continental economic transactions.

From a Canadian foreign policy perspective, the preoccupation with influences on domestic economic policy is incumbent on two resilient features of the state of the nation. One is internal, viz., the nature of federalism and the de jure fact that the provinces are accorded powers over the economy which rival effective federal control, even in Canadian foreign policy. The other is external, viz., living next door to an economic superpower. While most scholarly analysis deals with these two facets as independent fields of inquiry, there is reason to believe that the two phenomena do interact. In the literature on Canadian external affairs there is the beginning of a body of knowledge around what Patricia Marchak calls the two dimensions of regionalism. The first is internal, "the interaction between levels of the state". The second is external, "a strained and often intangible interaction

(1)

Doran, Forgotten Partnership, pp. 37-41. Doran uses this distinction as his principal initial point of focus.

between people who have regional locations and corporations which are extra-territorial in their interests and organizations."(1) As will become apparent, these two dimensions are related, specifically in the economic field. The relevance of the American economic presence takes on greater or lesser significance for Canadian external relations depending upon which province or region is assessed. The federal nature of the Canadian state includes different domestic perceptions of, and reactions to, the American fact by the provinces. The evidence demonstrates that the internal and external influences on Canada as a whole also interact, leading to a complexity in Canadian-American relations. At the root of the matter there is a Janus-like question of control at the governmental level concerning who is managing continental interaction.

Taking the provinces and their international relations as the focus of study, most of the research to date employs either of two directions of analysis. The first posits the provinces as actors and typifies a functionalist perspective while at the same time noting the lack of existing formal structures. This view usually begins with a jurisprudence format (by describing the constitutional prerogatives of the provinces over social, economic, and cultural policy) and thence proceeds to demonstrate that such policy will potentially spill over

(1)

Patricia Marchak, "The Two Dimensions of Canadian Regionalism", Journal of Canadian Studies, 15 (Summer, 1980), p. 88.

into extra-territorial transactions.(1) The functionalist approach is primarily descriptive and analysis is restricted only to potential cause and effect. The second direction of analysis emphasizes the impact of foreign pressures on the separate regions or provinces by noting that the American presence is different within Canada. This perspective is not as evident as the functionalist approach, and is usually found only as an addendum to analyses of trade and investment in Canada, in spite of the material available for a strictly provincial approach.(2) Notable by its absence is any attempt to describe the interaction of Canadian federalism and external relations.

The following is a preliminary description of provincial/ Canadian-American interaction and assesses this interaction as adding a "complicating factor"(3) to federal control in external relations. Provincial policies affect federal foreign policy, and federal foreign policy has a varying relevance depending on the province. At the same time, the stability of the Canadian-American relationship becomes an

(1)

A review of this approach is given by Donald C. Story who argues that Ottawa has too much "assumed" its jurisdictional prerogative over external affairs without adequately reinforcing it, the result being that the provinces have encroached upon this policy field. [See: Donald C. Story, "Government, a 'Practical Thing': Towards a Consensus on Foreign Policy Jurisdiction", in Canada Challenged: The Viability of Confederation, eds. R. B. Byers and Robert W. Reford (Toronto: Canadian Institute of International Affairs, 1979), pp. 108-24.]

(2)

The lack of any detailed provincial analysis is reviewed in: Marchak, "Two Dimensions", pp 88-97.

(3)

P.R. Johannson, "Provincial International Activities", International Journal, 33 (1977/78), p. 378.

illusion when the provinces (as opposed to the nation) are taken as the units of analysis. This is especially apparent in the field of economic policy which has become most prominent in recent Canadian foreign policy.

During the 1968 election campaign, Pierre Trudeau announced the undertaking of a foreign policy review which resulted in two statements that emphasized enhanced Canadian independence from the U.S. through a strategy of reducing the degree of continental transactions, specifically trade. The point of departure for the document Foreign Policy for Canadians was that the impact of the presupposed American ascendancy (assumed to continue throughout the 1970s and to have a profound effect on Canadian independence) could be alleviated only through a policy of diversification.(1) The thrust of enhancing independence through a reduction of economic vulnerability (given additional impetus after the 1971 Nixon 10% surcharge on all imports, including Canadian) was specifically addressed in the 1972 "Third Option" paper which linked independence as a foreign policy goal with the independence of the Canadian economy. As a mature state, Canada was to select the option of going alone on the presupposition that the government could "pursue a comprehensive, long term strategy to develop and strengthen the Canadian economy and other aspects of our national

(1)

Canada, Department of External Affairs, Foreign Policy for Canadians (Ottawa: Information Canada, 1970), pp. 23-4.

life and in the process to reduce the present Canadian vulnerability."(1) While the policy was clearly formulated and articulated in very general terms, implementation during the 1970s revolved around the question of control. On paper, External Affairs was responsible for overseeing implementation, but in practice its ability to do so was severely restricted due to the interdepartmental fragmentation within the organization of the federal government.

These two statements were the result of the review conducted by the Policy Analysis Group (PAG) (of the Department of External Affairs (DEA)) which was created to develop and analyse foreign policy objectives and options over time.(2) Although the review and the policy statements indicated the general direction of Canadian foreign policy, implementation was outside the prerogative of the DEA. External trade was left within the Department of Industry, Trade, and Commerce (ITC), and the Foreign Investment Review Agency was also attached to ITC. A 1974 cabinet directive required that all American-related issues dealt with by all departments had to be cleared through the DEA prior to submission to Cabinet in order to achieve a common denominator for all

(1)

Mitchell Sharp, "Canada-U.S. Relations: Options for the Future", International Perspectives (Autumn, 1972), p. 13.

(2)

Daniel Madar and Denis Stairs, "Alone on Killers' Row: The Policy Analysis Group and the Department of External Affairs", International Journal, 32 (1976/77), p. 727.

continental matters.(1) However, it rapidly became clear that a consensus among departments was not evolving. In 1976, a second review claimed that foreign policy was (practically speaking) not the responsibility of the DEA, although External Affairs was formally charged with the task:

Among Canadian officials, the commendable search for consensus has sometimes led to recommending to the Government a policy that represents the lowest common denominator of agreement at the official level. Sometimes no amount of mutual adjustment of conflicting views of the national interest among officials will produce a satisfactory policy and External's role as the lead department should then be to set out clearly the hard choices for resolution by Cabinet. ... The other major service departments have made it plain that they do not accept that External Affairs can have managerial authority that over-rides their responsibility for managing the particular programs for which the government has given them a mandate.(2)

Even within the confines of the organization of government, the 1970s became a period of questionable control for the implementation of the "Third Option".

Compounding the lack of foreign policy authority, the specific section of the DEA responsible for the formulation and clarification of objectives, the PAG, attempted to formulate policy only generally,

(1)

John Kirton, "Foreign Policy Decision-Making in the Trudeau Government: Promise and Performance", International Journal, 33 (1977/78), pp. 305-6.

(2)

A. S. McGill, A Study of the Department of External Affairs in the Government of Canada (Ottawa: Department of External Affairs, 1976), vol. III, pp. 15 and 19. McGill found that, of all Cabinet decisions that related to foreign affairs, only 15 to 20 percent originated in the DEA.

leaving the specifics for the various departments to clarify operationally. Part of the reason for this was that the PAG was staffed by, at the most, five persons (including the director) and sometimes by as few as three.(1) The PAG was initially given the task of preparing a set of comprehensive foreign policy objectives which were finalized in 1975, and were to be reviewed and reissued on a yearly basis. But with the workload of having to compile and analyse data on 150 countries and by 170 indicators, all related to the prospects for the "Third Option", this annual review and restatement took place for only 1976 and 1977.(2)

Reacting to the fact that the DEA was not in managerial control of the policy it had formulated, the Privy Council Office instigated a further review beginning before the election of 1979.(3) The result was the reorganization of the DEA in 1982 designed to incorporate in one department the foreign areas of economic development as the first step for the economic renewal outlined in Economic Development for Canada in

(1)

Daniel Madar, "Foreign Policy Objectives, Country Studies and Planning Theory", Canadian Public Administration, 23 (1980), p. 385.

(2)

G. A. H. Pearson, "Order Out of Chaos? Some Reflections on Foreign-Policy Planning in Canada", International Journal, 32 (1976/77), p. 765.

(3)

Michael Pitfield, who was responsible for devising the earlier interdepartmental coordination scheme, undertook this task as well. [See: Jack Maybee, "Foreign Service Consolidation", International Perspectives (July/Aug., 1980), pp. 19-20.]

the 1980s.(1) By September, 1983, the DEA became the agency of international economic policy, finally linking the department with the policy it had formulated in the early 1970s.

The result of this transition from 1968 to 1983 was that with the final reorganization of the DEA, foreign policy for Canada became inextricably linked with economic policy.(2) In spite of the lack of its success, the "Third Option" was maintained throughout the 1970s and early 1980s as the basic objective of foreign policy.(3) This is evident in the DEA's first major document after assuming responsibility for international trade. Canadian Trade Policy for the 1980s also stressed trade diversification, but over the long term:

(1)

Canada, Economic Development for Canada in the 1980s (Ottawa: Department of Finance, 1981), p. 20. See also: Gordon Osbaldeston, "Reorganizing Canada's Department of External Affairs", International Journal, 37 (1981/82), p. 453.

(2)

Gordon Osbaldeston, "Reorganizing Canada's Department of External Affairs", pp. 452-3: "the primary purpose was to pursue aggressively international export markets and give greater priority to economic matters in the development of foreign policy. More specifically, the purpose is to ensure a greater measure of coherence in the management of Canada's international relations by making economic and trade considerations a more integral part of its overall foreign policy."

(3)

The Under-Secretary of State for External Affairs (Allan Gotlieb) and the Chairman of the Policy Planning Secretariate of External Affairs (Jeremy Kinsman) exemplified just such a position: "The type of strategy that is needed is one that provides for the realization of Canadian economic development objectives. ... [This] means a coherent approach on the part of the government in pursuing Canadian interests vis-a-vis the United States. ... The Third Option remains valid as an assumption of Canadian foreign policy even if it no longer needs to be cited as a constant point of reference." [See: Allan Gotlieb and Jeremy Kinsman, "Reviving the Third Option", International Perspectives (Jan/Feb, 1981), pp. 2-3.]

It is important that Canada's foreign policy develop close relationships with those countries which are most important to Canada's economic development and which offer the best opportunities for long term markets for Canadian exports.(1)

Long term markets were identified as developing countries, and markets for diversification were identified as the European Community and Japan. One of the assumptions of the federal government's approach during the 1970s was that it could effectively maintain control over the economy and the direction it would take. There is a basic weakness in this assumption in that control is shared with both the provinces and the private sector which is in turn partly controlled by foreign subsidiaries, mainly American. While the DEA was coming to grips with operational control of foreign economic policy in the 1970s, the provinces were also increasing their efforts in this field and in some instances creating their own quasi-departments of external affairs.(2)

Concerning the private sector, the weakness of this assumption is evident in the trade patterns of American-owned subsidiaries in Canada. Most of Canada's trade can be attributed to what is herein termed the operation of the international corporate market--the propensity for trade to be undertaken between affiliates of the same corporation across

(1)

Canada, Department of External Affairs, Canadian Trade Policy for the 1980s (Ottawa: Supply and Services, Canada, 1983), pp. 40-1.

(2)

For a review of provincial departments responsible for foreign-related activities in Quebec, Ontario, Alberta and British Columbia, see: Elliot J. Feldman and Lily Gardner Feldman, "The Impact of Federalism on the Organization of Canadian Foreign Policy", Publius, vol. 14 #4 (Fall, 1984), pp. 33-59.

borders, i.e. not at-arms-length trade. For the decade 1966 to 1975, U.S.-controlled affiliates in Canada accounted for 55% of all Canadian exports to the United States. For the year 1975, the figure was 58% and had been rising over the previous decade leading to the estimate that in the late 1970s, U.S.-controlled affiliates in Canada accounted for approximately 60% of all Canadian exports to the U.S.(1) The significance of this private sector control is also evident in the even stronger propensity of American-controlled firms in Canada to import from the U.S.. For 1977, American affiliates in Canada exported \$15,641 (U.S., million) to the U.S. but also imported \$17,303 (U.S. million) from the U.S., leaving a negative balance (for Canada) in continental trade by American affiliates of \$1,662 (U.S. million).(2) For 1977, Canada had a balance of trade surplus with the U.S. of \$3,810.5 (U.S. million).(3)

(1)

Data presented here is taken from: U.S., Department of Commerce, Survey of Current Business (Feb., 1977), p. 35. Comparable figures for U.S. foreign affiliates' exports to the U.S. for the world (1966 to 1975) are: Developed Countries 28%, Europe 14%, Japan 1%, Developing Countries 35%, Latin America 37%, and Asia and Africa 32%. The higher percentage for Canada (55%) clearly indicates the special significance of the American presence for Canada.

(2)

U.S., Department of Commerce, Survey of Current Business (Apr., 1981), p. 32. All the Developed Countries similarly suffer a trade imbalance. However, Developing Countries (except for Central and Latin America) have a trade surplus with the U.S. when only U.S. affiliate trade is appraised.

(3)

U.S. Department of Commerce, Bureau of Economic Analysis, Business Statistics, 1984 (Washington: Government Printing Office, 1985).

This pattern is not peculiar to American firms, but is more a function of the way the international corporate market operates. Canadian-owned firms in the U.S. demonstrate the same import and export propensities, and in this case the imbalance of trade is exacerbated. In 1980, Canadian affiliates in the U.S. had a total trade deficit for the U.S. of \$4,220 (U.S. million), and a Canada-U.S. trade deficit for the U.S. of \$3,965 (U.S. million). For 1980, Canadian affiliates in the U.S. sent 66.2% of their exports to Canada, but received 86.9% of their imports from Canada. In spite of the fact that Canadian-owned firms in the U.S. operate in much the same manner as American-owned firms in Canada, in their import/export patterns, the American pre-eminence in Canada is substantially more significant. In 1980, Canadian affiliates in the U.S. accounted for only 2.7% of U.S. exports to Canada, but 11.8% of U.S. imports from Canada.(1) The strength of the Canadian trading relationship with the U.S. is markedly attributable to the operations of the international corporate market and most strongly to that portion of the Canadian private sector controlled by American corporations.

The relevance of American affiliates' trading patterns is most clear with reference to its effect on the "Third Option". Referring to TABLE 1-1, it is apparent that American firms' exports were very greatly destined for the U.S. (76% of total exports), even greater for American manufacturing firms (80%), both of which, for the year 1976, were well

(1)

Calculated from: U.S., Department of Commerce, Bureau of Economic Analysis, Foreign Direct Investment in the United States, 1980 (Washington: Government Printing Office, 1983), p. 145; and U.S., Department of Commerce, Bureau of Economic Analysis, Business Statistics, 1984 (Washington: Government Printing Office, 1985).

TABLE 1-1
 EXPORTS OF AMERICAN-CONTROLLED FIRMS IN CANADA, 1976
 (\$ MILLIONS U.S.)(1)

	TOTAL EXPORTS	EXPORTS TO U.S.	OTHER EXPORTS	U.S. %	OTHER %
TOTAL FIRMS	20,188	15,339	4,849	76.0	24.0
MFG. FIRMS	13,036	10,407	2,629	79.8	20.2
MFG. AS A % OF TOTAL	64.6	67.8	54.2	-	-

above the percentage for Canada as a whole—67.5% of Canada's total exports went to the U.S., 71.7% of Canada's manufactures' exports went to the U.S..(2) While the most complete data on U.S.-controlled firms' trading patterns is available only up to the mid-to-late 1970s, partial data—in the form of trade by the larger U.S.-controlled firms—also indicate that their affect was by 1981 still considerable, although declining (see TABLE 1-2). In comparison with the trade of Canada as a whole, the propensity of U.S.-controlled firms to export to the U.S. conditions Canadian export patterns to the detriment of the diversification policy of the "Third Option".

With the tendency of American branch plants to trade with their

(1) Calculated from: U.S., Department of Commerce, Survey of Current Business (Mar., 1978), p. 35.

(2) Trade on a Standard Industrial Classification basis is available from: Canada, Department of Regional Industrial Expansion, Commodity Trade by Industrial Sector with the United States: Historical Summary 1966-1983 (Ottawa, 1984).

TABLE 1-2
COMPARISON OF EXPORTS BY
AMERICAN-CONTROLLED FIRMS IN CANADA(1)

YEAR	EXPORTS OF ALL U.S.-CONTROLLED ESTABLISHMENTS IN CANADA		EXPORTS OF THE LARGER (300) U.S.-CONTROLLED ESTABLISHMENTS IN CANADA		CANADA TOTAL EXPORTS	
	% TO	% TO	% TO	% TO	% TO	% TO
	<u>U.S.</u>	<u>OTHER</u>	<u>U.S.</u>	<u>OTHER</u>	<u>U.S.</u>	<u>OTHER</u>
1973	75.3	24.7	85.1	14.9	67.4	32.6
1974	71.9	28.1	83.3	16.7	65.9	34.1
1975	72.9	27.1	82.3	17.7	65.2	34.8
1976	76.0	24.0	86.6	13.4	67.5	32.5
1977	NA	NA	86.6	13.4	69.7	30.3
1978	NA	NA	86.9	13.1	70.2	29.8
1979	NA	NA	84.1	15.9	67.7	32.3
1980	NA	NA	80.8	19.2	63.1	36.9
1981	NA	NA	82.9	17.1	66.3	33.7
1982	82.8	17.2	NA	NA	68.2	31.8

NA: Not Available

(1)

Data on all U.S.-controlled establishments in Canada was taken from: U.S., Department of Commerce, Survey of Current Business (Mar., 1978), p. 35; (Feb., 1977), p. 33; and (Dec., 1985), p. 50. Data on the larger (approximately 300) U.S.-controlled enterprises in Canada was taken from: Canada, Department of Regional Economic Expansion, Foreign-Owned Subsidiaries in Canada: 1973-1979 (Ottawa: Department of Regional Economic Expansion, 1983); and Canada, Department of Regional Industrial Expansion, Foreign-Owned Subsidiaries in Canada: 1979-1981 (Ottawa: Department of Regional Industrial Expansion, 1984). The data on the approximately larger 300 U.S. establishments is sample data and is not representative of the total. The export propensity of U.S.-controlled establishments is clearly a function of the size of the firm. In comparison with the exports of all U.S.-controlled establishments in 1976, as a percentage of this, the exports of the larger 300 are: for total exports, 66.2%; for exports to the U.S. 75.5%; for other exports, 36.8%. Data for Canada was taken from: Statistics Canada, Exports by Countries (Ottawa: Supply and Services, Canada), catalogue no, 65-003.

home country, the ability to enhance a policy of trade diversification is seriously impaired. It is also apparent that the high degree of trade transaction between Canada and the U.S. is a function of the degree of American control of the Canadian private sector. Additionally, any surplus in the balance of trade in favour of Canada is due more to the trade activities of Canadian firms than to American firms in Canada. The imbalance of American corporate trade becomes specifically pertinent for regional development within Canada when it is recognized that the degree of American private sector control varies considerably among the Canadian provinces, affecting economic performance within the province by sourcing supplies from outside, thereby exporting the spinoff effects of production.

The impact of American ownership can also be seen in the import propensity of American firms (TABLE 1-3). For 1978, American-owned firms accounted for more than 60% of Canadian imports from the U.S., in spite of the fact that American firms did not account for the majority of the production in Canada. For 1978, American-controlled manufacturing firms were responsible for 40.3% of manufacturing firms' shipments (Canadian firms were responsible for 49.7%), 38.4% of value added (Canadian firms accounted for 52.2%).(1) At the same time, for 1978, American manufacturing firms accounted for 72.6% of manufacturing firms imports, whereas in the same category Canadian firms were responsible for only 17.1%. In general, American firms also

(1)

Statistics Canada, Domestic and Foreign Control of Manufacturing, Mining, and Logging Establishments in Canada, 1981 (Ottawa: Supply and Services, Canada, 1985), catalogue no. 31-401.

TABLE 1-3
TOTAL IMPORTS BY CANADIAN AND AMERICAN-CONTROLLED
FIRMS, 1978 (\$ MILLIONS, CANADIAN)(1)

TOTAL IMPORTS BY COUNTRY OF CONTROL OF IMPORTING FIRM

	IMPORTS			% OF TOTAL	
	U.S.	CDN.	TOTAL	U.S.	CDN.
TOTAL FIRMS	25,543	12,607	49,549	51.6	25.4
MFG. FIRMS	21,216	4,986	29,211	72.6	17.1
MFG. AS A % OF TOTAL	83.1	25.4	59.0	-	-

TOTAL IMPORTS FROM AREAS AND BY COUNTRY OF CONTROL OF
IMPORTING FIRM

	IMPORTS FROM U.S.	OTHER IMPORTS	TOTAL IMPORTS	% OF TOTAL	
				FROM U.S.	FROM OTHER
U.S. FIRMS	22,110	3,434	25,543	86.6	13.4
CANADIAN FIRMS	7,778	4,829	12,607	61.7	38.3
TOTAL FIRMS	35,003	14,545	49,548	70.6	29.4
U.S. AS A % OF TOTAL	63.1	23.6	50.9	-	-
CANADIAN AS % OF TOTAL	22.2	33.2	25.4	-	-

demonstrated a greater propensity to import from the U.S. (86.6% of their total imports) than Canadian firms (61.7% of their total imports).

The fact that American multinationals have a significant impact on continental trade has not gone unnoticed in the U.S.. According to the assistant U.S. trade representative for investment policy, Harvey Bale:

(1)

Calculated from: Statistics Canada, Canadian Imports by Domestic and Foreign Controlled Enterprises, 1978 (Ottawa: Supply and Services, Canada, 1981), catalogue no. 67-509.

We believe that U.S. foreign direct investment has also made a contribution to employment in the United States through the link between exports and investment. Much of our trade with foreign countries originates with orders placed by the subsidiaries of U.S. companies located overseas. For example 75 per cent of our exports to the 300 largest companies in Canada originates from the subsidiaries of U.S. firms.(1)

Nor has this fact gone unnoticed in Canada. An Ontario report, Foreign Ownership and Employment in Ontario, concluded that the import performance of foreign-owned subsidiaries (including their tendency to import rather than develop indigenous technology) reduced both the level and quality of employment in Ontario.(2) A study for the DEA also recognized this phenomenon. In assessing the impact of Trading Houses in Canada (companies which specialize in exporting and importing) this study estimated that Trading Houses accounted for between 34 and 38 per cent of Canada's exports to the European Community, between 56 and 78 percent of Canada's exports to Japan, but only between 3 and 4 per cent of Canada's exports to the U.S.. The explanation advanced for the lack of U.S. market success by the Trading House option referred specifically to the tendency by U.S. multinationals to establish trading company functions internally which led to the propensity to trade with the U.S.. This study also recommended that: "If we accept the premise that market responsiveness and the globalization of corporate activities are necessary for the survival of many Canadian industries, the corporate

(1) Quoted in Clarkson, Canada and the Reagan Challenge, p. 98.

(2) Ontario, Foreign Ownership and Employment in Ontario, Current Issue Paper #13 (March, 1982), pp. 11-12.

trading company may provide the appropriate organizational vehicle."(1)

The effect of American firms' importing patterns is even more clearly important in the case of End Products which represent the highest level of processing (see TABLE 1-4). In 1978, American firms accounted for 73.9% of the End Products imported from the U.S., and 94.4% of their total End Product imports came from the U.S.. Canadian firms also tended to rely heavily on the U.S. as a source of supply, but to a far lesser degree. The tendency to import from the U.S. was clearly stronger among American firms. The same pattern was evident in the proportion of End Product imports to Total imports by country of origin: U.S. firms' imports from the U.S. were 82.4% in the End Product category, whereas Canadian firms' imports were only 47.8%. No matter which way the percentages are calculated, the substantial degree of American control in the private sector has an inhibiting effect on any policy of trade diversification, and on any policy of linking trade to an industrial strategy due to the concomitant American propensity to import already manufactured products. While Canadian firms also rely on the U.S. (more than on other countries) in their trading patterns, the American corporate presence exacerbates the degree of reliance.

(1)

Canada, Department of External Affairs, Promoting Canadian Exports: The Trading House Option (Ottawa, 1984), p. 46.

TABLE 1-4
 END PRODUCTS IMPORTS BY CANADIAN AND AMERICAN-CONTROLLED
 FIRMS, 1978 (\$ MILLIONS, CANADIAN)(1)

END PRODUCT IMPORTS FROM AREAS AND BY COUNTRY OF CONTROL OF
 IMPORTING FIRM

	IMPORTS FROM U.S.	OTHER IMPORTS	TOTAL IMPORTS	% OF TOTAL	
				FROM U.S.	FROM OTHER
U.S. FIRMS	18,208	1,082	19,290	94.4	5.6
CANADIAN FIRMS	3,718	2,068	5,786	64.3	35.7
TOTAL FIRMS	24,626	6,457	31,083	79.2	20.8
U.S. AS A % OF TOTAL	73.9	16.8	62.1	-	-
CANADIAN AS % OF TOTAL	15.1	32.0	18.6	-	-

END PRODUCTS IMPORTS AS A PERCENT OF TOTAL IMPORTS BY
 COUNTRY OF CONTROL OF IMPORTING FIRM AND ORIGIN OF IMPORTS

	IMPORTS FROM U.S.	OTHER IMPORTS	TOTAL IMPORTS
U.S. FIRMS	82.4	31.5	75.5
CANADIAN FIRMS	47.8	42.8	45.9
TOTAL FIRMS	70.0	44.4	62.7

The greater propensity of American-owned firms to import is also evident even given the decline in the Canadian dollar and the relative decline in the sales by American-controlled firms in Canada. In 1977, American affiliates' trade with the U.S. left Canada with a \$1.7 (U.S. billion) deficit while Canada as a whole had a \$3.8 (U.S. billion)

(1)

Calculated from: Statistics Canada, Canadian Imports by Domestic and Foreign Controlled Enterprises, 1978 (Ottawa: Supply and Services, Canada, 1981), catalogue no. 67-509.

surplus in continental trade. American firms accounted for 52.7% of Canada's exports to the U.S., but 67.1% of Canada's imports from the U.S.. In 1977, American-owned firms' sales accounted for 27.7% of the total sales in Canada. By comparison, in 1982, American affiliates' trade with the U.S. resulted in a \$1.9 (U.S. billion) surplus for Canada, while Canada as a whole had a surplus of \$12.8 (U.S. billion) with the U.S.. However, American firms still demonstrated their stronger orientation to import: they accounted for 46.0% of Canada's exports to the U.S., but 57.8% of Canada's imports from the U.S.. In 1982, American-owned firms' sales accounted for 22.0% of the total sales in Canada. In 1982, American-owned manufacturing affiliates in Canada still had a \$80 (U.S. million) Canadian deficit in continental trade.(1) Whether imports or exports are assessed, Canadian-American trade is substantially a property of the international corporate market, even given the impact of monetary changes.

There is a two-part significance in the way the continental corporate market works. First, it acts to maintain the high degree of transaction between the U.S. and Canada, mitigating any policy designed to counter this. Second, it offsets (to a degree) the ten to one benefit which Canada should enjoy by having access to a market ten times its size due to the greater propensity of American firms in Canada to

(1)

Sources: Statistics Canada, Corporations and Labour Unions Returns Act: Part 1 Corporations (Ottawa: Supply and Services Canada), catalogue no. 61-201; U.S., Department of Commerce, Survey of Current Business (Apr., 1981), p. 32, and (Jan., 1986), p. 29; and U.S., Department of Commerce, Bureau of Economic Analysis, Business Statistics, 1984.

import from the U.S., and the greater degree of American control of the Canadian private sector. In effect, there is an equalizing propensity on the part of the American corporate presence in Canada when appraised from the net relationship of imports to exports. However, this is not necessarily the case when the American presence is assessed with reference to the separate Canadian provinces due to the differences of the American corporate presence between the provinces within Canada. The trading operations of American-controlled firms are most clearly evident in the case of Ontario where most American investment in the manufacturing sector is located.

Very little of the research to date has analysed continental corporate effects on the various Canadian provinces.(1) Most of the studies on provincial external relations focus on functional relations between the provinces and the American states, interactions concerning matters of technical cooperation such as: the planning and management of highways, the monitoring of water resources, law enforcement (motor vehicle registration, traffic offenses, criminals crossing boundaries), etc..(2) These studies are designed to provide a taxonomy of the various understandings, agreements, or contacts by sub-national

(1)

This refers specifically to Marchak's second dimension, the "interaction between people who have regional locations and corporations which are extra-territorial in their interests and organizations". [See: Marchak, "Two Dimensions of Federalism", p. 88.]

(2)

Such activities are "scarcely perceived as 'international' at all". [P.R. Johannson, "Provincial International Activities", p. 366.]

governments across borders, usually in terms of trying to determine whether or not international structures are developing by means of the distinction between formal and informal contacts.(1) These types of provincial activities are monitored by the Canadian federal government, but not closely, since they do not involve international law and are not legally binding.(2) While characterized as mundane, both the degree of this type of interaction and the fact that increasingly contacts are made on commercial matters (or matters that directly affect commercial transactions) demonstrate the complicating facet of federalism for Canada's continental relations. To an increasing extent, the strength of continental transactions may be either impeded or promoted depending upon how the sub-national governments choose to manage their extra-territorial relations in these functional fields.

Two studies (one from a Canadian perspective and the other from an American point of reference) demonstrate the growing relevance for the

(1)

See, for example: Gerard F. Rutan, "Legislative Interaction of a Canadian Province and an American State", American Review of Canadian Studies, vol. 11, no. 2 (Autumn, 1981), pp. 67-79; and Rutan, "British Columbia-Washington State Governmental Interrelations: Some Findings on the Failure of Structure", American Review of Canadian Studies, vol. 15, no. 1 (Spring, 1985), pp. 97-110, where the failed attempt to create a joint legislative committee between the state of Washington and the province of British Columbia is analysed in terms of the different systems of government.

(2)

P. R. Johannson, "Provincial International Activities", p. 366. The federal government regards such activities as "arrangements subsumed under agreements between Canada and foreign governments" or as "administrative arrangements of an informal character ... not subject to international law." [Canada, Federalism and International Relations (Ottawa: Department of External Affairs, 1968), p. 26.]

TABLE 1-5
PROVINCE-STATE RELATIONS BY PROVINCE:(1)

NUMBERS OF CONTACTS

Province	Leach et al. (1971)	Swanson (1974)
Newfoundland	3	2
Nova Scotia	4	13
P.E.I.	6	4
New Brunswick	19	40
Quebec	7	65
Ontario	48	101
Manitoba	21	34
Saskatchewan	18	23
Alberta	29	19
British Columbia	15	46
Total	170	766

provinces of living next door to the U.S. (see TABLE 1-5). In the earlier Canadian study, of the 47 relations which could be assigned a specific date of initial contact, 29 were the product of the period 1960 to 1971, reflecting the trend noted by the increase in the later American study. According to Swanson, if one includes state interactions with the Canadian federal government, Canadian private institutions, and Canadian municipalities, in 1974 1057 interactions result. In both studies, there is a considerable degree of

(1)

The Canadian study was conducted from 1970 to 1971. [See: Richard H. Leach, Donald E. Walker and Thomas Allen Levy, "Province-State Trans-Border Relations: A Preliminary Assessment", Canadian Public Administration, 16 (1973), pp. 468-82.] The American study was conducted in 1974. [See: Roger F. Swanson, Intergovernmental Perspectives on the Canada-U.S. Relationship (New York: New York University Press, 1978), ch. 6.] Both studies focussed their research on continuing or ongoing contacts resulting from agreements or understandings.

differentiation among the provinces which can be explained in part by the differing degree of province/state border contiguity. Both studies found that geography was the primary determining factor.(1)

Of the types of interactions which are germane to economic issues, the earlier study found that 8.5% of the total dealt with commerce and industry, while the later study found that 10.4% were in this field. Similarly, transportation matters (in part dealing with licensing of the trucking industry, highways and bridges) accounted for 11.6% of the total interactions in the earlier study, and 27.5% in the later work. This increase also bears upon the level of Canadian-American trade since approximately one quarter of all continental trade is moved by the trucking industry. A case in point, from Swanson's study, demonstrates how licensing agreements can spill over to include the federal governments in solving a dispute:

one nonborder state noted that unless some agreement with a province was forthcoming in the very near future, that state would have no alternative except to close its borders to vehicles from the province which maintained nonreciprocal licensing provisions. In that the state further noted that such a move would be very detrimental to the Canadian trucking industry, it can be assumed that the U.S. and Canadian federal governments would have to become actively involved.(2)

(1)

The study by Leach et al. found that the ten American states with the greatest number of agreements were contiguous with the Canadian border. The Swanson study found that the fourteen border states (excluding Illinois and Indiana which are not technically adjacent to a border although they do border the Great Lakes) accounted for 61.7% of the 766 interactions. However, geography is not a complete determinant. In Swanson's study, every American state had at least one interaction with a Canadian province.

(2)

Swanson, Intergovernmental Perspectives, p. 262.

Apart from the studies conducted on the degree of functional interaction, regional conferences (such as the annual Conference of New England Governors and Eastern Canadian Premiers, and the Alaska-British Columbia-Yukon Conferences) also deal with the economics of continental interaction. Johannson has assessed the Alaska-British Columbia-Yukon Conferences from 1960 to 1964 as the attempt by the sub-national governments to use the international arena to focus the attention of the federal governments on economic development and tourism.(1) These conferences are now carried out annually.(2) The Conference of New England Governors and Eastern Canadian Premiers has tended to focus on energy exchanges, principally from Quebec to New England.(3) While it is difficult to assign a cause/effect relationship to such activities (i.e. whether the governments involved are acting or reacting) the fact that they exist, and are apparently increasing, lends credibility to the

(1)

P. R. Johannson, "A Study in Regional Strategy: The Alaska-British Columbia-Yukon Conferences", B.C. Studies, no. 28 (Winter, 1975/76), pp. 29-52.

(2)

British Columbia, Ministry of Intergovernmental Relations, Annual Report, 1983, p. 10.

(3)

The first resolution passed by the conference in 1973 was an agreement to "establish a permanent committee, with representatives of each state and province, as a vehicle to exchange information and to relate the projected energy surpluses of the eastern provinces with the energy needs of the New England States, consistent with the environmental standards of both regions." [Quoted in: Kenneth M. Curtis and John E. Carroll, Canadian-American Relations: The Promise and the Challenge (Lexington, Massachusetts: Lexington Books, 1983), p. 71.]

proposition that a fruitful avenue of analysis is to study continental relations from a sub-national perspective.

Since 1968, the federal government has recognized the importance of international affairs to the provinces, and acknowledged that "there are provincial interests in fields which involve dealings with foreign countries and the provinces have therefore expressed a need to enter into various kinds of arrangements with foreign entities."(1) The provinces have also pressed this point, specifically citing their trading relationship with the U.S.. At the Premiers' Conference of 1977 (while the Tokyo Round of multi-lateral trade negotiations was taking place) the following statement was approved by all the provinces:

While recognizing the primacy of the role of the federal government in international trade relations, the Premiers were of the opinion that the provinces also have legitimate interests and concerns in the international arena. Given these legitimate concerns and the large volume of trade with the United States, they agreed that it is entirely appropriate for the provinces to assume a more prominent role in Canadian-U.S. relations.(2)

Apart from the functional activities between the provinces and states, several provinces have undertaken to maintain contacts with American

(1)

Canada, Department of External Affairs, Federalism and International Relations (Ottawa: Queen's Printer, 1968), p. 28.

(2)

Government of Alberta, Harmony in Diversity: A New Federalism for Canada (Edmonton, 1978), p. 8. This view has also been retained. In 1983: "All the provinces urge that we take fuller advantage of [the federal] system and that it is 'both appropriate and necessary for provinces to make a greater contribution to Canada's trade policy ...' (Saskatchewan)." [Canada's Trade Policy for the 1980s: The Views of the Provinces (January, 1983), p. 13.]

economic interests through an array of trade and commercial offices located in the U.S. on a permanent basis.

Five provinces (British Columbia, Alberta, Saskatchewan, Ontario and Quebec) all have departments of intergovernmental relations which are responsible for coordinating the activities of their foreign delegations. In 1984, Quebec created its own ministry of International Relations. Among the more active provinces are Quebec with eight offices in the U.S., Ontario with eight in the U.S. and Alberta with three. In the case of Alberta, two American offices (Houston and New York) were opened in 1982, after the advent of the National Energy Program, in order to facilitate direct contact with American commercial and oil interests.(1) These delegations enhance the provincial authorities' ability to circumvent the federal Department of External Affairs (as did Quebec after the election of the Parti Quebecois) and its small Federal-Provincial Coordination Division (established in 1967)

(1)

Their function is to provide "an effective vehicle for the distribution and collection of information on trade, investment, energy, tourism, immigration, cultural and educational exchanges, and other matters of interest to the province. The offices also provide assistance to both the government and private sectors pursuing activities in these areas of interest." [Alberta, Department of Federal and Intergovernmental Affairs, Annual Report (1982), p. 31.]

in their dealings with the American private sector.(1) As with the functional activities, governmental representation is also not a one-way phenomenon: four American states also maintain delegations in Canada.(2) Nor is this type of contact restricted to the sub-national governments. In 1980, the U.S. Department of State assigned a foreign service officer to serve as a liaison between the U.S. embassy in Ottawa and the Federal-Provincial Coordination Division of the DEA.(3) The American government is also paying close attention to the trade programmes of the states, including export financing and state trade offices. Thirty-seven American states retain fifty-two offices in eleven different countries, and fourteen states have passed legislation enacting export financing programmes.(4)

Besides direct contacts, whether of a functional or access nature, the provinces affect the continental relationship through a series of domestic policies designed to impede the flow of goods and capital

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- (1) After the Nixon surcharge of 1971, both Alberta and Ontario threatened to open offices in Washington. Since then the federal Washington office has retained one Federal-Provincial Coordinator. [See: Michael Tucker, Canadian Foreign Policy: Contemporary Issues and Themes (Toronto: McGraw-Hill Ryerson Limited, 1980), p. 59; and Stevenson, "Canadian Regionalism in Continental Perspective", p. 25.]
- (2) Business America, 1 Oct. 1984, pp. 16-18.
- (3) This was subsequently abolished by the Reagan administration. [See: Curtis and Carroll, Canadian-American Relations, pp. 72 and 74.]
- (4) Business America, 5 Aug. 1985, pp. 2-3, and 1 Oct. 1984, pp. 16-8.

thereby indirectly restricting trade and foreign investment.(1) While the studies from the functionalist perspective argue that there is increasingly a provincial domestication of international affairs,(2) the various provincial policies regulating the flow of goods and capital also lead to the internationalization of a domestic relationship. Since most provincial commercial restrictions are designed to enhance local economic development, they impede interprovincial as well as international commercial relations. Among these policies are provincial procurement guidelines which provide for a preference in government purchases for local or Canadian products, usually considering foreign suppliers last. There is ample reason for the provinces to undertake a purchasing policy. The Canadian Export Development Corporation has estimated that each million dollars increase in Canadian manufacturing content results in 46 man/years of employment.(3) Assuming that the

(1)

Material on provincial trade and capital barriers was taken from: Jean Chretien, Securing the Canadian Economic Union in the Constitution (Ottawa, Minister of Supply and Services, Canada, 1980); Ontario, Ministry of Industry and Tourism, Interprovincial Economic Cooperation: Towards the Development of a Canadian Common Market (1981); and Michael J. Trebilcock, John Whalley, Carol Rogerson, and Ian Ness, "Provincially Induced Barriers to Trade in Canada: a Survey", in Federalism and the Canadian Economic Union, eds. M. J. Trebilcock et al. (Toronto: University of Toronto Press, 1983), pp. 243-351.

(2)

Thomas Levy and Don Munton, "Federal-Provincial Aspects of Canadian-American Relations: Some Possible Futures", Canadian Political Science Association, Paper #28 (1975), p. 2.

(3)

Barry Beale, Energy and Industry: The Potential of Energy Development Projects for Canadian Industry in the Eighties (Toronto: Canadian Institute for Economic Policy, 1980), p. 64.

maximum preference of 10% is applied, this results in a cost of approximately \$2,000 per man/year, an amount easily recouped through taxation.

All ten provinces maintain some degree of preference for locally produced products in their purchases. Newfoundland and Nova Scotia provide a 10% preference for goods produced in their respective provinces. For Nova Scotia and New Brunswick, where there are 3 suppliers of a particular commodity within each province, bidding is restricted to producers within that province. For P.E.I., preference is given to local suppliers for all construction projects. In 1980, P.E.I., Nova Scotia and New Brunswick adopted an agreement to ensure that their "purchasing policy supports existing local, provincial, and Maritime regional producers and encourages the establishment of new production activities." (1) In December, 1976, Quebec extended a 10% preference (that Hydro-Quebec had previously implemented) to cover all provincial departments, and in 1977 extended this again to cover crown corporations, municipalities, hospitals and other government services. The Quebec policy applies to all contracts over \$50,000. Ontario maintains a 10% preference for Canadian goods (not specifically Ontario products). In 1980, Ontario extended this policy to include the purchasing practices of municipal governments, schools, hospitals,

(1)

Council of Maritime Premiers, "Regional preference in provincial purchasing policies: Minutes 38-14" (unpublished, adopted 29 Jan. 1980). [Quoted in Trebilcock, "Provincially Induced Barriers to Trade", p. 245.] As of March 12, 1980, these provinces agreed to consider the province first, the maritimes second, and Canada third in their purchasing preferences.

universities, and all other provincially funded agencies when it discovered that 15% of provincial agencies' purchases came from other than Canadian suppliers.(1) In 1981, Ontario established an Office of Procurement Policy to make it easier for Canadian firms to bid on government projects and to ensure that Canadian content would be maximized.(2) Manitoba applies only a 1% preference for provincial products, and only on an interim basis. Saskatchewan follows a policy of buying locally only when all factors are equal. In Alberta, all projects which require special permits (industrial development, forest management, and coal development) must make the maximum use of Albertan professionals and supplies. British Columbia provides a 10% premium for provincial products, and a 5% premium for non-B.C. Canadian produced goods. Procurement preferences in many instances are also applied by provincially run utilities. Hydro-Quebec maintains a 10% preference for Quebec products and a 5% preference for out-of-province Canadian goods; British Columbia Hydro follows the identical policy; and Ontario Hydro has a 10% premium for Canadian products plus an additional 3% for local goods.(3)

(1) Ontario, Ministry of Intergovernmental Affairs, Background, 11 May 1981, p. 6.

(2) However, Ontario has discriminated against an extra-provincial supplier in favour of an Ontario firm. In 1977, the Ontario government awarded a contract for streetcars to Hawker-Siddeley of Thunder Bay instead of Bombardier-MLW of Montreal which had the lower bid, possibly in response to the then recent Quebec purchasing policy which discriminated principally against Ontario products. [Ontario, Ministry of Industry and Tourism, Interprovincial Economic Cooperation, p. 18.]

(3) Beale, Energy and Industry, p. 91.

Since the Tokyo Round of trade negotiations, procurement preferences (representing a form of non-tariff barrier) are increasingly becoming the subject of any further discussions for trade liberalization. These negotiations will eventually have to involve the provinces since such procurement policies are ultra vires federal jurisdiction, including any international treaty.(1) In the current discussions on trade liberalization between Canada and the U.S., the Canadian federal government "has indicated it will give liberalizing procurement practices in both nations a high priority in bilateral trade negotiations."(2) The provinces have indicated that: "since the provinces also see a great deal of validity in using procurement as an industrial and regional development tool, it is critical that provincial input and approval be sought before any extension of procurement liberalization is agreed to." [Emphasis added.](3) The Ontario government has stated an explicitly stronger position:

any extension of the [General Agreement on Tariffs and Trade procurement] code to provincial entities must not be taken prior to full and extensive federal-provincial consultation and provincial consent. It is essential that any extension of the

(1)

See: John Quinn and Philip Slayton, eds., Non-Tariff Barriers After the Tokyo Round (Montreal: The Institute for Research on Public Policy, 1982).

(2)

U.S., Executive Office of the President, Annual Report on National Trade Estimates, 1985 (Washington: Office of the United States Trade Representative, Oct., 1985), p. 45.

(3)

Canada's Trade Policy for the 1980s: The Views of the Provinces (January, 1983), p. 21.

code that involves provincial procurement commitments is fully balanced by real and reciprocal concessions from our trading partners. [Emphasis in the original.](1)

Most of this type of a trade barrier has been of recent origin, since the mid-1970s. While the Canadian tariff has been declining over this same period, the provinces have been enhancing trade protectionism and to a degree offsetting and circumventing the direction the federal policy has been following.

Despite their extent, these procurement policies should not be overly stressed. A 1978 evaluation of the Ontario Hydro purchasing policy found that a premium of \$561,000 was the preferential procurement cost for contracts to Canadian suppliers on purchases worth \$23 million. The premium in relation to the total value of the contracts amounted to less than one third of one per cent.(2) However, this finding was prior to the more restrictive policy Ontario adopted in 1981. The significance of this preference is tempered by the definition of

(1)

Ontario, Ministry of Industry and Trade, Canadian Trade Policy for the 1980s: An Ontario Perspective (Sept., 1982), p. 10. At the time of this statement, the Ontario government was fighting the U.S. Surface Transportation Assistance Act of 1982 which had added cement to the list of "Buy American" restrictions previously involving steel and subway cars; the cement restriction would primarily effect Ontario. The cement restriction was removed in March, 1984, after vigorous lobbying on the part of Ontario's Ministry of Industry and Trade in conjunction with the DEA. [Earl H. Fry, "Sectoral Free Trade Between Canada and the United States: A U.S. Perspective", in Canada/U.S. Trade Relations: Problems and Prospects, eds. Lee H. Rodebaugh and Earl H. Fry (Provo, Utah: Brigham Young University, 1985), p. 39; and William S. Merkin, "Implementation of the Tokyo Round Agreements: The U.S. Perspective", in *ibid*, pp. 8-9.]

(2)

Beale, Energy and Industry, p. 63.

Canadian or local content (which by default discriminates against foreign suppliers). The least effective definition is one in which a product is designated to be Canadian by the "last source of supply" which means that the level of domestic content is not assessed. Canadian by the "last source of supply" was the norm in procurement preferences and the one that until 1981 Ontario followed.(1) While the procurement preferences are monitored by the U.S. International Trade Administration, this agency recommends that American firms (located in the U.S.) can take advantage of this applied definition and avoid most of the preferences by using a Canadian agent as the "last source of supply", thereby circumventing the preference to a degree.(2) More restrictive preferences are: designating the degree of Canadian content by the last point of manufacture (which Alberta follows) and by the degree of actual Canadian content including content in all the components of the product (which Quebec follows). Newfoundland also follows the more restrictive preference by employing the criterion of value added, as does the Maritime Accord of 1980. Similarly, at least 26 American states have "Buy American" restrictions.(3) Whether intentionally or inadvertently, sub-national governments are encroaching

(1)

Beale, Energy and Industry, p. 17.

(2)

Business America, 24 Mar., 1980, p. 4.

(3)

W. C. Graham, "Government Procurement Policies: GATT, the EEC, and the United States", in Federalism and the Canadian Economic Union, pp. 389-91.

on the field of tariff protectionism in order to implement their own development policies. The significance of preferential procurement is not great, but it does create a point of friction. While being precipitated by the sub-national governments, the choice of a non-tariff barrier to implement sub-national development strategies involves those sub-national governments and both the Canadian and American federal authorities in a field which previously included only the federal governments.

Through their constitutional prerogatives over natural resources, the provinces also impede the export of raw materials through taxation and licensing. For any minerals removed for processing outside the province, New Brunswick can increase the taxes payable by three times, Quebec by two. In Saskatchewan, all minerals must be processed in the province or the rights to dispose of those minerals will be removed. In British Columbia, all minerals must be processed within the province unless permission is granted by the Minister of Mines and Petroleum Resources. The Minister is restricted by statute to permitting only a maximum of 50% of the production of any one mine to be transported outside the province for processing. Alberta's restrictions apply to firms which establish themselves within the province in order to gain access to cheaper energy. Any proposal to establish within Alberta a facility which would require more than 1 trillion BTUs (per annum) must acquire an industrial development permit. As a condition for receiving such a permit, any applicant is required "whenever practicable" to use Albertan engineers, tradesmen, construction materials and supplies. Furthermore, the government reserves the right to examine builders'

lists of suppliers and add the names of other candidates. Quebec follows a similar policy in relation to the supply of electricity. Any industry requiring more than a set amount of power is required to endeavour to purchase from Quebec industry. Prior to 1979 this amount was 150 kilowatts (per annum), but in 1979 it was drastically reduced to the more restrictive 5 kilowatts.(1)

These provincial policies impede not only the degree of economic transaction within Canada (the context in which most of the studies place them)(2) but also effect foreign trading partners, most notably the United States. Such policies are well known to both the business community in the U.S. and American trade officials.(3) More significantly, American trade officials also tend to take a predominantly regional (and more often provincial) outlook on Canadian economic performance. The magazine Business America (published by the

(1)

Quebec; Challenges for Quebec: A Statement of Economic Policy. Synopsis. Policy Objectives and Measures (Quebec: Editeur officiel du Quebec, Sept., 1979), p. 129.

(2)

This was the basic thrust of the Chretien report, which argued that there "are signs of economic segmentation within Canada which run counter to observed trends in other economic entities. Protectionism amongst provinces, and weakening of the federal government's ability to promote balanced economic development, can involve significant efficiency losses for Canada as a whole, and hence for each and every one of its parts...." The report also assessed provincial restrictions as a detriment for achieving the "Third Option". [Chretien, Securing the Canadian economic union in the Constitution, p. 4.]

(3)

U.S., Department of Commerce, International Trade Administration, Government Procurement Opportunities - Canada (Washington: Government Printing Office, 1983); Business America, 5 Sept. 1983, p. 4; and Business Week, 15 Sept. 1980, pp. 52-3.

U.S. International Trade Administration) undertakes a semi-annual appraisal of the state of the Canadian economy in relation to the prospects for both trade and investment. It typically emphasizes that Canada should be viewed as "a series of regional markets, each with its own distinct characteristics, problems and opportunities."(1) Provinces are ranked not only by their economic prospects as markets, but also by the degree of their receptiveness to foreign investment, including the economic attitude of the provincial governments; N.D.P. governments and initially the Parti Quebecois have received the lowest appraisal.

Provincial governments also become directly involved in trade through their efforts to assist local enterprises and to enhance export performance. The Ontario government specifically assessed as a liability the tendency of provincial governments to protect their markets from extra-provincial imports while at the same time promoting exports:

Despite the fact that the provinces are each other's best and most important customers, very little is done to promote interprovincial trade links.

Each province and the federal government have, during the past decade, expanded export programs and export assistance programs, opened foreign offices, and expanded their foreign trade missions at an incredible rate(2)

(1)

Business America, 24 March 1980, p. 3. The Department of Commerce retains a Foreign Commercial Service Staff in Canada which provides provincial analyses of business prospects in Canada, typically giving an economic performance rating by province for its readers. The Foreign Commercial Commission retains offices in Vancouver, Calgary, Winnipeg, Toronto, Ottawa, Montreal, Quebec, and Halifax.

(2)

Ontario, Ministry of Industry and Tourism, Interprovincial Economic Co-operation, p. 23.

The degree of provincial export promotion, relative to the federal government, is indicated through a comparison of provincial expenditures for trade and industry with similar federal expenditures (see TABLE A-1-1 in the appendix). While provincial spending does not come close to federal expenditures (with the possible exception of Quebec in the late 1970s), together the provinces have been increasing this kind of support. This can directly affect continental trade since several provinces (again most notably Quebec) make transfers to corporations and individuals as part of their programmes for trade and industry (see TABLE A-1-2 in the appendix). While still involving relatively small amounts of expenditure, any business exporting to the U.S. which has received such a transfer may be deemed to have received an unfair benefit and thereby be subject to a countervailing duty at the border. In such a case, provincial attempts to enhance export performance can spill over into a trans-border dispute.(1) As well, several American states (with the support of the U.S. Department of Commerce) are similarly increasing their export financing and export promotional activities. Friction in this area may be enhanced by the sub-national governments on both sides of the border.

(1)

A case in point is the January 3, 1986 U.S. imposition of a 6.85% countervailing duty on Canadian east-coast groundfish, based upon a Commerce Department ruling that 12 federal and 19 provincial (by the 4 Atlantic provinces and Quebec) programmes (including government investment) constituted subsidies. federal programmes were assessed at 5.8%; the provincial programmes were assessed at 1.05%. [Globe and Mail, 4 January 1986, p. B-1; and U.S., Department of Commerce, International Trade Administration, Import Administration, Preliminary Affirmative Countervailing Duty Determination: Certain Fresh Atlantic Groundfish from Canada (c-122-507), (Mimeograph).] On March 14, 1986, the countervailing duty was reduced to 5.82%. [Globe and Mail, 15 Mar. 1986, p. A-11.]

The various provinces also have differing views on the potential benefit of foreign investment, ranging from a non-interventionist stance in Alberta to a highly critical review in Quebec, with Ontario advocating a moderate position. With the Gray and Watkins Reports on foreign investment in Canada, and the subsequent creation of the Foreign Investment Review Agency, these three governments also undertook reviews of the impact of the American corporate presence upon their respective provinces. Alberta concluded that "foreign investment, particularly by American interests, plays a substantial role in the Alberta economy."(1) An earlier Ontario review argued for a "moderate economic nationalism", as opposed to an "open door" policy, in order to achieve "a gradual reversal of present trends without at the same time endangering economic stability."(2) The Quebec report, released in 1974, contained a scathing review on the manner in which foreign firms undermined the growth of provincial industries (by sourcing supplies from outside the province, re the international corporate market) and

(1)

Alberta, Select Committee of the Legislative Assembly on Foreign Investment, Final Report on Foreign Investment (December, 1974), p. 26. The summary argued: "Greater participation by Albertans in the ownership and control of Alberta's industry can best be assured by maintaining a relatively free flow of international investment and by positive programs directed to benefit Albertans rather than negative programs directed against foreign investment. Governments should ensure a proper climate for investment by means of stable economic conditions and by recognition of the necessary role of profit and its relationship to risk." [Ibid, p. vi.]

(2)

Ontario, Report of the Interdepartmental Task Force on Foreign Investment (Ontario: Queen's Printer, November, 1971), p. 51.

advocated a policy of government intervention by means of placing conditions on the granting of licenses to foreign firms, and through a government procurement policy.(1) As Mitchell Sharp noted in 1972, foreign ownership "is more a problem of federal-provincial relations than international relations."(2) The two opposing views of economic nationalism (arguing for the regulation of foreign investment and increased trade barriers) versus continentalism (citing the benefits of free trade and open borders) identified by Saunders as typifying the debate within Canada(3) are also evident in several provinces.

Besides impediments to trade, the provinces restrict the degree of investment by maintaining residence and citizenship requirements for owning land, acquiring a license to practice a profession or to open a financial institution, and/or for receiving a government loan. In two studies undertaken by the Foreign Investment Review Agency (see TABLE 1-6), in 1974 and 1977, both the number of acts prohibiting investment and their increase in 1977 indicate the greater role that the provinces are taking in economic matters which have international connections. In investment, just as in trade, the activities of the provinces are

(1)

Government of Quebec, Executive Council, A Quebec Policy on Foreign Investment: Report of the Interdepartmental Task Force on Foreign Investment (Quebec, September, 1973; text revised June, 1974), Chairman, William Tetley.

(2)

Quoted in Tucker, Canadian Foreign Policy, p. 58.

(3)

Donald D. Saunders, "Continentalism and Economic Nationalism in the Manufacturing Sector: Seeking Middle Ground", Canadian Public Policy, 8 (1982), pp. 463-79.

TABLE 1-6

PROVINCIAL ACTS RESTRICTING FOREIGN INVESTMENT(1)

Province	Acts 1974	Acts 1977
Newfoundland	0	3
P.E.I.	1	2
Nova Scotia	2	3
Quebec	3	5
Ontario	10	16
Manitoba	2	3
Saskatchewan	3	4
Alberta	8	11
British Columbia	3	6
Total	32	50

growing, indicating a factor of particular relevance for Canada's economic relations with the U.S.. If Canada's foreign policy is being determined by economic policy to the degree that the federal government has indicated, then the growing intervention by the provinces is particularly important for the success of that foreign policy. The degree of the differing impact of the American economy and of American firms upon the provinces also makes a solely national outlook more problematic.

Descriptively, all the economic indicators for trade, investment, and manufacturing production dictate that there is both considerable

(1)

Canada, Foreign Investment Review Agency, Extracts from Provincial Laws and Regulations Affecting Foreign Investment in Canada, December 1974 (Ottawa: Supply and Services Canada, 1975); and Canada, Foreign Investment Review Agency, Selected Readings in Canadian Legislation Affecting Foreign Investment in Canada, Part 2: Provincial Laws and Regulations as of November 1977 (Ottawa: Supply and Services Canada, 1977).

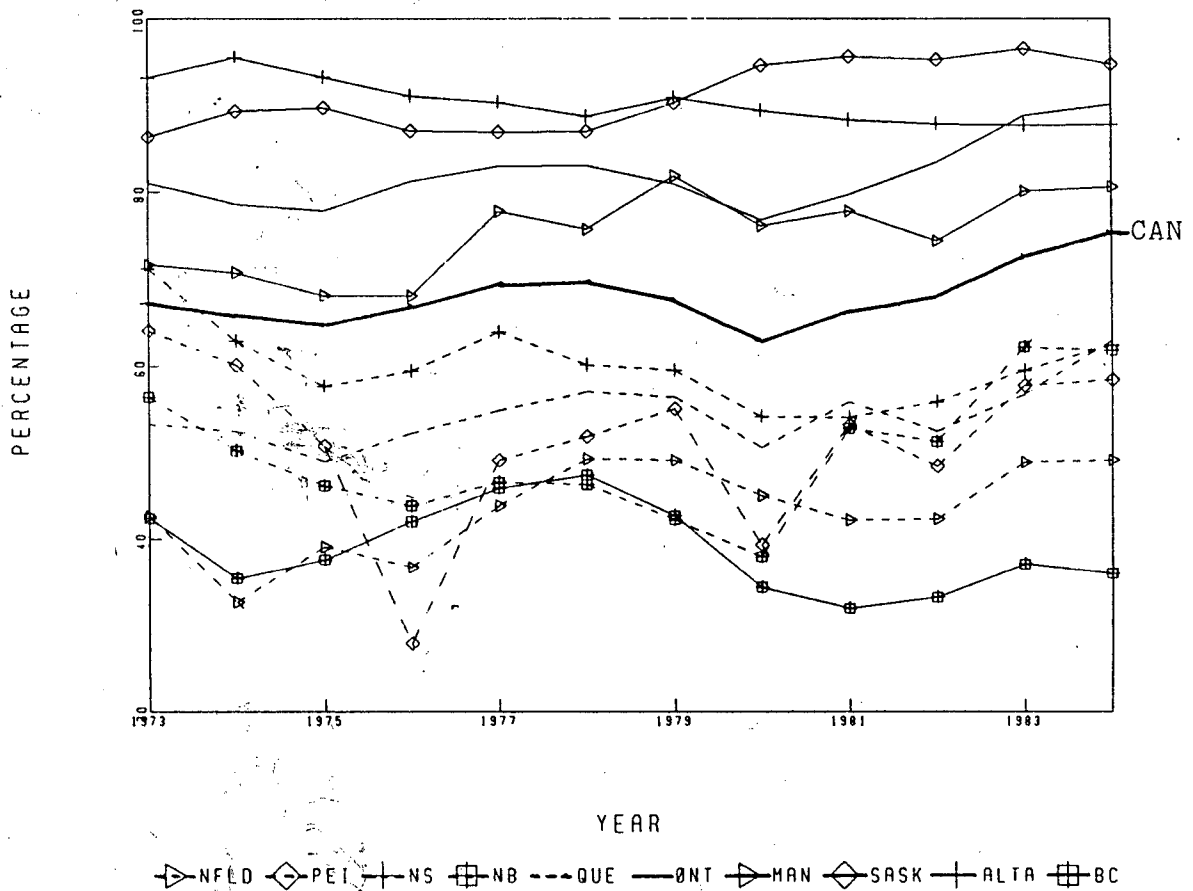
variation among the provinces, and that the stability of trans-border transactions evident for Canada is not necessarily so for the provinces. It is also the case that provincial performance in relation to continental transactions has an impact on federal policy objectives and in turn federal policy has a varying impact upon each province. In addition, it is also apparent that the operation of the international corporate market has a distinct relevance for Canada, depending strongly on which province is assessed. The international corporate market demonstrates an exacerbating impact when American control is concentrated in one province, specifically Ontario. Principally, the two properties of the strength and stability of continental transactions are markedly distinct depending upon the province. Just as Canadian federalism contains considerable differentiation, this spills over into Canadian-American concerns. The implication of this interpretation is that both federal attempts to speak for the nation and federal attempts to redress regional economic differences (via redistribution through such agencies as the Department of Regional Industrial Expansion) are in turn subject to disturbances by the American corporate presence and the degree of this presence in each province.

These points are most pertinent to the topic of trade as Canadian foreign policy since the "Third Option" has been oriented to this issue and as the state of the Canadian economy is strongly linked to trade patterns. The relevance of trade with the U.S. for Canada is most clearly conditioned by trade between Ontario and the U.S. (see TABLE A-1-3 in the appendix). Approximately one-half of Canada's exports to the U.S. are laden in Ontario, a tendency which has been increasing to

the point where 58% of Canada's exports to the U.S. (in 1984) were laden there. This same tendency is evident in imports where over two-thirds of Canadian imports from the U.S. are cleared through Ontario, a tendency which has also been increasing to the point where in 1984 Ontario accounted for 72% of all of Canada's imports from the U.S.. In comparison with the pre-eminent position of Ontario, Quebec generally ranks a distant second in both exports and imports. Provincial differentiation is considerably evident regardless of analysis by each province independently in relation to changes over time (i.e. dynamically), or by noting the variation among the provinces, or according to the differentiation between exports and imports for each province. From the perspective of the relevance for Canada of trade with the U.S., and considering that Canada generally has a stable trading relationship with the U.S., that trade has markedly different transaction salience for each province. By holding the lion's share, only Ontario dictates Canadian trade patterns to a great degree. Canadian transactions with the U.S. all tend to reflect the indicator for Ontario, leaving the remaining deviations among the provinces to balance themselves out.

Concerning the export side of trade, the U.S. has a different relevance for each province in terms of the ratio of U.S. exports to total exports. The U.S. as an export market is most important for Ontario and the Prairie provinces, making for an east-west split (except for British Columbia) in this indicator along the Quebec-Ontario border. Referring to FIGURE 1-1, only Alberta and Saskatchewan show more stability than Canada, and the Canadian line most clearly reflects the

FIGURE 1-1
EXPORTS TO THE U.S. AS A PERCENT OF TOTAL EXPORTS



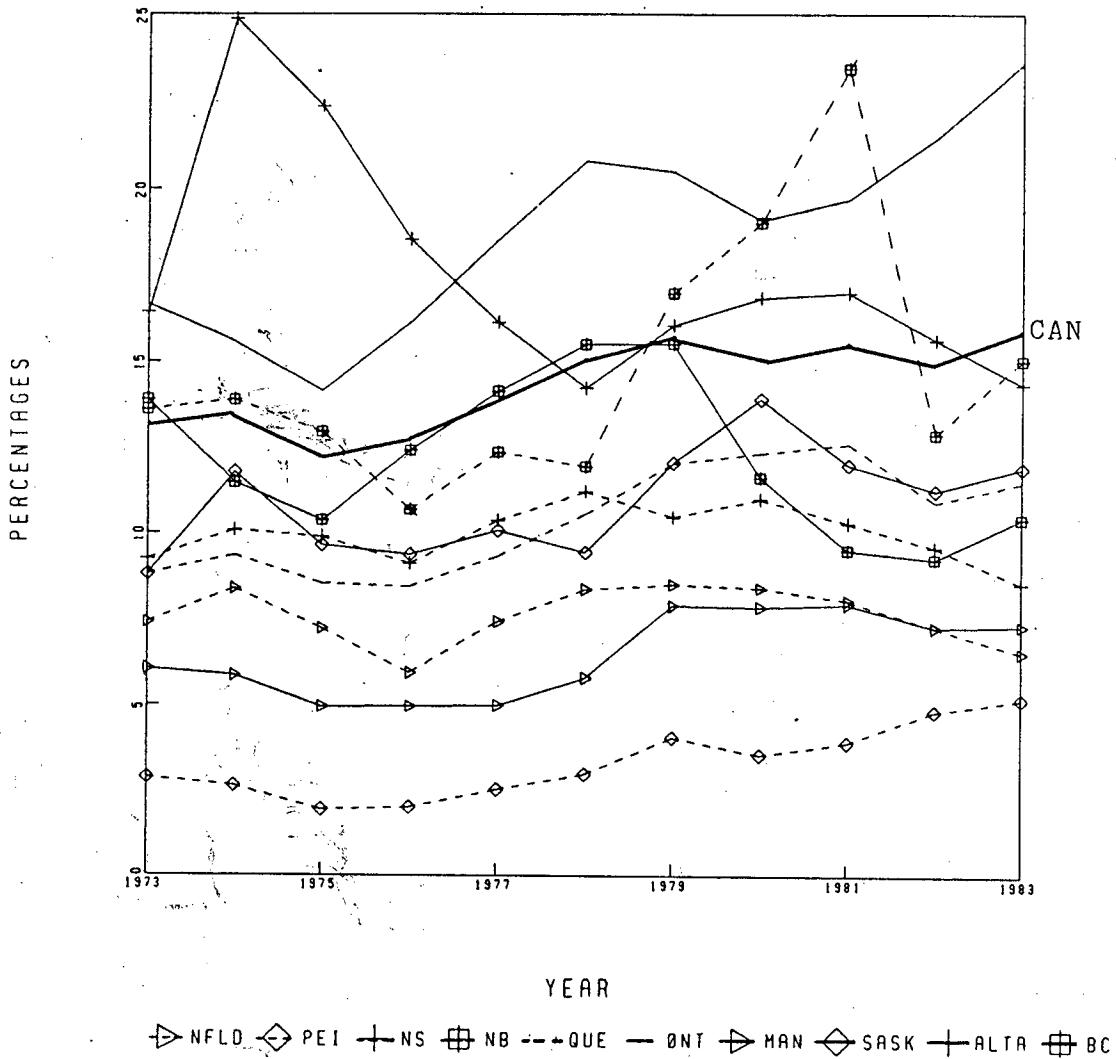
changes in both Ontario and Quebec, i.e. the two largest exporters to the U.S., but each on the dividing line between the east-west split. However, even between these two provinces, there is considerable differentiation, and within each of the two there is considerable change.

The importance of this different tendency to export primarily to

the U.S. is clear in terms of an evaluation by province with reference to the federal government's "Third Option" policy. This is reflected by the diversification index (re. geographic diversification; see TABLE A-1-4 in the appendix). The index indicates how focussed the exports are on one or a few countries (the lower the index) as well as concomitantly demonstrating how well a policy of countervaleance is performing (the higher the index). The index of the diversification of exports also demonstrates an east-west split (again except for B.C.). However, the dynamics also indicate that the prospects for the success of the "Third Option" were considerably a function of the provinces. While the index for Canada shows some fluctuation, it is relatively stable over the period from 1973 to 1980. The 1980s reflect the pattern of focussing trade on very few partners, principally the U.S. (re FIGURE 1-1). Ontario follows the same pattern, in effect conditioning what will happen in Canada. However, the degree of the decline in the index is markedly less for most of the remaining provinces (except for Manitoba and Saskatchewan), and in the case of Alberta the index demonstrates the preferred increase. Were it not for Ontario, Canada's prospects for the "Third Option" would have been considerably improved, or at least the decline would have been mitigated.

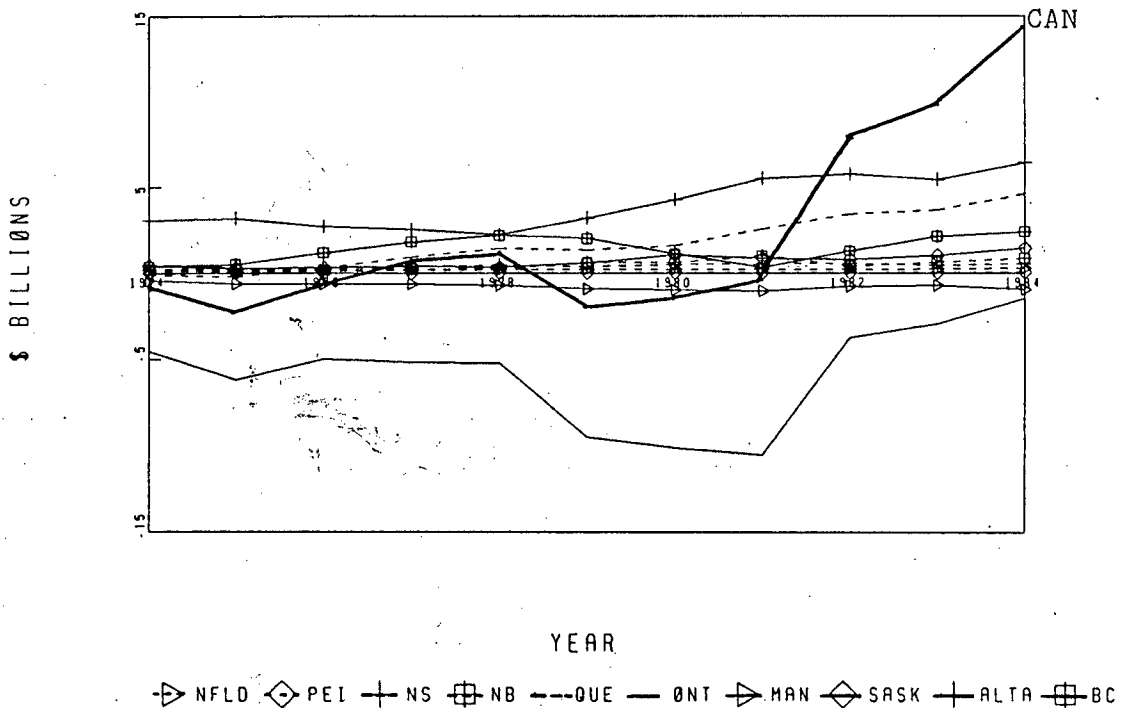
Exports to the U.S. in relation to Gross Domestic Product (see FIGURE 1-2) also demonstrate how closely the relatively stable line of Canada is reflected by Ontario and Quebec. However, Ontario is clearly in the lead as the only province consistently higher than Canada. The importance of trade with the U.S. is significantly different among the provinces and demonstrates diversity for each province depending upon

FIGURE 1-2
 EXPORTS TO THE U.S. AS A PERCENT OF
 GROSS DOMESTIC PRODUCT



which year is appraised, i.e. there is considerable provincial dynamism when compared with the stability for Canada as a whole. In this case, the previously demonstrated east-west split disappears. The mix of differentiation among the provinces and intra-provincial dynamic

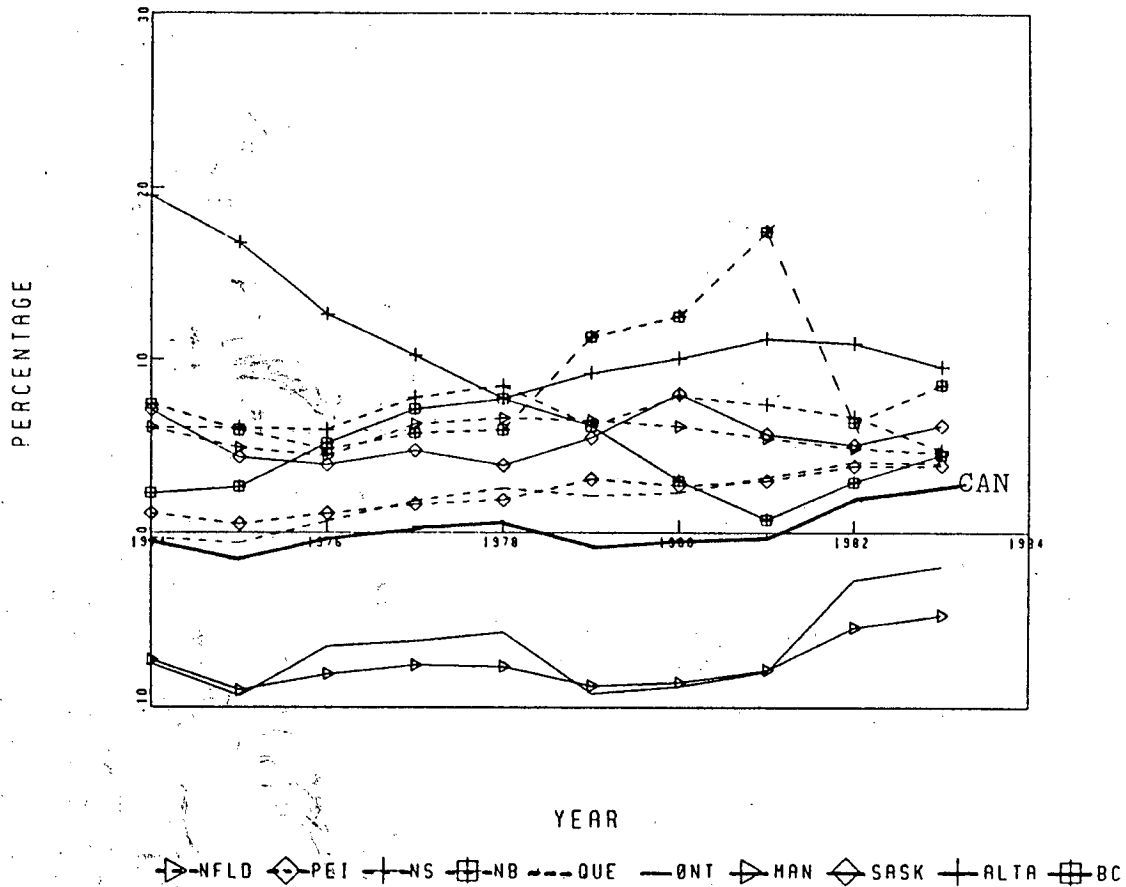
FIGURE 1-3
BALANCE OF TRADE WITH THE U.S.



dictates that Canadian trade performance is distinctly different by province, and that trade with the U.S. has a distinctly different significance for local economic development.

Exports by themselves give the relevance of the trading relationship with the U.S. only in positive terms. The balance of trade with the U.S. gives an indication of the net effect of continental transactions. In FIGURE 1-3 (depicting the Balance of Trade with the U.S.), Canada again clearly reflects the pattern evident in Ontario, but here (as in the case of the diversification of exports) Ontario draws

FIGURE 1-4
 BALANCE OF TRADE WITH THE U.S.
 AS A PERCENT OF GROSS DOMESTIC PRODUCT



the Canadian balance down. Were it not for Ontario's pre-eminent position in Canada's trade with the U.S. Canada would have a considerable trade surplus. Of all the provinces, only Quebec shows consistent net improvement. The same pattern is evident in FIGURE 1-4 on the Balance of Trade with the U.S. in relation to Gross Domestic Product, with the exception that Manitoba is for the most part lower.

The dynamic within several of the other provinces, most clearly evident for Alberta and British Columbia which balance each other, indicates that the net effect of trading with the U.S. is both dissimilar among the provinces, and changes dramatically within each province. The significance of this differentiation is that net trade performance with the U.S., and the net prospects for economic performance, while a significant concern for Canada, are also more or less a different concern for each province.

While trade indicates the impact of the various provinces on Canadian performance, the federal government's tariff structure similarly has a different relevance for each province. The table on the Effective Rate of the Canadian Tariff on Imports (see TABLE A-1-5, in the appendix) demonstrates that generally the Canadian tariff has been losing significance as a barrier, even for most of the provinces--but it has been doing so at different rates and at different levels. This differentiation is particularly important for the provincial economies because of the snowballing effect of the tariff for the subsequent costs of products which use imports as components. A 1978 study on the impact of the tariff posits the following conclusion:

The Canadian or US tariff on a particular commodity not only affects the price of that commodity in Canada as compared to the price in the US, it also affects the cost of all goods produced in both nations. Because of the tariff, Canadian producers find that the cost of intermediate goods purchased from the import competing sector are raised by, perhaps, the full amount of the Canadian tariff.(1)

(1)

James R. Williams, The Canadian-United States Tariff and Canadian Industry: A Multisectoral Analysis (Toronto: University of Toronto Press, 1978), p. 21.

The net influence of the Canadian tariff structure demonstrates dissimilar trends for each province as well as a more markedly dissimilar relevance for each province. This is also apparent in the case of the Tokyo Round of tariff reductions which began to be phased in during the 1979/1980 period, having a declining net effect most dramatically for P.E.I., but an increasing one for Newfoundland.

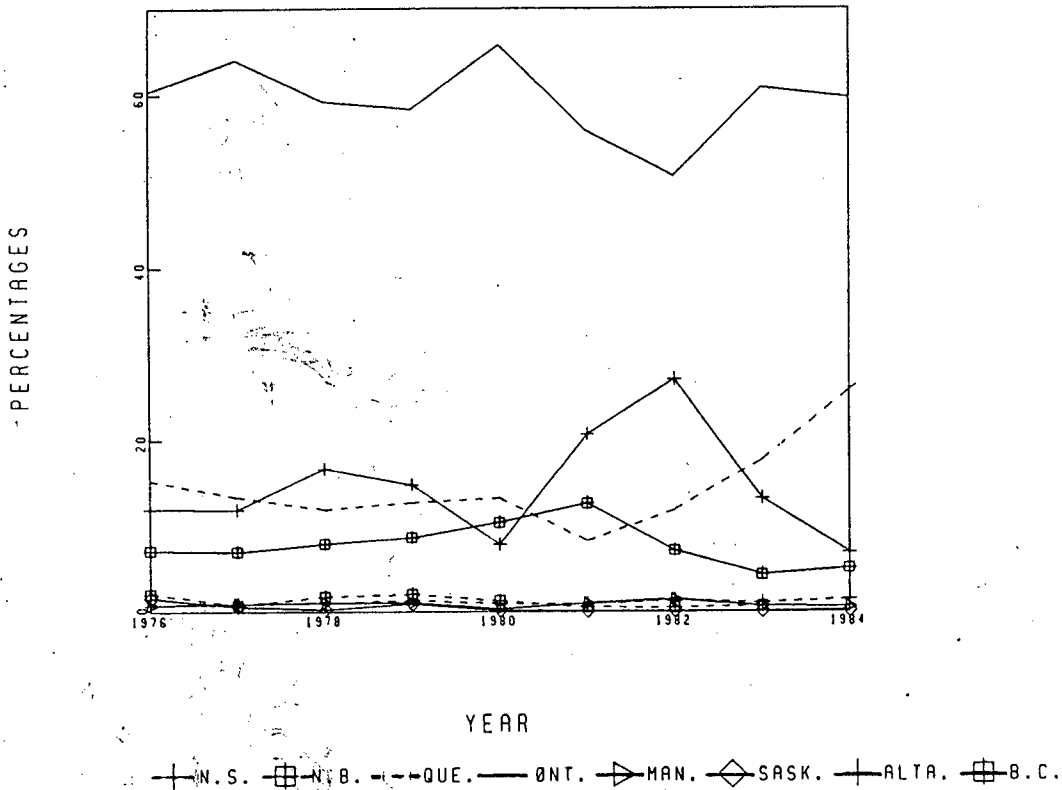
The significance of these provincial indications is that Canadian trade policy cannot afford to avoid a provincial perspective. This fact has been accepted by the federal government which developed a liaison between the federal negotiators at Geneva and the provincial governments during the Tokyo Round of trade negotiations.(1) This experience established the precedent that Canadian policy, in one of the crucial fields of foreign policy, can no longer neglect provincial views, thereby severely complicating any federal initiatives. The complication in control over this policy field became apparent at the First Ministers' Conference in Halifax (November, 1985) where the Premiers demanded "full provincial participation" at the bargaining table for North American trade liberalization negotiations, and received at least the promise that their views on free trade would be addressed. In addition to trade, the same patterns of differentiation among the provinces and intra-provincial dynamic are evident in the area of foreign investment.

Investment, in the form of capital expenditures by manufacturing

(1)

Gilbert R. Winham, "Bureaucratic Politics and Canadian Trade Negotiation", International Journal, 34 (1978/79), pp. 64-89.

FIGURE 1-5
 CAPITAL EXPENDITURES BY MANUFACTURING FIRMS:
 AMERICAN-CONTROLLED FIRMS BY PROVINCE AS A PER CENT OF
 AMERICAN-CONTROLLED FIRMS IN CANADA



firms, is of particular importance for each province. Through taxation and licensing practices, most provinces attempt to increase provincial economic development through increased provincial manufacturing.(1) As in the case of trade, the level of American investment in Canada tends to reflect the amount of investment in Ontario due to the concentration

(1)

Trebilcock et al, "Provincial Barriers", pp. 260-63.

of manufacturing capital expenditures there. Over one-half of all American manufacturing firms' capital expenditures in Canada are placed in Ontario (see FIGURE 1-5). As well, Quebec and Alberta vie for most of the remainder, indicating that any analysis of American investment in Canada dictates a provincial perspective, especially since these three provinces have demonstrated differing views on the appropriate response to this investment. The variation in this figure for each province (clearly indicating a dynamic in capital location within Canada) is reflected even more strongly in the figure on the ratio of American manufacturing investment to total manufacturing investment by province, where Canada as a whole has a relatively flat line (see FIGURE 1-6).

The importance of American corporate activity as a source of capital for industrial development is mainly relevant to Ontario and Alberta, but is also significant for most of the other provinces (averaging at or over 20% for all except Saskatchewan and New Brunswick). American investment shows considerable change for each province, but balances out for the country as a whole (except again for the similarity between the indicator for Ontario and the line for Canada). This dynamic and differentiation is most clearly seen in the ratio of American firms' investment to Canadian firms' investment (see FIGURE 1-7). For Alberta and Ontario there are periods when the levels of American capital expenditures outstrip Canadian firms' capital expenditures, and for the most part these two balance each other.

FIGURE 1-6
 CAPITAL EXPENDITURES BY MANUFACTURING FIRMS:
 AMERICAN-CONTROLLED FIRMS AS A PERCENT OF TOTAL FIRMS

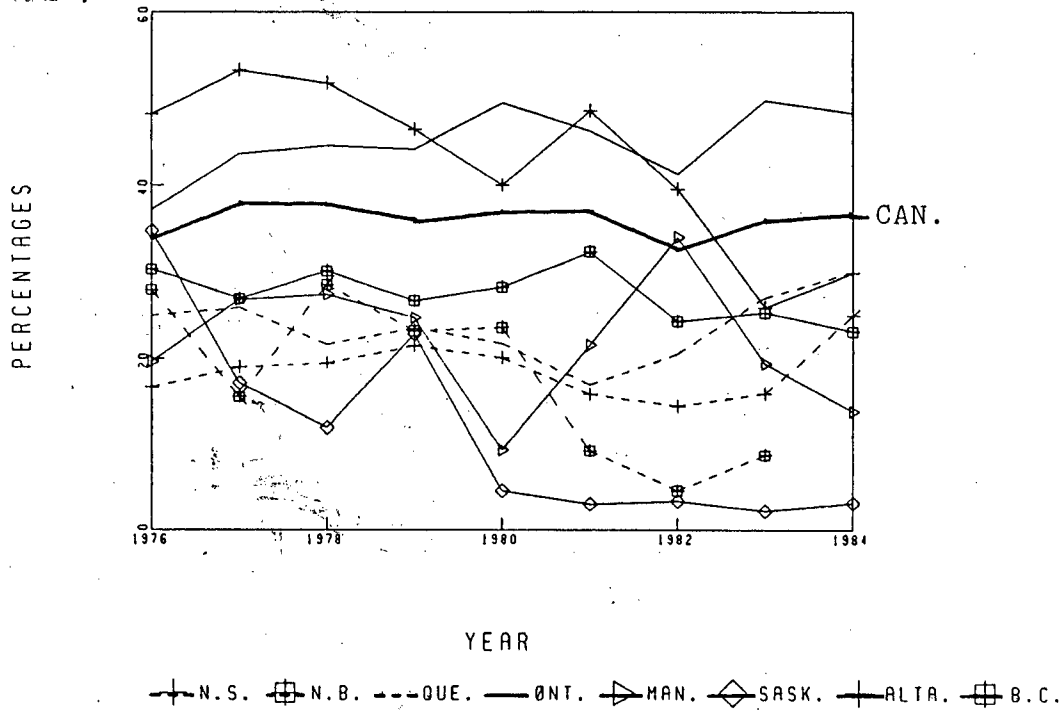
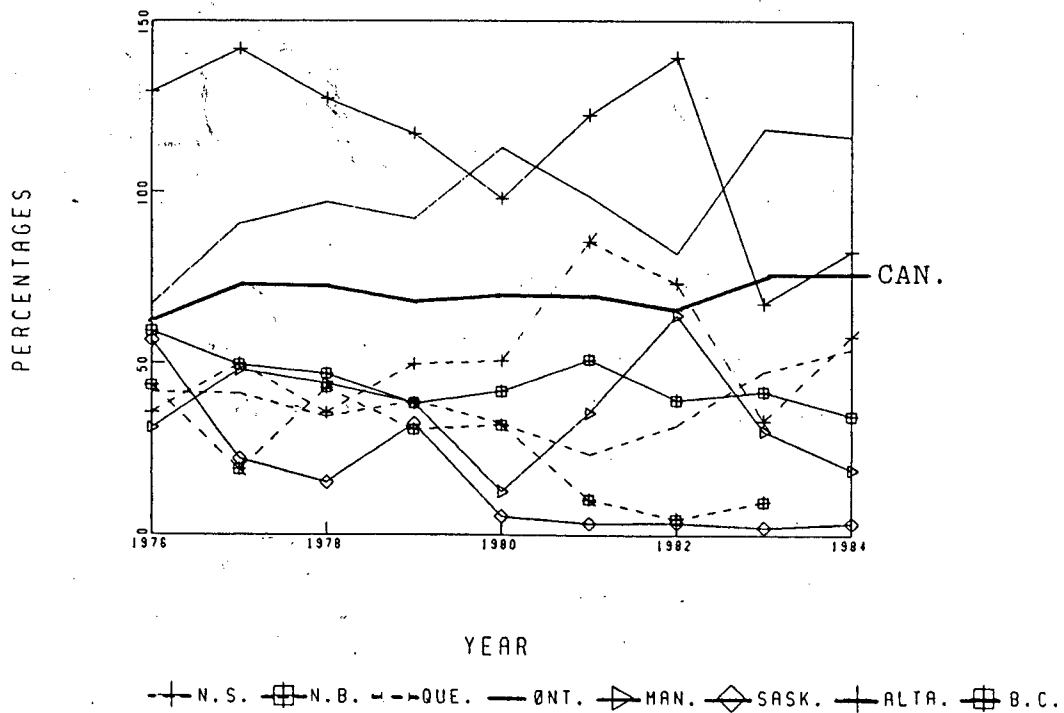


FIGURE 1-7
 CAPITAL EXPENDITURES BY MANUFACTURING FIRMS:
 AMERICAN-CONTROLLED FIRMS AS A PERCENT OF CANADIAN-CONTROLLED FIRMS



In terms of the prospects for recouping control of the Canadian economy, the federal policy is inhibited by having to deal with two of the strongest provincial governments and provincial economies since the most dramatic effects would have to be found there. Referring to how the international corporate market operates in terms of trade performance, it is plausible that the negative balance of trade for Ontario (especially since Ontario's economy is principally oriented to manufacturing) is a function of the amount of American control. Since the remaining provinces compensate for this negative net effect in Ontario, it is also plausible that the American presence in Canada contributes to the equalization of continental trade, but, at the same time produces considerable disequilibrium provincially.

Considering that the American corporate presence is clearly different depending upon which province is assessed, and that the impact of this presence on the net provincial trade is similarly significant for economic development, there is accompanying corporate trade propensities a further complication. American-owned manufacturing firms tend to pay relatively more in corporate taxes than their Canadian-owned counterparts, sometimes by twice as much (see TABLE A-1-6 in the appendix).(1) The percentages indicate the level of taxation relative to production, and while the differentiation of the previous economic indicators between the provinces is also evident here, there is a consistent pattern of a greater taxation contribution by American-owned

(1)

Data for only manufacturing firms by province is available and used here.

manufacturing firms for all the provinces and Canada. The often cited possibility of transfer pricing by foreign affiliates (in order to reduce taxation) is more than likely not a general property of American firms, and thus their relevance to the provinces is enhanced because of this facet of their operations.(1)

While the material presented above is primarily descriptive, it illustrates the validity of the proposition that a continental perspective devoid of a commensurate Canadian federal-provincial perspective is seriously lacking. The degree and patterns of transaction and policies indicate that provincial governments are encroaching upon the field of foreign policy and that federal and provincial policies reciprocally can affect each other. The stability between Canada and the U.S. clearly masks both the differentiation and dynamic of the American presence (as the major source of investment and a trading partner) when a provincial perspective is taken. Some have gone so far as to argue that the level of transactions between the provinces and the states are a prelude to the integration of the national polities, i.e. fostering continental integration by

(1)

This was specifically cited by the Province of Alberta as one of the positive aspects of foreign investment: "Foreign corporations, in relation to their proportion of assets, equity, or sales, declared a greater proportion of taxable income than Canadian corporations. Alberta's development is partially attributed to foreign investment. Nationality of ownership is not necessarily assurance of conduct in Alberta's interest." [Alberta, Select Committee of the Legislative Assembly on Foreign Investment, Final Report on Foreign Investment (December, 1974), p. vi.]

(sub-national) pieces.(1) While not necessarily leading to a political coalition (integration implies a oneness which goes beyond interaction) the recognition of at least distinct interaction has a relevance for the management of the continental relationship--Canada has "more to do" with the U.S. depending upon which province is assessed.

The complicating nature of federalism, which implies that the federal governments of both the U.S. and Canada must take account of the activities of their respective sub-national governments, is also recognized by at least the U.S.. In 1979, U.S. Ambassador to Canada, Thomas O. Enders, claimed:

diplomacy must now include the provinces and states. That does not mean that either Ottawa or Washington should attempt to contract business with the states or provinces; that would violate the Constitutions. But each capital can and is developing its liaison with other governments in its own country. And informal contacts between the Provinces and the U.S. Embassy in Ottawa and the States and the Canadian Embassy in Washington can prevent misunderstanding and expedite our affairs.(2)

This is especially the case since provinces can attempt to circumvent federal control if there is a clash of federal/provincial interests when they spill over into continental relations. Marchak even posits the proposition that the provinces are better able to negotiate with the foreign corporations than is the federal government.(3) Most of the

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- (1) Leach et al., "Province-State Transborder Relations", p. 481.
- (2) U.S., Department of State, Bulletin (June, 1979), p. 8.
- (3) Marchak, "Two Dimensions", p. 92.

provincial activities which bear directly on international relations--whether through functional agreements, expanded trade and commercial offices, or the employment of non-tariff barriers and investment restrictions--are products of the 1970s. When the federal government was attempting to come to grips with the difficulties of implementing the "Third Option", in many instances the provinces were similarly working toward enhancing their impact on relations with the U.S.. The subject of how the provinces manage such a relationship has not been the focus of studies in Canadian-American relations, but a perspective incorporating the provincial governments' influence in this field is clearly a requisite. Over the past decade, Canadian-American relations and Canadian foreign policy have become more complex due to the activities of the Canadian provinces. Recent events in the possibility of full tariff reductions between Canada and the U.S. indicate that provincial involvement in foreign policy is not likely to fade away.

CHAPTER 2

QUEBEC-U.S. RELATIONS AND THE "OPEN-DOOR" IMPERATIVE: THE AMERICAN REACTION TO THE PARTI QUEBÉCOIS

The election of the Parti Québécois in November, 1976 and the debate prior to the referendum on sovereignty-association have been regarded as precipitating a crisis in Canadian unity. However, the same debate also involved a crisis in Quebec's relations with the U.S., mainly with the American private sector. In many respects the divisiveness within Canada took on a continental dimension, exemplifying the internationalization of a domestic matter. During the first mandate of the P.Q., the political goal of an independent state was specifically tied to the responsible management of the Quebec economy, made evident by Jacques Parizeau's declaration in his first budget: "The road to independence rests on healthy finances."⁽¹⁾ Because the policies of the P.Q. involved restructuring the Quebec economy with the expressed purpose of enhancing the economic status of the Québécois,⁽²⁾ and since more than one-quarter of the Quebec private sector was under the control of American-owned corporations, the politics of separatism became inextricably linked with the economics of the international corporate

(1)

Quoted in Kenneth McRoberts and Dale Posgate, Quebec: Social Change and Political Crisis (Toronto: McClelland and Stewart Limited, 1980), p. 213.

(2)

The 1973 programme of the P.Q. stated as an objective an economic system "eliminating all forms of exploitation of the workers and responding to the real needs of the majority of Quebecers more than to the demands of an economically favoured minority." [Le Parti québécois, Programme 1973 (Montreal), p. 10; quoted in William D. Coleman, The Independence Movement in Quebec: 1945-1980 (Toronto: University of Toronto Press, 1984), p. 120.]

market. The American reaction to the political and economic goals of the P.Q. were reciprocally significant for the Quebec government since the viability of an independent Quebec was predicated upon the proof that the P.Q. could manage a healthy provincial economy. The Canadian crisis over unity took on a trans-border dimension, transposing a matter of domestic concern into one with continental implications. This is particularly clear in the American reaction to the P.Q. as a government. Because of these attributes, Quebec-U.S. relations under the first mandate of the P.Q. provide a basis for a case study in the management of a provincial government's external relations. This chapter describes the American reaction. Subsequent chapters develop and apply a model to explain the events from 1977 to 1980.

The importance of the P.Q.'s election for American interests rested not solely upon the question of separatism, even though an independent Quebec would significantly complicate continental security. The P.Q.'s stated policy of a neutral independent Quebec, including withdrawal from both NATO and NORAD, would create strategic difficulties for North American defence and, as a consequence, pose an indirect threat to an American vital interest.(1) Besides security considerations, Quebec's language policy (initially cited by the New York Times as a "weapon of

(1)

John Starnes, "Quebec, Canada and the Alliance", Survival, 19 (1977), pp. 212-215.

economic warfare")(1) and the intended takeover of part of the Asbestos industry(2) were perceived as direct disincentives for investment, including especially American investment since the Asbestos industry was controlled by four American (the four largest) and one British companies.(3) The American reaction to these and other policies were at the same time of vital concern to the P.Q..

(1)

New York Times, 2 May 1977, p. 32. This particular editorial on Bill 1 also linked the ethno-centric purpose of the legislation with the need for a reconciliation with the American economic community: "[Bill 1] would give the French language not merely dominance in the province but a virtual monopoly, to be employed as a weapon of economic warfare against the English-speaking community. That is a harsh but inescapable translation of the Government's stated purpose, that the measure 'will accompany, symbolize and favor a reconquest by the French-speaking majority of Quebec of the control that belongs to it over the levers of the economy.' ... [T]he economic advancement that the French community rightly seeks requires that [Canadian] union and the confidence of American, albeit English-speaking business as well."

(2)

In an analysis by Henry Giniger (for the New York Times), the proposed purchase of Asbestos Corporation was appraised as proof of the P.Q.'s socialist orientation: "No matter how much this government has proclaimed its faith in private enterprise, and its desire for foreign private investment, an essentially conservative business community has come to look upon it as 'socialist,' and any asbestos takeover, even if it is followed by no others, will do nothing to dispute this belief." [New York Times, 25 October 1977, p. 57.]

(3)

A January, 1978 review of foreign investment prospects, conducted by the U.S. Department of Commerce, specifically cited Quebec's francization program and the proposed acquisition of Asbestos Corporation as disincentives for American investors. The only other province assessed, Saskatchewan, was also listed as a threat because of its policy for nationalizing part of the potash industry. [See: U.S. Department of Commerce, Industry and Trade Administration, Incentives and Performance Requirements for Foreign Direct Investments in Selected Countries (Springfield, Va.: National Technical Information Service, Jan., 1978), pp. 46-7.]

In one evaluation of the reaction of the U.S. private sector to the Parti Québécois, Byers and Leyton-Brown claim that the American response is demonstrably negative and similar to the behaviour stipulated in Rosen's model of economic imperialism, the "Open-Door" imperative:

The reaction of the American economic community, demonstrated by the critical response to René Lévesque's address in January 1977 to the Economic Club of New York, the tightening of investment funds, and the consideration of delayed industrial expansion (e.g. Johns Manville) suggests that at least on the private level, the results of the Quebec regime shift may be comparable to the American response in Rosen's model for Indonesia, et al.(1)

While it would be an error to claim that the unfavourable American reaction was not evident, it is equally apparent that this reaction was short lived. There is evidence in all the indicators of the private sector's activities that a shift in the perceived risk to American corporate interests in Quebec changed in 1978, or at least stabilized around that period, following an initial negative outlook during 1977. Using the same indicators as Rosen--investment and trade--plus the additional measure of the moves of head offices from Quebec, there is evidence in this case of a dynamic at work which goes beyond the more simple proposition that an ideological change in a regime leads to a direct change in the behaviour of American multinationals and the American economic community.

(1)

R. B. Byers and David Leyton-Brown, "The Strategic and Economic Implications for the United States of a Sovereign Quebec", Canadian Public Policy, 6 (1980), p. 335. Writing in 1980, they also claim that "the American business community is presently less favourably inclined toward Quebec than toward Canada." [Ibid].

In its simplest form, the thesis of Rosen's model, the "Open-Door Imperative", (1) states that a leftward shift by a regime--accompanied by hostility to foreign investment--will evoke a negative reaction on the part of the American private sector, and that this reaction will not change until there is a concomitant rightward shift on the part of that regime. (2) The strongest measure of the American reaction is the amount of direct investment. Furthermore, the "Open-Door" model posits the proposition that the American private sector will use its influence in government to restrict exports to the U.S., thereby invoking an additional economic penalty to that regime. At the base of this model there is a threat/counterthreat interaction which is designed to explain American interference in other states via economic coercion. One need

(1)

Steven J. Rosen, "The 'Open-Door' Imperative and American Foreign Policy", in Testing Theories of Economic Imperialism, eds. Steven J. Rosen and James R. Kurth (Toronto: D. C. Heath and Company, 1974), pp. 117-42.

(2)

Rosen defines a "right-oriented government" as: "one that favors private ownership of major industries; represents and supports the interests of large landowners and businesses; suppresses labor militancy, and reinforces the stratification of a class society." [Rosen, "The 'Open-Door' Imperative", p. 127.] Referring to the "right-oriented" preference of this independent variable, Chang, McClosky and Zaller have indicated (from the Opinion and Value Study, 1975-1977) that the independent variable in this case should still be valid. They conclude that: "The vast majority of Americans consistently uphold such key capitalist notions as private property, the profit system, economic competition, and the general fairness of the private enterprise system. In addition, they overwhelmingly reject every suggestion that Communism or socialism might prove desirable alternatives to American capitalism." [Denis Chang, Herbert McClosky and John Zaller, "Patterns of Support for Democratic and Capitalist Values in the United States", British Journal of Political Science, 13 (1983), p. 407.]

not necessarily hold to the strict left/right distinction in the independent variable in order to test the American reaction. It is assumed that a leftward shift will of itself involve costs to American multinationals which costs themselves will spawn the American reaction. As well, simply the perception of risk to American corporate operations abroad may incite a similar reaction.(1) An intrinsic part of this model is the assumption of a zero-sum outlook where there is a strict win/loss relationship. It neither explains nor considers any form of accommodation. However, when applied to the case of Quebec, all the economic measures give evidence for a change in perception occurring around the middle of 1978, and the policies of the P.Q. indicate that the change is evidence for an accommodation.

Assuming for the moment that the election of the P.Q. represents a leftward shift in the regime,(2) an application of the "Open-Door" model

(1)

Stephen J. Kobrin, "When Does Political Instability Result in Increased Investment Risk?", Columbia Journal of World Business, 13 (1978), pp. 113-22.

(2)

In 1971, Jacques Parizeau explained this perception of the P.Q. in relation to the party's policies invoking state intervention: "In Quebec, we must bring in the state. This is inevitable. It is what gives us an image of being more to the left. If we had, in Quebec, 25 Bombardier enterprises, and if we had very important banks, the situation would perhaps be different. We do not have large institutions, they must be created." [Quoted in McRoberts and Posgate, Quebec, p. 201.] This left-of-centre orientation was also not missed in the U.S., even just after the election of 1976: "the P.Q.'s party platform is socialistic--in the Scandanavian style. It favors social benefits over profits, producing queasy feelings among the dozens of U.S. companies operating in Quebec." [K. M. Chrysler and Carl J. Midgail, "Crisis Across the Borders: Meaning to U.S.", U.S. News & World Report, 18 (13 Dec. 1976), p. 50.]

to Canadian-American relations is appropriate. While Rosen contends that the model is most relevant to the study of American foreign policy toward developing countries, if there is a different reaction in a case using a developed country, then any deviation from the model must also be explained. What follows is a test of the American reaction to the P.Q. using as principal measures the changes in investment and trade. For both of these, Ontario is used as a control in order to focus strictly on the effects of provincial factors alone.(1)

According to the test applied by Rosen, direct investment, in the form of capital and repair expenditures (available here for only manufacturing firms) is the best indicator which vindicates his model.(2) For the data collected (see FIGURE 2-1), capital expenditures alone--the amount of investment for the purchases of new production facilities or equipment--should demonstrate most clearly any shift in the perceived risk of operating in Quebec. While no data is available prior to 1976 to establish a trend, there is a considerable drop from

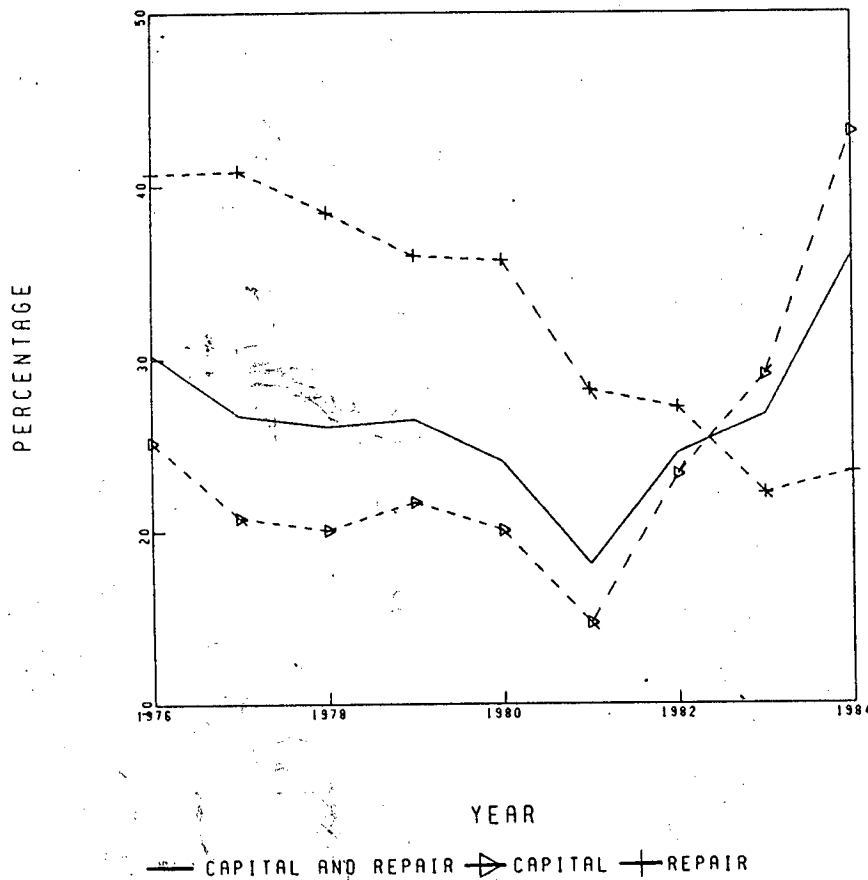
(1)

The previous analysis of Canadian-American relations from a provincial perspective demonstrates that Ontario most clearly represents Canada. Additionally, coupled with the facts that Ontario was governed by the same party and Premier in the 1970s, and that Quebec's economy most clearly resembles Ontario, Ontario as a control variable is the optimal choice.

(2)

Investment in manufacturing by American firms represents the bulk of U.S. investment in Quebec. Comparable figures, for American capital and repair expenditures, are (in 1977, the earliest year for comparison): \$299.6 (million) for mining, and \$558.1 (million) for manufacturing. Data for forestry is not available for any year. [Source: Statistics Canada, Capital Expenditures of Domestic and Foreign Controlled Establishments in Manufacturing, Mining and Forestry (Ottawa: Supply and Services, Canada), catalogue no. 61-215.]

FIGURE 2-1
 INVESTMENT IN MANUFACTURING BY AMERICAN-CONTROLLED FIRMS:
 QUEBEC AS A PERCENT OF ONTARIO.

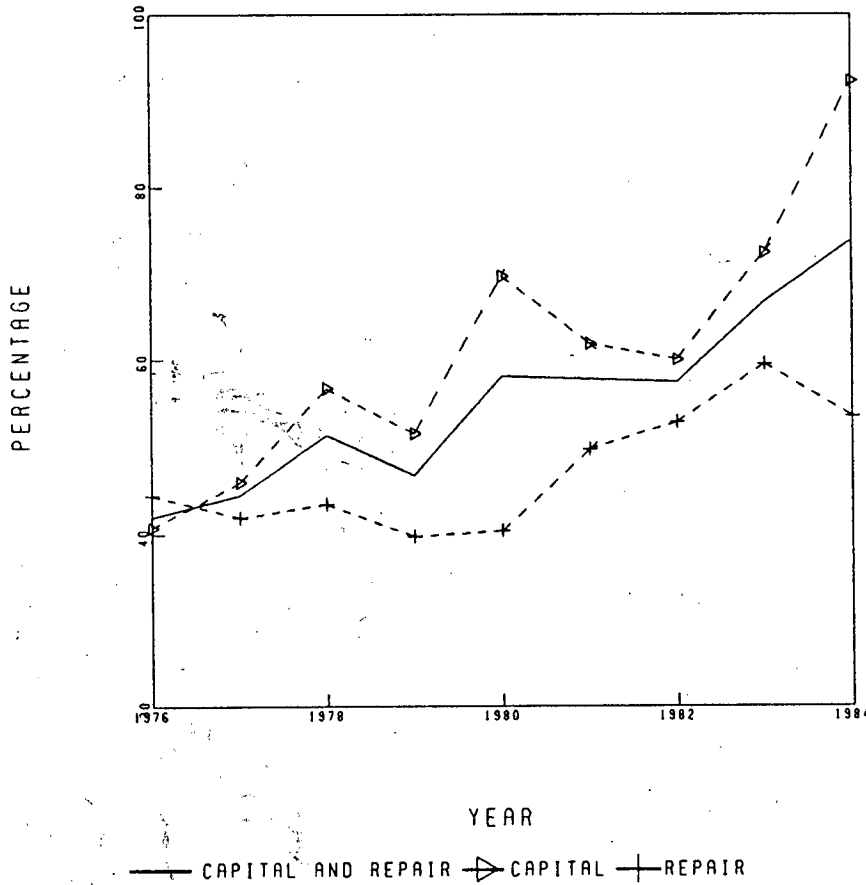


1976 to 1977 (for both capital, and capital and repair expenditures), which drop is consistent with what the model implies. However, after 1977, the measure then levels off for the duration of 1978 to 1980, before dropping to its low in 1981. After 1981, this measure demonstrates consistent improvement until 1984, at which point it is well above the 1976 level. In the case of capital expenditures alone, there is even a marginal increase above the 1977 level (20.8%) in 1979

(21.7%). Although it is possible to interpret the period from 1977 to 1981 as a general downward trend, there is apparently a difference in the degree of the decline. It is initially severe, then stable, then again severe, before showing considerable improvement. In this most significant measure for the "Open-Door" model, what needs to be explained is the manner by which stability was re-introduced, specifically during the period from 1978 to 1979. All of the P.Q.'s policies which should have had the most dramatic effect on investment were instigated in 1977, specifically the Charter of the French Language and minimum wage increases, and in the last months of 1977, labour legislation and the announcement of the planned takeover of Asbestos Corporation. All of these should have advanced the trend begun in 1977.

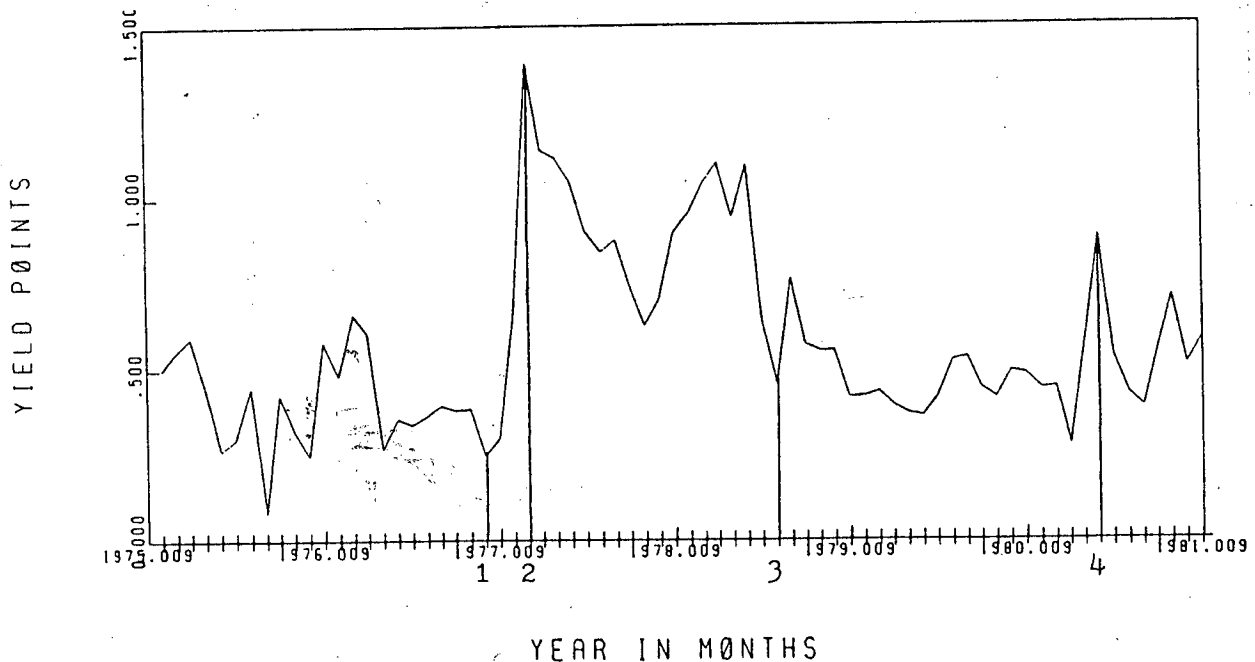
The investment by American firms best approximates what is expected in the model, especially in comparison to similar investment by Canadian-owned firms (see FIGURE 2-2). In this case, the measures generally demonstrate a consistent rise, although there is significant fluctuation. It is apparent that there is substantial differentiation between Canadian and American firms' perceptions of their prospects under the P.Q.. While this neither validates nor discredits the model in question, the change in American investment does indicate a change in outlook which is beyond what the model dictates. This change in the American measure, and the differentiation between the Canadian and American response, is also evident in indirect investment, specifically the bond market.

FIGURE 2-2
 INVESTMENT IN MANUFACTURING BY CANADIAN-CONTROLLED FIRMS:
 QUEBEC AS A PERCENT OF ONTARIO



While manufacturing capital expenditures give an indication for direct investment, investment in the form of loans to Quebec (measured through the New York bond market) also demonstrates much of the same pattern. At the same time, bond yield differentials provide more detail since it is possible to measure investor reaction on a monthly basis by this indicator (see FIGURE 2-3). The difference in the yields between

FIGURE 2-3
BOND YIELD AVERAGE DIFFERENTIALS: NEW YORK MARKET
QUEBEC - ONTARIO



1: Nov. 1976; 2: Feb. 1977; 3: Jul. 1978; 4: May 1980

Quebec and Ontario gives a measure of the perceived increased risk in purchasing Quebec bonds as the difference increases positively. A similar study by Thibeault and Wynant, covering the period from January, 1975 to only October, 1978, demonstrated the same pattern plus two additional noteworthy points. Including data on the Canadian bond market, Canadian bond differentials peaked earlier than on the New York market, rose sharply in early December, 1976, and reached their maximum in late December. At the same time, Canadian bond yield differentials remained substantially (20 to 30 basis points) below the American bond market. However, the pattern of decline remained similar, except that

the bonds on the Canadian market returned to pre-election levels in early 1978.(1) Just as in the data on direct investment, there are here substantial differences between the American and Canadian reaction.

The differences in bond yield averages between Quebec and Ontario indicate a relatively high period of perceived risk from February, 1977 to the middle of 1978, and then stabilize at levels approximating average yield differentials prior to the election of the P.Q.. The validity of this measure for perceived risk is evident in the later substantial (but temporary) peak during May, 1980, the month of the referendum on separation.(2) While it is not possible to ascribe the changes to only political factors by this measure, the higher rate for Quebec bonds in the U.S. market cannot be attributed solely to economic factors. Throughout this period, Quebec retained its prized double-A bond rating by both Moodys and Standard and Poors. A comparison of all the provinces, by Fullerton, for the period from June, 1977 to May, 1978, demonstrated that Quebec's bonds paid the highest yield of all the provinces in spite of the rating—even higher than those provinces with lower ratings. Controlling for the economic effect of the amount of public debt by taking outstanding public debt in proportion to Gross

(1)

Andre Thibeault and Larry Wynant, "Investor Reaction to the Political Environment in Quebec", Canadian Public Policy, 5 (1979), p. 234.

(2)

In a study by Douglas Fullerton, there was a similar but greater peak in 1970, during the period of the October crisis. [Douglas Fullerton, "Quebec Government Borrowing", in Quebec's Access to Financial Markets: A Report in the Series Understanding Canada (Ottawa: Supply and Services, Canada, 1979), p. 14.]

Domestic Product, only Manitoba, New Brunswick and Newfoundland had higher debt to GDP ratios and identical or lower bond ratings than Quebec. By comparison with all of these provinces, Quebec bonds had to pay a higher average yield in order to attract purchasers on the New York Market, in spite of the fact that the debt to GDP ratio and the bond ratings both indicated a better ability to repay the loan.(1) Fullerton concludes that only the political situation in Quebec can account for the capital market's reaction.

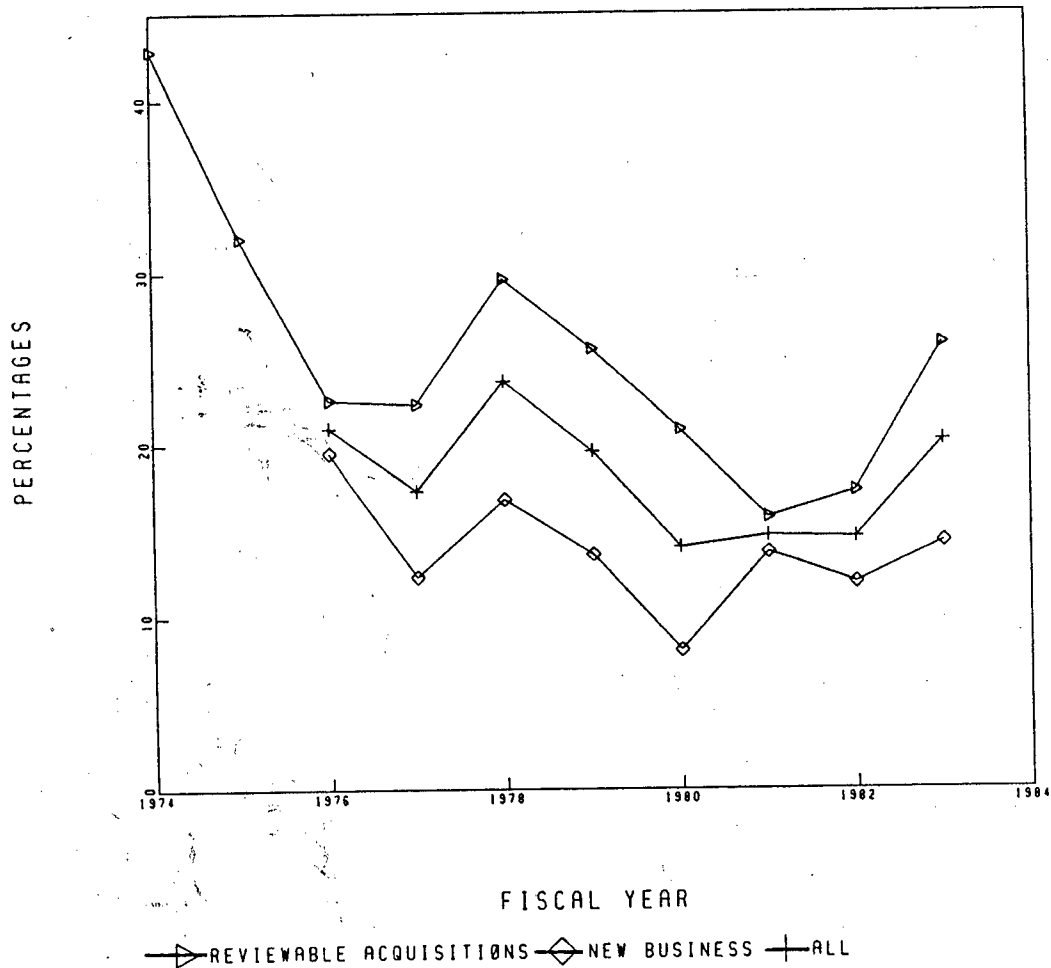
What is most striking about this measure is that the election of the P.Q. in November, 1976 did not immediately instigate a rise in bond yields. Although the yield differential underwent an increase in January, 1977, the peak for the entire period from the election to the referendum occurred in February, 1977, the month after Lévesque gave his much publicized and poorly received speech in New York. As well, there is the decline in this measure, beginning in the middle of 1978, followed by a relatively stable and calm period over 1979, consistent with pre-election levels, indicating that investor reaction had to some extent changed. This measure clearly indicates two points of change: February, 1977 and the middle of 1978.

One other specific measure for the American perception of the

(1)

Quebec (with an Aa rating and a 45.6% debt to GDP ratio) paid 77 basis points above Ontario; Manitoba (with an identical Aa rating and a 49.3% debt to GDP ratio) paid only 12 basis points above Ontario; New Brunswick (with an A1 rating and a 54.1% debt to GDP ratio) paid 34 basis points above Ontario; and Newfoundland (with a Baa rating and a debt to GDP ratio of 73.3%) paid 70 basis points above Ontario. [See: Fullerton, "Quebec Government Borrowing", pp. 15-16.]

FIGURE 2-4
 NUMBERS OF AMERICAN ACQUISITIONS AND NEW BUSINESS CASES:
 QUEBEC AS A PERCENT OF ONTARIO



economic climate in Quebec is the location of investment through corporate acquisitions or the creation of new business activities (see FIGURE 2-4). In the case of "Reviewable Acquisitions", which give the only indication of the pattern prior to 1976, there would appear to have been a decline in this type of investment even prior to the election of

the P.Q.. This decline stabilized in 1977 and actually rose in 1978 before again falling to a low in 1981. The pattern of decline in "New Business Cases" from 1976 to 1977, while consistent with the model, also demonstrates a reversal for 1978, before again declining, indicating a change in perception around 1978 as do the other two measures of investment. This pattern, indicative of the preference for location within Canada, is similarly evident in the case of the preference for head office locations. Relocations of head offices outside Quebec illustrate the direct negative perception of maintaining operations in Quebec.

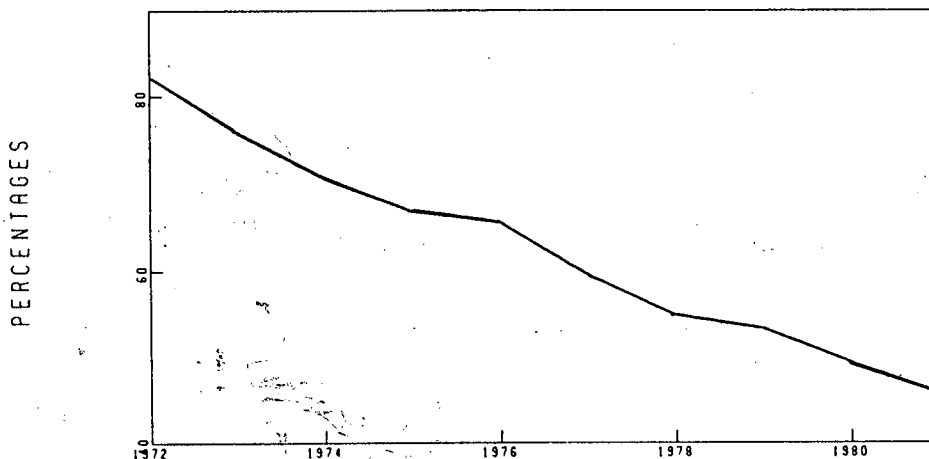
One of the most visible concerns during the first mandate of the P.Q. was the increase in head office relocations out of Quebec, behaviour which was most often ascribed to the perceived costs of Quebec's language policy.(1) It is possible to give only a partial analysis of the extent of these departures through the numbers of offices which moved out of and into Quebec beginning with November, 1975. Additionally, it is also possible to assign the country of control to these changes.

While a general analysis of the employment in head offices in Quebec (again using Ontario as a control) indicates that the trend had been away from Quebec (as the P.Q. had consistently argued was the case), it is apparent that the greater rate of decline in 1977

(1)

Yvan Allaire and Roger E. Miller, Canadian Business Response to the Legislation on Francization in the Workplace (Montreal: C. D. Howe Research Institute, January, 1980), pp. 57-9. They estimate that Bill 101 would cost Quebec 6,300 head and sales office jobs.

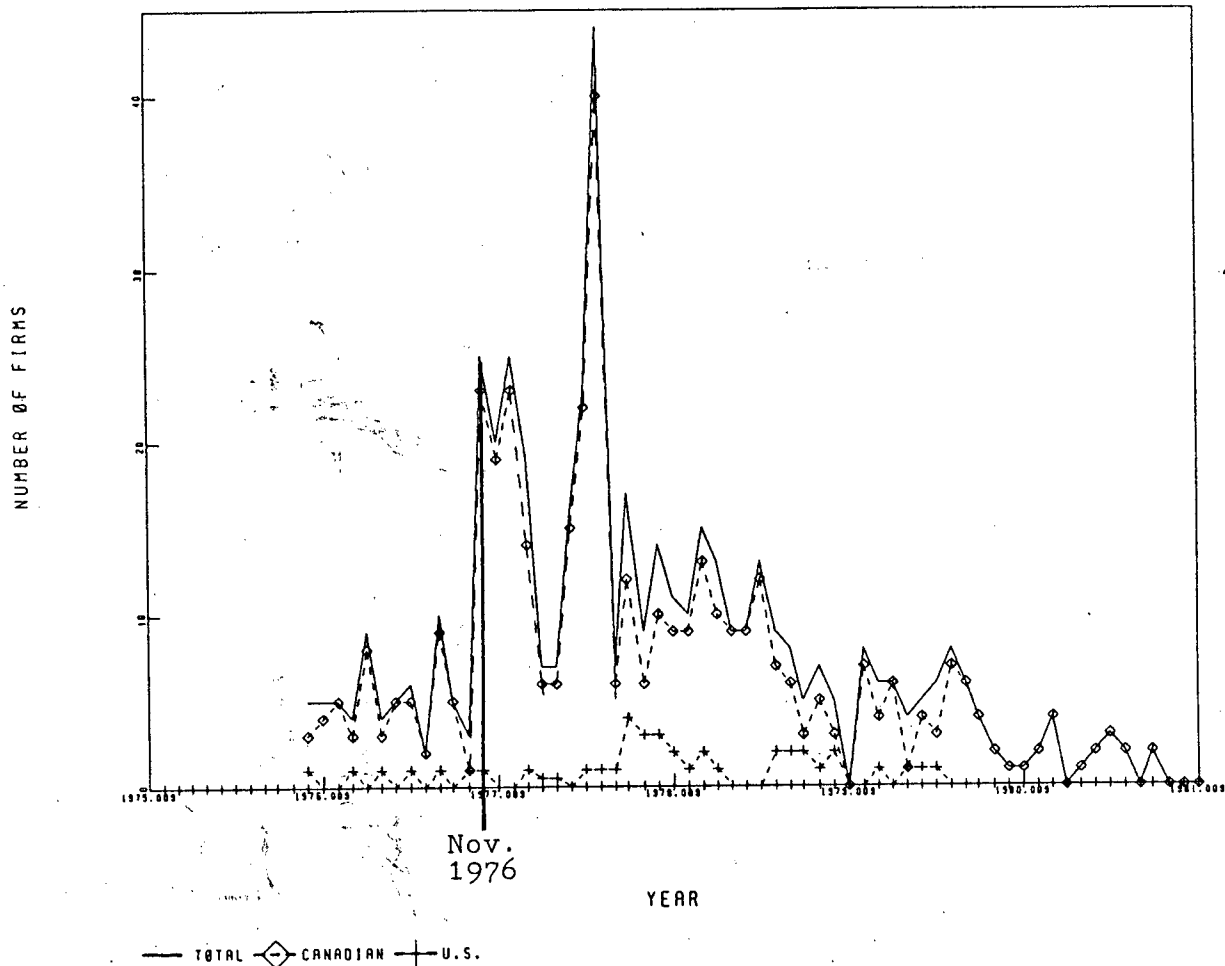
FIGURE 2-5
EMPLOYMENT IN HEAD OFFICES, SALES OFFICES AND AUXILIARY
UNITS OF MANUFACTURING INDUSTRIES:
QUEBEC AS A PERCENT OF ONTARIO



demonstrates that the trend was accelerated during its first mandate (see FIGURE 2-5). However, this does not imply that there was a similar reaction by both Canadian and American head offices. FIGURE 2-6 illustrates not only the increased degree of head office relocations out of Quebec during the first mandate of the P.Q., but also both the substantially fewer instances of this movement on the part of American firms, and more significantly a different time of exit.

During the period prior to November, 1976, while Canadian head offices were leaving to a greater degree than American offices, the American-owned firms demonstrated practically uniform stability with approximately one move every two months. This pattern continued until September, 1977, when four American-owned head offices left, and

FIGURE 2-6
 NUMBER OF HEAD OFFICES MOVING OUT OF QUEBEC:
 NOV., 1975 TO DEC., 1980, BY COUNTRY OF CONTROL



remained higher than the period prior to September in the months immediately following. This was the period just after the actual passage of the language law, Bill 101. One of these four American-owned firms, Combustion Engineering Superheater Ltd., had expressed its intention of leaving as early as January 5, 1977, citing as the reason

Quebec's language policy, even before the policy had been specifically announced.(1) The company did not complete the move of 325 personnel and the official location of its head office until September. While the Canadian departures were also substantially higher over the latter half of 1977, they peaked earlier, during June and July, 1977. This was the period just after the introduction into the National Assembly of Bill 1, the initial draft of the Charter of the French Language. However, not all of the cases of American head office relocations were directly attributable to Bill 101. On October 21, 1977, Lévesque personally announced that his government would seek to purchase a controlling interest in Asbestos Corporation, 55% owned by General Dynamics of St. Louis. On October 27, General Dynamics announced the intention of moving its head office out of Quebec, and in December the office was transferred from Montreal to Ottawa. In either of these cases, as a response to Bill 101 or to the proposal to take over an American-owned establishment, the reaction by American firms to threats to their operations was evident and immediately conditioned by the declaration of government policy.

It is apparent from this figure that the trend in head office departures substantially declined over the latter half of 1978, and

(1)

The Vice-President, R. C. Ellison, stated that the decision was based on the "restrictive language policies on the part of the Quebec government" and furthermore argued that the company would have a greater pool of engineering talent from which to draw without the language restrictions for professionals. Part of his rationale also cited the provisions on education, arguing that they would deter any professionals from locating in Quebec. [Source: Reports on Separatism (Toronto: Marpep Publications Limited), vol. 1, # 2, p. 11.]

continued to do so. During 1979, only 4 American head offices moved out, while 2 actually moved in, and during 1980, no American head offices moved out, but also none moved in. As in the case of investment, again 1978 indicates a pivotal period of changed American perceptions concerning their prospects in Quebec under the P.Q.. The impact of Quebec's language legislation is also clear for both, but in the case of the American firms, there was more of a "wait and see" attitude, responding to actual pertinent legislation, whereas the Canadian cases tended to respond immediately to the initial perception of a threat to corporate operations, beginning as early as November, 1976.

The suggestion of changed perceptions of the risk for continuing operations in Quebec, as reflected by the number of head office departures, is only an approximation since it does not indicate the amount of corporate activity that left with them. This is especially relevant because changes in head office location alone do not take into account situations where only persons were moved, such as in the case of Standard Brands of Montreal (a subsidiary of the U.S.-domiciled Standard Brands Inc.) which in May, 1977 announced its intention of moving 125 marketing employees from Montreal to Toronto. The Chairman, Gaetan Morrissette, explained: "It goes without saying that a head office has to operate in English or on a bilingual basis. It cannot operate all in French."(1) A study by Reed Scowen (Quebec Liberal M.N.A.) listed 42

(1)

Quoted in Reports on Separatism, vol. 1 # 11, p. 82. The transfer did not take place until September, and was followed by a transfer of a further 70 persons in December.

firms which either moved their head offices or moved personnel from January, 1977 to November, 1978. These changes accounted for 5,480 job losses for Quebec. When assigned a country of control, the 21 Canadian firms accounted for 3,471 job losses, the 12 American firms accounted for 1,413 job losses, and the 9 other firms accounted for 596 job losses.(1)

Like the measure for investment in the bond market, relocations of head offices were among the most sensitive indicators to any perceived deterioration in the economic climate. In a study conducted in the 1960s by Morrison, one American company stated that it was considering moving its head office from Quebec to Ontario because of the "new wave" in Quebec and the possible effect of the Quiet Revolution on company operations.(2) In Martin's review of the exodus, in many respects the choice of location went beyond the constraints of proximity to production and may have been simply the personal preference of the owner.(3) The different relocation sensitivity between American and Canadian head offices was apparent and corroborates the findings in

(1)

"Jobs lost" was defined as the number of people working at the company's new location. [See: Reports on Separatism, vol. 2, #21, pp. 358-9.] Country of control was assigned by taking the names in Scowen's list and cross-referencing them with Statistics Canada, Intercorporate Ownership (Ottawa: Supply and Services, Canada, 1978 and 1979), catalogue no. 61-517.

(2)

R. N. Morrison, Corporate Adaptability to Bilingualism and Biculturalism (Ottawa: Queen's Printer, 1970), p. 46.

(3)

Fernand Martin, Montreal: An Economic Perspective (Montreal: C. D. Howe Research Institute, 1979), pp. 29-30.

investment as an indicator lending credibility to the "Open-Door" model, but in relation to pertinent government policy pronouncements, and only for 1977, not earlier.

While investment is supposed to give the clearest indication of how the American corporate presence perceived the P.Q., and while there was apparently at least a moderate change (measured by performance) of a return to the pre-election period by the middle of 1978, the second measure of trade also demonstrates a similar pattern. Rosen's analysis of the validity of the trade indicator concluded that exports to the U.S. proved to be a weaker measure for the "Open-Door" model. The "Open-Door" model relies on exports as a measure of the U.S. government's receptivity to a hostile regime. However, to a degree, trade may be more of a function of the export patterns of American multinationals. While investment may drop immediately, production need not necessarily follow, at least not immediately. Considering that a great deal of Canadian exports to the U.S. can be attributed to the export patterns of American multinationals, it is plausible that trade will exhibit a reaction similar to that of investment.(1) The validity of using trade is thereby not weakened, but the reason for the decrease in trade is different from that which Rosen postulated. It need not be the case that American barriers are placed against imports from regimes

(1)

Brazil, Chile and Peru, 3 of the 5 cases in Rosen's study, all showed some consistency with the "Open Door" thesis in the export indicator. For the decade 1966 to 1975, American multinationals accounted for an average of 37% of Latin American exports to the U.S.. [U.S., Department of Commerce, Survey of Current Business (Feb., 1977), p. 35.]

that undergo leftward shifts, but rather that once the contact with the American market is lost, through the loss of American multinational activity (which may take longer to manifest itself after the accumulated investment in production is spent), exports to the U.S. will decline as a function of the operation of the international corporate market.

The operation of the international corporate market (related to trade) is particularly relevant for the case of Quebec. Bernard Bonin, a former economic advisor to the Quebec government, claimed that there is no reason to believe that the tendency for American firms to account for approximately 60% of Canadian exports to the U.S. was any different for Quebec.(1) While no recent data have been made available, in a study by André Raynauld, in the 1960s, foreign firms accounted for 50.2%

(1)

Bernard Bonin, "U.S.-Quebec Economic Relations: Some Interactions between Trade and Investment", in Problems and Opportunities in U.S.-Quebec Relations, eds. Alfred O. Hero, Jr., and Marcel Daneau (Boulder: Westview Press, 1984), pp. 22-23. Bonin also states that 70% of Quebec exports are concentrated in roughly 24 firms, among which "U.S.-owned firms undoubtedly play a major role." (Bonin served as assistant deputy minister of Intergovernmental Affairs during the first P.Q. mandate, and was in charge of research into Quebec's economic relations with Canada, the U.S., Europe and other countries). An earlier study found that 65% of Quebec's exports came from 20 establishments, 7 of which were U.S. multinationals, one of which was French-Canadian-owned, and the remainder English-Canadian or other foreign-controlled. [See: Carmine Nappi, The Structure of Quebec's Exports (Montreal: C. D. Howe Research Institute, 1978), p. 36.]

of manufactured products exported from Quebec.(1) Because of the fact that American multinationals in Canada account for a greater proportion of host country exports to the U.S. than they do in their operations elsewhere, exports from Quebec should be a better indicator of American corporate activity than in the cases described in Rosen's analysis.(2) In fact, the following measures of trade significantly discredit the validity of the "Open-Door" model. However, the subsequent improvement in Quebec's exports to the U.S. does corroborate the point of change to a more positive perception by American multinationals for their operations' prospects in Quebec beginning in the latter part of 1978--the same period indicated in the measures of investment.

One of the most striking features of Quebec's trade is the improvement in the balance of trade with the U.S. during the period after 1976 (see FIGURE 2-7). From 1968 to 1976, Quebec traditionally

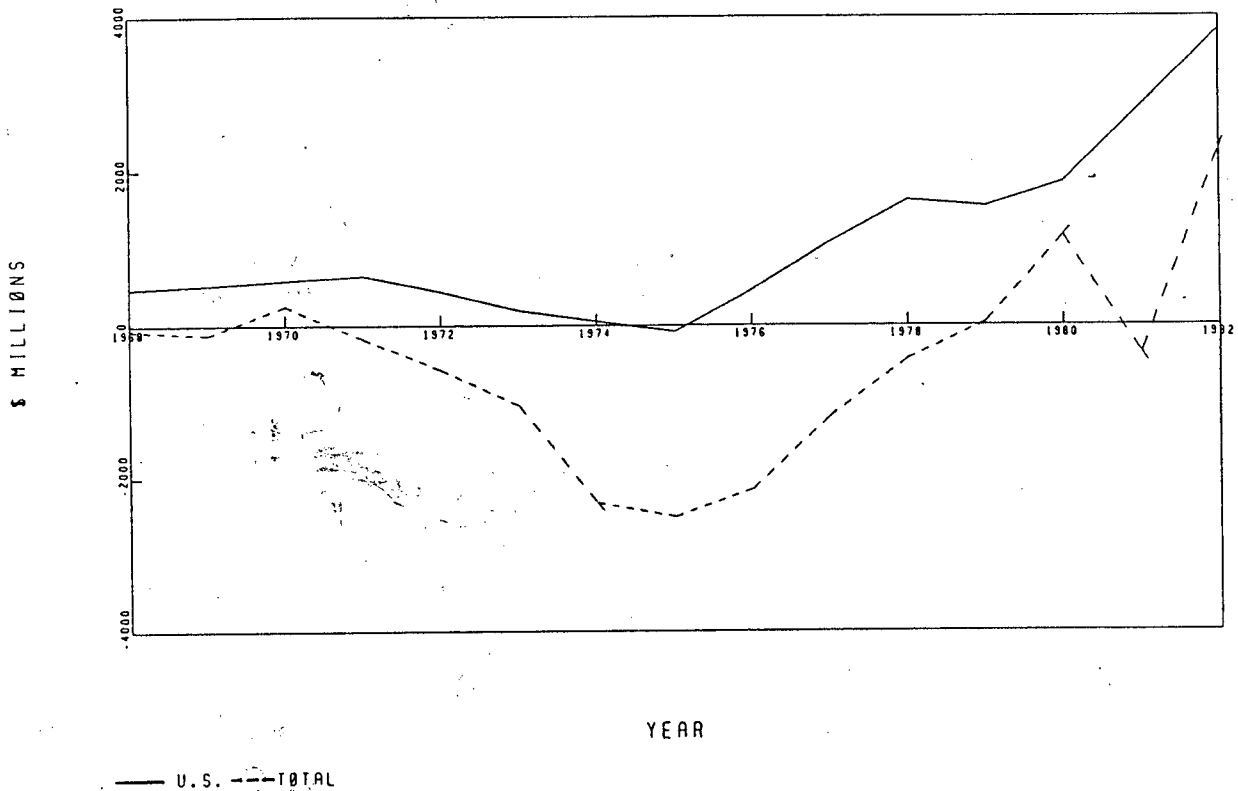
(1)

See: Nappi, The Structure of Quebec's Exports, pp. 38-9. Similarly, French-Canadian firms accounted for only 2.3% of Quebec's exports, and English-Canadian firms accounted for 47.5%. For manufacturing firms (in 1969, the earliest year for comparison) Canadian firms (not broken down by ethnic ownership) were responsible for 57.3% of manufactures' shipments, and foreign-controlled firms were responsible for 42.7% of manufactures' shipments (U.S.-controlled firms accounted for 33.1% and other foreign-controlled firms accounted for 9.6%), indicating that international corporate market trading patterns were evident for Quebec. [Source: Statistics Canada, Domestic and Foreign Control of Manufacturing Establishments in Canada, 1969 and 1970 (Ottawa: Supply and Services, Canada), catalogue no. 31-401, p. 182.]

(2)

In 1978 (the earliest year for comparisons) American firms accounted for 31% of all Quebec's combined manufacturing and mining shipments. [Source: Statistics Canada, Domestic and Foreign Control of Manufacturing Establishments in Canada, 1981 (Ottawa: Supply and Services, Canada), catalogue no. 31-401.]

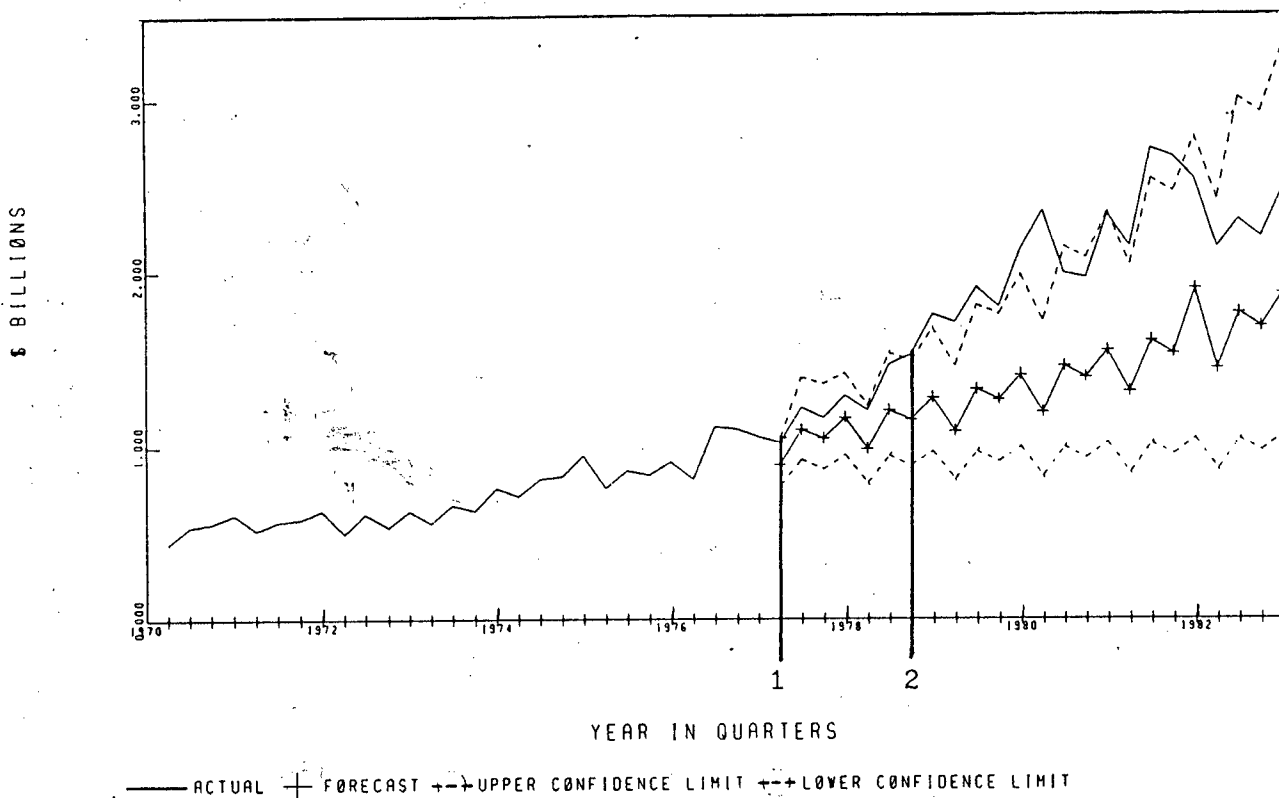
FIGURE 2-7
 QUEBEC'S BALANCE OF TRADE



had close to a balance of trade, and for the most part a slight surplus, but declining from 1971 to 1975 at which point it became negative. However, there was a significant reversal with an initial peak in 1978 after which the trade balance stabilized, and thence substantially increased from 1981 to 1982. The early peak is significant since it occurred prior to the beginning of massive electricity exports after the opening of La Grande 2 hydro facility in late 1979. The importance to Quebec of this surplus in continental trade cannot be under-estimated since in total net trade, Quebec had a deficit.

With the propensities of American firms to import more than they

FIGURE 2-8
 QUEBEC EXPORTS TO THE U.S.: PROJECTIONS FROM 1976
 AS COMPARED WITH ACTUAL EXPORTS AFTER 1976



1: First Quarter, 1977; 2: Third Quarter, 1978

export as described earlier, this indicator alone would tend to support the proposition that American corporate activity was declining in Quebec. This is not necessarily the case since exports to the U.S. rose considerably beginning in the middle of 1978. The change is evident in FIGURE 2-8 which compares a projection of Quebec's exports to the U.S. (derived from a base period of 1968 to 1976) with Quebec's actual exports to the U.S. over the period from 1977 to 1982 (all on a

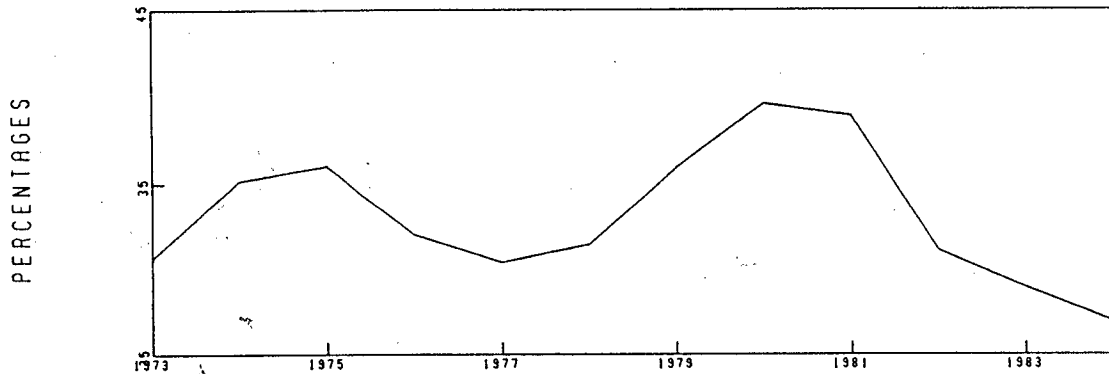
quarterly basis).(1) Using a 95% confidence limit, Quebec exports to the U.S. significantly increased beginning in the third quarter of 1978 and remained significant until the second quarter of 1980 where there was a marginal and temporary drop, before a temporary increase, then followed by a permanent decline. The point of increase during the third quarter of 1978 in fact reversed the general pattern of decline (in comparison to the second quarter) in the previous seasonal exports to the U.S.. The last half of 1978 marks a point of change, which point is also very evident in the figure on bond yield average differentials. It is also significant that at no time do exports drop below even the projection, let alone the 95% lower confidence limit. While this figure compares Quebec's export performance with its own past performance, the same pattern of an improvement in 1978 is evident with respect to a comparison employing Ontario as a control for Quebec.

The figure on total exports to the U.S. (Quebec as a per cent of Ontario, see FIGURE 2-9) also demonstrates a period of growth beginning from the low experienced in 1977, and rising to a peak in 1980. In fact, this demonstrates a change in direction from the decline of 1975 to 1977, in turn pointing to a change in direction around 1978. The increase after 1978 is most remarkable since it rose to a peak in 1980,

(1)

Quarterly data on Quebec's exports to the U.S. for the period 1968 to 1976 were collected and used as a base period for projecting the exports beyond 1976. This projection was then compared with the actual exports from 1977 to 1982. A 95% confidence limit was selected in order to determine the significance of any changes during that projection period.

FIGURE 2-9
TOTAL EXPORTS TO THE U. S.
QUEBEC AS A PERCENT OF ONTARIO



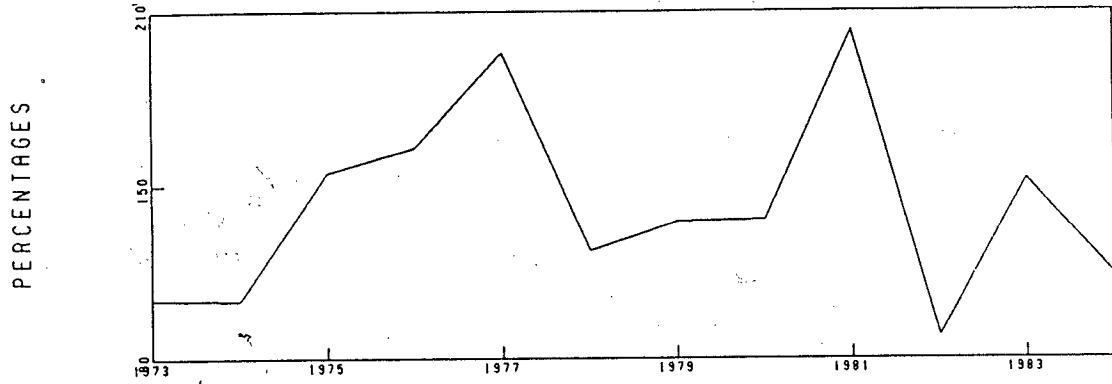
above the previous high point in 1975. However, this alone does not give an adequate demonstration of the performance of Quebec's exports since it is possible that the increase could be due to the exports of raw materials. A comparison by level of processing does demonstrate that the export sector was performing the way the Quebec government desired, with increased exports of manufactured products.(1) If the increase in exports could be attributed to sectors with lower levels of processing, then Quebec would only be contributing to its economy through the provision of raw materials, or semi-processed products. However, this is also not the case (see FIGURE 2-10).

(1)

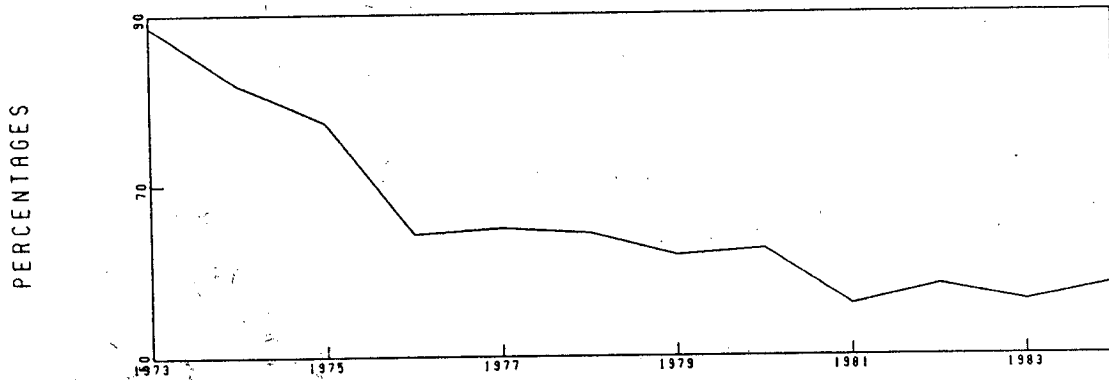
In an Associated Press release (14 Feb. 1977), Bernard Landry (Minister of State for Economic Development) stated: "The future for Quebec is in the processing of our raw materials products here, and in many north-south exchanges with the United States." [Quoted in Reports on Separatism, vol. 1 #4, p. 31.]

FIGURE 2-10
EXPORTS TO THE U.S.: QUEBEC AS A PERCENT OF ONTARIO

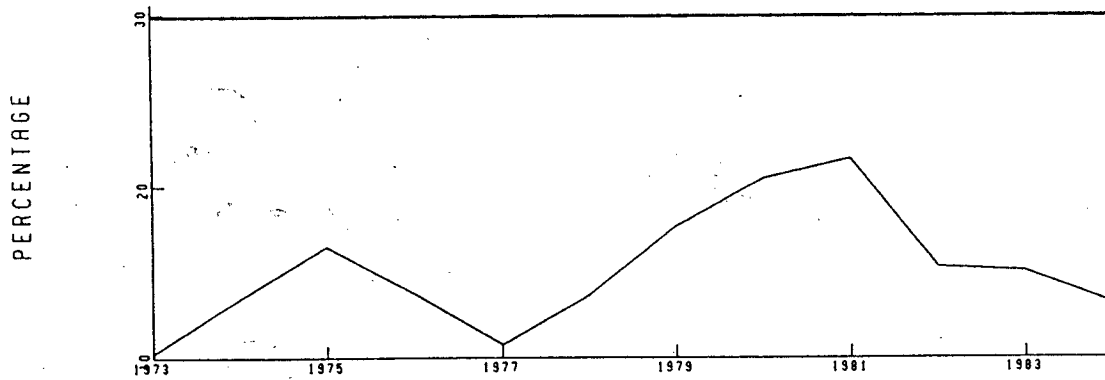
CRUDE MATERIALS



FABRICATED MATERIALS



END PRODUCTS



In the figure on crude materials' (containing least processing) exports to the U.S., there is an indication of a sharp decline in 1978, drastically reversing the previous trend. The figure on fabricated materials' (semi-processed goods) exports to the U.S. illustrates a consistent if somewhat more moderate decline after 1975. However, the figure on end products' (the highest degree of processing) exports demonstrates a reversal of the decline from 1975 to 1977, consistently rising to a maximum in 1981. Since the turning point again (in the sector responsible for the highest level of processing) is 1978, the shift in perceptions is also evident in trade. Generally, the evidence of trade substantiates the pattern found in the previous measures relating to investment and corporate ownership.

In spite of this evidence from exports, it is possible that the increase in trade could be attributed to the export performance of non-American firms. If domestic firms increased their exports, they could be responsible for the changes, thereby offsetting and invalidating the relevance of the export measure. This is particularly relevant in the case of Quebec since the P.Q. consistently provided support for Francophone-owned establishments through policies to assist small and medium sized businesses. This hypothesis has been advanced by some,⁽¹⁾ and while it is not possible to acquire data on the export performance of American firms in Quebec per se, the evidence indicates

(1)

Lise Bissonnette, "The Evolution of Quebec American Diplomacy", in Contemporary Quebec, ed. Calvin Veltman (Montréal: Université du Québec à Montréal, 1981), pp. 167; and Louis Balthazar, "Quebec's Policies Toward the United States", in Problems and Opportunities in U.S.-Quebec Relations, p. 235.

that the increases cannot be attributed to Francophone-owned firms in Quebec, specifically in 1978.(1)

During the period beginning in 1977 and 1978, the P.Q. embarked upon a policy of assistance to small and medium sized businesses (Petites et moyennes entreprises, PME, identified as mainly Quebec-owned establishments), mainly through its Société de développement industriel (SDI), and through export programmes administered through the SDI and through a separate programme in the Ministry of Industry and Commerce (MIC). As well, the P.Q. substantially increased marketing assistance by boosting the resources available to its system of international trade offices (of which 6 were in the U.S.) in order to promote Quebec exports (see TABLE 2-1).(2) However, all of these programmes had little

(1)

The major economic policy statement during the first P.Q. mandate specifically addressed the differentiation in the sizes of firms, stating that small and medium sized businesses were mainly controlled by Francophones, and that large corporations were principally under foreign control. [See: Quebec, Challenges for Quebec, p. 39]. See also: Bonin ["U.S.-Quebec Economic Relations", pp. 30-3] who cites the concentration of Francophone ownership in PME as the reason why the P.Q. focussed on such assistance.

(2)

When the international offices were taken over by the Ministry of Intergovernmental Affairs from the Ministry of Industry and Commerce in 1977, the emphasis changed from industrial export promotion to one of local development and assistance for small business. [Quebec Update, vol. 2 #29, 23 July 1979, pp. 2-3.]

TABLE 2-1
 QUEBEC EXPENDITURES ON EXPORT PROGRAMMES (\$ Thousands)(1)

FISCAL YEAR*	MIC	SDI	INTERNATIONAL OFFICES
1973/74	713	2,132	4,050
1974/75	789	4,623	5,284
1975/76	999	15,971	5,596
1976/77	1,647	19,658	7,018
1977/78	3,933	24,373	8,652
1978/79	5,242	24,576	11,521
1979/80	14,169	28,613	12,422
1980/81	5,445	39,141	13,592
1981/82	5,907	55,382	12,908

* Fiscal year (Apr. 1 to Mar. 31)

affect on exports in 1978 (see TABLE 2-2). Quebec PME's accounted for only 5.6% of manufactured products exports to the U.S. while they were responsible for 16.8% of all the manufactures produced. PME's tended to supply mainly the Quebec market (56% of their shipments stayed in Quebec), and the rest of Canada. Exports to the U.S. represented only 5.2% of PME's shipments while the remaining establishments in Quebec exported 17.6% of their manufactures to the U.S.. As well, the PME's in the manufacturing sector accounted for only 3.9% of the total exports to the U.S., whereas other manufacturers accounted for 65.2%. In all respects, the export performance of firms other than PME's was substantially greater. In fact, PME's export performance underwent a

(1)

Quebec, Ministère des Finances, Public Accounts vol. 1 (Québec: Editeur officiel du Québec). APEX (aide à la promotion des exportations) is the principal export programme discharged by the MIC (Ministry of Industry and Commerce, Program 3, Element 2), as is SDI (Société de développement industriel). The management of international offices is placed under the auspices of the Ministry of Intergovernmental Affairs and represents only a portion of Quebec's international efforts.

TABLE 2-2
RELATIVE PERFORMANCE OF QUEBEC SMALL AND MEDIUM SIZED
FIRMS (PMES) IN MANUFACTURING: 1978 (\$ MILLIONS)(1)

	TOTAL	OTHER THAN PMES	PMES
Total Exports to the U.S.	6136.5	-	-
Total Exports	9434.7	-	-
Mfg. Shipments Total	27314.0	22720.2	4593.8
(%)	100	83.2	16.8
Mfg. Shipments to Quebec	12862.6	10291.6	2571.0
(%)	100	80.0	20.0
Mfg. Shipments to Rest of Canada	8628.8	6936.2	1665.6
(%)	100	80.7	19.3
Mfg. Shipments Exports Total	5822.6	5465.4	357.2
(%)	100	93.9	6.1
Mfg. Shipments Exports to U.S.	4242.8	4003.2	239.6
(%)	100	94.4	5.6
Mfg. Shipments Other Exports	1579.8	1462.2	117.6
(%)	100	92.6	7.4
Shipments to Quebec by Destination	47.1	45.3	56.0
as a % of Total Shipments	31.6	30.5	36.2
by firm	15.6	17.6	5.2
Other Exports	5.8	6.4	3.9
Mfg. Shipments to the U.S. as a % of Total Exports to the U.S.	69.1	65.2	3.9
Mfg. Shipments to the U.S. as a % of Mfg. Exports Total	72.9	73.2	67.0

(1)

Calculated from: Québec, Bureau de la Statistique du Québec, Statistiques Principales des PME du Secteur Manufacturier au Québec (Québec: Editeur Officiel du Québec, 1983), p. 29.

relative decline from 1975 (the only other year for comparison). In 1975, they accounted for 7.8% of manufactured products' exports to the U.S., whereas in 1978 this figure was only 5.6%.(1) While the increase in 1978 exports, especially in the end product category (into which fall all the manufacturing firms' shipments), cannot be attributed directly to American firms, the previous analysis of the export performance of American firms, and both the decline in and the low level of PME's export performance during 1978, support the proposition that the increase in exports for 1978 could only doubtfully have taken place without American corporate participation.

The changes in all of the economic indicators invalidate a strict interpretation of the "Open-Door" model. There is also evidence of an apparent change in the American attitude toward the P.Q.. One observation on the reason for such a change suggests that the P.Q. relaxed its pro state-interventionist stance, in effect conforming with the capitalist economic system:

The P.Q. ... had certain pretensions of being something of a 'leftist government.' But it is running into the same dilemma faced by any political group that tries to solve socio-economic problems by working within the very system that is creating these problems. The party's first obligation must be to improve the economy, but this means the capitalist economy doing what the capitalists need to insure profitability, rather than what the populace requires to serve social and productive

(1)

These figures for PMEs are approximately the same as those for Francophone firms in Quebec. In 1975, PMEs accounted for 20.0% of all manufacturers' shipments. In 1974, Francophone firms accounted for 21.5% of manufacturers' shipments. [See: Quebec, Challenges for Quebec, p. 19].

needs.(1)

However, this is not necessarily the complete case. The 1979 economic policy paper of the P.Q. still held to its state interventionist approach, maintaining that the state would participate in the economy because of the low-level of native Quebec control:

the fact that in Quebec the state has an indispensable role to play as an economic lever and an active agent in the development process basically rests not on nationalistic and ideological considerations but on socio-economic realities. Quebec-owned enterprises control only a very small share of national production. In general, they do not have the necessary financial and technological resources to make their presence felt and to get into a number of important sectors that are almost entirely foreign-owned. In some cases the state is the only national economic agent of sufficient stature to bring together the production factors needed to penetrate such areas as energy, exploration and production of underground resources, and certain manufacturing activities.(2)

The same document also indicated that a change in direction from that of the previous government (specifically with reference to foreign investment) would be a priority for the P.Q.:

Since the early sixties, successive Quebec governments have tried through various means and with varying degrees of success to stimulate the economy and create employment without defining an industrial strategy. A host of business assistance programs sprang up: investment subsidies, employment subsidies, in-plant training subsidies, tax credits, etc. The main purpose of most of these measures was to create conditions favourable to

(1)

Michael Parenti, "Quebec's Economic Future in Confederation: Comment," in The Future of North America: Canada, The United States and Quebec Nationalism, eds. Elliot J. Feldman and Neil Nevitte (Cambridge, Massachusetts: Centre for International Affairs, Harvard University, 1979), p. 303.

(2)

Quebec, Challenges for Quebec, p. 52.

foreign investment in Quebec. The same intention spurred the creation of the first Quebec houses abroad. American, European and, later, Japanese firms had to be lured to Quebec.

But this series of measures did not lead to collective action by Quebec's economic agents although such action would be indispensable to the development of new products and new techniques, to improved firm management and to productivity and to a stronger presence in various markets. Government programs, on the contrary, too often resulted in increased dependence on foreign investment, a situation that discouraged development of entrepreneurship among Quebecers.

A major change of direction is therefore necessary to transform the present situation and breath new life into our economy.(1)

In contrast to Parenti's analysis, another approach, by Feldman, argues that the Quebec government actively solicited a change in the American perception of the P.Q.'s policies, implying that some form of a reconciliation took place during the first P.Q. mandate:

The present Quebec government has been friendlier toward American investment than its predecessors and often friendlier in general toward American interests than the federal government in Ottawa. After all, Quebec has no desire to be friendless on the continent, and officials have understood well the hard feelings with Canadians which inevitably would follow separation. American opinion has been courted by the P.Q. An independent Quebec could as easily be anticipated as the best friend of the United States (the place now held by Canada) as it could, perhaps more popularly, be conjured as a leftist or Marxist regime. [Emphasis added.](2)

(1)

Quebec, Challenges for Quebec, p. 2.

(2)

Elliot J. Feldman, "A Brief Interpretation for Canada, Quebec, and the United States", in The Quebec Referendum: What Happened and What Next?, ed. Elliot J. Feldman (Cambridge, Massachussetts: Harvard University Consortium for Research on North America, 1980), p. 53.

The change to a more positive attitude by 1981 is also indicated by others. Stephen Blank (of the New York consulting firm Multinational Strategies) made the following statement during a conference in Montreal which dealt with the Quebec economy:

I don't believe the current regime in Quebec has worsened the investment environment In some ways it has improved it.(1)

In a 1984 Article, Alexander C. Tomlinson stated that he believed that "Quebec [was] perceived in the U.S. business community as relatively more hospitable to U.S. investment than some parts of Canada."(2)

A similar change in perception on the part of the U.S. Department of Commerce, evident through its reviews on Quebec, was also apparent. In its December, 1980 survey of the Canadian provinces, Business America (produced by the U.S. Department of Commerce's International Trade Administration) noted that foreign investment in all the regions of Canada was welcome, with the sole exception of Saskatchewan. Quebec was the only other province specifically cited and assessed as being particularly receptive to foreign investment.(3) In contrast, in May, 1978, in its first major review of Quebec, the statements were not as

(1)

Quoted in Reports on Separatism, vol. 5 #11, pp. 838-9.

(2)

During the first P.Q. mandate, Tomlinson was affiliated with the First Boston Corporation which managed many of Quebec's bond issues in the U.S. market. [See: Alexander C. Tomlinson, "U.S. Perceptions of Investment Opportunities and Risks in Quebec", in Problems and Opportunities in U.S.-Quebec Relations, p. 41.]

(3)

Business America, 1 Dec. 1980, p. 18.

positive:

low productivity, high labor costs (the highest in North America), uncertainty stemming from the provincial government's declared intention of seek political sovereignty, and fears of increased government intervention in the economy, have all acted to inhibit private sector investment.(1)

In January, 1979, the review of Quebec used the identical wording of this quotation, but without "fears of increased government intervention in the economy".(2) In February, 1979, the review listed only the "[u]ncertainty about the province's political future" as a liability influencing investment.(3) From the point of view of American trade officials' perceptions of policy from within Quebec, the change in perception in the last half of 1978 and early 1979 is apparent by what was deemed appropriate to report.

While these analyses, by Americans, suggest that (at least after the referendum on independence in 1980) American perceptions of the P.Q. had changed, the evidence of all the economic measures point to a change in attitude beginning in the last half of 1978, and stabilizing in 1979,

(1)

Commerce America, 22 May 1978, p. 18. In the July, 1978 review of foreign investment restrictions in Canada, the Quebec situation was assessed as one of the reasons for inducing the federal government to simplify and relax the implementation of the Foreign Investment Review Act: "Canadian leaders--concerned over a precipitous drop in U.S. investment, caused by slack business conditions, restrictive business policies, and Quebec's separatist views--have attempted to reassure foreign investors of their continued welcome." [Commerce America, 17 July 1978, p. 10.]

(2)

Business America, 1 Jan. 1979, p. 11.

(3)

Business America, 26 Feb. 1979, p. 14.

well before the referendum. Even just prior to the referendum, the Wall Street Journal quoted the statement that American economic relations with Quebec had returned to "business as usual" by 1980.(1) During the period prior to the referendum, the P.Q. did not withdraw its series of economic reforms completely, nor did it revoke its position of state-intervention. What is required to explain this reconciliation is a perspective which goes beyond the zero-sum orientation of the "Open-Door" model and which can account for an accommodation beginning in 1978. In this matter, the American perceptions of the P.Q.'s policies are as significant as those policies' content. Furthermore, the effect of Quebec communications (referred to by Feldman) on American perceptions indicates an avenue to account for the dynamics evident in all the measures used to test the "Open-Door" model. The delay in the negative reaction, until Lévesque's speech to the Economic Club of New York, also indicates that communication is significant.

Some studies of Quebec-U.S. economic interaction which also recognize the change in 1978 tentatively postulate information as a

(1)

"In spite of an early spell of uneasiness created by the strident independence speech that Mr. Levesque made in New York, Quebec's economic relations with the U.S. have been basically 'business as usual'. ... Analysts don't expect a deterioration of U.S. economic ties with an independent Quebec. 'The U.S. has found that it can do business with the Parti Quebecois, and I don't see that collapsing if Quebec gets its independence,' says a Montreal economist [Laurin of the University of Montreal]." [Wall Street Journal, 19 March 1980, p. 46.]

general variable in order to account for that change.(1) A more specific formulation of information as the relay of intended information--viz. communication--is more clearly appropriate given the response to Lévesque's speech in New York. The following chapter addresses the validity of the proposition that communication as intended information constitutes an intervening variable conditioning both the initial negative response in February, 1977, and the subsequent change in the middle of 1978. Communication, and the specific information contained in the message, is postulated as the intervening variable between the American perception of the regime shift and the American reaction to the P.Q.

(1)

Thibeault and Wynant, "Investor Reaction to the Political Environment in Quebec", pp. 245 and 247. They conjecture that either the economic viability of an independent Quebec or the inability of the P.Q. to achieve a mandate for negotiating sovereignty-association constitute information hypotheses accounting for the decline in Quebec-Ontario bond yield differentials in 1978.

CHAPTER 3

QUEBEC-U.S. RELATIONS AND COMMUNICATION: THE QUEBEC REACTION TO THE U.S.

We Americans do not really understand the gravity of the situation. We had our Civil War a long time ago. We look at Canada as a kind of established, unchanging nation--our best friends--so it is very hard to concieve of our best friend having a very difficult problem.

[American political columnist, Nicholas Von Hoffman, May 7, 1977.](1)

One of the principal concerns of the Parti Québécois during its first mandate was the image that its platform and policies projected in the U.S.. The particular uniqueness in the case of Quebec is the extent to which the P.Q.'s efforts to relay specific information to American political and especially economic actors immediately influenced subsequent changes in response. With reference to the application of the "Open-Door" model to the case of Quebec, this additional component of communication can be regarded as an intervening variable between the leftward shift in a regime and the penalties imposed by American corporate interests. The significance of the additional variable of communication becomes clear in terms of the apparent changes in the measures used to test the American response to the P.Q.. The initial negative response occurred not with the 1976 election, but immediately after René Lévesque's speech to the Economic Club of New York in January, 1977. The change to a more positive reaction occurred during the last half of 1978, after Quebec's Ministry of Intergovernmental Affairs instigated an information programme (Opération-Amérique)

(1)

Quoted in Reports on Separatism, vol. 1 #12, p. 77; from a CBC-TV programme on Quebec.

designed to improve the dismal image of the P.Q. conveyed in the American press. In general, the message conveyed by the P.Q. to the U.S. changed markedly, and corresponded with the changes in the American reaction. Prohibited from creating an overt channel of communication with the American government itself (due to Quebec's status as a province, i.e. not officially recognized in Washington), the P.Q. subsequently concentrated its efforts on influencing the American private sector. In this matter, the development of the information variable as it relates to communication is essential for explaining the evident accommodation in the latter half of 1978.

The response of the American government can be summarized as one of guarded neutrality and restricted solely to the question of separatism. In spite of several attempts on the part of the P.Q. to involve official Washington in order to gain some form of recognition, the American government remained consistently aloof. After Lévesque's speech in New York, and Pierre Trudeau's address to Congress on February 22, 1977, President Carter stated the American position repeated in all later official statements--a preference for a united Canada, but regarding the debate as a matter of Canadian concern alone:

My own personal preference would be that the commonwealth [sic] stay as it is and that there not be a separate Quebec province. But that's a decision for the Canadians to make. And I would certainly make no private or public move to try to determine the outcome of that great debate.(1)

In the following years, similar statements were reiterated by

(1)

President Carter, at a news conference, 23 Feb. 1977; reported in U.S. Department of State, Bulletin, March, 1977, p. 253.

Vice-President Mondale, Secretary of State Vance, and Ambassador Curtis, consistent in all respects with Carter's pronouncement.(1) The American government's reaction was not merely a statement of policy. Official Washington shied away from even the appearance of involvement in what it regarded as a strictly Canadian domestic matter.(2) In 1977, the State Department undertook a foreign policy analysis of the P.Q.'s programme, but shortly thereafter terminated it due to the resulting appearance of interference were the analysis revealed by the media.(3) Even after the

(1)

See: Vice-President Mondale in U.S. Department of State, Bulletin, March, 1978, pp. 9-11; Secretary of State Vance in Ibid, January, 1979, p. 21, and June, 1980, pp. 21-3. On October 20, 1979, Ambassador Kenneth Curtis made the following statement: "we like Canada as it is and we'd prefer to stay that way. ... But we will have no involvement at all in the Quebec referendum because this is a question for the Canadian people to resolve." [Quoted in Reports on Separatism, vol. 3 #19, p. 534.] In 1978, Secretary of State Vance had wanted to openly declare his opposition to sovereignty-association, but was dissuaded by the American Consul-General in Quebec City. [Lise Bissonnette, "Quebec-Ottawa-Washington: the Pre-Referendum Triangle", The American Review of Canadian Studies, 11 (Spring, 1981), p. 71.]

(2)

However, the press attempted to foster the opposite image. In stories reminiscent of the ITT-Chilean affair, Le Soleil (26 Aug. 1977) and Le Devoir (27 Aug. 1977) published reports claiming that two meetings took place in Ontario between the CIA and American multinationals on the possibility of disrupting the Quebec economy, halting the referendum, and the "elimination" of Lévesque and some of the Cabinet. A subsequent inquiry by the Quebec government rejected these allegations. [See: Jean-Marc Piotte and Pauline Vaillancourt, "Toward Understanding the Enigmatic Parti Québécois", Synthesis, vol. 2 #4 (Fall, 1978), p. 41.]

(3)

"The Spectre of Separatism", Time, 26 Dec. 1977, pp. 31-2. See also: Charles Doran and Brian Job, "American Perceptions of Quebec", in Problems and Opportunities in U.S. Quebec Relations, eds. Alfred O. Hero, Jr. and Marcel Daneau (Boulder: Westview Press, 1984), p. 266.

referendum, the official policy remained intact. In response to the suggestion (by the Quebec Minister of External Trade, Bernard Landry) that a special relationship between Quebec and the U.S. should be considered as part of a Canada-U.S. liberalized trade agreement, the State Department renounced any possibility of granting Quebec any special status:

It would not be appropriate for the United States government to enter into special trading relationships with provincial governments as distinct from Canada as a whole. ... We do not intend to involve ourselves in internal Canadian issues.(1)

Officially, Quebec gained no special recognition in Washington. The only other instance of U.S. governmental involvement occurred with a speech by U.S. Ambassador Enders to the Montreal Chamber of Commerce on March 21, 1977, in which he urged American businessmen not to be a part of the exodus from Quebec.(2) The delay in the relocation of American-controlled head offices (noted in Chapter 2) may well be attributable to this statement, but the passage of Quebec's language policy--as the official signal of the P.Q.'s intentions--changed the initial "wait and see" reaction.

Even Quebec's attempts to gain direct access to the American government received no cooperation. After Quebec opened an office in

(1)

Press release, U.S. Department of State, Washington, D.C., 2 Feb. 1983. The State Department also declared the "U.S. hope that Canada remain strong and united." [See also: Doran and Job, "American Perceptions of Quebec", p. 266.]

(2)

Reports on Separatism, vol. 1 #11, p. 54.

Washington in February, 1978, the State Department made it clear that this was not recognized as a political delegation and that any approach by Quebec's representatives to the American government would have to be pursued through Ottawa's official channels.(1) In May, 1979, via contact with the U.S. Consul General in Quebec City, the Quebec government offered to let an American official participate in negotiations with General Dynamics for the purchase of Asbestos Corporation, which offer was refused as inappropriate (although the State Department did indicate a willingness to act as a mediator).(2) Just prior to the referendum, Intergovernmental Affairs attempted to place a "political agent" in Washington, but, on the advice of the American Consul-General in Ottawa, the agent was attached to the New York house and thereafter restricted his efforts to collecting material on American legislation which could affect Quebec's economic relations with the U.S..(3)

In light of the official preference for a united Canada and in view of the serious implications for Washington's relations with Ottawa if neutrality were not observed, the publicly stated policy remained intact. During Quebec's initial efforts to foster contacts in the U.S. in early 1978, Prime Minister Trudeau made it clear that any recognition

(1)

New York Times, 18 Feb. 1978, p. A-7.

(2)

Quebec, Ministry of Intergovernmental Affairs, Quebec Update, vol. 2 #21 (28 May 1979), p. 3.

(3)

Bissonnette, "Quebec-Ottawa-Washington", pp. 67-8.

of Quebec would not be taken lightly: "If any country wants to deal with Quebec as though it were independent or as though it were about to become independent, it will have a tough time maintaining friendly relations with us."(1) In fact, there was essentially no need for the P.Q. government to establish overt contacts with official Washington as this function was effectively fulfilled through the U.S. consular offices in Quebec City and Montreal. In 1978, a new Consul-General was posted to the Quebec office (George Jaeger, previously posted in Paris and while there responsible for monitoring Eastern European countries) who sent weekly reports to Washington. His task consisted of collecting and relaying information to the State Department while at the same time advising the Quebec government to refrain from overt attempts to foster official relations.(2) If foreign policy is predicated upon official recognition and overt diplomatic relations between governments, then Quebec never seriously undertook such a foreign policy vis-à-vis the U.S.. But, if foreign policy also includes relationships between a government and a foreign private sector then the Quebec government did undertake a specific policy vis-à-vis the U.S.. The P.Q. government did expend considerable effort to influence the U.S. private sector,

(1) Pierre Elliot Trudeau, quoted in The Wall Street Journal, 27 Mar. 1977, p. A-6.

(2) Bissonnette, "Quebec-Ottawa-Washington", pp. 72-3.

officially formulating a policy in 1978.(1)

The effectiveness of the P.Q.'s ability to garner a favourable response from the American private sector was substantially conditioned by the type of message received in the U.S.. Initially, any information at all took on a great deal of significance due to the lack of understanding about what was occurring in Quebec. Stephen Blank (while noting a more favourable outlook by 1981) claimed that the initial negative reaction evident in 1977 was due to this "factor of unfamiliarity."(2) During a panel discussion on American views of Quebec aired on CBC in Montreal (on May 7, 1977), Harry Schwartz (a member of the New York Times editorial board) indicated a similar situation for Americans: "The sympathies of the average American are going to be overwhelmingly on the side of the English-speaking people, in part because the French-speaking Canadians have not done a very good

(1)

Prior to the P.Q.'s election, the party did not seriously consider its relations with the American private sector, but rather focussed its attention on Ottawa. The discussions with the American private elite prior to 1976 were described by one American as: "rather vague, undifferentiated and naive, and including a good deal of wishful thinking." [See: R. B. Byers and David Leyton-Brown, "The Strategic and Economic Implications for the United States of a Sovereign Quebec", Canadian Public Policy, 6 (1980), p. 326, note 3, quoted from Alfred O. Hero.]

(2)

Quoted in Reports on Separatism, vol. 5 #11, p. 839. Efforts to overcome this unfamiliarity were also apparent. In December, 1976, McClelland and Stewart stated that the U.S. consulate in Montreal ordered 350 copies of Peter Desbarats' book, Rene. [Wall Street Journal, 16 Dec. 1976, p. 1.]

job of communicating their cause to us."(1) During the first mandate of the P.Q., communications became the hallmark of its policy toward the U.S..

This factor of unfamiliarity, and its incumbent misperception, was also initially clear in the American press. An extreme case is that of an editorial in the Wall Street Journal which argued that the election of the P.Q. was evidence of Quebecers' disfavour with Ottawa's policies (of state intervention in the economy and the economic effects of the anti-foreign investment orientation exemplified by FIRA), thereby sending a clear message to Ottawa to change its approach:

Whatever the appearances, the victory of the separatist party in the Quebec provincial elections Monday presents no immediate prospect of Quebec attempting to separate itself from the rest of Canada. But the victory does signify that Premier [sic] Pierre Elliot Trudeau is in serious political trouble.

As much as anything else, it represents a backlash against Mr. Trudeau's Liberal Party, which has controlled the provincial as well as the national government. Provincial Premier Robert Bourassa ... can blame his defeat at least in part on the policies of Mr. Trudeau.

Those policies have been nothing if not confused. Mr. Trudeau's economic principles have proved to be a grab-bag of market intervention, income

(1)

Quoted in Reports on Separatism, vol. 1 #10, p. 77. However, those Americans who had previously dealt with Quebec reflected more positively on the political and economic climate which the P.Q. had to manage. George Weiksner, Vice-President of First Boston Corporation (which managed most of Quebec's bond issues in New York) argued in November, 1976: "There is much talk about the socialist tendencies, but if the Lévesque government succeeds in stabilizing labour relations, in controlling wasteful public expenditures, and in creating a more peaceful social climate than under the previous governments, it would be a major asset for the economy." [Quoted in: Pierre Fournier, "The Parti Québécois and the Quebec Economic Situation", Synthesis, vol. 2 #4 (Fall, 1978), p. 23.]

redistribution and xenophobia, coupled with some admirable ideas such as monetary restraint and indexing of personal taxes to offset inflation. Unfortunately, they haven't totaled up to anything very positive, with the result that Canada's poorer areas--particularly in Quebec--are suffering from economic stagnation and high unemployment.

It is safe to assume that this, and not a truly general desire for secession, was responsible for the outcome of Monday's election. ...

Canada might want to consider whether it would be wiser to again welcome outside capital, resist all forms of separatist and segregationist pressure and back away from the destructive economic interventionism Mr. Trudeau has pursued. The Quebec election results were a major warning signal that present policies are not working.(1)

While this is an extreme example (used as an excuse for "Trudeau-bashing"), American perceptions of what the new government in Quebec intended received nothing less than a shock treatment with Lévesque's speech to the Economic Club of New York.

The significance of efforts to deliver information to American interests (evident in visits such as Lévesque's to New York and in similar visits to the U.S. by P.Q. cabinet ministers)(2) must also be seen in the light of American media coverage of Quebec and the tone of media response. Quebec news increasingly became a story reported in the U.S.. During the first mandate of the P.Q., the Wall Street Journal substantially increased its coverage of Quebec political and economic news, beginning in November, 1976, and then reduced coverage after the referendum in May, 1980 (see FIGURE 3-1). One of the difficulties for

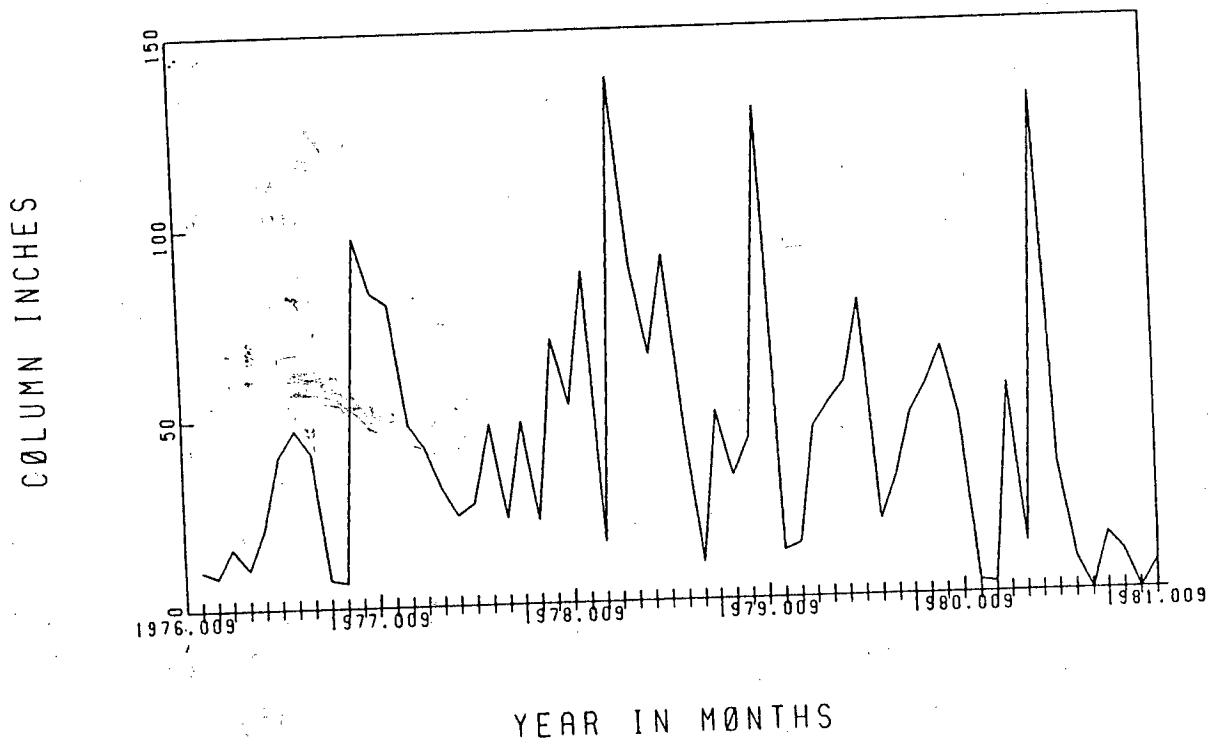
(1)

Wall Street Journal, 18 Nov. 1976, p. 22

(2)

From November, 1976 to June, 1979, 31 such trips were made to the U.S.. [Bissonnette, "Quebec-Ottawa-Washington", p. 69.]

FIGURE 3-1
COVERAGE BY THE WALL STREET JOURNAL
OF QUEBEC POLITICAL AND ECONOMIC NEWS



the Quebec government was that a substantial portion of the American media used the Canadian Anglophone media as its source, and thus represented (from the péquiste point of view) a biased distortion of

events.(1) Only the Journal of Commerce and the Wall Street Journal retained full-time staff within Quebec itself.(2) The generally critical American media became the target of the Quebec government's programme begun in 1978, designed to provide a Quebec government information source.

The reaction to Lévesque's speech must primarily be viewed in light of reporting on Quebec events. There was virtually nothing new in Lévesque's speech which had not been previously published in the U.S.. The only thing new was the fact that it represented the first official statement by the government to the American business community. In terms of the content of the speech itself, it was substantially the same as an article written by Lévesque for Foreign Affairs in 1976 (subsequently reissued in Current in December, 1976).(3) Both focussed on the justification for an independent Quebec--described as "inevitable"--and both scarcely touched on economic issues. An

(1)

This became a part of Lévesque's criticism, especially after his speech in New York in 1977, which he blamed as an influence in his efforts to forge new relations with American financiers. [New York Times, 29 Jan. 1977, p. 7. See also: Stephen Banker, "How America Sees Quebec", in Problems and Opportunities in U.S.-Quebec Relations, pp. 169-84.]

(2)

Banker, "How America Sees Quebec", pp. 172-3. Henry Giniger, correspondent for the New York Times, was officially based in Ottawa.

(3)

René Lévesque, "For an Independent Quebec", Foreign Affairs, 54 (July, 1976), pp. 734-44; reissued as "Will Quebec become Independent?", Current, 188 (Dec., 1976), pp. 46-55. Lévesque's speech is printed as: René Lévesque, "Quebec: A Good Neighbor in Transition", Vital Speeches of the Day, vol. 43 #9 (15 Feb. 1977), pp. 283-7.

interview with Lévesque published in Business Week in December, 1976 (titled: "Separatist Lévesque: Tougher on Foreigners")(1) dealt more with the P.Q.'s economic policies (describing them as "social democratic") such as a provincial procurement policy giving preference to Quebec enterprises; the regulation of foreign investment in sectors concerned with culture, financial institutions and asbestos; and the promise that the "rules of the game" would be forthcoming (highlighting a quotation from Lévesque: "there are going to be some sectors that will be under Quebec control. Period."). While similar articles in the period just after the election also noted P.Q. statements on the regulation of foreign investment, Lévesque's speech in New York did not indicate in any detail what those "rules of the game" would be.

The political issue of an independent Quebec was not initially taken seriously in the U.S.. The day after the election, the New York Times claimed that the vote was primarily a rejection of Bourrassa and did not represent support for separatism, and on the same day an Associated Press story (carried in over 100 American newspapers) claimed that any vote for independence would be defeated.(2) Even Business Week (which subsequently became very critical of the Lévesque government) initially reported that the new regime posed little threat for American

(1) Business Week, 20 Dec. 1976, pp. 38-9.

(2) Reports on Separatism, vol. 1 #1, p. 8.

interests.(1) In two stories in the Wall Street Journal on the day prior to Lévesque's speech, the purpose of the visit was described as seeking to reassure the American investment community. Statements by Lévesque were anticipated as being primarily economic in orientation:

A socialist leaning French Canadian politician and erstwhile journalist named Rene Levesque is flying south of the border today to speak some calm and reassuring words to that prestigious bastion of capitalism, the Economic Club of New York.

Mr. Levesque's purpose is strictly pragmatic, and in sharp contrast to the emotional tide of nationalism that brought his Parti quebécois to power in the province of Quebec last year. Two months after the election, Mr. Levesque, Quebec's new premier, is confronted with the ironic fact that in order to carry out his commitment to make Quebec independent of Canada, he must first convince the U.S. investment community of the stability of the province.

... The premier will try to convince them that his brand of socialism does not include the immediate provincial takeover of key industries in which American companies have a major investment, particularly in metals and forest products.

As for pulling Quebec out of Canada, while Mr. Levesque's commitment remains, there is a good deal less talk about it these days. The belief held by most of Quebec's neighbors, both in the U.S. and Canada, is that it simply won't come about.(2)

On January 25, 1977 Lévesque stood up before a New York audience of 1500 and began with the words: "Exactly two months ago, a new

(1)

"The surprising victory of the separatist and leftist Parti Québécois in Quebec's provincial election left businessmen in a state of shock. However, their fears may be premature. The PQ is not rushing to pull Quebec out of Canada and is unlikely to follow a doctrinaire socialist path. PQ leader René Lévesque makes it clear that he will not set out to nationalize private industry and that he wants foreign investment to help bolster Quebec's ailing economy." [Business Week, 29 Nov. 1976, p. 34.]

(2)

Wall Street Journal, 24 Jan. 1977, p. 1.

government assumed power in Quebec. This government was born of a young political party which had gained strength during the two previous elections, with political sovereignty for Quebec as its prime objective."(1) This was not what was anticipated and the reaction to the speech reflected this fact. Lévesque continued for the most part on the same theme of independence, describing a sovereign Quebec "as normal, ... as inevitable, as it was for the American states of two hundred years ago."(2) The message of stability anticipated by the Wall Street Journal was defined as "the ability to adapt to change rather than the ability to resist it."(3) He did indicate that a foreign investment code (on a sectoral basis) would be forthcoming for financial institutions and the media, and that Quebec's development was dependent upon native Quebecers gaining control of their own economy, specifically citing the forestry sector and the possibility of a direct takeover of the asbestos industry. While these few economic statements were included in the speech, they subsequently received a great deal of attention in the American press reports. As the only statements pertaining to the direction of economic policy, they were interpreted as clarifying the position of the P.Q. as a left-of-centre government.

In light of Lévesque's speech, and what it was expected to contain, the American reaction was not only negative, but negative due to the

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- (1) Lévesque, "Quebec: A Good Neighbor in Transition", p. 283.
 - (2) Lévesque, "Quebec: A Good Neighbor in Transition", p. 284.
 - (3) Lévesque, "Quebec: A Good Neighbor in Transition", p. 285.

lack of any clear economic direction on the part of the government. Specifically, the "rules of the game" for foreign investment were not set forth, and the political message of independence was highlighted. The reaction by one American industrialist to the issue of independence was that he "had no real concept that his [Lévesque's] movement is as serious as it seems to be." (1) An official of the American AFTA finance company specifically commented disapprovingly on the political content of the message:

It was the wrong speech to the wrong audience. These are hard-headed businessmen, who came here seeking assurances that their investments in Quebec were safe. Instead they got a recitation of their own nation's declaration of independence. That was a speech for Canadian voters, not for American businessmen.

An official of ITT (which owns ITT-Rayonier Inc. and from 1971 to 1974 had built a pulp mill in Port Cartier, Quebec at a cost of \$400 million) was similarly disenchanted with the speech's lack of focus on the Quebec government's economic policies:

foreign investors have a right to know what he's going to do with their foreign investment in advance. If it's worthwhile in terms of economic growth, we'll invest—we don't care about his politics. But we have a right to know what the foreign investment ground rules are and he didn't spell those out.

The American media response was similar in tone. Referring specifically to the political orientation of the speech, an editorial in the New York Times claimed that Lévesque had misjudged the Economic Club

(1)

This, and the subsequent quotations, are taken from: Reports on Separatism, vol. 1 #3, pp. 17-8.

of New York, the financial community, American multinationals, and even the press by focussing too strongly on the cultural justification for an independent Quebec.(1) The Wall Street Journal's analysis of the speech (while focussing on the possible nationalization of the asbestos industry) claimed: "Mr. Lévesque shed little new light on his government's future plans for Quebec."(2) A second article also cited as a reason for the poor reception of the speech the lack of any clear economic statements and the general socialist bent of the portions of the speech which did deal with Quebec's future.(3) While part of Lévesque's speech dealt with statements to the effect that foreign investment was still welcome, even these were not perceived positively. In an editorial referring specifically to the overtures welcoming foreign investment, the Wall Street Journal noted: "Even Fidel Castro promised similar things on one of his early journeys to the U.S."

(1)

New York Times, 26 Jan. 1977, p. A-23.

(2)

Wall Street Journal, 26 Jan. 1977, p. 10.

(3)

"Many major U.S. business and investment leaders expressed concern and disappointment with Mr. Levesque's remarks, citing the emphasis his speech placed on the question of Quebec's separatism from the rest of Canada rather than on 'hard, cold economic facts.' A senior representative of a major New York lending firm said, 'Mr. Levesque is a man of destiny, but we as lenders will have to sit back and consider whether we are to be a part of that destiny.'

.... 'Investors in the states are concerned with the socialist aspects of the government,' an analyst said, adding 'its okay to do business with socialist governments in Europe and elsewhere, but U.S. businessmen are going to be more hesitant about dealing with a socialist state just across the border.'" [Wall Street Journal, 27 Jan. 1977, p.8.]

Moreover, sometimes the most fundamentally radical proposals come in conservative packages."(1) On February 27, 1977 both Moody's Investors Services and Standard and Poors announced that they would undertake a reappraisal of both the province's and Hydro-Quebec's double-A bond ratings. As a result, the differential between Quebec and Ontario bonds increased. The impact of information (or more precisely, the lack of it) was immediate.

The reaction by the American economic community was not negative solely because of what Lévesque said in New York, but more so because of what wasn't said. In stark contrast to his speech in New York, Lévesque's address in Montreal to the Quebec business community on February 8, 1977 did not deal with the question of separatism and focussed primarily on the economy. The word "independence" was not used at all in this speech.(2) In the ensuing months, the socialist orientation picked up from Lévesque's New York speech was also exacerbated by the Canadian federal government. During a news conference in Ottawa on February 2, 1977, Finance Minister Donald Macdonald stated his intention of warning foreign investors about the uncertainty in Quebec.(3) During Prime Minister Trudeau's visit to

(1) Wall Street Journal, 1 Feb. 1977, p. 20.

(2) Montreal Gazette, 9 Feb. 1977, p. 2. After which Pierre Frechette (Vice-President of the Royal Bank of Canada) stated: "I wish he had made this speech in New York." [Quoted in Reports on Separatism, vol. 1 #4, p. 29.]

(3) Reports on Separatism, vol. 1 #4, p. 31.

deliver an address to the U.S. Congress in February, 1977, statements to the media enhanced the analogy between Quebec and Cuba. At a news conference he went so far as to claim that a separate Quebec would have "much graver implications for the United States than the 1962 Soviet attempt to place nuclear missiles in Cuba."(1) Subsequent actions on the part of the P.Q. government did little to dispense with the perception received at New York. While commenting as well on the growth of a separatist movement in Western Canada--characterized as stemming from economic grievances and "conservative" by nature--Quebec was characterized as "socialist" and demanding cultural independence.(2) The introduction and passage of Quebec's language legislation (regarded as the government's principal economic policy paper), the rise in the minimum wage to \$3.15 per hour (the highest in North America), the proposed purchase of Asbestos Corporation, and amendments to the labour code to prevent the use of strike-breakers continued to foster the image of a socialist P.Q. in the U.S..(3) In a review of the P.Q.'s first

(1)

Quoted in Reports on Separatism, vol. 1 # 5. p. 33. He continued on this theme during an interview on NBC-TV's "Meet the Press": "If I were you I would be a little bit worried. You worry about some Carribean Island being destabilized. I would think that destabilization in this country north of you would be of some concern to some people." [Pierre Elliot Trudeau, "Transcript of the Prime Minister's Interview on the NBC-TV Program 'Meet the Press'", 22 Feb. 1977, p. 7.]

(2)

Wall Street Journal, 28 Mar. 1977, p. 6.

(3)

See: Herbert E. Meyers, "Business Has the Jitters for Quebec", Fortune, Oct., 1977, pp. 238-44; and "A Pro-Union Bill Scares Quebec Business", Business Week, 24 Oct. 1977, p. 108.

year in office, the Wall Street Journal criticized the attention paid to the issue of separatism and the lack of attention paid to economic concerns.(1)

The initial impact of the communication variable on the American private sector's response to the P.Q. as a government is apparent in the previously noted sharp rise in bond yield differentials beginning in February, 1977. It is equally apparent that the initial response was conditioned by the lack of any detailed economic policy statement in Lévesque's New York speech. In fact, the P.Q.'s major statement of economic policy was not released until September, 1979. By the end of 1977, Quebec's Ministry of Intergovernmental Affairs (IGA), began a course of action designed to change the P.Q.'s socialist and separatist image in the U.S.. In an interview in Fortune Magazine in October, 1977 (and in reference to the business community's reaction) Lévesque stated: "Our counteroffensive will start at the end of the year."(2) In contrast to Lévesque's speech in New York with its focus on political sovereignty, "Operation-Amérique" developed into an information programme designed to convey the message of economic association, which led to a more moderate view of péquist activities by 1978. This period also corresponds to the improvement of the economic measures in the latter half of 1978.

The Quebec government's efforts in 1978 were not designed to gain

(1)

Wall Street Journal, 15 Nov. 1977, pp. 1 and 33.

(2)

See: Meyers, "Business Has the Jitters for Quebec", p. 244.

political influence in Washington, but to modify the American private sector's perceptions of Quebec events.(1) As part of the programme, additional offices in the U.S. were opened, additional personnel were assigned to these offices, more ministerial visits to the U.S. were planned, and the budgets for American operations were increased. The initial effort to gain a voice in Washington (by the establishment of the first provincial office there on February 2, 1978), was thereafter downplayed due to the friction this would create between Washington and Ottawa. The Washington office was established initially as a tourist bureau, but as Lévesque explained in December, 1977, in the future it could be staffed "with people capable of giving information on Quebec's political situation to anyone willing to listen."(2) However, this functional expansion never occurred.

The general objective of Opération-Amérique was to "propose and realize a communications programme capable of reassuring business people and to stimulate investors' confidence" in Quebec,(3) "leading the United States at all levels to observe an attitude of benevolent

(1)

Even in Lise Bissonnette's critical review of "Opération-Amérique", it was emphasized that there was no political target actively solicited. [See: Lise Bissonnette, "The Evolution of Quebec-American Diplomacy", in Contemporary Quebec, ed. Calvin Veltman (Montreal: Université du Québec à Montréal, 1981), pp. 162-9.]

(2)

Quoted in Reports on Separatism, vol. 1 # 24, p. 189, from the New York Times, 22 Dec. 1977.

(3)

Quebec, Ministry of Intergovernmental Affairs, "Opération-Amérique", quoted in Bissonnette, "Quebec-Ottawa-Washington", p. 66.

neutrality with regard to the political and social progress of Quebec, and in certain sectors to take an actively and effectively sympathetic attitude." (1) As long as the American government maintained a posture of "neutrality", the programme did not require any political target. Instead, the programme called for enlarging the economic and tourist roles of Quebec delegations in the U.S., creating information services in most of their U.S. offices, and infiltrating communications networks in the U.S.. The message to be conveyed was: the Quebec government would accept the laws of competition and free enterprise, Quebec was interdependent in the North American economy, and the Quebec economy was being healthily managed. Only part of this programme was undertaken, but the message of "association" instead of Lévesque's lecture on "sovereignty" in New York was conveyed.

While the efforts by Quebec were relatively small, their effect was not. In 1981, an (unidentified) American speaker from the Council on Foreign Relations reflected positively on the long run bureaucratic competence in Quebec when he said that he "found Quebec speakers very open about their intention to increase the percentage of budgets and staffs devoted to the United States, saying that they have become more pragmatic in the last couple of years about dealing with

(1)

See: Reports on Separatism, vol. 2, #24, p. 371; and Pierre O'Neill, "La Prochain Etape: les Etats-Unis", Le Devoir, 6 Dec. 1978, p. 3.

businessmen."(1) When the P.Q. took power in 1976, it had created the first U.S. division by a provincial government in IGA, at first staffed by only two, but by 1980 staffed by nine, some of them coming from the office of the Secretary of State for External Affairs in Ottawa.(2) The operations budgets for U.S. offices increased from a scant \$200,000 in 1976 to nearly one million dollars by 1980, and a plan to close the Dallas office was temporarily shelved until 1981. Besides the small tourist bureau opened in Washington, the Atlanta house was opened in 1978 (although the decision to open an office in Atlanta had originated in the previous government).(3) Besides the increases in the budgets for Quebec houses in the U.S. (by 1980 Quebec was spending a total of \$3 million for its American offices alone),(4) additional personnel were placed in all the offices (especially in 1978/79; see TABLE A-3-1 in the appendix). For the New York, Boston and Los Angeles offices, special

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- (1) The Council on Foreign Relations Inc. and the Canadian Institute of International Affairs, Canada and the United States in the 1980s: The Fifth Lester B. Pearson Conference, Oct. 14-17, 1981 (Copyright: Council on Foreign Relations Inc., 1982), pp. 38-9.
- (2) Ottawa's DEA created its U.S. Bureau in 1977, staffed by about 12. [Stephen Clarkson, Canada and the Reagan Challenge (Toronto: James Lorimer & Company, 1985), pp. 299-300.]
- (3) Bissonnette, "Quebec-Ottawa-Washington", pp. 66-7.
- (4) Clarkson, Canada and the Reagan Challenge, p. 303.

information officers were assigned.(1)

In addition to the creation of specific information posts in the U.S., IGA also undertook measures to provide a source of information on a continuous basis to the American media, business leaders, and anyone willing to listen. This substantially took the form of a small four page news-letter called Quebec Update. It was published about 46 times a year, beginning in the middle of 1978, and was distributed through all of Quebec's offices in the U.S.--with the notable exception of Washington (see TABLE A-3-2, in the appendix). While Quebec's efforts to gain influence in the U.S. have been analysed solely in terms of the attempt to gain contact with official Washington,(2) the communication programme was clearly designed to influence the American private sector. IGA described the purpose of the information officers and Quebec Update as:

an information effort designed not only to correct certain interpretations by the media on the contemporary evolution of Quebec, but also to generate favourable conditions about economic

(1)

In April, 1978, the Los Angeles post was filled by the former Canadian Vice-Consul in L.A., the New York post was filled by Reginauld Savoie (formerly of a Montreal public relations firm), and the Boston post was filled by Evelyn Dumas (former editor of the then recently closed Quebec paper Le Jour). [Sources: Reports on Separatism, vol. 2 #8, p. 258, and the Wall Street Journal, 18 Apr. 1978, p. 47.] After the referendum, the officers from L.A. and Boston were recalled and the information networks restricted to New York. [Bissonnette, "The Evolution of Quebec-American Diplomacy", p. 166.]

(2)

This is the principal direction taken by Bissonnette.

relations with the United States.(1)

Quebec Update generally puts economic news in its most favourable form, in order to counter not only the Canadian-Anglophone media source used by the American press, but also the federalist view presented in Canada Today/d'Aujord'hui.(2)

The initial drive of "Opération-Amérique" began with a speech by Lévesque at Harvard on April 19, 1978 in which he emphasized the "economic association" aspect of sovereignty-association. In contrast to the disaster in 1977 the address was generally well received.(3) He continued on this theme during a three city tour of Chicago, San Francisco and Los Angeles in September and October, focussing on the North-American links of sovereignty-association, and arguing that the P.Q.'s approach would lead to stability.(4) The emphasis that Quebec was placing on improving its image in the U.S. was also not lost on the American media, which described the increases in Quebec's delegations as the creation of a Quebec foreign service, during what the New York Times

(1) Quebec, Ministère des Affaires Intergouvernementales, Rapport Annuel (1978/79), p. 46.

(2) Stephen Banker, "How America Sees Quebec", pp. 171-2.

(3) Wall Street Journal, 20 Apr. 1978, p. 17.

(4) Montreal Gazette, 4 Oct. 1978, pp. 8 ad 9; see also: New York Times, 5 Oct. 1978, p. 34, which characterized the message as less separatism and more association.

called "the year of Quebec's diplomatic offensive in the United States." (1) After Lévesque's address to the Council on Foreign Relations in May, 1978, the mitigating effect of the message of economic association was also evident in an editorial in the New York Times which claimed that Quebec separatism had "passed its peak" and that Quebec would reach an accommodation with the federal government.

Premier René Lévesque came to New York this week preaching his gospel of ~~souveraineté-association~~ sovereignty for Quebec but in association with Canada—and attempting to dispel the fears that an independent Quebec would be bad for American business. He may well be right; his provincial administration has been far from radical in its fiscal measures. But there is a more concrete reason why Americans can look calmly on the matter: Quebec spearatism appears to have passed its peak. ... In all likelihood, the province will reach an accommodation with Ottawa, avoiding the trauma of separation. [Emphasis in the original.](2)

The affect of this address in New York can also be seen in contrast to Lévesque's earlier speech in January, 1977. While the earlier address (with its emphasis on political sovereignty) had the effect of increasing the bond yield measure in February, 1977, after his address in New York in May, 1978 (emphasizing economic association) there also occurred a reversal of the higher yield differentials notable by the marked degree of the decline in this measure in June and July, 1978. In both instances, the effect of communications was virtually immediate.

The effort in the U.S. did not rely solely on the presence of

(1) New York Times, 15 May 1978, p. D-1 and D-2. See also: Wall Street Journal, 18 Apr. 1978, p. 46.

(2) New York Times, 20 May 1978, p. 18.

Lévesque. Bernard Landry (Minister of State for Economic Development) also made several excursions to the U.S., enhancing a positive image by stating his preference for an economic association that included the U.S.. While at Northwestern University in Illinois, Landry argued that if the rest of Canada refused to negotiate association, there would be a "strong temptation in Quebec to look south."

Our first choice is association with the rest of Canada. . . . If not, we will reconsider. It is more rational for us to make trade with New York or Boston rather than with Vancouver, Saskatoon or Moose Jaw.(1)

The emphasis on economic ties to both Canada and the U.S. was also the theme of Landry's trip to Boston in November, 1979.(2) The effect of these and several other statements made during a flurry of ministerial trips to the U.S. (which followed the policy of enhancing the message of economic association; see TABLE A-3-3 in the appendix) can be seen in Senator Edmund Muskie's reaction after a private conversation with

(1) Quoted in Reports on Separatism, vol. 2 #8, p. 258. During a tour of American business centres in May, 1978, in an interview with the New York Times [15 May 1978, p. D-1] Landry stated: "It is inevitable that Quebec's relations with the United States will be intensified. We Quebecers have always had a continental outlook. In addition, the trend is toward a reduction of tariff barriers in the industrialized world and this will be especially true on the North American continent." Landry also argued (para-phrased) that "frequent predictions of the collapse of the Quebec economy in the event of independence made no sense because in any case Quebec would be able to count on continuing relations with the United States. He made it clear that an intensification of these relations would be a powerful argument for Quebec to persuade the rest of Canada not to turn its back on association with a sovereign Quebec."

(2) "U.S. companies doing business in Quebec will see no difference after sovereignty-association . . . because economic ties will remain." [Quebec Update, vol. 2, #45, p. 2.]

Lévesque during the Premier's trip to address the National Press Club in Washington in January, 1979:

It seems that separatism is not a very precise word to describe what Mr. Lévesque is talking about. My impression is that his aim is not separatism in the sense of isolation, but a new relationship that would bring a fresh dimension to Canada. In any case I'm convinced that we can live with whatever relationship Canadians work out among themselves.(1)

The change in tone was also not missed by the American media. Business Week, which had initially been most persistent in pointing out the socialist leanings of the P.Q., indicated to its readers that Quebec was by mid-1978 "warm" to business, citing increased investment by several American corporations, and noting that companies which remained in Quebec "seem[ed] to be coping with the new political environment" This same article also quoted Finance Minister Jacques Parizeau as claiming: "The dust has settled considerably. Large investors are realizing that they can come to proper deals with us--under concitions that are fast becoming the best in North America."(2) The Wall Street Journal (which also had written sceptically of the P.Q.) reported the

(1)

Quoted in Reports on Separatism, vol. 3 #2, p. 392. Upon becoming Secretary of State, Muskie never repeated this position. [Bissonnette, "Quebec-Ottawa-Washington", p. 68.]

(2)

Cited as an example of accommodation was the government's relaxation of the use of language in corporate head offices. "Quebec Warms to Business", Business Week, 24 July 1978, p. 50. Bendix Corporation was putting in an auto brake casting plant near Montreal, Mead Corporation was spending over \$200 million on a pulp mill, and General Motors was proceeding to build a Bus assembly plant. Reginald K. Grome (President of Hilton Canada) stated: "A year ago businessmen in Quebec were faced with gnawing uncertainty. Now we can be confident that things will work out and, with dogged determination, we are going to survive."

claim by Yves Guerard (president of the Montreal Chamber of Commerce) that "[a]llthough the P.Q. government is certainly more to the left of any previous government ... it is now more to the right of itself." (1) At the same time, the economic measures all demonstrated an improvement during 1978. The direct effect of Quebec's efforts was most clear in terms of its borrowings. In late July, 1978, Hydro-Quebec launched its first major bond issue in the U.S. since the 1976 election, and while paying a high premium for its return to the U.S. market, the success of this sale also contributed to reducing the high bond yield differentials which were the direct result of Lévesque's speech in New York.

With reference to the behaviour predicted in the "Open-Door" model, the effect of communication clearly is a conditional quality for both the negative reaction predicted by that hypothesis and the subsequent more positive response. The affect of communication is most pertinent in the instance of the distinction between the political and economic content of messages sent to the U.S.. The P.Q.'s major economic policy paper (Batir le Québec) was not released until September, 1979, (2) well after the improvement accompanying "Opération-Amérique". What is primarily significant about this policy paper is the economic reaction it evoked in the U.S.-virtually none.

(1) Quoted in: Wall Street Journal, 26 Dec. 1978, pp. 1 and 15.

(2) Released for the Anglophone business community as: Challenges for Quebec: A Statement of Economic Policy. Synopsis, Policy Objectives and Measures (Québec: Editeur Officiel du Québec, Sept. 1979).

Most of the analysis of the policy direction instituted in Batir le Quebec focusses upon the primacy given to the private sector as the engine for development, a clear change from the more public sector stance of the P.Q. prior to its electoral victory. Earlier statements by the P.Q. on state intervention do indeed contrast with the later emphasis given to the private firm,(1) and this would tend to support the proposition that the P.Q. had in fact changed its orientation to one which accorded priority to more liberal ideas. While this has to be granted to a degree, the emphasis of Batir le Quebec was not just on the private sector, but on the Francophone private firm; the operative term was the "indigenous" firm, and there was a clear demarcation between

(1)

From the P.Q.'s 1970 programme: "The state has to adopt as a primary form of intervention in the economy a supported extension of the public sector (public or mixed enterprise)." [Quoted in: Réjain Pelletier, "Political Parties and the Quebec State since 1960", in Quebec: State and Society, ed. Alain C. Gagnon (Toronto: Methuen Publications, 1984), p. 342.] In contrast, Batir le Quebec begins with: "the firm or enterprise is the basic element for development. Economic programs should be designed first and foremost with a view to the problems of the business firm, regardless of the sector in which it operates and independent of policies based on the economic situation." [Challenges for Quebec, p. 1.] William Coleman contends that Batir le Quebec is a contradiction of previous P.Q. programmes and that it represents a continuation of the economic orientation of the Bourrassa government. [William D. Coleman, The Independence Movement in Quebec: 1945-1980 (Toronto: University of Toronto Press, 1984), pp. 104-5.]

"autochtones" and "étrangers".(1) This aspect of the policy was presented openly to the U.S. by the P.Q. government.(2) In spite of the private sector thrust, both the New York Times and the Wall Street Journal emphasized the statements pertaining to foreign investment, including the preference for local control--at least joint control in all new ventures--and again the promise of a set of provincial foreign investment guidelines.(3) However, neither the policy paper nor the press reports evoked the reaction (previously evident in 1977) exactly when they should have.

The foreign investment position of Batir le Quebec also made it clear that guidelines on foreign investment could only be implemented after the achievement of independence. This condition effectively made the economic policy contingent upon the political objective. However,

(1)

This was most clearly stated with reference to the processing of raw materials: "Our natural resources are not generating the economic impact we should expect. Too many of our real assets are controlled by others and used to create major advantages outside Quebec. ... The initial thrust must always come from domestic economic agents making maximum use of the resources of the country and of the advantages of an economy with access to international markets. Quebec cannot make an exception to this rule. The full exploitation of our potential as a market economy depends above all on the increased responsibility of Quebecers as economic agents counting first and foremost on their own initiative." [Challenges for Quebec, p. 3.]

(2)

Quebec Update contained the press communiqué on Batir le Quebec, and while this presented a "business enterprise approach" as the basis of the policy, it also claimed: "Foreign ownership of firms operating in Quebec has also slowed down our development." [Quebec Update, vol. 2 #44, p. 4.]

(3)

New York Times, 7 Sept. 1979, p. 5; and the Wall Street Journal, 7 Sept. 1979, p. 16.

the fallout from this position was also not severe. While several American multinationals clearly demonstrated their preference for a united Canada by contributing to the Pro Canada Foundation during the referendum debate,(1) just prior to the referendum, Standard and Poors announced that it would give both Quebec and Hydro-Quebec the same double-A bond rating they previously held even if the vote should give the P.Q. a mandate to negotiate sovereignty-association.(2) However, there was no immediate reaction to Batir le Quebec itself, in spite of the fact that, at the time of its release, the opinion polls reported in the U.S. indicated roughly a 50% chance of a "Yes" vote.(3)

It would be an exaggeration to claim that the P.Q., once the party in power, was as far to the left as the perception of it would indicate. It is arguable that the improvement in all the economic indicators of that perception could be attributed to the relaxation of the specific policies which initially helped contribute to the reaction in 1977. The most criticized policies were Bill 101 (subsequently modified, especially with regard to special treatment accorded to head offices), the minimum wage policy (subsequently revised to remove its indexation

(1)

On Oct. 4 1979, La Presse revealed that multinational and anglophone businesses contributed \$2.7 million; Gulf gave \$60,000, and other American-owned companies were identified as: Canadian International Paper, Dominion Textile, Pratt and Whitney, Dominion Bridge, Kraft, Simpsons-Sears, Hilton, the Mercantile Bank, Robin Hood, and Du Pont. [Reports on Separatism, vol. 3 #18, p. 524.]

(2)

Reports on Separatism, vol. 4 #8, p. 628.

(3)

See: Wall Street Journal, 21 June 1979, p. 26, and New York Times, 30 Sept. 1979, p. 7.

to the cost of living), the takeover of Asbestos Corporation (the P.Q. delayed for over a year the legislation empowering expropriation if negotiations failed, and subsequently had to endure a series of court contests for over two more years), and the anti-scab legislation (modified after discussions with the business community). Although most of these changes in policy occurred in 1977, the actual communication to the U.S. of the specific provisions of those policies did not take place until the middle of 1978. As well, a large part of these same policies were implemented and in spite of this some form of accommodation apparently took place. The policies were relaxed, they were not expunged. In this respect, policy goes beyond communication itself.

The preceding analysis of communication as an intervening variable for the "Open-Door" model presents only a partial picture. Its relevance for the "Open-Door" model is apparent in the American reaction, and in this case study the reaction is immediately contingent upon that communication. Using categories in communication theory from Deutsch(1) there is virtually no "lead" time (reaction to the prediction of a future event), and practically no "lag" time (the time involved in corrective reaction); "gain" (in the form of the extent of action to the perception) is both evident and considerable, especially in 1977, but what is also significant is the concept of "load", the change in the American response to the communication entailed in "Opération-Amérique",

(1)

Karl W. Deutsch, The Nerves of Government: Models of Communication and Control (New York: The Free Press of Glencoe, 1963), pp. 187-8.

the return to a situation approaching normalcy after the reception of information correcting the lacuna in the earlier communication.

Communication forms part of information which has two components.(1) The first is "salience", defined in terms of the degree of transaction between two actors. If the amount of activity (as measured by the extent of signals between the actors) itself does not change, "salience" change is nil. The preceding analysis has relied most heavily on this concept of "salience": there is by all measures an increase by this indicator for both actors. However, "salience" alone is insufficient, although it can be regarded as a requisite, indicating whether or not there is activity. Communications are not neutral and transaction "salience" does not distinguish between a positive or a negative, a benefit or a cost.

The second concept of "covariance", defined as "the probability of getting an adequate response within an acceptable limit of time", (2) does incorporate a cost/benefit component in information. The concept of "covariance" (as a representation of the value carried in the message) links the intervening information variable with the cost/benefit hypothesis of the "Open-Door" model. Rosen's model expressly assumes that a leftward shift in a regime will entail costs to

(1)

Karl W. Deutsch, "Communication Theory and Political Integration", in The Integration of Political Communities, eds. Philip E. Jacob and James V. Toscano (Philadelphia: J. B. Lippencott Company, 1963), pp. 46-74.

(2)

Deutsch, "Communication Theory and Political Integration", p. 67.

American multinationals and that the penalties in reduced trade and investment will result in a benefit, a subsequent rightward shift by that regime as a reaction to those penalties. "Covariance" effectively incorporates a threat/counterthreat interaction with information. In posing communication as an intervening variable, the pluses and minuses of specific policies (which simultaneously demonstrate "salience") must be incorporated into an acceptable model.

The significance of the concept of "covariance" is immediately apparent in the preceding analysis. The political message emphasizing "independence" was not the statement expected as a positive signal, but the message of "economic association" was received positively. The economic measures all reflect this distinction in relation to communication. While "salience" refers to the creation of a channel of communication, the effectiveness of the signals carried by that channel are crucial in terms of the pattern of action carried by that signal and how it relates to the pattern stored in the receiver. (1) Lévesque's speech in January, 1977 was not specific enough (because of its preponderant political content) to instigate an acceptable response by the intended receiver, the American commercial community. However, the later economic orientation of the signal conveyed by *Opération-Amérique* did achieve a matching between signal and receiver on the economic concern over the status of an independent Quebec. In this most fundamental distinction in messages, communication theory's concept of covariance becomes crucial.

(1)

Deutsch, Nerves of Government, pp. 146-8.

Part of what the concepts of "salience" and "covariance" add to analysis is a sensitivity to change. The significance of these conceptual additions to the "Open-Door" model is that they introduce a dynamic process which can be used to explain the intervening behaviour by going beyond the more static win/loss (or triumph/punishment) format endemic to that theory of economic imperialism. A form of accommodation apparently occurred around 1978. The process of achieving this accommodation is a residual to that model. The dynamic evident above must also form a part of that residual explanation. With the concept of "covariance" in communication, a model of bargaining is more clearly appropriate to this case.(1) A bargaining approach can be effectively integrated into the "Open-Door" model via the additional concept of "critical risk" which employs the criterion of a "threshold" for change related to the probability that in endeavouring to gain a concession an unacceptable outcome may result given different perceptions of cost and benefit. A model of accommodation employing that threshold can follow. Such a form of accommodation has also been alluded to by others (but without a rigorous proof). McRoberts and Posgate clearly represent this approach when they claim to recognize:

a drive among some Anglophone firms to increase the proportion of Francophones in the upper levels of their operations. But this has occurred, not

(1)

Oran Young defines bargaining as: "the manipulation of the information of others in the interests of improving the outcome for one's self under conditions of strategic interaction. ... [B]argaining will occur only when communication (in the broadest sense) is possible, since the manipulation of another individual's information condition depends upon the supply of information to him." [Oran R. Young, "The Bargainer's Calculus", in Bargaining: Formal Theories of Negotiation, ed. Oran R. Young (Chicago: University of Illinois Press, 1975), pp. 364 and 366.]

because the PQ government has fundamentally recast language policy, but primarily because of the PQ government's commitment to Quebec independence. Such corporate measures will be seen as prudent steps to reduce the appeal of independence, and of the Parti québécois itself. ... In effect, change will have been secured not through the direct implementation of new policies, but through the threat of greater change at a later date. In the short term, the PQ administration appears to be constrained to follow the same policy directions as did its much-maligned predecessor.(1)

The theoretical addition is set in terms of a dynamic interaction which results in a more acceptable response than pure conflict, and through the interaction of threat and perception related to specific risks entailed in either succeeding or failing to achieve an objective.

The explanatory value of such an approach is clearly relevant to situations such as that of the Quebec-U.S. relationship. Theories of dynamics generally incorporate a concept similar to "threshold" as in the case of Easton's system's model where "stress" becomes the turning point between survival and demise in systems' change.(2) Such a concept is also pertinent here. In Stephen Kobrin's review of the relationship between policy changes in developing countries and the accompanying investment risks for multinationals, he claims that "investors may simply avoid investments when the level of perceived risk exceeds some

(1)

Kenneth McRoberts and Dale Posgate, Quebec: Social Change and Political Crisis (Toronto: McClelland and Stewart, Ltd., 1980), p. 212.

(2)

David Easton, A Framework for Political Analysis, Phoenix Edition (Chicago: University of Chicago Press, 1979), ch. 6 and 7.

acceptable threshold."(1) Furthermore, the element of communication is also pertinent to the same situation since: "The problem is obviously acute in international firms where foreign direct investment decisions must, by definition, be made in one society based upon signals from another."(2) The "critical risk" model specifically addresses this threshold in relation to signals. The signals (when evidenced by "salience") and the "covariance" of those signals become significant for determining the impact of communication by influencing the "threshold" of perceived risk under conditions of a threat/counterthreat interaction.

The application of a perspective incorporating the dynamics of communication with the costs and benefits endemic to decision is also pertinent in filling lacunae in the study of Canadian-American relations. Wallace Clement--taking a similar orientation as that implied in the "Open-Door" model--while writing on the condition of Canadian dependence on the U.S.--claims:

The system has emerged not in spite of politicians but because they have permitted it. Conversely, since they have allowed these events to occur, the national independence has been decreased and much of the control over Canada's economy has been allowed to shift outside the country to the board rooms of U. S. corporations. But even within a country the state does not control the decisions of corporations, whether national or foreign, although

(1) Stephen J. Kobrin, "When does Political Instability Result in Increased Investment Risk", Columbian Journal of World Business 13 (1978), p. 120.

(2) Kobrin, "Political Instability", p. 120.

it certainly can influence them. [Emphasis added.](1)

The addition to the "Open-Door" model is related directly to determining the capability and effect of the reciprocal influence implied above.

This is subsequently set forth through an elaboration of the tactics of influence endemic to the model of "critical risk".

(1)

Wallace Clement, Continental Corporate Power: Economic Elite Linkages between Canada and the United States (Toronto: McClelland and Stewart Ltd., 1977), p. 299.

CHAPTER 4

THE CRITICAL RISK MODEL: DECISION AND COMMUNICATION(1)

Under most sets of circumstances in which people interact there is an element of risk, whether it is the probability of being hit by an automobile while crossing the street, or the chance one takes in losing a wager if another player in a poker game has a better hand, or the possibility during labour-management negotiations that the opposing bargaining team will not accept your last offer and may instead opt for either a lock-out or a strike. In some of these situations the element of risk is negligible and scarcely deliberately considered if at all as in the case of crossing a street; in others risk becomes more significant as in the case of a poker game, depending on the size of the pot and whether or not the deal of the cards was made fairly; and in others the element of risk becomes crucial, especially when there is a clear conflict of interest that can drastically alter an individual's lifestyle as in the case of labour-management relations. While the element of risk can be identified, this alone does not tell us very much. A more significant approach is found in answering the question: when does the risk involved in interactive situations become crucial enough to alter an individual's course of action? This is the question that the concept of "critical risk" addresses.

(1)

I am indebted to Dr. D. Marc Kilgour for his invaluable assistance in clarifying the salient properties and rationale employed herein, although in some respects what is contained here differs markedly from his guidance. In any case, his efforts are gratefully acknowledged, although any errors or omissions are the responsibility of the author.

While the situational characteristics of interpersonal interaction provide the context for circumstances that are more or less risky, the situation alone does not determine the amount of risk an individual is willing to sustain in choosing a particular course of action. The values that the individual holds for the probable result of that choice of action intercede. As in the case of crossing the street--for example's sake say at rush hour, on main street, and against a red light--if the individual only wishes to buy a newspaper his willingness to cross will be negligible. However, if instead a two-time loser is being chased after completing armed robbery there is more likely a stronger resolve to take the chance of injury. In other situations the size of the poker pot or the demands of bargaining teams will also have an impact on the value of the outcome. To some extent, these will similarly affect the risk that the person is willing to accept in either calling a poker bid (or folding) or breaking off negotiations (or conceding). As in these examples, the concept of "critical risk" includes an evaluation of riskiness according to the values of specific outcomes for the individual. "Critical risk" incorporates a sensitivity to changes in acceptable levels of risk as the values of outcomes undergo exogenous shifts.(1) It takes a dynamic perspective in

(1)

Utility change determined by a change in outcome as a consequence of a change in tactics (i.e. utility exogenous shifts) is the principal orientation of "critical risk" advanced (but not developed) by Ellsberg and employed by Snyder and Diesing into an accommodative process. [See: Daniel Ellsberg, "The Crude Analysis of Strategic Choices" (Santa Monica: The Rand Corporation, Paper P-2183, 1960), p. 5; and Glenn H. Snyder and Paul Diesing, Conflict Among Nations: Bargaining, Decision Making, and System Structure in International Crises (Princeton, N. J.: Princeton University Press, 1977), pp. 48-52.]

interpersonal relations based on utility considerations.

Relying heavily on game theory, the concept of "critical risk" can be developed into a model (applicable to bargaining situations) in order to explain accommodative behaviour. The model specifies manipulative tactics--acting as signals--designed to influence patterns of concession to or defection from an agreement. As a concept, "critical risk" is a hypothetical-deductive heuristic device that also implies a behavioural expectation in situations where change is evident--its approach is dynamic. It is most clearly applicable in situations of strategic interaction where there is reciprocal control of the outcomes between two persons and where there is a mixed motivation between choices of conflict and cooperation. The dynamic is evident when the motivation changes from cooperation to conflict, from concession to standing firm (or vice versa).

Before addressing a concise analysis of the concept of "critical risk", the possibility of change must be assessed in relation to risk itself. In general, risk refers to "the probability of an undesirable outcome associated with a particular action"(1) in situations where there is evidence of threats and counterthreats. Risk implies not only uncertainty but more precisely a probability related to the value of an outcome, specifically the difference between the costs and benefits of

(1)

This definition is proposed within the context of threat perceptions and their effects. See: Stephen G. Walker et al., "Evidence of Learning and Risk Orientation During International Crises: the Munich and Polish Cases", British Journal of Political Science, 14 (1984), p. 48.

payoffs compared with each other and relative to the strategies employed to attain a preferred payoff. The relationship of these factors with the dynamics of risk are most clear in two of the more popular symmetric mixed-motive games: the Prisoners' Dilemma and the game of Chicken.

(Ordinal rank preferences)

PRISONERS' DILEMMA

CHICKEN

		COLUMN	
		C	D
ROW	C	3, 3	1, 4
	D	4, 1	2, 2

		COLUMN	
		C	D
ROW	C	3, 3	2, 4
	D	4, 2	1, 1

'C' represents the Cooperative strategy;

'D' represents the Defect (or conflict or non-cooperative) strategy.

While the differences in degrees of risk for each of these two games is not immediately apparent, it can be seen in the overlap of these two symmetric games in the asymmetric "Called Bluff", where one player has the rankings of Prisoners' Dilemma and the other has the rankings of Chicken:

CALLED BLUFF (Ordinal rank preferences)

ROW IS BLUFFING

COLUMN IS BLUFFING

		COLUMN	
		C	D
ROW	C	3, 3	2, 4
	D	4, 1	1, 2

		COLUMN	
		C	D
ROW	C	3, 3	1, 4
	D	4, 2	2, 1

'C' represents the Cooperative strategy;

'D' represents the Defect (or conflict or non-cooperative) strategy.

The comparative degrees of risk are evident in Called Bluff where, when Row is bluffing, he is taking the chance of receiving his lowest payoff, 1, if he Defects (in order to try to get his maximum 4) should Column simultaneously Defect; but Row is risking his comparatively better payoff 2 should Row choose Cooperation. Similarly, if Column defects he is risking only 2, a better payoff than Row should Row reciprocate with Defect, but risks receiving his worst payoff, 1, should Column choose to Cooperate when Row chooses to Defect. The same situation applies reciprocally obversely when Column is bluffing. The bluffing player is risking a worse outcome (when choosing to Defect) than his opponent. In the game Called Bluff, the asymmetry of the matrix exemplifies the impact of exogenous shifts in ordinal utilities from the two symmetric games of Prisoners' Dilemma and Chicken. The asymmetric overlapping in Called Bluff also ordinally demonstrates differences in degrees of risk. In its most simple form, this demonstrates comparatively the greater degree of riskiness in the game of Chicken for the strategy choice of Defect in order to receive the highest payoff, 4. Furthermore, it is possible to demonstrate how the two symmetric games can change into one another, assuming that the payoffs are cardinal rank orderings as they undergo changes. This assumption facilitates explaining the dynamic properties of the "critical risk" model, but is not necessary for the determination of the formal properties of "critical risk".

As a heuristic assumption, the use of cardinal utilities permits the derivation of tactical moves which change the outcome-preference structure and as a consequence risk. For the remainder of this chapter,

a symbolic representation of the mixed-motive matrix will use:
 T (representing the Temptation to Defect), R (representing the Reward for Cooperation), S (representing the Sucker's payoff for Cooperation), and P (representing Punishment for Defecting); additionally, 'r' represents row's payoffs and 'c' represents column's payoffs in the matrix:(1)

		COLUMN		
		Cc	Dc	For both Players:
ROW	Cr	Rr, Rc	Sr, Tc	Prisoners' Dilemma is represented by: T > R > P > S
	Dr	Tr, Sc	Pr, Pc	Chicken is represented by: T > R > S > P

'C' represents the Cooperative strategy;
 'D' represents the Defect (or conflict or non-cooperative) strategy.
 'r' indicates Row; 'c' indicates Column

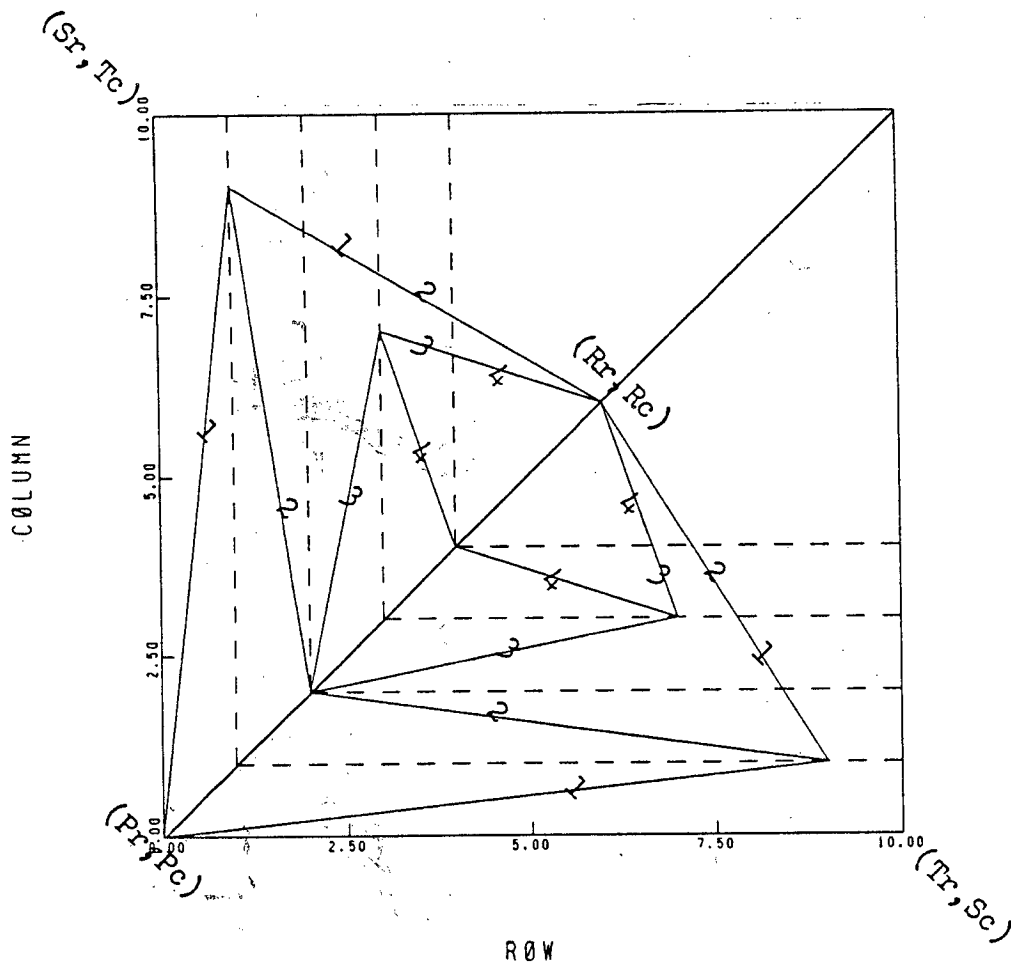
The transformation from Prisoners' Dilemma to Chicken and vice versa occurs as 'P' and 'S' exchange relative positions in the rank ordering (see FIGURE 4-1).

The transformation from one game type to another is most clear in the case of quadrangle 2, Prisoners' Dilemma, which can be transformed into Chicken by means of increasing the level of punishment for defection (viz., decreasing the utility of 'P', i.e. to quadrangle 1), or decreasing the penalty for being suckered (viz., increasing the utility of 'S', i.e. to quadrangle 3). This will happen most likely when the other player makes a concession by reducing his demands, i.e.

(1)

Steven J. Brams, Game Theory and Politics (New York: The Free Press, 1975), p. 31.

FIGURE 4-1
 TWO-DIMENSIONAL REPRESENTATION OF TRANSFORMATIONS FROM
 PRISONERS' DILEMMA TO CHICKEN



1 Prisoners' Dilemma; 2 Chicken; 3 Prisoners' Dilemma; 4 Chicken
 ----- GAME BOUNDARIES

reducing his 'T'. Similarly, Chicken may be transformed into Prisoners' Dilemma by taking defensive measures to reduce the effectiveness of punishment (viz., increasing the utility of 'P', i.e. from quadrangle 3 to quadrangle 4), or by increasing demands upon the opponent which will result in increasing the opponent's penalty for being suckered (viz.,

decreasing the utility of his 'S', i.e. from quadrangle 3 to quadrangle 2). This dynamic in utilities may also result in the asymmetric Called Bluff and be part of a stage of transformation from one game type to another, represented by connecting one half of quadrangle 2 (above or below the diagonal) with the other half of quadrangle 3 (below or above the diagonal, respectively). This simple description goes beyond a static perspective of either specific mixed-motive game type independently. It introduces a recognition of the dynamics in the transformation from one type to another as utilities change. When and why this occurs are questions that the concept of "critical risk" directly addresses: it takes into account a sensitivity for movements either toward or away from accommodation in terms of shifts in utility. "Critical risk" is conditional upon the utilities related to basic strategic choices.

Referring to the concept of "critical risk", the preceding description in a game format has stressed a dynamic perspective since it is possible to vilify the applicability of a theory which traditionally has been viewed and criticized as static. However, an enhancement of the use of a game format is a consequence of demonstrating properties of change precisely in the form of exogenous shifts in utility. In their criticism of the static nature of game theory, Schlenker and Bonoma reflect such an approach when they argue:

the nondynamic elements of games are merely a reflection of the nondynamic elements of current theories. When specific hypotheses are designed to test more dynamic aspects of conflict, game situations can be modified accordingly. A researcher could provide for value changes in the game matrix as a conflict progresses, or introduce new behavioral alternatives at a given point. Such

modifications of the experimental tool will probably not occur until after more dynamic theories have been developed that require the testing of specific hypotheses relating to such changes.(1)

"Critical risk" addresses a game format in just such terms by hypothesizing: behavioural changes will result from utility changes that transform the level of risk an individual is willing to accept for a particular course of action.

"Critical risk" was originally conceived by Daniel Ellsberg in order to determine what types of threats are effective for deterring conflict.(2) The original purpose of this orientation was to explain the stability of military deterrence.(3) It has recently been applied

(1)

Barry S. Schlenker and Thomas S. Bonoma, "Fun and Games: The Validity of Games for the Study of Conflict", Journal of Conflict Resolution, 22 (1978), p. 21. An earlier and similar approach (concerned with the effect of threats in relation to value changes) is also found in Deutsch's communication theory. [See: Karl W. Deutsch, The Nerves of Government: Models of Communication and Control (New York: The Free Press of Glencoe, 1963), pp. 58-9.]

(2)

The concept of "critical risk" as stated by Ellsberg was strongly influenced by both Thomas Schelling and Frederik Zeuthen. These are found as: Frederik Zeuthen, "Economic Warfare", Thomas C. Schelling, "An Essay on Bargaining", and Daniel Ellsberg, "The Theory and Practice of Blackmail", all in Bargaining: Formal Theories of Negotiation, ed. Oran R. Young (Chicago: University of Illinois Press, 1975).

(3)

See: Ellsberg, "The Crude Analysis of Strategic Choices" (Rand Paper P-2183), also found (in condensed form) under the same title in The American Economic Review-Papers (1961), pp. 472-8. These papers represent the first formal modelling, and while his equation for "critical risk" is not tenable (the threshold for deterrence, defined as an acceptable level of probability that the opponent will defect, 'q', is formally given as: $q=(R-T)/(R-S)$; when $T>R>S$, i.e. 'q' is always negative), this has not effectively deterred further use of the concept.

most rigorously by Brams in order to demonstrate that the game of Chicken represents optimal deterrence, but also less formally by Zagare who argues that Prisoners' Dilemma entails optimal deterrence.(1) In spite of the tendency to apply the concept to situations described as "high politics" and in order to rationally explain stability, "critical risk" has also been addressed in the context of more general bargaining situations and in order to rationally explain dynamics. This latter bargaining approach has been advanced by Glenn Snyder in terms of manipulative tactics to entice concessions, by Snyder and Diesing in the form of an accommodative bidding sequence, and by Harsanyi who (drawing from Zeuthen's work) employs a similar concept in order to determine when one player must concede in a bargaining situation.(2) While all of these use the same concept, divergent models with dissimilar imputations have evolved. Some models are applicable to only specific game types, and some models emphasize the temptation to defect over the punishment for defection. In the following development of a model to establish the behavioural properties of "critical risk", the trade-off between temptation and punishment refines the applicability of the concept of "critical risk" to the transformation both between and within the two mixed-motive game types, Prisoners' Dilemma and Chicken.

(1)

Steven J. Brams, Superpower Games: Applying Game Theory to Superpower Conflict (New Haven: Yale University Press, 1985), Ch. 1; and Frank C. Zagare, "The Dynamics of Deterrence" (forthcoming).

(2)

See: Glenn H. Snyder, "Crisis Bargaining", in International Crises: Insights from Behavioral Research, ed. Charles F. Hermann (New York: The Free Press, 1972), pp. 217-56; Snyder and Diesing, Conflict Among Nations, pp. 48-52; and John C. Harsanyi, Rational Behavior and Bargaining Equilibrium in Games and Social Situations (Cambridge: Cambridge University Press, 1977), Ch. 8.

"Critical risk" is a hypothetical probability conceived as a threshold. It is conditional upon the strategic response by an individual's opponent and is defined as: the maximum chance of receiving an unacceptable outcome (either punishment or a penalty) that an individual is willing to accept in choosing a specific course of action (usually non-cooperation, also termed conflict, or herein termed defect). Ellsberg refers to this as a player's "willingness to resist" threats designed to influence that player to concede—a measure of resolve.(1) The player's objective is to influence his opponent to accept that player's terms (i.e. to get him to concede). In the "critical risk" model, this objective is formulated as the player's ability to convince his opponent that the probability of an unacceptable outcome occurring is higher than that opponent's hypothetical maximum risk threshold. One of the means of doing so is by comparisons between the two players' "critical risk" thresholds. The player who is "less willing to face the risk of a conflict"(2) (or in other words, the

(1)

Ellsberg, "Theory and Practice of Blackmail", p. 349. Harsanyi employs the identical criterion: the highest subjective probability of a conflict that a player is willing to accept in order to obtain an agreement on his own terms rather than to concede and accept his opponent's terms. [See: Harsanyi, Rational Behavior, p. 151.]

(2)

Harsanyi, Rational Behavior, p. 150. Ellsberg also describes conditions for concession when a player's "estimate of the actual risk is greater than the critical risk". [Ellsberg, "The Theory and Practice of Blackmail", p. 349]. In both these analyses, the player's perception of the difference between the actual risk and his threshold of "critical risk" is subject to influence by tactical manipulations of the values of several outcomes.

player with the lower resolve to resist) must concede. The simple tactical bargaining objective is thence to convince your opponent that your threshold is higher, just as it is his objective to convince you that it is lower. The threshold for that "critical risk" can be determined hypothetically from each player's payoffs.(1) The primary analytic requirement is that the formal derivation of "critical risk" conforms with the requisites of probability. The remainder of this chapter is concerned with determining the properties of "critical risk" which explain behaviour in situations where there is incentive for both conflictual and cooperative choices of strategy under the influence of utility changes. There are two models in the literature which, while adequate in some situations, are generally deficient in several respects. This deficiency can be formally derived as a general residual probability.

The first model of "critical risk" is one proposed by Harsanyi for

(1)

Ellsberg relates a series of news stories which clarify what this entails in a practical situation: a woman walked up to a bank teller and demanded money, threatening him with a glass filled with a clear liquid which she claimed was acid. She also claimed she was being guarded by two armed accomplices and subsequently received the money and left. A second attempt by the same woman for \$5,000 failed when the teller tipped off the manager while handing over the cash. In a similar situation, a man, who indicated he held a grenade and who demanded \$5,000 from a cash supply of \$50,000, received the \$5,000 with no trouble. But when the robber asked about the remaining \$45,000 the teller declined to turn it over saying: "That's all you asked for, \$5,000." The robber then took the \$5,000 and left. Apparently the tellers' threshold for willingness to comply was somewhere around \$5,000. [Ellsberg, "The Theory and Practice of Blackmail", pp. 351-3].

evaluating bargaining situations.(1) It is assumed that there are three possible outcomes in the bargaining situation: your own position (i.e. receiving your own demands represented in the matrix by 'T', with the result that your opponent gives in and receives his 'S'), your opponent's position (i.e. you give in receiving 'S' and your opponent wins 'T'), and both standing firm, each holding to his conflicting position, irreconcilable, with the result that both receive 'P'. A situation in which one bargainer offers a fourth position 'R' (the status quo prior to bargaining as a position of joint agreement) is not included. In this model, 'R' constitutes the position of agreement as a consequence of the bargaining process undertaken in terms of 'T', 'S', and 'P'. The model is designed to explain bargaining behaviour after the status quo has been removed from the players' consideration, or in other words, to explain the creation of a new agreement. Furthermore, the rankings of the three positions are as in Chicken, i.e. for both players: T>S>P. Under these conditions, each player can consider as part of his choice for standing firm on his position (in order to achieve what he demands, his 'T') the probability that the opponent will either respond with standing firm or conceding. The question arises as to the probability of punishment ('P') that the player is willing to accept in deciding whether or not to concede. This depends upon how low 'P' is relative to 'T' and 'S' for both. If the player chooses to concede he can be assured of 'S', but if he chooses to stand firm he can

(1)

Harsanyi, Rational Behavior, pp. 149-52. Snyder uses the identical model. [See: Snyder, "Crisis Bargaining", pp. 217-56; and Snyder and Diesing, Conflict Among Nations, pp. 48-52.]

receive either 'T' or 'P', but not necessarily with equal probability. If we assume that one player's choice of stand firm will elicit his opponent's response of stand firm with probability 'q' (i.e. the probability for a 'P' outcome), then '1-q' is the obverse probability for receiving 'T' (i.e. that the opponent will not respond with stand firm but will concede). In order to achieve his preferred demand, the player considering defection can accept the probability of conflict (where both stand firm) only when:

$$S < qP + (1-q)T$$

that is when:

$$q < \frac{T - S}{T - P} \quad \text{or} \quad q < r = \frac{T - S}{T - P}$$

When the inequality is true, the player will chance standing firm. When $q > r$, the player will not chance standing firm, i.e. he will concede. The situation where $q=r$ is that player's highest acceptable risk for standing firm, his "critical risk" threshold, where the player is indifferent.

There are two primary deficiencies in this particular formulation. First of all, it is not generally viable. By the restriction of the criterion of probability (i.e. $0 < q < 1$), this formulation is applicable to games like Chicken (and also Leader) when $T > S > P$. In Prisoners' Dilemma, when $T > P > S$, 'q' is always greater than 1. While this is not crucial in situations which can be clearly defined as Chicken, it restricts a more general applicability for comprehending the effect of risk as a dynamic in transforming one game type to another. As well, there is the residual consideration of (R_r, R_c) which also typically represents a

situation of agreement, an ante-bargaining position. By deleting this consideration, this formulation does not indicate when a player may choose to break that agreement (in the absence of any rule specifying new negotiations such as at the end of a contract). There is a residual to this model which is necessary for understanding the broader considerations of dynamics when either player will choose to defect from the status quo. Another model, proposed by Brams, does include consideration of the ante-bargaining position (R_r, R_c) , but it also leaves out consideration of the Sucker's payoff, 'S'. In both cases there is a residual element evident in the matrix.

While Brams' formulation for "critical risk" is derived specifically for the purpose of explaining nuclear deterrence, it does address the question: when will one player depart from the position of no first use, i.e. defection from a status quo position, (R_r, R_c) , where there is for the time being mutual agreement not to launch a strike? This model is initially concerned with the deterrent "effectiveness" of a threat to punish an opponent, measured by the cost it inflicts on an opponent for choosing not to cooperate.(1) While Harsanyi's formulation is derived in terms of the probability for a 'P' outcome, i.e. the probability of punishment, Brams' formulation is derived primarily in terms of the probability for the temptation to defect in order to receive 'T'. Assuming that one player indicates to his opponent that if the opponent cooperates, he will also cooperate, i.e. resulting in (R_r, R_c) for both players, that joint outcome is certain. But, if the

(1)

Brams, Superpower Games, pp. 12-3.

player considers breaking the agreement the response is not certain, i.e. the opponent will respond with either cooperation at a probability of 's' (i.e. probability as a deviation in relation to the certainty of (Rr,Rc)) or defection at a probability of '1-s'. Assuming this, and following the same pattern of reasoning as above, the probability that the opponent's choice of cooperation will deter the player from choosing defection will occur when that player's utilities fulfill the equation:

$$R > sT + (1-s)P$$

that is when:

$$s < \frac{R - P}{T - P}$$

This formulation is consistent in terms of probability with both Prisoners' Dilemma and Chicken (because it removes from consideration the Sucker's payoff 'S') and it is useful for determining the effectiveness of deterring an opponent from choosing to violate a stable situation, the status quo. However, in the process of removing consideration of the Sucker's payoff, it does not explain why a player would be deterred to the point of making a concession, assuming that both survive an initial breach of the agreed status quo-ante. While this is not germane to the situation Brams addresses, in terms of generalizing the model, this residual consideration is significant.

This residual is crucial for comprehending the imputation of risk for behaviour in bargaining situations. Making Brams' model analogous to Harsanyi's (which is derived in terms of the probability for a 'P' utility outcome), '1-s' also gives the probability for a 'P' utility as:

$$1-s > 1 - \frac{R - P}{T - P}$$

or

$$1-s > \frac{T - R}{T - P}$$

such that a player will be deterred from choosing to defect when the probability that the opponent will respond with defect is '1-s' or 't' such that:

$$t > u = \frac{T - R}{T - P}$$

According to the concept of "critical risk", the player with the lower risk threshold must concede.(1) Under this formulation, a player can increase his threshold by making a greater demand (i.e. increasing his 'T') which the opponent can counter by reciprocally increasing his demands to a greater extent (i.e. increasing his 'T' even more), thereby increasing his threshold. Such a tit-for-tat iteration of escalating demands can only result in conflict, assuming that an increase in the value of 'T' will tempt each player to defect. Because the changes in the level of demands (the cardinal utilities) do not reciprocally account for the effect they have on accepting those demands (i.e. how a take in 'T' by the player affects the give in 'S' by the opponent), a constant escalation to conflict should be the result. Any situation which provides evidence of cooperation or accommodation invalidates this model since any concession by a player will only induce more concessions by that player. The residual 'S' in this formulation must also be included.

(1)

This is the concession rule determined from the concept of "critical risk" as a measure of resolve to hold firm to the Defect strategy. [See: Harsanyi, Rational Behavior, pp. 143 and 150.]

The above critical evaluation of the models by Harsanyi and Brams are not in themselves sufficient to disavow their usefulness for explaining behaviour in situations which they explicitly address. Brams' model explicitly addresses the stability of an agreement in terms of a player's temptation to defect; Harsanyi's model explicitly addresses the dynamic entailed in reaching a new agreement in relation to retaliatory punishment for defection. However, neither model is sufficient on its own. In attempting to attain the maximum payoff possible, temptation and punishment as probabilities must trade off in the relationship between cooperation and conflict. This will now be set forth in terms of the effectiveness of threats to deter an opponent, but in relation to both punishment and temptation through a series of three stages: stage 1 deals with effectiveness in relation to retaliatory punishment (i.e. the probability for receiving 'P'); stage 2 deals with effectiveness in relation to the player's temptation (i.e. the probability for receiving 'T'); stage 3 demonstrates the formal deficiencies of the previous models clarified in stages 1 and 2. Following this, the behavioural imputations of the models will be set forth in terms of manipulative tactics that force utilities to undergo exogenous shifts which then imply when a player will choose either cooperation or defection in the situations they explicitly address. Recall from Brams that the "effectiveness" of a threat is measured by "the cost it inflicts on a threatenee if carried out".(1) This assumes a "threatener" and a "threatenee"; for convenience, assume that Row (r)

(1)

Brams, Superpower Games, pp. 12-3.

is the "threatenee" and Column (c) is the "threatener".

Stage 1: Effectiveness in relation to Punishment

Column poses a threat to Row through Column's response choice of Defect (Dc) in order to punish Row's choice of Defect (Dr). Since it is assumed that as a rational utility maximizer Column will prefer to choose Defect (Dc) with certainty only if Row should choose to Cooperate (Cr), Column's threat to Row is at its maximum(1) when it is posed in the form: if Row Cooperates (Cr) with certainty, Column will respond with Defect (Dc) with certainty; if Row Defects, Column will respond with Defect according to some probability, i.e. there will be a response which is only probable since by Row's choice of Defect, Column will no longer be able to achieve the maximum payoff and his response will depend upon the remaining possible payoff choices. Column's threat should be effective only if it deters Row from choosing Defect.

This characterization of a threat situation is basically the form that Harsanyi's model assumes. It can be placed in a formal mode from which the maximum effectiveness of punishment and the opposite minimum temptation to defect can be derived. Let 'p' represent the probability that Row's strategy choice of 'Defect' (Dr) will encounter Column's strategy response of 'Defect' (Dc), so 'p' represents for Row the probability of a 'P' outcome (i.e. 'Pr'). Similarly, let 'q' represent the probability that Row's strategy choice 'Dr' will encounter Column's

(1)

Column's threat to punish Row's defection is at its maximum only in relation to overcoming Row's Sucker's payoff (the penalty for cooperation) should Row choose to cooperate.

strategy response of Cooperation (i.e. Cc), so 'q' represents for Row the probability of a 'T' outcome (i.e. 'Tr'); furthermore, $q=1-p$. Since Column's response is assumed to be 'Dc' in order to determine the "effectiveness" of Column's threat, 'Sr' is Row's outcome should Row choose to Cooperate (i.e. Cr), and 'Sr' will occur for Row with certainty. In order for Column's threat to be "effective" (i.e. to deter Row from choosing 'Dr'), Row's expected payoff for Cooperation must be greater than Row's expected payoff for Defection, i.e. $Cr > Dr$. The effectiveness of Column's threat to Defect can then be determined by:

$$Sr > pPr + (1-p)Tr$$

that is, when:

$$p > x = \frac{Tr - Sr}{Tr - Pr}$$

When Column chooses a 'p' which fulfills this inequality, Row will be deterred from choosing 'Dr', i.e. Column's threat of punishment will be effective. When Column chooses a 'p' which does not fulfill this inequality, i.e. $p < x$, Row will not be deterred from choosing 'Dr'. The situation in which $p=x$ is Row's "critical risk" threshold, i.e. Row is indifferent. In terms of the maximum effectiveness of Column's threat, this formulation does make some sense in the distinction between Prisoners' Dilemma and Chicken. In Prisoners' Dilemma, the right hand side of the equation is always greater than 1, and thus Column's threat to Defect can never be effective in deterring Row since, in Prisoners' Dilemma, Row's payoff 'Pr' for the strategic interaction of (Dr,Dc) is always greater for Row than 'Sr'.

While this formulation deals principally with the maximum effectiveness of punishment, it trades off with the temptation to Defect in relation to the probability 'q', i.e. the probability that Column will choose Cooperation (Cc), given Row's choice of Defection (Dr) with the result that Row receives 'Tr'. This is a significant component of the properties of "critical risk" in terms of stage 3. Since 'p' represents the effectiveness of Column's threat to punish Row only when $p > x$, and since Column's threat will be ineffective only when $p < x$, the relationship between ineffectiveness and Row's temptation to Defect can be determined by solving for 'q' as '1-p' (re Row's probability for receiving 'Tr'). Row should be tempted to Defect only when Column's threat is ineffective, that is when:

$$p < \frac{Tr - Sr}{Tr - Pr}$$

which will occur for 'q' as:

$$1 - p > 1 - \frac{Tr - Sr}{Tr - Pr}, \text{ i.e. } q > \frac{Sr - Pr}{Tr - Pr}$$

where 'q' represents the obverse probability of Column choosing Cooperation (Cc). Under these conditions, where $p+q=1$, the effectiveness of punishment and the temptation to defect trade off. However, since this model derives the maximum effectiveness of the threat of punishment directly, the temptation to defect is derived indirectly as the opposite and is at its minimum. Using the same method as in stage 1, the temptation for Row to Defect (in light of Column's probability to choose Cooperation) can be determined directly and compared with the indirect derivation of temptation above.

Stage 2: Effectiveness in relation to Temptation

This is basically the model that Brams uses according to the rationale of threats presented above and focusses on the probability of risk in relation to temptation, 'Tr'. Using the same method as in stage 1: let 'q' represent the probability that Row's strategy choice of 'Dr' will encounter Column's strategy response of 'Cc', so 'q' represents for Row the probability for a 'Tr' outcome. Similarly, 'p' represents the probability that Row's strategy choice of 'Dr' will encounter Column's strategy response 'Dc', so 'p' is the probability for a 'Pr' outcome, such that $p=1-q$. Since Column's response is assumed to be 'Cc' in order to determine the maximum temptation for Row to Defect (Row's maximum threshold for desiring 'Tr' will occur only as a deviation from the situation where Column prefers 'Cc' with certainty) 'Rr' is the outcome should Row also choose to Cooperate (i.e. 'Cr'). In order for Row to be tempted to Defect, the expected utility for Cooperation must be less than the expected utility for Defection, i.e. $Cr < Dr$, which is determined by:

$$Rr < qTr + (1-q)Pr$$

that is, when:

$$q > \frac{Rr - Pr}{Tr - Pr}$$

This is Row's maximum temptation threshold when the equation is an equality. As in stage 1, Row will not be tempted to Defect (Dr) only when Column chooses a 'q' (the probability for Column's choice of 'Cc') when:

$$q < \frac{Rr - Pr}{Tr - Pr}$$

and '1-q' will represent 'p' the effectiveness of Column's threat to Defect when:

$$1 - q > 1 - \frac{Rr - Pr}{Tr - Pr}, \text{ i.e. } p > \frac{Tr - Rr}{Tr - Pr}$$

Here, the temptation to defect and the effectiveness of punishment also trade off summing to the probability of 1. Here, temptation is derived directly--at its maximum--and the effect of the threat of punishment is derived indirectly--at its minimum as the opposite of the direct derivation of maximum temptation.

Stage 3

The preceding critical evaluation of Brams' and Harsanyi's formulations are also applicable to the models set forth in stages 1 and 2. The residual components of the game matrix have not been included. However, the direct derivation of both the maximum effectiveness of punishment and the maximum temptation to defect, and the indirect derivation of their opposite minima, indicate that each of these models alone over-estimates their direct maxima and under-estimates their indirect minima. There is a residual consideration to the probabilities 'p' and 'q'. Recall that stage 1 gives:

Maximum Effectiveness as: $p > \frac{Tr - Sr}{Tr - Pr}$

and

Minimum Temptation as: $q > \frac{Sr - Pr}{Tr - Pr}$

and that stage 2 gives:

Minimum Effectiveness as: $p > \frac{Tr - Rr}{Tr - Pr}$

and

Maximum Temptation as: $q > \frac{Rr - Pr}{Tr - Pr}$

The residual probability for the effect of Column's threat is evident since punishment and temptation probabilities should sum to 1, but in the case of their maxima they sum to greater than 1:

at their maxima: $p + q = 1 + \frac{Rr - Sr}{Tr - Pr}$

The underestimation of the minima is also evident since:

at their minima: $p + q = 1 - \frac{Rr - Sr}{Tr - Pr}$

This result is not particularly suprising. From the consideration of the lacuna of residuals and the intrinsic complexity of the mixed-motive game--which is its principal attraction--the point that there is a residual when the game is formulated in terms of probability of choice between the different strategic motivations is a natural consequence. The residual in the estimation of the threshold is also a constant probability. This is a question of determining the range evident between the maxima and the minima and in the cases of both the effectiveness of the threat of punishment and the temptation to defect, the maximum minus the minimum results in the residual:

$$\text{Max 'p' - Min 'p' = } \frac{\text{Rr} - \text{Sr}}{\text{Tr} - \text{Pr}}$$

and

$$\text{Max 'q' - Min 'q' = } \frac{\text{Rr} - \text{Sr}}{\text{Tr} - \text{Pr}}$$

The derivation of the residual as a constant has a bearing on the concept of "critical risk" as a threshold only in terms of generalizing the models. In other words, the residual is a significant component only when "critical risk" is assessed as situationally independent. The constant residual implies that generally the "critical risk" threshold resides within the range specified by the residual, i.e. the precise location of that threshold is uncertain, but it is bounded within the range specified by the residual.(1) The point that there is a constant residual probability in deriving the threshold of "critical risk" implies that each of the two primary formulations is situationally dependent, which formulations then must be classified by the situations they expressly address. However, the residual--only an additional factor to the primary formulations of "critical risk"--can also assist in explaining the transition from one formalized situation to the other.

These two situations are classified into two cases. The first is the breaking of a stable agreement where (Rr,Rc) represents the status quo (i.e. 'R' is a constant factor). The second is the formulation of a

(1)

The point stressed here that there is a formal uncertainty concerning the precise location of the "critical risk" threshold has also been alluded to in Ellsberg's original work. [See: Ellsberg, "The Crude Analysis of Strategic Choices", (Rand Paper P-2183), p. 5.]

new agreement, where a process of reducing the negative effects of cooperation leads to a new agreement (Rr,Rc). This is accomplished by improving the opponent's 'S', the Sucker's payoff, in order to reduce the risk for his cooperation. In the transition from one situation to another, the impact of utility changes is a salient feature. Recall from stage 2 above, which addresses the break from the status quo, that Column's threat to deter Row from Defecting will be minimally effective when Column chooses a 'p' (the probability that Column will punish Row's choice of Defect) such that:

$$p > \frac{Tr - Rr}{Tr - Pr}$$

In a situation where the status quo is very appealing to Row, i.e. where Row has few demands that are not met, Row is very easily deterred from changing, and even a relatively small 'p' will effectively keep Row from defecting. But the uncertainty of the location of the threshold within the range of the residual remains if Row considers defection from the status quo. In the case of Row's threshold, if the status quo either becomes or is perceived to be less beneficial than previously thought, i.e. as 'Rr' decreases in value, Row's threshold increases. As an additional result, the residual probability (from stage 3) decreases, since in this case 'Rr' is approaching 'Sr', and as a result:

$$\frac{Rr - Sr}{Tr - Pr} \text{ approaches } 0.$$

In the most dramatic instance, the situation will occur such that 'Rr' decreases to the point where Rr=Sr, in which case the residual is nil (and not a factor) and Row's threshold for being effectively deterred is defined as:

$$p > \frac{Tr - Rr}{Tr - Pr} = \frac{Tr - Sr}{Tr - Pr}$$

Under this form of utility change, Row becomes more likely to defect from the status quo, and the certainty of this likelihood also increases.

Such a situation (in which a player indicates that from his perspective he is already being suckered) will introduce instability in the interpersonal interaction and as a consequence a greater resolve to defect from the status quo. The resolve to defect is also enhanced as the player introduces new demands (i.e. increases his 'T') which also results in increasing his threshold, his willingness to resist. Such a situation is most likely to come about when a new player is introduced. In political circumstances, this is most evident in the case of the transfer of power from one government to another with radically different views on the role it should play. While a player's resolve to defect may be increased by dissatisfaction with the status quo (a decrease in his 'R') and by new demands to compensate for that dissatisfaction (increases in 'T'), the one constant consideration in both models is the effect of changes in the level of punishment which the opposing player may inflict, i.e. changes in 'P'. As the level of punishment increases (i.e. as 'P' decreases in value), the player's resolve threshold decreases and as a consequence his opponent's counterthreat to Defect becomes more effective--this can be termed: inflicting a "hard landing" for defection. But if that player can take defensive measures to reduce that level of punishment, in general by reducing strategic interaction in those areas where the opponent can

effectively inflict a cost,(1) the ability of the opponent to deter that player is impaired--this can be termed: defensively creating a "soft landing" for defection. The tactical imputations of the model for the breaking of an agreement are termed "disenchantment with the status quo" and defensive measures to reduce the effect of punishment, creating a "soft landing".

Once the status quo has been removed as an unacceptable outcome by either player, the Sucker's payoff replaces the status quo-ante as the outcome for cooperation. By a defection from the status quo, the rules of the previously agreed upon game have been violated, and any continued agreement will only result in being suckered.(2) This then leads to the second model, as derived by Harsanyi, as the bargaining model in which the player's willingness to accept the opponent's offer becomes the operative consideration. In addition to the effectiveness of punishment, the significance of this second model is that it incorporates how a demand, a "take" in 'T' affecting that player's "critical risk" threshold, also affects his opponent's "give" in 'S' (the opponent's concession, agreeing with the player). As a consequence, increases in a player's demands will also affect his opponent's threshold. Using the distinction between Row and Column, as

(1)

This approach is quite clear as the driving force behind the Third Option: by reducing Canada's economic linkages with the U.S., via geographically diversifying Canadian trade, the impact of such policies as the Nixon 10% surcharge would in the future be softened, i.e. this approach represents an orientation to a "soft landing".

(2)

Walker et al., "Evidence of Learning and Risk Orientation", pp. 38-9.

'Tr' increases, 'Sc' decreases, and vice versa, but not necessarily in commensurate intervals. First of all, a new demand—an increase in 'Tr'—will increase Row's threshold, an objective in bargaining from Row's perspective. But at the same time this will result in a decrease in Column's concomitant utility outcome, 'Sc', which also increases Column's threshold, the opposite optimizing trend in bargaining from Row's perspective. The same manipulation occurs for Column, as do the opposite changes in 'T'. There comes a point where increases in demands alone become ineffective, as when by decreasing an opponent's payoff for being suckered the opponent's 'S' becomes less than his 'P', resulting in his rank-order utilities conforming to the Prisoner's Dilemma. In this case, the effectiveness of threats in a bargaining situation becomes nil. However, a tit-for-tat accommodation can result by removing or softening the player's demand, which will result in an improved position for the opponent's outcome. In effect, if the reduction in the player's demand results in at least an equal improvement in the opponent's outcome, the opponent's "critical risk" threshold can be reduced to less than that player's threshold. As a consequence, it will be the opponent's turn to make a concession.(1) This manipulative tactic is herein termed "optimal bargaining".

Such a process of tit-for-tat "optimal bargaining" is less deterministic than the model implies. In a manoeuver to avoid the costs of mutual conflict, the trick is to communicate to the opponent that what he perceives as his resultant 'S' is better than what the opponent

(1)

See: Snyder and Diesing, Conflict Among Nations, pp. 48-52.

thought.(1) This is most effectively done by formulating 'T' in such a way as to induce the minimal penalty for acceptance. A concession alone is a beginning in this direction, a signal, but the communication of the effect of the outcome on that player's utilities is a concomitant requisite. In this manner, the costs and benefits of information covariance (as set forth in Chapter 3) are an important component of the manipulative tactics leading to an accommodation.

While the changes in utilities affect the threshold for the willingness to accept or reject the risk for either initiating or continuing defection, the communication of the signals inherent in utility changes also plays a crucial role. When signals of changes in demands or changes in the ability to sustain punishment (i.e. as the utilities undergo exogenous shifts) are relayed to enhance the desired impact of these utility changes, they are then employed in order to affect the level of acceptable risk so as to provide that player with a stronger position and thereby to entice a concession from his opponent—a tit-for-tat response will result in bargaining towards an

(1)

In relation to only the formal modelling of bargaining situations, communication of outcomes is "superfluous" since it is assumed that the players have perfect information of the matrix utilities. However, in the real world, the assumption of perfect information is not necessarily valid. As a consequence, communications become behaviourally operative. [See: Steven J. Brams and Donald Wittman, "Nonmyopic Equilibria in 2 X 2 Games", Conflict Management and Peace Science, vol. 6 #1 (1981), p. 40; Snyder and Diesing, Conflict Among Nations, p. 52; and Ellsberg, "The Crude Analysis of Strategic Choices", (Rand Paper P-2183), pp. 4-5.]

accommodation.(1) Once the status quo has been left behind, the manipulative tactics employed to gain a concession for a more acceptable agreement are defensive measures to reduce the impact of punishment, and concessions in policy or functional areas that will greatly decrease the penalty for cooperation to the point where the demands equal cooperation. All of this depends upon how well each side can convey the costs and benefits of these changes in terms of relays of information.

The above formal derivations of the threshold for "critical risk" implicitly assume the use of cardinal utilities. While it is not generally possible to acquire data for players' preferences at this level of measurement, it is possible to test for the use of the derived manipulative tactics. The one constant tactical objective for each player is to reduce the effectiveness of his opponent's punishment—to reduce vulnerability. This applies to both the defection from an agreement, and the subsequent jockeying for position to acquire a more favourable agreement. This defensive tactic can be likened to a "soft landing" approach; its opposite tactic on the part of the opponent is to inflict a "hard landing". The other constant is to increase demands, but this is conditional upon how this tactic affects what the opponent receives.

In the case of the model for the defection from the status quo,

(1)

This has been alluded to by Young in his description of the components of the bargainer's calculus. Bargaining is defined as: "the manipulation of the information of others in the interests of improving the outcome for one's self under conditions of strategic interaction." [Oran R. Young, "The Bargainer's Calculus", in Bargaining: Formal Theories of Negotiation, p. 364.]

increases in demands are the first step in compensating for a poor Reward for cooperation—"disenchantment with the status quo". But these demands have no immediate affect on the opponent until the status quo is breached, at which point the non-defecting opponent risks receiving his Sucker's payoff. After this deviation from the status quo, there is a change in strategic consideration to the counterproductive effect of inducing the opponent to continue punishment when the player's demands become excessive enough to remove any cooperation from the opponent's consideration. This in turn depends on how effectively the player can inflict a punishment. Once the status quo has been breached, the player's objective is to stand firm on demands which have the greatest value for that player and the least negative impact on the opponent, or, in other words, reformulating the demands in such a manner as to indicate to the opponent that the costs of concession to the demands are minimized. This tactic is designed to induce a reciprocal concession, and can be characterized as "optimal bargaining".

While the changes in demands themselves are a signal, the relay of convincing information to the opponent that the costs of conceding minimally diverge from the status quo is a crucial component of this tactic.(1) By means of a tit-for-tat series of concessions in this

(1)

Young, "The Bargainer's Calculus", p. 385. This is a principal measure to obviate misinformation about the effects of a policy change (which also includes not just the stated policy but also its implementation). This is also the principal component of Lemieux's concept of "pragmatic communication" which deals with the relationship between signals and their users. [See: Vincent Lemieux, "Québec Contre Ottawa: Axiomes et Jeux de la Communication", Etudes Internationales, 9 (1978), pp. 323-36.

manner, bargaining should return to a new status quo. The use of coercion alone as a means to induce concessions is not the only means available. While the relay of intended information (viz., communication as signals) is not a component of the formal model, in a practical situation it is a requisite component exogenously shifting utilities. The "critical risk" model classifies the costs and benefits of information covariance in tactical terms thereby linking communication and decision. The manipulative tactics of the "soft" and "hard" landing related to punishment, "disenchantment with the status quo" accompanied by demands, and "optimal bargaining" are the tactical imputations of the concept of "critical risk". They are derived in order to explain those situations which demonstrate deviations from the status quo and the creation of a new status quo where accommodation is evident. The principal orientation is that this model incorporates a cognizance of a dynamic in terms of the influences of utility exogenous shifts with strategic coercion under conditions of uncertainty:

Bargaining 'moves' or 'tactics' are designed to manipulate and change alternatives, incentives, and the other's image of them so as to shift the outcome in a direction favorable to oneself. ... As a general rule, the greater the uncertainty in each party's image of the other's alternatives and incentives, the greater the possible effect on the outcome of the bargaining process and 'tactical' bargaining power. [Emphasis in the original.](1)

Given the level of uncertainty and the impact of information described in Chapter 3, the "critical risk" model provides a basis for a more rigorous analysis of the interaction between Quebec and the U.S. by

(1)

Snyder, "Crisis Bargaining", p. 222.

linking the signals (in the content of communication) with the decision properties of "critical risk".

CHAPTER 5

QUEBEC-U.S. RELATIONS: THE BARGAINING PERSPECTIVE

' [The P.Q. economic programme] is not intended to confront U.S. capital, but rather to improve Quebec's relative position under the umbrella of U.S. imperialism. At best, it is an attempt to get a better deal from U.S. capital.(1)

Thus far, the nature of Quebec-U.S. interaction during the first mandate of the P.Q. has been addressed only generally, hypothesizing that communication in the form of intended information constitutes the intervening variable explaining both the initial American disenchantment with the P.Q. and the subsequent accommodation (re Chapters 2 and 3). The derivation of the manipulative tactics (viz., "disenchantment with the status quo", the "hard" versus the "soft" landing, and "optimal bargaining", set forth in Chapter 4) constitute more specific formulations of information as signals in terms of the costs and benefits of communication covariance, the determining factor within the generalization of the information variable. Because of the more specific nature of this taxonomy of signals, they are applied best to specific policy areas. This chapter demonstrates the use of these manipulative tactics as explanative variables in Quebec-U.S. interaction by characterizing Quebec as the initiator and the U.S. economic community as the respondent in these areas: Quebec's language policy; the purchase of Asbestos Corporation; Quebec government borrowing; Quebec's labour legislation, minimum wage legislation, and taxation

(1)

Pierre Fournier, "The Parti Québécois and the Quebec Economic Situation", Synthesis (A journal for the Institute for the Study of Labour and Economic Crisis, San Francisco), vol. 2 #4 (Fall, 1978), p. 19.

policy; and Quebec's policy on strategic defense vis-a-vis the American government. Before the analysis of these specific areas, "optimal bargaining" can also clarify the effect of the change in the information variable (as exemplified in the message relayed by Opération-Amérique) which resulted in a return to a stable situation in 1978. This refers to the significance of a separate Quebec for American corporate interests in relation to their economic orientation to the rest of Canada as well as internationally, re the international corporate market. The specific activities in the policy areas reinforce this more general observation set forth in Chapter 3.

Opération-Amérique and American Corporate Interests

The change in the message of Opération-Amérique (from the early emphasis on political sovereignty to one proclaiming a policy of economic association) must be viewed in light of its direct impact on the U.S.. From the point of view of transaction salience, it is arguable that the election of the P.Q., whatever its orientation, should not have elicited the response that it did. Only 3 to 4 percent of U.S. trade is with Quebec (less than 1% of U.S. G.D.P.) and estimates of American investment in Quebec during this period ranged from between only \$5 and \$7 billion (U.S.).(1) However, the effect on the U.S. goes beyond simply an analysis in terms of Quebec-U.S. economic transactions

(1)

One American report estimated that there were 350 companies in Quebec holding \$5 billion in assets. [U.S. News & World Report, vol. 83 #15, 26 Sept. 1977, p. 16.] Byers and Brown claim that of the \$33 billion invested in Canada by American corporations, \$6 to \$7 billion were in Quebec. [R. B. Byers and David Leyton-Brown, "The Strategic and Economic Implications for the United States of a Sovereign Quebec", Canadian Public Policy, 6 (1980), p. 332.]

alone to a consideration of U.S. corporate interests located in Quebec in relation to the rest of Canada.

Generally, the concern over an independent Quebec can be seen in the pattern of destination of shipments of Quebec manufacturing firms (see: FIGURE 5-1). Only slightly more than one-half of these shipments stayed in Quebec, the rest were destined for other Canadian provinces (about 30%) and other countries (less than 20%). The possibility of an independent Quebec, having to re-negotiate the regulation of this trade across boundaries, placed in jeopardy about one half of its manufacturing sector.⁽¹⁾ In its review of the Quebec economy (instigated by Lévesque's speech in New York), Standard and Poors recognized this vulnerability and claimed: "the trade-off between concern with economic costs versus the political benefits of independence seem heavily weighted to Quebec's remaining either a province--possibly with some additional powers--or a quasi-independent state having strong ties to Canada."⁽²⁾ While this is a general observation, studies conducted on the destination of shipments' propensities by Quebec-based firms, by nationality of firm ownership, indicate that the potential disruption of extra-Quebec transactions

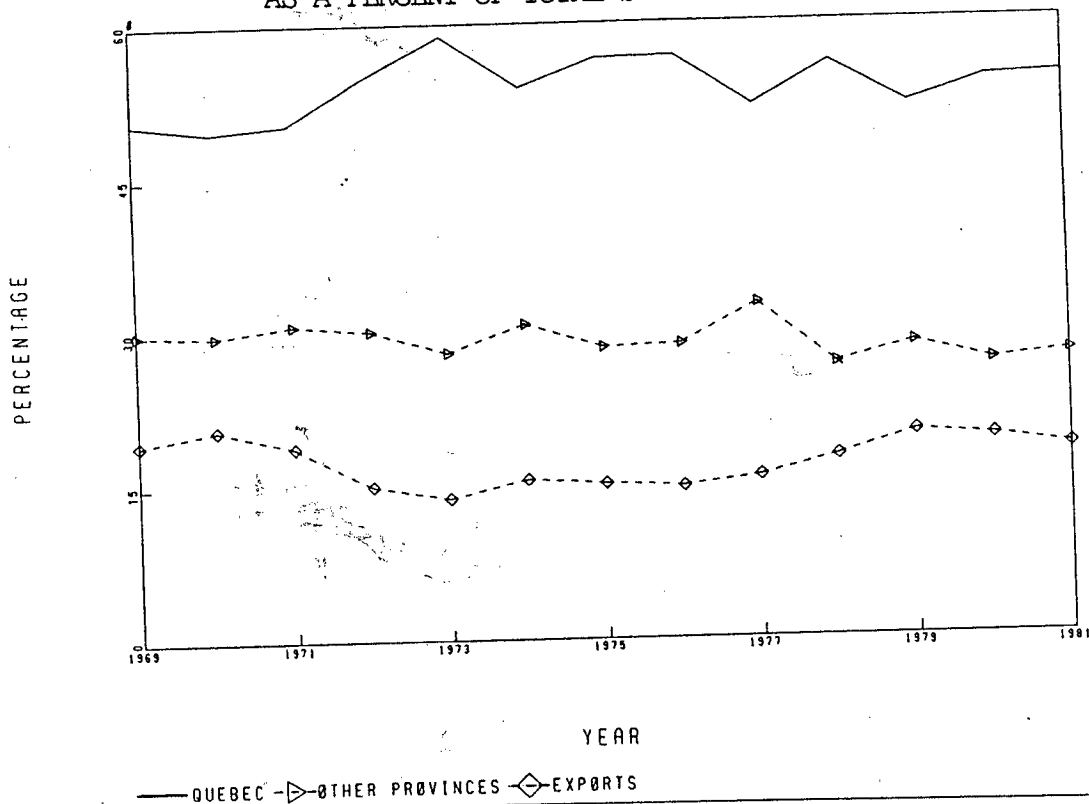
(1)

Using logging, mining and manufacturing as a total for sectoral comparisons (and only for 1978, the earliest year for comparison), Quebec-based American-owned manufacturing firms' shipments amounted to approximately 88% of the total. [Calculated from: Statistics Canada, Domestic and Foreign Control of Manufacturing Establishments in Canada, 1981 (Ottawa: Supply and Services, Canada), catalogue no. 31-401.]

(2)

Quoted in Reports on Separatism, vol. 1 #12, p. 96.

FIGURE 5-1
 DESTINATION OF QUEBEC MANUFACTURING SHIPMENTS
 AS A PERCENT OF TOTAL SHIPMENTS



would most significantly affect American corporations located in the province.

The prospect of an independent Quebec, commercially isolated by a series of economic barriers, became a greater concern in February, 1977 when the P.Q. announced its government procurement preference policy, at that time the strongest of any province.(1) The Tetley report on foreign investment in Quebec (released in 1974) also addressed this

(1) Judith Maxwell and Caroline Pestieau, Economic Realities of Contemporary Confederation (Montreal: C. D. Howe Research Institute, 1980), p. 87. See also: New York Times, 13 Apr. 1977, p. 5.

issue. It claimed that the lack of integration between foreign and domestic firms contributed to the underdevelopment of the endogenous manufacturing sector, and resulted in foreign firms exporting their spread effects by sourcing supplies outside the province.(1) In order to obviate this difficulty, the report recommended a government procurement policy giving preference to Quebec firms in order to enhance their development,(2) the policy the P.Q. implemented. The Bourassa government's aversion to the Tetley report was also evident. The report's release was delayed in order to allow for revisions, and was released without a list of formal policy recommendations. In January, 1976, Tetley stated the government's position as one of non-discrimination: "all investores in Quebec should be treated on the same footing and the same rules should apply to everyone."(3) The P.Q.'s disenchantment with the state of affairs was evident by actually

(1)

Quebec, Executive Council, A Quebec Policy on Foreign Investment: Report of the Interdepartmental Task Force on Foreign Investment (Quebec: September, 1973, text revised between March and June, 1974). The Tetley report's findings were also conveyed to the U.S.. [See: William Tetley, "Foreign Investment: A Québécois Perspective", American Society of International Law: Proceedings, 68 (1974), pp. 24-7.] The P.Q.'s position on the lack of spread effects of foreign firms was the same. [See: Quebec, Challenges for Quebec: A Statement of Economic Policy. Synopsis. Policy Objectives and Measures (Québec: Editeur Officiel du Québec, September, 1979), p. 14.]

(2)

Quebec, A Quebec Policy on Foreign Investment, pp. 95-7.

(3)

Quoted in: Kenneth McRoberts and Dale Posgate, Quebec: Social Change and Political Crisis (Toronto: McClelland and Stewart Limited, 1980), p. 166.

implementing the policy the previous government had allowed to pass away, i.e. the demands were designed to meet and address the "disenchantment with the status quo".

As a signal of the protectionist orientation of the P.Q., the potential economic isolation of Quebec would most severely affect American corporate interests due to their shipments' and sales' patterns. While no current (circa 1977) data were available to assess the costs of an isolated Quebec for American-owned corporations, two studies from the 1960s and one for the P.Q. in 1978 indicated that American corporate operations were most vulnerable to the imposition of economic barriers between Quebec and the rest of Canada (plus additionally Quebec and the world). Morrison's study demonstrated that American firms located in Quebec relied more on the rest of Canada as a market for sales than on any other type of firm classified by nationality of ownership, and in general more on all markets outside Quebec (see: TABLE 5-1)--of all classes, American firms sold the least to Quebec. The orientation toward the rest of Canada was by far strongest among American-owned firms in Quebec with head offices in Canada (but outside Quebec). While not giving as discrete a classification by nationality of ownership, the study by Raynauld for the 1960s also indicated a similar pattern. Foreign-owned firms were

TABLE 5-1
 PERCENTAGE BREAKDOWN OF SALES BY QUEBEC-BASED FIRMS
 BY REGION AND OWNERSHIP (1964)(1)

Ownership/Location of Head Office	Quebec	Other Canada	United States	Other Exports
French-Canadian/ Quebec	53.8	39.6	5.3	1.3
English-Canadian/ Quebec	27.3	50.4	15.2	7.1
English-Canadian/ Canada	30.3	62.4	2.5	4.8
Foreign French- speaking/Quebec	57.3	33.7	5.7	3.3
United Kingdom/ Quebec	40.1	40.8	12.1	7.0
United States/ Quebec	25.7	54.0	13.0	7.2
United States/ Canada	26.3	71.5	0.8	1.4
Total	33.5	50.3	10.7	5.5

more strongly oriented to markets outside Quebec (exacerbated slightly in favour of the rest of Canada over other countries; see: TABLE 5-2).

In both these studies, the greater reliance of American/foreign firms on markets outside Quebec demonstrates why the American economic

(1)

R. N. Morrison, Corporate Adaptability to Bilingualism and Biculturalism (Ottawa: Queen's Printer, 1970), p. 220. Comparable data for sales by U.S. affiliates in Canada clearly reflect the pattern in this table by U.S.-owned firms in Quebec with head offices in Quebec. For 1964, for Canada, the percentage breakdown of sales by U.S.-owned manufacturing and mining firms were: 76.4% to Canada, 13.8% to the U.S., and 9.7% to other foreign countries. [Calculated from: Canada, Department of Industry, Trade and Commerce, Foreign Investment Division, Office of Economics, Sales, Exports and Imports from the United States by Canadian Affiliates of U.S. Firms, Selected Years From 1957 to 1968 (Ottawa, 1972), pp. 27 and 29.]

TABLE 5-2
 PERCENTAGE DISTRIBUTION OF MANUFACTURED GOODS'
 EXPORTS FROM QUEBEC: BY OWNERSHIP(1)

Ownership	Other Provinces	Other Countries	Total
French-Canadian	5.58	2.27	4.46
English-Canadian	42.20	47.48	43.98
Foreign	52.22	50.25	51.55
Total	100	100	100

community took such a great interest in the possibility of an independent Quebec--their transactions would be most strongly affected. In this case, the operations of the international corporate market apply as well to Quebec as a locus, but in relation to the rest of Canada as well as internationally. A study conducted for Quebec's Ministry of Intergovernmental Affairs, while not focussing on Quebec, concluded that foreign firms in Ontario tended to rely on the national market (including Quebec) rather than the local provincial market to a greater extent than Canadian-controlled firms. The conclusion of this study was a recommendation for a common market, with either the U.S. or Canada, and reinforced the P.Q. policy of emphasizing economic association,

(1)

Carmine Nappi, The Structure of Quebec's Exports, (Montreal: C. D. Howe Research Institute, 1978), p. 39.

already begun in 1978.(1) The message of economic association contained in Operation-Amérique specifically addressed the issue of barriers to extra-Quebec transactions. In doing so, it also addressed the area most significant for American interests--accessibility without border barriers--and as a consequence mollified American apprehensions.

A related case was that of the Quebec government's \$92 million contract to purchase 1,200 buses in late 1977, awarded to General Motors over Bombardier-MLW. Quebec's preferential purchasing policy was specifically intended to "systematically use the purchasing power of the public sector to favor the expansion of Quebec based companies."(2) The contract was awarded to G.M. (the lowest bidder) in spite of the protests by Bombardier's president who claimed that this action violated the intent (though not the letter) of the purchasing policy.(3) While this action has been presented by some as "a timely concession to U.S. capital in order to ensure its neutrality", (4) concessions were also granted by G.M. in the form of increased investments. In addition to

(1)

Pierre-Paul Proulx, Etude des Relations Commerciales Québec-U.S.A., Québec-Canada: Options et Impacts Contraintes et Potentials (Québec: Ministère des Affaires intergouvernementales Dec., 1978), pp. 2 and 221.

(2)

This is from a resolution of the P.Q. convention in 1977, quoted in Pierre Fournier, "The Parti Québécois and the Quebec Economic Situation", Synthesis, vol. 2 #4 (Fall, 1978), p. 20.

(3)

McRoberts and Posgate, Quebec, p. 201.

(4)

Fournier, "The Parti Québécois and the Quebec Economic Situation", p. 20.

\$36 million invested in its Ste-Therese plant in July, 1977, G.M. agreed to transfer to Quebec its bus factory located in Ontario that filled 90% of the Canadian demand for buses.(1) Concessions were made by both sides, by G.M. in the form of a side-payment preference for Quebec.

The clarification of the economic orientation in Opération-Amérique (as it directly ameliorated the perceived risk for the national and international orientation of American economic interests) and the specific case of G.M. (indicating that the implementation of Quebec's policies would not lead to Quebec becoming an "economic ghetto")(2) exemplify the "optimal bargaining" approach--restructuring policy demands in such a way as to reduce the negative elements for cooperation for the respondent's most crucial interests. This approach subsequently led to the return of American investment, a tit-for-tat interaction resulting in accommodation, both generally and in the case of G.M.. The preferential procurement policy was not applied in a rigorous nationalist manner, nor was it rescinded. The economic orientation of Opération-Amérique addressed the most significant of American corporate interests, but the policy for political sovereignty was retained. In both cases, a redefinition of the implementation of policy occurred. Such an approach was also used in other policy areas, most clearly found in the case of language legislation.

(1) New York Times, 27 Dec. 1977, p. 10.

(2) Lévesque, quoted in McRoberts and Posgate, Quebec, p. 201.

Language Policy

Of all the policies initiated by the P.Q., the language legislation attracted the greatest deal of attention. Taking its cue from the report of the Gendron Commission which argued for a policy to redress the inferior economic position of the Québécois, (1) language policy specifically addressed the social restructuring of the Quebec economy:

The Quebec we wish to build will be essentially French. The fact that the majority of its population is French will be clearly visible--at work, in communications and in the countryside. It will also be altered, especially in regard to the economy; the use of French will not merely be universalized to hide the predominance of foreign powers from the French-speaking population; this use will accompany, symbolize and support a reconquest by the French-speaking majority in Quebec of that control over the economy which it ought to have. (2)

During the hearings on Bill 1 (the original draft, in the summer of 1977), the private sector's costs of the proposed francization programme were estimated at between \$260 and \$460 millions (over a period of three years for implementation) as the amount required to convert Quebec's

(1)

Commission of Inquiry on the Position of the French Language and on Language Rights in Quebec, Report, vol. 1 (Québec: Editeur officiel, 1972), p. 77: "We have defined a socio-linguistic structure which proves beyond question that the domain of the French language is particularly characterized by inferior duties, small enterprises, low incomes and low levels of education. The domain of the English language is the exact opposite, that of superior duties involving initiative and command, and large enterprises, and high levels of education."

(2)

Quebec, Quebec's Policy on the French Language (Quebec: Ministry of State for Cultural Development, March, 1977), p. 52.

private enterprises to French operations.(1) Subsequent studies marginally reduced this estimate and indicated that the costs of francization represented between .2% and .5% of Quebec's Gross Interior Product, a cost not much different from other public programmes such as metric conversion, labelling, water and air purification, or the control of cancer-causing substances.(2) These findings relate mainly to the costs incurred in head and sales office operations.

These costs are by no means negligible, and the movements of head offices from Quebec clearly demonstrate a reaction to them. Using the estimates from Allaire and Miller's study, the costs of the proposed francization programme would be equivalent to a increase in the Quebec corporate tax rate from 12% to 13-13.3% for American firms. Corporate operations most easily moved were relocated outside the province, thereby simply softening the impact of the policy. In the revised

(1)

This estimate included the costs for translating documents in head offices, changing signs, and language courses for executives, estimated to cost \$230,000 per firm employing 350, also over a period of 3 years. [Reports on Separatism, vol. 2 #3, p. 212.]

(2)

Allaire and Miller estimated the short term costs (1 to 2 years) to be \$93 million per year (an average of \$105,000 per company for 330 firms with 500 or more employees (or \$60 per employee per year), and an average of \$11,700 for 5,000 firms with 50 to 499 employees (or \$50 per employee per year)). [See: Yvon Allaire and Roger E. Miller, Canadian Business Response to the Legislation on Francization in the Workplace (Montreal: C. D. Howe Research Institute, 1980), pp. 54-5.] A study for the Quebec government by Econosult found that the costs most frequently approached .1% of corporate operations. [See: Econosult Inc., Etude sur les Avantages et les Coûts de la Francization (Montreal: Service des publications, Direction des communications, Office de la langue française, 1981), pp. 235-8. See also: Quebec Update, vol. 3 #26, 30 Sept. 1980, p. 1.]

language legislation (Bill 101), the regulations which followed, and the clarification of those regulations, the Quebec government in turn removed by stages the concern for the costs of francization for head offices, including research and development activities.(1) This was particularly important for American-owned firms. In Morrison's 1964 study, American firms with head offices in Quebec demonstrated a willingness to adapt to local requirements in their local operations, up to--but not including--head office activities and communications with the parent company. He also identified engineering and research and development functions as characterizing this group more than any other.(2) While both the policy statements and Bill 101 indicated that head office operations would be given special consideration,(3) it was not until July, 1978 that the extent of the exemption was clarified through the release of the regulations to implement Bill 101.

(1)

The concessions granted in Bill 101 (in comparison to Bill 1 and the previous government's language law, Bill 22) are set forth by Coleman, who argues that the revisions in Bill 101 made it "more attuned to the North American context than even under Bill 22." [William D. Coleman, "From Bill 22 to Bill 101: The Politics of Language under the Parti Québécois", Canadian Journal of Political Science, 14 (1981), pp. 479-80.] The New York Times also claimed: "Most of the concessions were made to private business." [New York Times, 17 July 1977, p. 8.]

(2)

Morrison, Corporate Adaptability, pp. 45 and 83.

(3)

See: Quebec, Quebec's Policy on the French Language, p. 63. Bill 101 states in article 143: "Francization programmes must take account of the situation relations of business firms with the exterior and of the particular case of head offices established in Quebec by business firms whose activities extend outside Quebec."; Article 144 states: "The manner of applying francization programmes in head offices may be decided by special agreements with the Office." [Quebec, Revised Statutes of Quebec, 1979, Chapter C-11, "Charter of the French Language".]

The regulations governing the use of French in head offices were implemented only after consultations with the business community (begun in late 1977) and subsequently employed a 50% revenue rule. The regulations released in July, 1978 stipulated that firms which derived more than 50% of their revenue from outside Quebec would have their head office operations exempt from the provisions of Bill 101. Furthermore, research and development offices were included in the classification of a head office.(1) Additionally, firms which derived less than 50% of their revenue outside Quebec could also apply for exemption for their head offices if they could demonstrate that their business would suffer from implementing a francization programme (according to the frequency of contacts outside Quebec, the complexity of technology used, and the requirements for specially trained staff).(2) When the regulations took effect in December, 1978, it was further stipulated that indirect sources of revenue from subsidiaries would be considered in meeting the

(1)

Reports on Separatism, vol. 2 #14, pp. 299-300; and Wall Street Journal, 21 July 1978, p. 10, which identified the regulations as a "softening" of the language policy. The regulations were established after a study of head office operations of multinationals in Western Europe. In 1978, Henry Giniger reported: "The provincial government of Quebec has drawn a generally favourable reaction from business groups to an official promise of wide exemptions for the headquarters here of large national and international companies from the general requirements to use French in Quebec." [New York Times, 24 July 1978, p. D-2.]

(2)

Quebec Update, vol. 1 #12, 24 July 1978, p. 1.

50% rule.(1) This effectively removed the impact of the policy on multinational head offices located in Quebec. A seminar in New York (in June, 1978), conducted by Roger Gosselin (president of l'Office de la Langue Francaise) also indicated that the government intended to use "the utmost flexible approach" in implementation--in some circumstances, francization would take up to ten years to complete.(2) The studies conducted on the costs of francization do not exclude head office operations and as a result their estimates of costs were exaggerated in light of this change. The study by Allaire and Miller focussed specifically on the costs for head offices.(3)

The objective of the regulations for the Charter of the French Language was to demarcate operations within Quebec from operations outside the province. The working language of corporate operations with links outside of the province would remain in English, but operations with local content would have to be undertaken in French. The effect of this orientation became evident as a result of consultations in late 1977 and early 1978. In October, 1977, Reader's Digest indicated that it was considering the transfer of 150 employees from Montreal to

(1)

Quebec Update, vol. 2 #1, 8 Jan. 1979, p. 1.

(2)

This was the first public explanation in New York of the language policy. [Reports on Separatism, vol. 2 #12, p. 287.]

(3)

See: Allaire and Miller, Canadian Business Response, p. 57. The Econosult study (conducted with the effect of these regulations in mind) indicated that the effect of the Charter would be about one half (.1% of Gross Interior Product) of Allaire and Miller's results. [Econosult, Etude sur les Avantages et les Coûts de la Francization, p. 234.]

Toronto as a result of the passage of Bill 101. The plan was shelved after discussions with the Quebec government in December, 1977. Readers' Digest's Board of Directors concluded that "with the co-operation being shown" the personnel would stay.(1) In effect, the implementation of Bill 101 simply removed this issue from the American agenda in the area of head office and research and development operations, the field most significant for American interests.(2)

The other major concern over the Charter dealt with the educational provisions requiring enrollment in Francophone public schools, creating the apprehension that skilled employees would be lost if their children were denied English education. Under article 85 of the Charter of the French Language, a three year exemption could be granted for children entering the Quebec educational system from outside the province with a

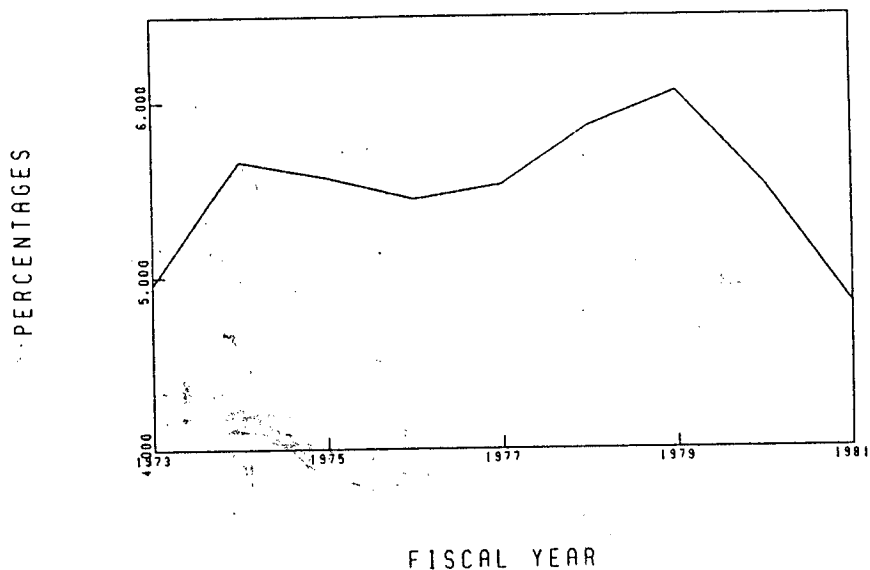
(1)

Quoted in Reports on Separatism, vol. 2 #2, p. 205. The president, E. Paul Zimmerman, encouraged by the Quebec government's response, claimed: "Representatives of the government approached us to actively discuss our concerns. Their attitude was to find solutions. As long as that continues, we'll remain."

(2)

Pierre Laporte (Director of Research and Evaluation of l'Office de la langue française) claimed: "The impact of this adjustment on the economic costs of the Charter for business firms is extremely significant since the law as implemented removes from their agenda the need to change in a basic way their customary pattern of linguistic functioning. The adjustment took the form of a particular regulation which, by the way, was prepared in consultation with head office and research personnel themselves." [Emphasis added.] [Pierre Laporte, "The Economic Impact of the Charter of the French Language (Law 101)", in Contemporary Quebec, ed. Calvin Veltman (Montréal: Université du Québec à Montréal, 1981), p. 153.] Veltman's book was funded in part by Quebec's Ministry of Intergovernmental Affairs, and was "designed to present a basic introduction to the economic and political structure of Quebec for an English-speaking, largely American, audience." [Ibid, p. 5.]

FIGURE 5-2
QUEBEC GOVERNMENT EXPENDITURES ON EDUCATION:
PRIVATE SCHOOLS AS A PERCENT OF PUBLIC SCHOOLS(1)



possible three year extension. In subsequent years, the three year extension was immediately granted in some cases to Americans, consequently providing a six year temporary residence status.(2) As well, Quebec government expenditures for private education continued, and in fact (compared to public school expenditures) substantially increased in 1978 and 1979 (see: FIGURE 5-2).

The provisions of the Charter also created apprehension due to the delegation of authority for monitoring and implementing the law and the

(1) Calculated from: Quebec, Ministère des Finances, Public Accounts vol. 1 (Québec: Editeur officiel du Québec).

(2) Business America, 21 June 1985, p. 39.

regulations. This was also subsequently ameliorated. In March, 1979, Aimé Gagné, the retired vice-president of public relations for Alcan,(1) was appointed as a language ombudsman and chairman of the Appeals Board for the Francization of Business. While he had been responsible for implementing a francization programme at Alcan (even prior to the passage of Bill 22), he also made it clear that English was the principal language of business.(2)

In the aspects of Bill 101 relating to American corporate concerns, the issue was effectively removed from the agenda and exemplified the "optimal bargaining" approach. The P.Q. was extremely vulnerable to the perception of the "exodus" as this reflected dismally on its ability to manage relations with the private sector.(3) The government subsequently settled for provisions to assist in the promotion of the use of French up to the point of middle management, but beyond this the language of business would continue to be in English. By late 1978 this

(1)

While Alcan is listed by the Corporations and Labour Unions Returns Act as Canadian controlled, it has strong American links. In 1974, the distribution of Alcan's stock was: 45.4% by residents of Canada, 44.1% by residents of the U.S., [Wallace Clement, Continental Corporate Power: Economic Elite Linkages between Canada and the United States (Toronto: McClelland and Stewart Ltd., 1977), p. 161.]

(2)

"And while I feel that Quebec must learn to respect itself as a French-speaking province, this doesn't mean that English won't be used. In fact, I believe that every French-Canadian who wants to get ahead will definitely have to learn English." [Gagne, quoted in Reports on Separatism, vol. 3 #6, p. 426.]

(3)

See for example: Wall Street Journal, 30 Sept. 1977, pp. 1 and 30.

orientation was effectively communicated to American corporate interests in Quebec and the U.S. and the response in the decline of American head office departures indicated a willingness to accept the provisions. In 1979, two American head offices moved into Quebec; from November, 1976 to December, 1978, only one American head office relocated to Quebec, in February, 1977. The P.Q. was initially extremely "disenchanted" with the status quo, but was simultaneously extremely vulnerable to American corporate punishment. The case of the implementation of the language policy subsequently reverted to "optimal bargaining", removing this most significant concern for American multinationals.

Asbestos Corporation

The case of the takeover of Asbestos Corporation exemplified all three manipulative tactics: "disenchantment" with the level of local processing of asbestos fibre, both the "hard" and "soft" landings of threats and counterthreats, and "optimal bargaining" or the formulation of demands in such a way as to minimize the costs for the respondent of making a concession. Of all the P.Q.'s sectoral policy concerns which had a bearing on the U.S., the takeover of Asbestos Corporation most directly affected American corporate interests. The largest four of the five asbestos mines were American-controlled, the fifth was British-owned. Policy statements by the P.Q. prior to the 1976 election had tended to focus on the asbestos industry as a whole. During the 1973 election campaign, the P.Q. pledged to "ensure a majority control that is québécois, where Québec enjoys a solid position in terms of

international competition (asbestos for example)."(1) In 1975, the P.Q. proposed the creation of a government controlled marketing office which would be the exclusive agent for the buying and selling of asbestos.(2) When it came to implementing these policies, the P.Q. initially settled for only a portion of the industry, Asbestos Corporation.

The Quebec incentive for some form of local control was based on dissatisfaction with the level of local processing. Only 3% of asbestos mined in Quebec was processed within Canada, a figure that the P.Q. wanted to see raised to at least 20%, and within Quebec(3) (see: TABLE A-5-1 in the appendix). The government estimated that (circa 1977) the degree of fabrication resulted in only 1,200 Quebec workers employed in asbestos processing (brake linings, asbestos paper and asbestos cement) and 240,000 elsewhere (60,000 in the U.S.), in spite of the fact that 40% of the world's asbestos is mined from Quebec, virtually none in the U.S..(4) The P.Q.'s concern over what it regarded as foreign exploitation of Quebec's natural resources was also a concern of the

(1) Quoted in Roma Dauphin, "Asbestos," in Natural Resources in U.S.-Canadian Relations, Volume II: Patterns and Trends in Resource Supplies and Policies, eds. Carl E. Begie and Alfred O. Hero, Jr. (Boulder, Colorado: Westview Press, 1980), p. 258.

(2) William D. Coleman, The Independence Movement in Quebec: 1945-1980 (Toronto: University of Toronto Press, 1984), p. 114.

(3) Fournier, "The Parti Québécois and the Quebec Economic Situation", p. 21.

(4) A. Brian Tanquay, "Quebec's Asbestos Policy: A Preliminary Assessment" Canadian Public Policy, 11 (1985), pp. 230-1; and Dauphin "Asbestos", p. 254.

previous Quebec government. The difference between the two governments was that the P.Q. added specific demands (thereby clearly indicating its disenchantment) and furthermore implemented the policy that the previous government allowed to lapse.

Partial nationalization had been suggested by the Liberal government in 1973, and had been approved by Gilles Massé (Liberal Minister of Natural Resources). Instead of carrying on with nationalization immediately, a study was commissioned (completed by Normand Alexandre in 1975) which specifically pointed to the foreign control of the asbestos industry as the primary cause for the lack of local processing. Alexandre recommended the purchase of one mining company--specifically Asbestos Corporation--the policy the P.Q. subsequently implemented.(1) In April, 1975, the federal Department of Regional Economic Expansion (DREE) offered financial support to Quebec's Ministry of Natural Resources in order to achieve the purchase of Asbestos Corporation, in line with the study's findings. The DREE recommendation was released by the Quebec government to the Montreal Gazette on June 20, 1979 (the day Bill 121, empowering nationalization if bargaining failed, was passed) in an effort to support its bargaining position at a time when General Dynamics (which controlled 55% of Asbestos Corporation's shares) refused to sell. DREE had claimed that Asbestos Corporation's failure "to exploit the competitive advantage

(1)

An abbreviated version of this report was tabled in the Quebec National Assembly in 1978. [See: Normand Alexandre, "Vers une Politique Québécois de l'Amiante", in Quebec, National Assembly, Documents de la Session, 1978, document number 37.]

usually gained from resource ownership has not worked out in favour of Quebec. ... Because it is under foreign ownership, a large part of its profits from sales are taken out of the province."(1) The P.Q. consistently used these recommendations in order to legitimize its policy and thus to soften the effect on its image, a point consistently raised by General Dynamics in its press statements.

In almost all respects, the choice of Asbestos Corporation as the target represented the case of minimizing the costs of this takeover to the U.S.. While it was an American-controlled enterprise, it was not the largest mine by any standards.(2) Canadian Johns-Manville, the principal producer, was originally thought to be the target (after Lévesque's speech in New York) because of its size. However, Alexandre had recommended against the expropriation of this company since it was continuously expanding markets and did some processing in Quebec. In contrast, Asbestos Corporation shipped raw asbestos to its plant in Nordenham, West Germany, for processing.(3) As well, the takeover of Asbestos Corporation would not effect U.S. supply to any great extent. Less than 10% of its raw fibre shipped went to the U.S.. Furthermore, Asbestos Corporation constituted a peripheral operation of General

(1) Montreal Gazette, 21 June 1979, p. 1.

(2) Dauphin, "Asbestos", p. 247.

(3) Coleman, Independence Movement, pp. 114-5; and Quebec, Challenges for Quebec: A Statement of Economic Policy, Synopsis, Policy Objectives and Measures (Québec: Editeur Officiel du Québec, September, 1979), p. 119.

Dynamics, primarily an aerospace enterprise.(1) The process of purchasing Asbestos Corporation subsequently took over five years. While the official announcement of this company as a target took place in October, 1977, the day before Lévesque's speech in New York, Parizeau stated that Asbestos Corporation was the most likely target.(2) An agreement with General Dynamics was finally reached on November 9, 1981, and control was handed over to the government in February, 1982. The lack of quick, determinate action, potentially alienating the investment community, combined with repeated statements that Asbestos Corporation would be the only target for takeover effectively mitigated this action as a general concern.(3)

The threat of a takeover of the asbestos industry, at first ambiguous in terms of target, and veiled as a punishment for failure to

(1)

Dauphin, "Asbestos", pp. 250-1; and Tanquay, "Quebec's Asbestos Policy", pp. 232-3.

(2)

Wall Street Journal, 24 Jan. 1977, p. 20.

(3)

Alexander C. Tomlinson, "U.S. Perceptions of Investment Opportunities and Risks in Quebec", in Problems and Opportunities in U.S.-Quebec Relations, eds. Alfred O. Hero, Jr., and Marcel Daneau (Boulder: Westview Press, 1984), p. 42. While acknowledging the takeover of Asbestos Corporation, in 1981, an (unidentified) American speaker from the Council on Foreign Relations remarked that no "major" American corporation had been the object of expropriation. [The Council on Foreign Relations Inc. and the Canadian Institute of International Affairs, Canada and the United States in the 1980s: The Fifth Lester B. Pearson Conference, Oct. 14-17, 1981 (Copyright: Council on Foreign Relations Inc., 1982), pp. 30-1.] On March 30, 1979, at the New York Executive Sales Club, Landry claimed: "That the Quebec government is dedicated to the nationalization of industry is obviously a myth." He stressed the desire for joint ventures with private capital. [Quoted in: Reports on Separatism, vol. 3 #6, p. 425.]

undertake local fabrication, also received an immediate response from the entire industry. In February, 1977, Quebec's asbestos industry, "in an apparent effort to placate the province's new Parti Quebecois government", announced the undertaking of a study to determine the feasibility for an asbestos-processing industry in Quebec.(1) All five producers proposed spending \$225,000 on the study in order to satisfy Quebec's aspirations for increased employment, and also indicated that they would consider a joint venture with the government as a partner in manufacturing facilities. This subsequently took the form of an agreement in 1979 between the Quebec Asbestos Mining Association and the government's Société nationale de l'amiante (SNA, created in May, 1978, as the corporation to take over the government's asbestos interests) to form l'Institute de recherche et de développement de l'amiante. This was jointly funded (the Asbestos Mining Association contributed .5% of its net sales for 5 years, and the government contributed \$5 million) in order to seek new uses for asbestos fibre.(2) As an initial response, in late February, 1977, Quebec's Ministry of Natural Resources stated that the government would not nationalize the asbestos industry if "the mining companies involved cooperate with government aims to further local processing."(3) The conditional nature of the P.Q. response to

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- (1) Quoted in Wall Street Journal, 16 Feb. 1977, p. 27.
- (2) Quebec Update, vol. 2 # 27, 9 July 1979, p. 1
- (3) Quoted in Wall Street Journal, 1 Mar. 1977, p. 7.

the American reaction indicated that nationalization was the "ultimate step" to be used as a penalty should processing not increase. This conditional orientation also had the desired effect on part of the industry. In March, 1977, Canadian Johns-Manville decided to proceed with \$77 million investment in its mine at Asbestos, Quebec (which investment had been put on hold after Lévesque's New York address). A spokesman stated that the company did not expect the government to nationalize the industry "so long as the companies cooperate with the governments objectives."(1)

The protracted negotiations for the purchase of Asbestos Corporation were part of the government's policy to divert attention from this issue. During 1978, the P.Q. expended considerable effort to improve its image in the U.S., which effort would be jeopardized by any direct, harsh action. The issue at stake was not simply that of a takeover, but more the question of fair compensation. In this respect, the nationalization of Quebec's electric utility companies in 1962 hung over this case like a ghost. In 1962, compensation for the takeover had been set unilaterally by the Ministry of Natural Resources.(2) Lévesque (as the Minister), with Jacques Parizeau, Bernard Landry and Claude

(1) Quoted in: Business Week, 28 March 1977, p. 63.

(2) Reports on Separatism, vol 3 # 19, p. 449.

Morin (as aides) were the architects of that scheme.(1) In the Asbestos Corporation case, the P.Q. in power consistently sought a negotiated price settlement. Bill 121, empowering the government to expropriate Asbestos Corporation (but not requiring it), was not passed until June, 1979, and was viewed by General Dynamics as only a measure to pressure it to negotiate. Spokesmen for the government consistently stated that they desired a negotiated settlement, and Parizeau clearly stated that the purpose of the legislation was simply to indicate that the government was "serious" about acquisition.(2) In the event that a negotiated settlement could not be reached, Bill 121 provided for a price setting arbitration tribunal to consist of three members: one for General Dynamics, one for the SNA, and one for the government (appointed from the provincial judiciary). General Dynamics stated that it had no hesitation in appearing before such a tribunal, since the corporation felt that it would get more than the \$42 per share the government was

(1)

Graham Fraser, René Lévesque and the Parti Québécois in Power (Toronto: Macmillan of Canada, 1984), p. 213. While this case involved only Canadian-owned enterprises, it indicated the identical reaction by the Canadian investment community also evident in the U.S., in late 1977. In 1962, after the announcement, the Quebec government subsequently had great difficulty in raising funds on the Canadian bond market, and in fact had to acquire funding in the U.S. for the nationalization. [Coleman, Independence Movement, p. 103.] The American reaction in 1977 is evident in the rise in bond yield differentials (see the figure in Chapter 2) in late 1977, after a period of decline from February, i.e. reversing the trend.

(2)

Wall Street Journal, 15 Dec. 1978, p. 29; 6 June 1979, p. 14; and 25 June 1979, p. 16.

proposing--General Dynamics was demanding \$99.75 per share.(1) The difficulties evident in 1962 and the concern over fair compensation were effectively mitigated in order to soften the American reaction to a takeover which General Dynamics was exploiting.

The costs to the P.Q.'s image, if it proceeded with direct expropriation, were not the only costs involved. If nationalization occurred, the payment to General Dynamics would be subject to both Canadian and American taxes unless special arrangements could be negotiated, or unless the payment was quickly re-invested in Canadian natural resources (the option General Dynamics proposed to its shareholders).(2) In an effort to placate the government, in May, 1979, Asbestos Corporation proposed a joint venture with the government to undertake processing. However, the company admitted that the employment effect would be minimal--the government refused the offer.(3) The offer by General Dynamics, in order to induce the government's concession, was "sub-optimal bargaining", especially in light of the taxation costs. However, General Dynamics subsequently used delaying tactics in the

(1) Wall Street Journal, 21 June 1979, p. 20; and Reports on Separatism, vol. 3 # 18, p. 524.

(2) Wall Street Journal, 27 Mar. 1979, p. 10; 28 Mar. 1979, p. 16; and 21 June 1979, p. 20.

(3) Wall Street Journal, 10 May 1979, p. 16; and New York Times, 10 May 1979, p. D-5. In February, 1977, Yves Berbue (Minister of the Office of Natural Resources) indicated that nationalization would result only if the asbestos industry did not comply with the aim of increasing processing from 3% to 20%. [Wall Street Journal, 1 Mar. 1977, p. 7.]

attempt to remove the threat of expropriation.

The length of time involved in resolving this issue was due to two factors. First, the P.Q. did not make its first formal offer to General Dynamics until April, 1979, while Bill 121 was still pending in the National Assembly. Second, immediately following the passage of Bill 121, General Dynamics launched a court challenge on the constitutionality of the legislation, based in part on the argument that the legislation was passed only in French. In the series of appeals (and subsequent injunctions against expropriation) which were not ultimately set aside until March 5, 1981, General Dynamics was partly relying on the next election removing the P.Q..(1) On March 31, 1981, General Dynamics agreed to negotiate--the election occurred two weeks later on April 13--and on November 9, an agreement was reached.(2) While the threat of expropriation also entailed costs as a punishment, General Dynamics was able to soften this tactic, but only to the point where it was finally unable to avoid negotiation.

While for strategic reasons the takeover of Asbestos Corporation was the ideal choice in terms of redressing the level of processing and minimizing the potential American backlash, in one respect the choice was sub-optimal. The subsequent delay was used by the P.Q. to overcome this disadvantage--Asbestos Corporation owned no processing facilities

(1) Wall Street Journal, 27 Mar. 1979, p. 10.

(2) Reports on Separatism, vol. 5 #5, p. 792; and vol. 5 #6, p. 800; and Tanquay, "Quebec's Asbestos Policy", p. 234.

in Quebec. Its output was shipped to West Germany for processing. While the court challenges continued, the SNA opened the Lupel Pilot Plant to use asbestos for the backing of linoleum and constructed a pilot plant at Thetford Mines (the location of Asbestos Corporation's mine) for the production of brake linings.(1) In 1979, the SNA acquired one half the shares of Distex Canadienne Ltée (in Montreal), a producer of automotive brakes.(2) In May, 1980, the government concluded an agreement to purchase Bell Asbestos Mines Ltd. from its British owners (which had been negotiated only since November, 1979). Bell Asbestos had the largest plant in Quebec for secondary processing in addition to a developed sales network, both included in the deal.(3) While the court cases and negotiations with General Dynamics went on, the government acquired the ability to enhance its objectives, without which the acquisition of Asbestos Corporation would have been--other than symbolically--useless. The final agreement with General Dynamics turned over one half of its 55% ownership of Asbestos Corporation, with an option to acquire the remaining half (which option was exercised in 1984), thereby offsetting General Dynamics' taxation concerns.

The dissatisfaction over the level of processing, substantiated by the Alexandre report and legitimized by the DREE recommendation, coupled

(1) Quebec Update, vol. 2 # 19, 14 May 1979, p. 1.

(2) Quebec, Challenges for Quebec, p. 121.

(3) Reports on Separatism, vol. 4 #9, p. 638; and Coleman, Independence Movement, p. 115.

with the demands to increase processing exemplify the "disenchantment" with the state of affairs. The punishment tactic (nationalization) was clearly restricted to what was perceived to be the greatest violator, Asbestos Corporation. The choice of Asbestos Corporation also demonstrated "optimal bargaining" as this target would affect U.S. interests in supply least, as well as the corporate interests of General Dynamics the least of all the possible targets.(1) The phasing in period for the actual transfer of complete ownership also demonstrated this tactic. The reciprocal punishment involved in the damage to the image of the P.Q. was offset by the protracted negotiations and the renunciation of a government set price (i.e. the landing was "softened"), which also permitted the time to acquire processing facilities. However, the use of the threat to expropriate was also a factor for General Dynamics' taxation costs, and shortly after the legal proceedings were exhausted (exemplifying General Dynamics' employing a "soft landing", with the aspiration that the P.Q. could disappear) an

(1)

General Dynamics initially linked the Asbestos Corporation issue with its aerospace concern, thereby attempting to inflict a "harder" landing on the government. When Bill 121 empowering expropriation was passed, the president of General Dynamics threatened to stop investing in Quebec, a clear punishment since at that time General Dynamics was slated to re-invest \$2.3 billion into Quebec from the expected contract to build fighter aircraft for the Canadian armed forces. [Reports on Separatism, vol. 2 #22, pp. 365-6.] However, General Dynamics soon changed this position and subsequently received the political support of the Lévesque government. On March 27, 1980, Lévesque urged Ottawa to purchase the F-16 from General Dynamics rather than the F-18 from McDonnell Douglas. At that time, General Dynamics claimed that one-half of the work would be done in Quebec. [Reports on Separatism, vol. 4 #6, p. 614.] The contract eventually went to McDonnell Douglas which at the last minute increased in its offer the benefits to Quebec: one-half of its expenditures for the contract were to be spent in Quebec. [Reports on Separatism, vol. 4 #7, p. 618.]

agreement removing this consideration was reached. The case of Asbestos Corporation most clearly exemplifies the bargaining approach.(1)

Quebec Government Borrowing

Apart from Bill 101 and the takeover of Asbestos Corporation, the other major issue in Quebec's relations with the U.S. concerned Quebec's borrowing on the New York bond market, principally to finance Hydro-Quebec's James Bay project. The tactic employed after the P.Q. came to power was to avoid the U.S. market by concentrating debt financing overseas and by placing its bond issues with Quebec's Caisse de dépôt et de placement and the Hydro-Quebec pension fund, i.e. to "soften" the impact of the American negative reaction and the costs this entailed.(2) In 1977, Quebec had retained its prized double-A bond rating from both Moodys and Standard and Poors. In its review, Moodys virtually discounted the factor of the P.Q.'s policy of an independent

(1)

This was also conveyed to the U.S.. In an article in Synthesis (published in San Francisco) Pierre Fournier explained: "The government's asbestos strategy is part of an attempt to renegotiate Quebec's position with respect to U.S. capital. The main objectives are to obtain a greater share of processing, more subcontracting for Quebec firms and a larger share of managerial jobs for French Canadians." [Fournier, "The P.Q. and the Quebec Economic Situation", p. 21.]

(2)

This was also consistent with previous P.Q. statements. During the 1973 election, when Parizeau presented as a platform a budget for the P.Q., he emphasized that Quebec should find the "materials for its development at home". "The traditional attitude of only looking outside to finance major Quebec projects is an expression, in a country that is industrial, developed, and collectively quite rich, of the colonialist reactions represented by our traditional political leaders." [Quoted in: John Saywell, The Rise of the Parti Québécois: 1967-1976 (Toronto: University of Toronto Press, 1977), p. 82.]

state, and generally found the province to be well managed financially.(1) While the effect of these statements of confidence was not immediately apparent, it had been estimated that a drop in the credit rating would have cost the government an additional 1% on its borrowing, making the P.Q. extremely vulnerable.(2) During 1977 and 1978, until the bond market in New York returned to pre-election levels, Quebec virtually avoided New York in its placements, thereby softening the impact of the increase in bond yield differentials (see: FIGURE 5-3.)

Prior to 1977, Québec had traditionally borrowed one-half of its requirements in the U.S., but in 1977 and 1978, this dropped to below 20%. It had been estimated that the government would require approximately \$2 billion per year for the period 1977 to 1981 in order to finance the James Bay project.(3) However, in 1977, because of a financing flurry in 1976, Hydro-Québec had \$1 billion on hand and as

(1)

"The province has generally enjoyed first-rate administration of its governmental affairs, and its government is generally considered as capable. Typifying this is the Hydro-Québec operation, which is among the best managed electric enterprises in Canada and perhaps the continent. Financial capabilities are fully accounted for in the development of the power resources, and the self-supporting nature of the business is carefully managed." The uncertainty over the issue of separatism was discounted as at that time vague. [Moody's Bond Survey, 14 Mar. 1977, p. 1533.]

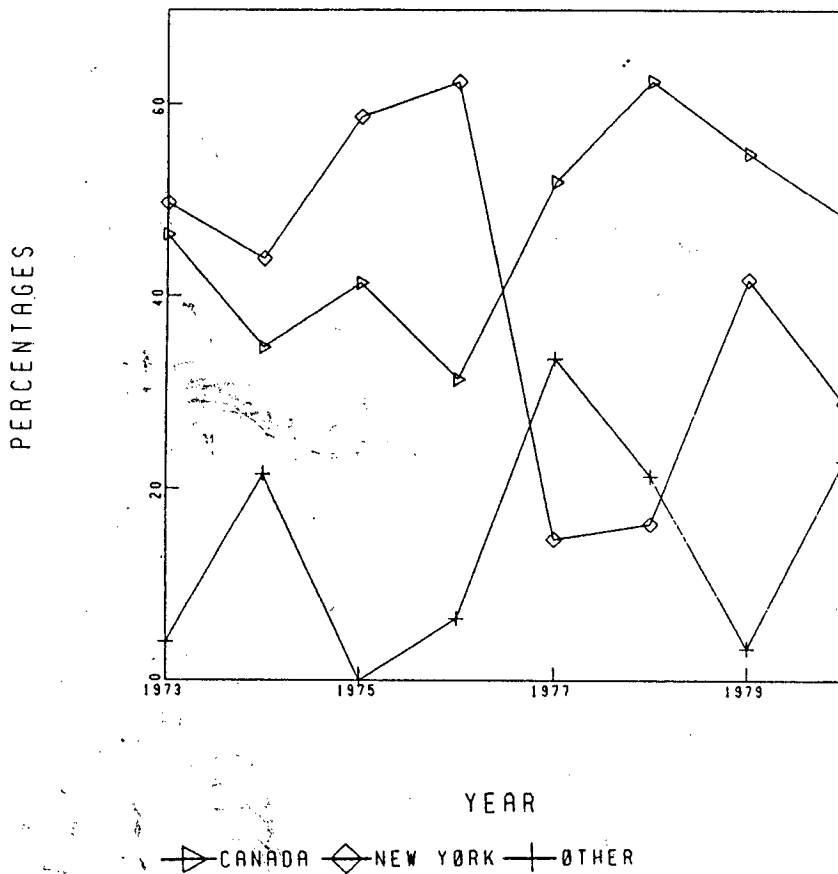
(2)

Reports on Separatism, vol. 1 #6, p. 42.

(3)

Douglas Fullerton, "Quebec Government Borrowing," in Quebec's Access to Financial Markets (Government of Canada Report for the Federal-Provincial Relations Office, 1979), p. 6; and Andre Thibeault and Larry Wynant, "Investor Reaction to the Political Environment in Quebec", Canadian Public Policy, 5 (1979), p. 237.

FIGURE 5-3
 QUEBEC GOVERNMENT BORROWINGS:
 BY MARKET AS A PERCENT OF TOTAL



such made the principal government borrower initially less vulnerable. The 1977 budget allowed Hydro to borrow only \$1 billion.(1) Quebec's efforts in offshore financing were also substantial. In July, 1977, the province arranged a \$75 million loan from a syndicate of Japanese banks,

(1) Fullerton, "Quebec Government Borrowing", p. 6; and Wall Street Journal, 13 Apr. 1977, p. 18.

at that time Japan's largest foreign loan.(1) While the American media paid particularly close attention to the pattern of Quebec's borrowing, claiming that the real test of investor confidence would come only with the first issue in the U.S., no public bond issues were undertaken until July, 1978, when the yield differentials had returned to normal.(2) Quebec simply avoided the U.S. market at a time when this action would have indicated only a willingness to pay the price:

Markets have a tendency to view the willingness of a borrower to pay unusually high yields, in a desperate search for money, as a sign of weakness; in some instances this leads to a drying up of buying and even active selling of outstanding bonds. The recently narrowing gap between Quebec and Ontario reflects in part a decline during this period in Quebec borrowing in North American markets outside Quebec.(3)

(1)

Wall Street Journal, 26 July 1977, p. 31.

(2)

In Thibeault and Wynant's study which included this bond issue, two issues comparing Hydro-Quebec and Ontario bonds in 1975 showed a differential of 70 basis points. The 1978 issue showed a differential of only 66 basis points. However, these findings must be treated with caution as in all three instances, the bond issues were separated by a period of one to two months. [Thibeault and Wynant, "Investor Reaction", pp. 242-4.]

(3)

Fullerton, "Quebec Government Borrowing", p. 14. This is evident in the figure on Bond yields in Chapter 2; the yield differential dropped dramatically in June and July 1978; Hydro-Quebec's bond issue was released in late July 1978, resulting in a temporary peak in August. In fact, at the time, Hydro-Quebec did not desperately require the funds, and was perceived as paying a high price (70 basis points above comparable U.S. utilities) simply to gain re-access to the market for possible future issues in 1979. [Business Week, 7 Aug. 1978, p. 68.] One New York analyst commented on both the price of the 1978 bond issue and the impact of the message of Operation-Amérique: "There still is a lot of uncertainty over Quebec, but a 10% yield--combined with the passage of time and a softened tone from Quebec on separatism--goes a long way toward appeasing those fears." [Ibid.]

The effect of the "willingness to pay the price" was also evident in the sharp, but temporary, rise in bond differentials in August, 1978, the month after Hydro-Quebec bought its return to the New York market with a high yield issue. By avoiding going to the market when most vulnerable and when not necessary due to the availability of offshore financing, the P.Q. simply "softened" the impact of the negative American reaction. By going to the U.S. earlier, its vulnerability would only have been made apparent.

Apart from the diversification of borrowing, in 1977 the Quebec government selected Robert Boyd as the new president of Hydro-Quebec in what was perceived to be "a move to reassure the international financial community".(1) Boyd was viewed as less likely to bend to the political concerns of the P.Q., and more apt to run Hydro as a business than the alternate candidate, Laurent Picard. Picard was noted as having close contacts with the Quebec cabinet, and not being averse to having Hydro play a more active political and social role such as by using the utility as a training ground for French-Canadian executives.(2) Furthermore, in July, 1978, Boyd (along with the former president of Hydro-Quebec, Roland Giroux) was appointed to Hydro's board of

(1) Business Week, 15 Aug. 1977, p. 54.

(2) Business Week, 27 June 1977, pp. 39-40.

directors.(1) The drop in bond yield differentials in July, 1978 was also apparent. In May, 1980, Standard and Poors conducted another review of Quebec's financial and political situation, and announced that it would not change its rating, even if the referendum vote should give the government a mandate for negotiating sovereignty-association.(2) In the case of the American reaction, "softening" the impact, the direct efforts to reverse the perception of risk via Opération-Amérique, and the appointments to Hydro-Québec demonstrate the use of the "soft landing" and "optimal bargaining" tactics to return to a state of stability.

Labour legislation, the Minimum Wage, and Taxation

While the language legislation, the takeover of Asbestos Corporation and Quebec government borrowing were the specific issues which attracted the greatest deal of attention, several other issues related to the P.Q.'s purpose of enhancing the economic status of French-Canadians also received some mention, mainly: Quebec's minimum wage, the taxation measures of the 1978 budget, and the revisions of the

(1)

Quebec Update, vol. 1 #24, 24 July 1978, p. 2. In 1979, the high regard held for Boyd became apparent when he was honoured in New York (by the U.S. publication Engineering News-Record as the only Canadian among a list of 40 international persons) for his administration of Hydro and his ability to meet the tight construction schedules of the James Bay project, bringing La Grande 2 phase of the project into operation three months ahead of schedule. [Quebec Update, vol. 2 # 10, 12 Mar. 1979, p. 2.]

(2)

Quebec Update, vol. 3 #15, 5 May 1980, p. 1.

labour code.(1) While all of these were relaxed to a degree, they were also all implemented. The revision of Quebec's labour code (termed the "anti-scab" legislation) was perceived in the U.S. as making "Quebec the strongest bastion of organized labour on the continent."(2) The legislation made it easier for unions to organize (requiring only a 35% vote for certification) and prohibited employers from hiring new employees to replace striking workers.(3) While this had been a P.Q. election promise, it was subsequently revised after consultation with the business community in several respects. Employers could submit to an arbitration committee a list of employees they did not wish to rehire after a strike; struck companies could continue to operate with management and non-unionized employees hired before the strike; and companies could hire personnel during a strike to protect property against both destruction and deterioration.(4) After this, the issue was effectively removed and virtually disappeared from consideration.

(1)

The redistributive orientation of these policies to favour the Quebec working class was also retained in the 1979 economic policy paper: "The ultimate goal of coordinated effort by economic agents is a viable economy for all and the perfecting of a type of social contract which would make possible an equitable distribution of the proceeds from growth. The freedom of agents to act depends on a mutual sense of responsibility." [Quebec, Challenges for Quebec, p. 37.]

(2)

Business Week, 10 Oct. 1977, p. 60.

(3)

Business Week, 24 Oct. 1977, p. 108.

(4)

Jean-Marc Pottle and Pauline Vaillancourt, "Toward Understanding the Enigmatic Parti Québécois", Synthesis, vol. 2 #4 (Fall, 1978), pp. 39-40; and McRoberts and Posgate, Quebec, pp. 204-5.

In early 1977, the P.Q. raised the minimum wage in the province to \$3.15 per hour, reportedly the highest in North America,(1) and furthermore indexed this to the cost of living, raising it to \$3.27 in January, 1978. In the spring of 1978, the government commissioned a study by Pierre Fortin who admitted that, prior to undertaking the work, he personally favoured the measure. However, his final report indicated that (with other wage emulations through indexation to the minimum wage) the inflation impact would be between .3% and .5% and unemployment would be increased from between .6% and 1% through corporate relocations outside the province.(2) The report, released in June, led the government to remove the indexation immediately, a move clearly preferred in American reports on the issue.(3) The minimum wage was frozen at \$3.27 just prior to the July, 1978 indexation increase, allowed to increase 6.1% in October, 1978 (while the cost of living index indicated an 8% rise) to \$3.37, and was thence to be staggered until comparable

(1)

Herbert C. Meyers, "Business has the Jitters in Quebec," Fortune Magazine , 96 (Oct 1977), p. 244.

(2)

Pierre Fortin, "The Price, Employment, and Redistributive Effects of the Minimum Wage: Lessons from the Quebec Experience" (Paper presented at the conference on Incomes in Canada, Winnipeg, Manitoba, May 10-12 1979, sponsored by the Economic Council of Canada.) Fortin also found that the unemployment effects would be found predominantly among the Quebec youth, the age group that the minimum wage policy was originally intended to assist.

(3)

Wall Street Journal, 19 Sept. 1978, p. 22.

with the Ontario minimum wage.(1) While the increases were phased out, which effectively also removed this issue, the redistributive basis of the legislation was simply transferred to the tax system in 1978.

The April, 1978 budget substantially increased the personal income taxes for income over \$30,000 per year.(2) It was specifically presented as reducing the tax burden on lower income groups, and thus also contributed to the incentive to relocate head offices.(3) The effect on head office relocations out of Quebec is also apparent in the figure in Chapter 2. There is a marginal rise in departures in the latter half of 1978, but not nearly as severe as occurred with respect to the passage of Bill 101. In an effort to soften the impact of the tax changes, in the following March, 1979 budget, a stock savings plan was introduced. This plan allowed deductions of up to 20% of income (to a maximum of \$15,000, less registered retirement savings plans and

(1) Quebec Update, vol. 1 # 10, 10 July 1978, p. 1; vol. 1 #13, 31 July 1978, p. 2; and vol. 1 #23, 7 Oct. 1978, p. 2.

(2) In a comparison between Quebec and Ontario, it was determined that for a single person the rate in Quebec was 4% higher at \$7,500 income, and 16% higher at \$25,000 to \$100,000 income. Furthermore, the upper rate for Ontario was 61.9%, for Quebec, 68.9%. [McRoberts and Posgate, Quebec, p. 203; Judith Maxwell, Gerard Belanger and Penny Basset, Taxes and Expenditures in Quebec and Ontario: a Comparison (Montreal: C. D. Howe Research Institute, 1978), Ch. 4.] Quebec's corporate taxes were not changed.

(3) Wall Street Journal, 19 Apr. 1978, p. 6. The president of DuPont of Canada Ltd. explicitly stated that the tax action "adds substantially to the already strong pressures for relocation of head offices." [Quoted in Wall Street Journal, 8 May 1978, p. 23.] DuPont did not move its office, but in January, 1979, it announced that 100 persons would be moved from Montreal to Toronto in April. [Reports on Separatism, vol. 3 #2, p. 395.]

registered home ownership savings plans contributions) for investments in new shares of stock with corporations maintaining a head office or main place of business in Quebec.(1) While this measure was initially poorly reviewed as too little and too late, by December, 1979, its popularity grew, and was described by the New York Times as Quebec's "first success in three years of attempts to improve relations with business."(2) Instead of directly participating and guiding the economy in terms of the P.Q.'s redistributive orientation, in this respect the emphasis shifted to mitigating disincentives, "optimal bargaining".

Defense Issues and the U.S. Government

While the preceding analysis has exemplified the use of bargaining tactics to reach an accommodation with reference only to the American economic community, the objective in relation to the U.S. government was simply to have it remain neutral. The major political impact for the U.S. of an independent Quebec was initially perceived to be in re-negotiating American security arrangements, especially significant

(1) Maxwell and Pestieau, Economic Realities of Contemporary Confederation, p. 86.

(2) New York Times, 26 Dec. 1979, pp. D-1 and D-4. The direct benefits were also described: an individual earning \$40,000 had to pay \$2,513 more in taxes in Quebec than in Ontario, but if he contributed his maximum of \$8,000, his taxes would be reduced to \$351 more than in Ontario. For an individual earning \$75,000, investing \$15,000, the figure before would be \$5,805, and after \$994, more than in Ontario. The stocks had to be held for a minimum of two years. [See also: Quebec Update, vol. 2 #13, 2 Apr. 1979, p. 1.]

given the P.Q.'s apparent social democratic neutrality prior to 1977.(1) Defense arrangements between Canada and the U.S. have always been a controversial issue, not without examples of perceived interference by the U.S. in Canadian affairs. In early 1963, during the House of Commons debate over the arming of Bomarc missiles with nuclear warheads (as part of the NORAD system against the Soviet bomber threat) and Canada's nuclear role in NATO, the debate revolved in part around a U.S. Department of State dispatch on January 30. The State Department's release contradicted a speech by Prime Minister Diefenbaker on January 25 concerning arrangements for, and the appropriateness of, nuclear arms on Canadian soil and for Canada's NATO forces. The result of the debate was a non-confidence motion, subsequently passed on February 5, which led to the election of 1963.(2) An independent neutral Quebec would put in jeopardy the effective use of the Bagotville air-base and would generally complicate NORAD.(3)

The P.Q. effectively removed U.S. strategic military concerns from the agenda in early 1977 by passing a resolution at its May convention

(1)

Howard Lentner, "Canadian Separatism and its Implications for the United States", Orbis, 22 (1978), pp. 375-93; and Nicholas Stethem, "Canada's Crisis: The Dangers", Foreign Policy, (Winter, 1977/78), pp. 56-64.

(2)

J.L. Granatstein, Canadian Foreign Policy Since 1945: Middle Power or Satellite (Toronto: Copp Clark Publishing Company, 1969), pp. 126-7; and Jon B. McLin, Canada's Changing Defense Policy, 1957-1963: The Problems of a Middle Power in Alliance (Baltimore: Johns Hopkins Press, 1967), pp. 162-4.

(3)

John Starnes, "Quebec, Canada and the Alliance", Survival, 19 (1977), p. 215.

reversing the previous objection to participation in Western defense systems, specifically NORAD and NATO.(1) As early as September, 1977, in an interview with U.S. News & World Report, Lévesque made the change in P.Q. policy clear. Involvement in defense would only be conditional on the economic costs of participation.(2) Subsequent statements in 1978 continued in this vein(3) and became part of the focus of addresses in the U.S., such as Lévesque's speech to the National Press Club in Washington (January, 1979) designed to retain American neutrality in the upcoming referendum debate.(4) The policy paper for the referendum, "Quebec-Canada: A New Deal" also retained the position that an

(1)

New York Times, 30 May 1977, p. 4, lauded as "a striking example of the moderation shown in the first convention since the party assumed power."

(2)

"As far as defense agreements are concerned, our party in the late 1960s hastily voted a retreat from everything--a lets get out of all foreign entanglements. Its now being rehashed and it might take a couple of years to sort out our thinking, but membership in NATO politically is probably a must for Quebec eventually." In reference to NORAD, Lévesque also stated: "That's something we should be part of as long as it didn't ruin us financially. Our doubts would be only about the cost, not the principle of continental air defense." [U.S. News & World Report, vol. 83 #13, 26 Sept. 1977, p. 71.]

(3)

On March 7, 1978, Intergovernmental Affairs Minister, Claude Morin, clearly stated the Quebec position: "We must not create a vacuum in North America by detaching ourselves from the defense system of the continent, NORAD. In short we accept our share of responsibility for collective security and east-west cooperation." [Quoted in Piotte and Vaillancourt, "Toward Understanding the Enigmatic Parti Québécois", p. 40.]

(4)

New York Times, 25 Jan. 1979, p. 4, and 26 Jan. 1979, p. 7.

independent Quebec would "play a role in the North Atlantic Treaty Organization as well as other treaty obligations."(1) The neutrality of the American government was achieved by the removal of the neutrality of the P.Q..

(1)

Wall Street Journal, 2 Nov. 1979, p. 32.

Conclusion

In general, all the specific issues areas and the orientation of Opération-Amérique indicate concessions to U.S. corporate interests. This is also evident generally by a resolution passed at the P.Q. convention in May, 1977 which allowed for "majority foreign participation (up to 99%) in all sectors ... which are too heavily dependent on foreign markets for the sale of their production and in those where Quebec does not have a good competitive position or that depend on a technology that is non-existent in Quebec."(1) With reference to the P.Q.'s intention to establish foreign investment guidelines, this subsequently employed the alternate tactic of forming joint ventures with private capital.(2) Where concessions were made to the greatest extent (the emphasis on economic association in

(1)

Quoted in: Fournier, "The Parti Québécois and the Quebec Economic Situation", p. 19.

(2)

In August, 1979, Gulf Canada Ltd. and Union Carbide entered into an agreement with the government owned General Investment Corporation to produce ethylene feedstock in Montreal in order to support the ailing petro-chemical industry. [Wall Street Journal, 21 Aug. 1979, p. 7.] A similar deal was struck between the province's steel corporation, SIDBEC, and U.S. Steel in order to gain greater access to the U.S. market. [Michel Nadeau, "An Overview of the Quebec Economy", in Contemporary Quebec, p. 29.] In an interview for the New York Times and in a speech to the New York Executive Sales Club in March, 1979, Minister of Economic Development, Bernard Landry, emphasized the policy of seeking joint ventures as preferable to nationalization. [New York Times, 15 May 1978, pp. D-1 and D-2; and Reports on Separatism, vol. 3 #6, p. 425.] While the P.Q. economic programme set forth in 1979 severely criticized foreign control in Quebec, and indicated that a set of foreign investment guidelines would be forthcoming if Quebec gained independent status, it also claimed that joint ventures with foreign corporations would be the preferred orientation of the government. [Quebec, Challenges for Quebec, p. 52.]

Opération-Amérique, revisions to Bill 101 and the regulations governing head offices, and restricting nationalization to Asbestos Corporation), they were done in such a manner as to have the greatest impact on American corporate interests while at the same time retaining some of the thrust of the policy orientation. In many other respects, the concessions, only partial, in effect removed the issue from the agenda (e.g. the "anti-scab" legislation, the minimum wage and taxation), and led to a return to a state approaching normalcy.

The concessions were also most evident in the areas where the Quebec government was most vulnerable to retaliatory reactions. The government could neither prevent nor place sanctions on the moves of head offices and personnel (in relation to its language policy and taxation); it could not prevent the changes in investment.(1) However, it could influence all of these by preventive measures related to its image in the U.S.. At the same time, the P.Q.'s vulnerability to sanctions was not as serious as originally perceived. Funding was not crucial due to a surplus in 1977 and expanded efforts overseas led to a reduction of this vulnerability. As well, concessions were granted by the American corporate sector as in the case of G.M. and the asbestos industry (although this did not have the desired effect). What is most clear is that the demands accompanying statements on the "disenchantment

(1)

"Businessmen are using the threat of leaving as blackmail. We are like a bunch of workers who have gone on strike. They're trying to scare us with the consequences. Over the long run, we don't much care if corporations keep their headquarters in Quebec." [Lévesque, Quoted in: Herbert C. Meyers, "Business has the Jitters in Quebec," Fortune Magazine , 96 (Oct., 1977), p. 239.]

with the status quo" all took place in 1977, leaving ample time to negotiate a return to normalcy in 1978. Of the three manipulative tactics, "optimal bargaining" clearly applied most strongly to the post-1977 period, "disenchantment with the status quo" to the 1977 period, and the "hard" and "soft" landings approach to both. All of the economic policies, which incorporated demands to redress what the P.Q. viewed as undermining the economic status of Francophones, were adopted and/or legislated in 1977. In essence, the P.Q. redefined the issues which dissatisfied it into demands which were locally oriented, making the concessions in the areas beyond local concerns, the field where the concessions had the greatest impact for American corporate interests. In this regard, and referring to Marchak's contention that the provinces are able to manage their own external relations,(1) this case study demonstrates how a provincial government can have an influence on its international relations via the use of signals accompanied with explicit communication to offset the events predicted by other models. In general, the case of Quebec exemplifies the initial tenet of this study that a sub-national perspective is a requisite for the analysis of Canadian foreign policy.

One of the most significant findings of this study relates to the stated intervening variable of information. In the case of Quebec specifically, the American economic community reacted markedly differently than its Canadian counterpart. It is apparent that

(1)

Patricia Marchak, "The Two Dimensions of Canadian Regionalism", Journal of Canadian Studies, 15 (Summer, 1980), p. 92.

corporate actions were on the most general level partly conditioned by nationality. Statements cited throughout do indicate that this was in turn related to an unawareness (by the American private sector) of events in Quebec due to the generality and vagueness of statements made in 1977. As well, the amount of time and expenditure that Quebec spent on influencing the U.S. economic community was relatively minute. It is also the case that the American economic community reacted to the direct influence of intended information. In the reaction to Lévesque's speech in New York, Bill 101 and Opération-Amérique, the response was practically immediate, and furthermore, there was virtually no "lead" reaction. A little effort goes a long way and is significant for provincial economic interests given the degree of American control provincially and the operation of the international corporate market. While a provincial influence related to Canadian foreign policy has been evolving since at least the 1970s, in periods of perceived crisis for provincial interests, the influence can be more forceful and revolutionary.

Related to all of the above is the inclusion of a perspective herein termed the operation of the international corporate market--the tendency for import and export flows to be determined by the supply and sales patterns of multinational corporations out of all proportion to their production. The presented material has demonstrated that the operation of the international corporate market has a profound effect when foreign control is vested primarily in one locale, and that it is also an inter-provincial as well as an international phenomenon. The complexity of Canada's foreign policy is exacerbated due to the

multi-furcation of control in this field in both the public and private sectors. With regard to the P.Q.'s policies exemplifying cognizance and disenchantment with the operation of the international corporate market, bargaining with the American economic community revolved around the international facet in order to gain concessions in local operations.

While the "critical risk" model can be applied to dynamic situations, it also retains the potential for analysis beyond the four derived manipulative tactics. A particularly useful application would be in weighting content analyses of conflict, such as in the World Interaction/Event Survey (WIES). WIES begins with cooperative behaviour and conflictual behaviour as a dichotomous taxonomy. These two classes are subsequently dissected into over 200 sub-categories, which sub-categories are applied to media reports in order to determine whether an event exhibits (or more precisely, is "perceived" to exhibit) conflict or cooperation.(1) However, WIES is only a taxonomy. The 200-plus sub-categories are not weighted in the aggregation and as a consequence this permits only analysis on a nominal basis. The basic elements of the "critical risk" model, the payoffs (Temptation, Reward, Punishment, and the Sucker's payoff), could be aggregated into sets (using two actors, into 256 sets) which could then be used to classify the WIES sub-categories into a metric scale, then applied in content

(1)

See: Charles A. McClelland and Gary D. Hogard, "Conflict Patterns in Interactions Among Nations", in International Politics and Foreign Policy (Revised Edition), ed. James N. Rosenau (New York: The Free Press, 1969), pp. 711-24; and Stephen G. Walker et al., "Evidence of Learning and Risk Orientation During International Crises: the Munich and Polish Cases", British Journal of Political Science, 14 (1984), pp. 33-51.

analysis, and then aggregated. The potential of the "critical risk" model is for more precision in analysis of the kind of behaviour it specifically addresses. At the same time, WIES permits a more rigorous analysis of the propositions implied in the concept of "critical risk", beyond the descriptive application used above.

The orientation throughout this work has been to emphasize simultaneously a dynamic and disaggregate perspective both in the evidence used and the model applied. While these two components have been exaggerated in importance to the extent that a rigorous static and aggregate perspective has been largely ignored, change and the influence of sub-national actors do represent complicating elements in Canadian-American interaction. The data does exist for a much more rigorous analysis of the thrust of this work, and given the trend of provincial participation in extra-national affairs, at the very least the employed perspective can no longer be ignored.

Statistical notes on Export and Import data.

All trade data from both Statistics Canada and Québec, Bureau de la Statistique, use the concept of "Province of Lading" for exports, defined by Statistics Canada as: "the province in which the goods were first laden aboard a carrier for export."(1) This does not imply "Province of Origin" and the data is therefore subject to interference from interprovincial transport before export. Beginning in 1985, the category of "Province of Origin" will be the classification used for exports, and 1984 represents a transition period. As well, both Statistics Canada and Québec, Bureau de la Statistique use the concept of "Province of Clearance" for imports, which is the port of entry and does not necessarily represent the ultimate destination of those imports. As a consequence, import data is also subject to interference from interprovincial transport, more so than the category "Province of Lading" for exports.

(1)

Statistics Canada, Exports by Countries: January-June, 1984 (Ottawa: Supply and Services, Canada, 1984), catalogue no. 65-003, p. 6.

Appendix-Chapter 1

TABLE A-1-1
TOTAL GOVERNMENT EXPENDITURES FOR TRADE AND INDUSTRY:
PROVINCIAL GOVERNMENTS AS A % OF THE FEDERAL GOVERNMENT(1)

YEAR*	N.F.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	TOTAL PROVINCES
1970/71	1.63	.74	1.63	1.63	7.57	3.98	.62	.52	2.79	1.45	25.98
1971/72	2.62	.89	2.62	.61	10.41	3.11	1.02	.30	3.07	1.41	31.94
1972/73	2.45	1.07	2.45	3.17	8.40	3.97	1.65	1.79	2.48	1.75	34.34
1973/74	2.52	.42	2.52	1.85	7.78	4.31	1.52	.75	3.28	2.11	28.98
1974/75	2.05	.92	2.05	2.45	7.12	4.38	1.46	1.46	4.28	2.75	30.70
1975/76	2.67	1.00	2.67	3.98	11.12	5.21	1.59	1.64	4.24	1.14	36.26
1976/77	2.94	.71	2.94	4.53	10.62	4.33	1.57	1.47	.83	2.40	33.77
1977/78	3.69	1.17	3.69	1.10	13.14	4.82	1.96	1.42	.80	1.88	34.41
1978/79	3.49	1.86	3.49	2.10	13.54	4.41	1.10	1.78	.86	2.74	61.59
1979/80	1.16	1.58	1.16	1.88	10.63	16.41	.99	1.16	1.19	4.72	44.34
1980/81	2.36	1.02	2.36	1.60	19.38	10.93	.96	1.52	1.77	4.82	54.93
1981/82	9.29	.50	9.29	1.29	9.44	7.81	.88	1.42	1.73	2.14	37.13
1982/83	1.28	.78	4.85	2.12	12.85	14.78	1.01	1.36	4.56	2.14	46.65

* Fiscal Year (Apr. 1 to Mar. 31)

TABLE A-1-2
GOVERNMENT EXPENDITURES ON TRADE AND INDUSTRY, TRANSFERS TO BUSINESS AND PERSONS,
BY PROVINCIAL AND FEDERAL GOVERNMENTS, (\$ THOUSANDS)(2)

YEAR*	N.F.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	ALL PROV.	FED.
1970/71	14698	81	1710	2703	12224	2585	484	1	9312	2324	46119	104897
1971/72	23110	83	1204	737	14539	2082	545	5	9410	2323	54128	187486
1972/73	17067	89	1150	321	13486	2892	1357	5474	7577	3320	53035	160526
1973/74	8369	77	34	483	9722	3771	713	140	11077	3413	38019	210201
1974/75	10210	1263	194	1020	8040	4115	344	479	18022	8805	52717	190991
1975/76	14301	1948	43	4050	16110	3922	2104	1613	20981	3983	73437	228902
1976/77	18504	349	207	4763	11963	8184	1047	2789	1454	7053	56818	245264
1977/78	17713	464	792	2142	55497	6166	3546	3926	389	7740	97975	194279
1978/79	240572	940	2385	9189	60946	3689	793	7318	413	12307	339339	191978
1979/80	30493	3102	2329	9378	59977	134152	2747	5136	1486	31800	281283	333869
1980/81	96491	723	10521	10726	94235	73480	2104	4475	1679	38715	334180	339579
1981/82	12643	375	25506	6787	74892	68683	4682	6847	6305	15871	225110	586732
1982/83	8565	998	27150	10250	82444	136798	2353	3191	36422	25644	316770	606455

* Fiscal Year (Apr. 1 to Mar. 31)

(1)

Calculated from: Statistics Canada, Provincial Government Finance: Revenue and Expenditure (Ottawa: Supply and Services, Canada), catalogue no. 68-207; and Statistics Canada, Federal Government Finance: Revenue and Expenditures, Assets and Liabilities (Ottawa: Supply and Services, Canada), catalogue no. 68-211.

(2)

Statistics Canada, Provincial Government Finance: Revenue and Expenditure (Ottawa: Supply and Services, Canada), catalogue no. 68-207; and Statistics Canada, Federal Government Finance: Revenue and Expenditures, Assets and Liabilities (Ottawa: Supply and Services, Canada), catalogue no. 68-211.

Appendix-Chapter 1

TABLE A-1-3
EXPORTS TO THE U.S. AS A PERCENT OF CANADIAN EXPORTS TO THE U.S., BY PROVINCE(1)

YEAR	NFLD.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.
1973	.70	.06	1.74	1.97	15.87	51.77	1.89	2.50	11.20	12.27
1974	.77	.05	1.71	1.90	16.04	45.59	1.75	3.58	18.97	9.60
1975	.74	.04	1.84	1.96	16.13	44.81	1.64	3.26	20.08	9.44
1976	.62	.04	1.64	1.54	15.62	49.08	1.57	2.95	15.74	11.18
1977	.72	.05	1.70	1.62	15.59	51.21	1.38	2.79	13.10	11.82
1978	.72	.05	1.72	1.49	16.46	52.30	1.47	2.49	11.23	12.06
1979	.74	.07	1.48	2.15	17.43	48.59	1.88	3.04	12.86	11.74
1980	.71	.06	1.50	2.04	18.52	46.80	1.89	3.93	15.24	9.30
1981	.68	.07	1.41	2.54	18.72	48.16	1.93	3.38	15.48	7.61
1982	.64	.09	1.44	1.48	16.42	52.84	1.81	3.11	14.81	7.36
1983	.55	.10	1.24	1.71	16.07	55.48	1.69	3.00	12.54	7.62
1984	.47	.09	1.21	1.70	15.68	58.22	1.57	2.96	11.27	6.82

IMPORTS FROM THE U.S. AS A PERCENT OF CANADIAN IMPORTS FROM THE U.S., BY PROVINCE(2)

YEAR	NFLD.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.
1974	.21	.03	.66	.86	16.02	65.59	3.81	1.39	3.94	7.48
1975	.21	.03	.63	.95	15.37	66.35	4.14	1.59	4.45	6.27
1976	.15	.02	.55	.83	14.07	67.37	4.04	1.67	4.91	6.37
1977	.11	.02	.43	.88	12.81	69.82	3.57	1.50	4.89	5.97
1978	.15	.02	.43	.78	12.92	69.07	3.55	1.51	5.29	6.26
1979	.17	.02	.58	.69	13.73	67.40	3.80	1.58	5.25	6.78
1980	.18	.01	.41	.68	14.57	66.10	3.83	1.60	5.93	6.68
1981	.21	.02	.39	.64	13.85	67.11	3.82	1.77	5.24	6.96
1982	.24	.02	.50	.87	11.97	69.62	3.71	1.98	5.19	5.89
1983	.19	.03	.65	.88	12.41	71.57	3.33	1.71	4.93	5.14
1984	.12	.04	.69	.78	12.21	72.48	3.27	1.42	4.26	4.73

(1)

Exports are by Province of Lading. Calculated from: Statistics Canada, Exports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-003.

(2)

Imports are by Province of Clearance. Calculated from: Statistics Canada, Imports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-006.

Appendix-Chapter 1

FIGURE 1-1: TABLE
EXPORTS TO THE U.S. AS A PERCENT OF TOTAL EXPORTS(1)

YEAR	NFLD.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1973	42.7	64.0	71.2	56.4	53.3	81.2	71.6	86.3	93.1	42.4	67.4
1974	32.5	60.1	62.9	50.2	52.5	78.6	70.7	89.3	95.5	35.3	65.9
1975	39.1	50.8	57.7	46.2	49.0	77.8	68.1	89.7	93.2	37.5	65.2
1976	36.7	27.7	59.5	43.9	52.3	81.3	68.1	87.0	91.1	42.1	67.5
1977	43.9	49.2	63.9	46.6	54.8	83.0	77.8	86.9	90.3	45.9	69.7
1978	49.3	51.8	60.1	46.3	57.0	83.1	75.8	87.0	88.7	47.4	70.2
1979	49.1	55.0	59.5	42.3	56.4	80.9	81.9	90.3	90.9	42.7	67.7
1980	45.0	39.4	54.2	37.9	50.6	76.9	76.2	94.6	89.4	34.3	63.1
1981	42.2	53.2	54.1	52.8	55.9	79.7	77.9	95.6	88.3	31.8	66.3
1982	42.3	48.4	55.9	51.3	52.5	83.5	74.4	95.3	87.8	33.1	68.2
1983	48.9	57.8	59.5	62.2	56.7	88.8	80.1	96.5	87.7	37.0	72.9
1984	49.2	58.4	62.5	61.8	63.0	90.1	80.6	94.7	87.8	36.0	75.6

(1)

Exports are by Province of Lading. Calculated from: Statistics Canada, Exports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-003.

TABLE A-1-4
 DIVERSIFICATION OF EXPORTS: BY PROVINCE AND CANADA(1)

YEAR	N.F.L.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1973	.622	.429	.338	.506	.541	.234	.340	.169	.086	.589	.394
1974	.714	.479	.426	.575	.547	.263	.354	.132	.057	.630	.410
1975	.670	.515	.462	.613	.568	.270	.383	.127	.085	.622	.415
1976	.662	.783	.453	.630	.546	.230	.384	.159	.110	.610	.382
1977	.612	.565	.421	.606	.521	.209	.272	.160	.120	.585	.367
1978	.571	.503	.447	.577	.492	.207	.294	.159	.139	.568	.358
1979	.587	.519	.464	.620	.506	.233	.222	.120	.113	.603	.389
1980	.622	.493	.515	.667	.550	.281	.289	.067	.132	.661	.437
1981	.618	.464	.518	.547	.498	.248	.271	.055	.145	.652	.400
1982	.620	.514	.502	.557	.521	.203	.306	.059	.150	.637	.378
1983	.563	.430	.465	.451	.478	.139	.245	.044	.152	.613	.325
1984	.554	.449	.429	.454	.418	.124	.234	.066	.150	.618	.285
1985	.491	.400	.350	.405	.396	.112	.214	.140	.180	.585	.269

DIVERSIFICATION INDEX FOR "j"'s transactions "X" with "i"

$$\text{DIV}_j = \frac{1 - \frac{\sqrt{\frac{N}{\sum_{i=1}^N (X_{ij})^2}}}{X_{tj}}}{1 - \frac{1}{\sqrt{N}}}$$

X_{ij} = "j"'s transactions "X" with target "i"

X_{tj} = "j"'s total "t" (i.e. "i" through "N") transactions "X"

N = Number of targets (here, N=23)

(1)

Here, diversification is measured by the value of exports to 22 OECD countries and 'other countries' as targets of exports, making for a total of 23 areas. For an example of a use of this diversification index, see: Harold van Riekhoff, "The Third Option in Canadian Foreign Policy", in *Canada's Foreign Policy*, ed. Brian W. Tamlin (Toronto: Methuen Publications, 1978), pp. 102-3. The lower the index, the more the exports are concentrated in one or a few countries. Conversely, the higher the index, the more the exports are equally spread out among the targeted countries. The index range is between 0 and 1, i.e.: $1 \geq \text{DIV}_j \geq 0$. Data were taken from: Statistics Canada, *Exports by Countries* (Ottawa: Supply and Services, Canada), catalogue no. 65-003.

FIGURE 1-2: TABLE
EXPORTS TO THE U.S. AS A PERCENT OF GROSS DOMESTIC PRODUCT(1)

YEAR	NFLD.	P.E.I.	N.S.	N.B.	Q.U.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1973	7.38	2.86	9.23	13.00	8.78	16.68	6.04	8.79	16.45	13.89	13.25
1974	8.36	2.63	10.08	13.88	9.34	15.56	5.85	11.78	24.86	11.48	13.72
1975	7.19	1.93	9.88	12.95	8.50	14.14	4.94	9.63	22.37	10.37	12.45
1976	5.91	2.00	9.08	10.68	8.41	16.13	4.95	9.34	18.55	12.41	12.90
1977	7.39	2.52	10.36	12.35	9.30	18.54	4.97	10.06	16.13	14.12	14.14
1978	8.33	2.96	11.21	11.94	10.56	20.78	5.77	9.42	14.22	15.49	15.23
1979	8.48	4.03	10.47	17.00	12.03	20.48	7.86	12.04	16.05	15.50	15.96
1980	8.38	3.53	11.00	19.04	12.33	19.09	7.82	13.89	16.86	11.62	15.27
1981	8.01	3.89	10.29	23.46	12.60	19.70	7.90	11.99	17.01	9.49	15.30
1982	7.21	4.79	9.56	12.88	10.89	21.45	7.22	11.23	15.61	9.22	15.05
1983	6.48	5.14	8.49	15.02	11.47	23.61	7.27	11.88	14.31	10.41	16.05

FIGURE 1-3: TABLE
BALANCE OF TRADE WITH THE U.S. (\$ MILLIONS)(2)

YEAR	NFLD.	P.E.I.	N.S.	N.B.	Q.U.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1974	115.6	4.3	212.9	209.0	-96.0	-4534.5	-449.5	443.7	3076.0	391.6	-620.9
1975	106.2	2.4	236.2	188.2	-232.7	-6199.3	-627.6	309.3	3161.5	503.4	-2546.9
1976	116.3	5.9	269.3	175.4	311.9	-4972.3	-644.7	312.7	2695.1	1174.7	-556.9
1977	184.2	9.3	386.4	228.4	920.7	-5174.9	-636.6	398.5	2510.6	1804.4	632.8
1978	207.1	12.5	472.7	268.8	1448.6	-5206.3	-709.5	371.7	2220.0	2185.0	1271.3
1979	245.5	23.6	378.0	621.5	1340.4	-9487.0	-910.0	603.2	3206.3	2026.0	-1952.4
1980	242.5	23.4	502.2	629.5	1617.7	-10290.6	-968.6	1065.0	4263.0	1122.5	-1588.7
1981	250.7	28.8	546.6	1022.4	2563.0	-10502.5	-1033.2	864.1	5495.2	320.6	-436.3
1982	242.2	40.2	563.1	407.3	3444.5	-3733.8	-758.4	786.6	5776.8	1296.2	8064.6
1983	252.4	46.5	451.8	630.1	3655.0	-2924.8	-710.3	1010.7	5421.9	2136.9	10424.4
1984	303.5	52.6	534.3	873.9	4618.2	-1473.6	-941.5	1476.2	6412.7	2402.4	14258.9

(1)

Exports are by Province of Lading. Calculated from: Statistics Canada, Exports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-003; and Statistics Canada, Provincial Economic Accounts: Experimental Data: 1963-1983 (Ottawa: Supply and Services, Canada, 1984), catalogue no. 13-212.

(2)

Exports are by Province of Lading, Imports are by Province of Clearance. Calculated from: Statistics Canada, Imports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-006; and Statistics Canada, Exports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-003.

FIGURE 1-4: TABLE
BALANCE OF TRADE WITH THE U.S. AS A PERCENT OF GROSS DOMESTIC PRODUCT(1)

YEAR	NFLD.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1974	6.065	1.086	6.076	7.419	-2.271	-7.503	-7.290	7.079	19.544	2.269	-4.13
1975	4.924	.488	6.064	5.929	-5.586	-9.339	-9.008	4.366	16.820	2.642	-1.514
1976	4.427	1.101	5.946	4.828	.668	-6.489	-8.095	3.936	12.633	5.187	-2.286
1977	6.285	1.615	7.819	5.763	1.820	-6.208	-7.582	4.755	10.242	7.141	.296
1978	6.629	1.880	8.503	5.938	2.561	-5.700	-7.680	3.882	7.751	7.735	.534
1979	6.483	3.109	6.164	11.306	2.128	-9.205	-8.753	5.504	9.211	6.155	-7.17
1980	6.139	2.724	7.886	12.522	2.301	-8.792	-8.569	8.046	10.077	2.994	-5.18
1981	5.469	3.000	7.412	17.516	3.203	-7.976	-7.852	5.683	11.206	.742	-1.24
1982	4.898	3.869	6.708	6.381	4.100	-2.721	-5.424	5.105	10.932	2.915	2.179
1983	4.636	3.881	4.792	8.575	4.042	-1.929	-4.720	6.228	9.590	4.524	2.593

TABLE A-1-5
EFFECTIVE RATE (PERCENTAGES) OF THE CANADIAN TARIFF ON IMPORTS FOR EACH PROVINCE AND CANADA(2)

YEAR *	NFLD.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1974/75	1.7	9.5	3.1	3.0	6.5	5.8	5.6	5.3	7.7	8.1	6.0
1975/76	2.4	8.7	3.5	2.6	6.9	5.4	5.1	4.7	7.4	9.0	5.9
1976/77	7.2	10.4	2.7	2.5	7.3	5.5	5.8	4.7	7.1	9.2	6.1
1977/78	5.6	9.3	3.2	2.5	7.5	5.3	5.7	5.3	7.4	9.2	6.0
1978/79	4.7	8.6	4.0	2.2	7.4	5.0	4.8	4.0	6.8	8.2	5.7
1979/80	3.1	6.5	2.9	1.6	6.6	4.8	4.0	3.5	6.4	7.6	5.3
1980/81	2.7	7.9	2.6	1.1	5.8	4.7	3.8	3.7	6.5	7.9	5.1
1981/82	3.2	6.0	2.5	1.4	5.5	4.6	4.1	2.9	6.8	8.0	5.0
1982/83	3.1	4.9	2.9	2.2	6.1	4.2	4.3	3.2	6.2	8.1	4.9
1983/84	4.0	1.3	3.1	2.1	6.2	3.9	4.0	3.0	5.3	7.8	4.6
1984/85	4.2	2.8	3.6	2.3	5.9	3.6	3.3	3.4	5.0	7.2	4.3

* FISCAL YEAR (Apr. 1 to Mar. 31; Imports adjusted)

(1)

Exports are by Province of Lading, Imports are by Province of Clearance. Calculated from: Statistics Canada, Imports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-006; Statistics Canada, Exports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-003; and Statistics Canada, Provincial Economic Accounts: Experimental Data: 1963-1983 (Ottawa: Supply and Services, Canada, 1984), catalogue no. 13-212.

(2)

Calculated from: Statistics Canada, Imports by Countries (Ottawa: Supply and Services, Canada), catalogue no. 65-003; and Canada, Department of National Revenue, Report of the Department of National Revenue: Customs Excise and Taxation (Ottawa: Supply and Services, Canada). This is calculated by taking the duty paid on total imports by province of clearance as a percentage of those total imports by province of clearance.

FIGURE 1-5: TABLE
CAPITAL EXPENDITURES BY MANUFACTURING FIRMS: AMERICAN-CONTROLLED FIRMS BY PROVINCE
AS A PERCENT OF AMERICAN-CONTROLLED FIRMS IN CANADA(1)

YEAR	N.F.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.
1976	NA	NA	.7	2.1	15.2	60.4	.8	1.6	11.9	7.1
1977	NA	NA	.9	.8	13.3	64.0	.9	.6	11.9	6.9
1978	NA	NA	1.0	1.7	11.9	59.2	1.0	.3	16.7	7.9
1979	NA	NA	1.3	2.0	12.7	58.3	1.0	.9	14.7	8.6
1980	NA	NA	1.0	1.3	13.2	65.7	.3	.1	7.8	10.4
1981	NA	NA	1.0	.5	8.2	55.8	1.0	.1	20.7	12.6
1982	NA	NA	1.3	.5	11.8	50.6	1.5	.1	27.0	7.1
1983	NA	NA	1.1	.7	17.7	60.8	.7	.1	13.1	4.2
1984*	NA	NA	1.4	NA	25.7	59.7	.6	.1	6.9	5.0

*Preliminary Estimate

FIGURE 1-6: TABLE
CAPITAL EXPENDITURES BY MANUFACTURING FIRMS: AMERICAN-CONTROLLED FIRMS AS A PERCENT OF TOTAL FIRMS(2)

YEAR	N.F.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1976	NA	NA	16.6	27.9	24.9	37.1	19.7	34.6	48.3	30.2	33.9
1977	NA	NA	19.0	15.5	25.8	43.6	26.7	17.2	53.3	26.8	37.7
1978	NA	NA	19.5	28.5	21.6	44.6	27.4	12.0	51.8	30.0	37.6
1979	NA	NA	21.4	23.1	23.5	44.2	24.6	22.8	46.4	26.6	36.1
1980	NA	NA	20.1	23.5	21.7	40.5	9.3	4.5	40.0	28.2	37.0
1981	NA	NA	15.8	9.2	16.9	46.3	21.5	3.0	48.6	32.2	36.7
1982	NA	NA	14.4	4.5	20.5	41.3	33.9	3.3	39.5	24.2	32.6
1983	NA	NA	15.9	8.7	26.9	40.8	19.4	2.2	25.8	25.2	35.9
1984*	NA	NA	24.8	NA	29.9	48.3	13.8	3.1	29.8	23.0	36.5

*Preliminary Estimate

(1)

Investment, in the form of capital expenditures, by country of control, and on a provincial basis, is available only for manufacturing firms, and only for eight of the ten provinces. Calculated from: Statistics Canada, Investment Statistics Service Bulletin (Ottawa: Supply and Services, Canada, 1978), vol. 4, no. 2, catalogue no. 61-007; and Statistics Canada, Capital Expenditures of Domestic and Foreign Controlled Establishments in Manufacturing, Mining and Forestry, (Ottawa: Supply and Services, Canada), catalogue no. 61-215.

(2)

Investment, in the form of capital expenditures, by country of control, and on a provincial basis, is available only for manufacturing firms, and only for eight of the ten provinces. Calculated from: Statistics Canada, Investment Statistics Service Bulletin (Ottawa: Supply and Services, Canada, 1978), vol. 4, no. 2, catalogue no. 61-007; and Statistics Canada, Capital Expenditures of Domestic and Foreign Controlled Establishments in Manufacturing, Mining and Forestry, (Ottawa: Supply and Services, Canada), catalogue no. 61-215.

FIGURE 1-7: TABLE
 CAPITAL EXPENDITURES BY MANUFACTURING FIRMS: AMERICAN-CONTROLLED FIRMS AS A PERCENT OF CANADIAN-CONTROLLED FIRMS(1)

YEAR	NFLD.	*P.E.I.	N.S.	N.B.	QUE.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1976	NA	NA	35.7	43.4	41.4	67.1	31.2	56.7	129.3	59.4	61.7
1977	NA	NA	49.8	19.1	41.0	90.6	48.0	22.1	141.7	49.5	72.8
1978	NA	NA	35.5	42.7	34.3	97.0	43.9	15.3	127.2	46.9	72.5
1979	NA	NA	49.6	30.6	38.9	92.2	38.3	32.3	116.8	38.2	67.2
1980	NA	NA	50.6	31.9	32.5	112.8	12.7	5.4	97.9	41.6	68.6
1981	NA	NA	85.5	10.5	23.4	98.6	35.4	3.5	122.4	51.0	68.5
1982	NA	NA	73.3	4.8	31.9	82.0	64.0	3.7	139.2	39.1	65.0
1983	NA	NA	33.2	9.8	47.4	118.4	30.2	2.4	67.3	41.5	74.1
1984*	NA	NA	57.9	NA	54.1	115.9	19.0	3.5	82.6	34.6	73.9

*Preliminary Estimate

(1)

Investment, in the form of capital expenditures, by country of control, and on a provincial basis, is available only for manufacturing firms, and only for eight of the ten provinces. Calculated from: Statistics Canada, Investment Statistics Service Bulletin (Ottawa: Supply and Services, Canada, 1978), vol. 4, no. 2, catalogue no. 61-007; and Statistics Canada, Capital Expenditures of Domestic and Foreign Controlled Establishments in Manufacturing, Mining and Forestry, (Ottawa: Supply and Services, Canada), catalogue no. 61-215.

TABLE A-1-6
MANUFACTURING FIRMS: TAXABLE INCOME AS A PERCENT OF SHIPMENTS(1)

CANADIAN-CONTROLLED FIRMS											
YEAR	N.F.L.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1970	NA	NA	2.38	2.42	3.52	4.70	4.17	2.64	3.59	4.81	4.11
1972	NA	NA	3.45	2.33	3.46	4.20	3.62	3.28	4.00	5.45	3.99
1974	NA	NA	3.97	4.62	4.62	5.61	5.48	4.51	4.34	4.95	5.11
1976	NA	NA	3.94	1.91	3.72	3.81	4.76	3.90	3.97	4.87	3.89
1978	NA	NA	4.20	1.67	3.57	3.58	4.18	4.27	4.92	6.31	4.00
1980	NA	NA	5.30	8.22	4.80	4.20	4.55	5.71	5.06	4.52	4.74
1981	NA	NA	4.00	3.96	3.36	3.47	4.39	3.24	4.24	2.44	3.48
AMERICAN-CONTROLLED FIRMS											
YEAR	N.F.L.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1970	NA	NA	8.86	9.13	6.03	5.64	8.95	8.23	12.46	6.04	6.13
1972	NA	NA	7.73	7.04	8.00	7.53	13.22	17.71	13.64	7.89	8.01
1974	NA	NA	8.31	13.47	9.28	7.91	15.63	26.43	34.63	13.62	9.98
1976	NA	NA	9.43	11.54	7.54	6.73	14.74	27.00	22.25	11.25	8.31
1978	NA	NA	6.03	10.46	6.36	5.13	11.72	15.00	16.83	10.03	6.58
1980	NA	NA	11.54	11.46	8.91	6.67	18.52	33.97	16.54	11.70	8.50
1981	NA	NA	8.27	14.19	7.21	5.97	16.15	27.97	10.67	10.17	7.13
OTHER FOREIGN-CONTROLLED FIRMS											
YEAR	N.F.L.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1970	NA	NA	4.12	3.29	5.87	3.37	3.61	7.98	10.26	3.24	4.31
1972	NA	NA	3.30	4.44	5.74	5.08	6.20	11.47	12.97	5.57	5.61
1974	NA	NA	5.21	6.79	8.51	8.68	7.37	13.14	33.80	6.46	8.86
1976	NA	NA	1.66	5.81	4.73	5.43	4.45	10.01	15.55	4.47	5.36
1978	NA	NA	4.12	6.10	3.58	3.88	3.28	3.53	3.96	7.00	4.18
1980	NA	NA	9.23	11.22	7.04	6.74	5.58	7.40	13.31	9.22	7.55
1981	NA	NA	4.73	7.59	4.60	4.60	4.25	4.38	6.04	4.80	4.77
TOTAL FIRMS											
YEAR	N.F.L.D.	P.E.I.	N.S.	N.B.	Q.E.	ONT.	MAN.	SASK.	ALTA.	B.C.	CAN.
1970	NA	NA	4.40	3.00	4.72	5.20	5.52	4.65	7.32	5.31	5.13
1972	NA	NA	4.94	3.88	5.17	6.15	6.32	6.93	8.22	6.41	5.95
1974	NA	NA	5.94	6.15	6.63	7.16	8.22	10.13	17.39	7.84	7.59
1976	NA	NA	5.53	3.44	5.09	5.53	6.96	8.97	11.93	6.89	5.93
1978	NA	NA	4.93	2.97	4.48	4.46	5.70	6.42	9.54	7.58	5.13
1980	NA	NA	8.30	8.76	6.29	5.64	6.97	8.66	9.82	6.94	6.47
1981	NA	NA	5.67	5.01	4.61	4.77	6.22	5.36	6.89	4.73	4.98

(1)

Calculated from: Statistics Canada, Corporations and Labour Unions Returns Act: Part 1 Corporations (Ottawa: Supply and Services, Canada), catalogue no. 61-201; and Statistics Canada, Domestic and Foreign Control of Manufacturing, Mining and Logging Establishments in Canada, 1981 (Ottawa: Supply and Services, Canada, 1984), catalogue no. 31-401.

FIGURE 2-1: TABLE

INVESTMENT IN MANUFACTURING BY AMERICAN-CONTROLLED FIRMS IN QUEBEC AND ONTARIO(1)

YEAR	QUEBEC (\$ MILLIONS)			ONTARIO (\$ MILLIONS)			QUEBEC AS A % OF ONTARIO		
	CAPITAL AND REPAIR	CAPITAL	REPAIR	CAPITAL AND REPAIR	CAPITAL	REPAIR	CAPITAL AND REPAIR	CAPITAL	REPAIR
1976	502.3	281.9	220.4	1659.3	1118.3	541.0	30.27	25.21	40.74
1977	558.1	304.7	253.4	2086.4	1466.1	620.3	26.75	20.78	40.85
1978	534.1	276.3	257.8	2046.8	1376.8	670.0	26.09	20.07	38.48
1979	623.9	340.1	283.8	2354.1	1565.6	788.5	26.50	21.72	35.99
1980	766.0	475.0	291.0	3181.0	2366.5	814.5	24.08	20.07	35.73
1981	630.8	384.4	246.4	3486.5	2613.6	872.9	18.09	14.71	28.23
1982	683.8	442.9	240.9	2783.5	1898.0	885.5	24.57	23.34	27.20
1983	782.0	562.6	219.4	2922.1	1935.9	986.2	26.76	29.06	22.25
1984*	1112.7	853.8	258.9	3083.5	1981.9	1101.6	36.09	43.08	23.50

FIGURE 2-2: TABLE

INVESTMENT IN MANUFACTURING BY CANADIAN-CONTROLLED FIRMS IN QUEBEC AND ONTARIO(2)

YEAR	QUEBEC (\$ MILLIONS)			ONTARIO (\$ MILLIONS)			QUEBEC AS A % OF ONTARIO		
	CAPITAL AND REPAIR	CAPITAL	REPAIR	CAPITAL AND REPAIR	CAPITAL	REPAIR	CAPITAL AND REPAIR	CAPITAL	REPAIR
1976	1026.6	680.5	346.1	2446.3	1667.6	778.7	41.97	40.81	44.45
1977	1112.4	743.6	368.8	2497.0	1617.7	879.3	44.55	45.97	41.94
1978	1228.8	804.4	424.4	2395.6	1419.5	976.1	51.29	56.67	43.48
1979	1331.3	874.1	457.2	2848.1	1698.1	1150.0	46.74	51.48	39.76
1980	2023.4	1462.9	560.5	3485.2	2097.2	1388.0	58.06	69.75	40.38
1981	2314.1	1639.4	674.7	4028.5	2650.7	1357.8	57.73	61.85	49.69
1982	2083.3	1399.0	694.3	3629.7	2314.9	1314.8	57.40	60.00	52.81
1983	1957.9	1185.7	772.2	2934.2	1635.7	1298.5	66.73	72.49	59.47
1984*	2397.3	1577.9	819.4	3242.5	1709.3	1533.2	73.93	92.31	53.44

* Preliminary Estimate

(1)

Calculated from: Statistics Canada, Investment Statistics Service Bulletin (Ottawa: Supply and Services, Canada, 1978), vol. 4, no. 2, catalogue no. 61-007; and Statistics Canada, Capital Expenditures of Domestic and Foreign Controlled Establishments in Manufacturing, Mining and Forestry, (Ottawa: Supply and Services, Canada), catalogue no. 61-215.

(2)

Calculated from: Statistics Canada, Investment Statistics Service Bulletin (Ottawa: Supply and Services, Canada, 1978), vol. 4, no. 2, catalogue no. 61-007; and Statistics Canada, Capital Expenditures of Domestic and Foreign Controlled Establishments in Manufacturing, Mining and Forestry, (Ottawa: Supply and Services, Canada), catalogue no. 61-215.

FIGURE 2-3: TABLE

BOND YIELD AVERAGE DIFFERENTIALS: NEW YORK MARKET:
QUEBEC - ONTARIO(1)

MONTH	1975	1976	1977	1978	1979	1980
JAN.	.4977	.4816	.6686	.9545	.4185	.4377
FEB.	.5543	.6625	1.3915	1.0440	.4306	.4428
MAR.	.5934	.6089	1.1399	1.0993	.3891	.2732
APR.	.4446	.2667	1.1168	.9440	.3670	.5783
MAY	.2627	.3528	1.0480	1.0929	.3588	.8873
JUN.	.2975	.3365	.9036	.6467	.4149	.5337
JUL.	.4471	.3623	.8437	.4535	.5215	.4231
AUG.	.0832	.3908	.8778	.7655	.5306	.3839
SEP.	.4230	.3776	.7452	.5698	.4414	.5520
OCT.	.3221	.3807	.6282	.5518	.4119	.7133
NOV.	.2464	.2458	.7064	.5536	.4897	.5077
DEC.	.5795	.2956	.8988	.4145	.4809	.5857

FIGURE 2-4: TABLE

NUMBERS OF AMERICAN ACQUISITIONS AND NEW BUSINESS CASES IN QUEBEC AND ONTARIO(2)

FISCAL YEAR*	REVIEWABLE ACQUISITIONS		NEW BUSINESS		TOTAL		QUEBEC AS % OF ONTARIO		
	QUE.	ONT.	QUE.	ONT.	QUE.	ONT.	REVIEWABLE ACQUISITIONS	NEW BUSINESS	TOTAL
1974/75	18	42	NA	NA	NA	NA	42.9	NA	NA
1975/76	16	50	NA	NA	NA	NA	32.0	NA	NA
1976/77	16	71	15	77	31	148	22.5	19.5	20.9
1977/78	29	130	16	130	45	260	22.3	12.3	17.3
1978/79	40	135	20	119	60	254	29.6	16.8	23.6
1979/80	36	141	19	140	55	281	25.5	13.6	19.6
1980/81	25	120	11	137	36	257	20.8	8.0	14.0
1981/82	20	127	20	146	40	273	15.7	13.7	14.7
1982/83	30	174	21	176	51	350	17.2	11.9	14.6
1983/84	49	190	26	182	75	372	25.8	14.3	20.2

*Fiscal Year (Apr. 1 to Mar. 31)

(1)

Bond Yield data were taken from: Moody's Bond Record (New York: Moody's Investors Service, Inc., Monthly). The number of bonds per month for Ontario ranged from a minimum of 13 to a maximum of 29; for the province of Quebec from 6 to 8; for Hydro-Quebec from 24 to 35.

(2)

Calculated from: Canada, Foreign Investment Review Agency, Annual Report (Ottawa: Ministry of Industry, Trade and Commerce).

FIGURE 2-5: TABLE

EMPLOYMENT IN HEAD OFFICES, SALES OFFICES, AND
 AUXILIARY UNITS OF MANUFACTURING INDUSTRIES,
 QUEBEC AND ONTARIO(1)

YEAR	NUMBERS OF EMPLOYEES		QUEBEC AS A % OF ONTARIO
	QUEBEC	ONTARIO	
1972	27787	33818	82.2
1973	27294	36103	75.6
1974	26427	37514	70.4
1975	28501	42717	66.7
1976	27967	42743	65.4
1977	26955	45277	59.5
1978	26423	48286	54.7
1979	26195	49196	53.2
1980	25441	51618	49.3
1981	25734	56213	45.8

(1)

Calculated from: Statistics Canada, Manufacturing Industries of Canada: Sub-Provincial Areas (Ottawa: Supply and Services, Canada), catalogue no. 31-289.

FIGURE 2-6: TABLE

NUMBERS OF HEAD OFFICES MOVING OUT OF QUEBEC: NOV., 1975 TO DEC., 1980, BY COUNTRY OF CONTROL(1)

	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1975 TOTAL	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	4	5
1975 CDN.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2	4
1975 U.S.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1	0
1975 O.F.*	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1	1
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1976 TOTAL	4	4	9	4	5	6	2	10	5	3	25	20
1976 CDN.	4	3	8	3	5	5	2	9	5	1	23	19
1976 U.S.	0	1	0	1	0	1	0	1	0	1	1	0
1976 O.F.*	0	0	1	0	0	0	0	0	0	1	1	0
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1977 TOTAL	25	19	7	7	16	23	44	7	17	9	14	11
1977 CDN.	23	14	6	6	15	22	40	6	12	6	10	9
1977 U.S.	0	1	.5	.5	0	1	1	1	4	3	3	2
1977 O.F.*	2	4	.5	.5	1	0	3	0	1	0	1	0
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1978 TOTAL	10	15	13	9	9	13	9	8	5	7	5	0
1978 CDN.	9	13	10	9	9	12	7	6	3	5	3	0
1978 U.S.	1	2	1	0	0	0	2	2	2	1	2	0
1978 O.F.*	0	0	2	0	0	1	0	0	0	1	0	0
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1979 TOTAL	8	6	6	4	5	6	8	6	4	2	1	1
1979 CDN.	7	4	6	1	4	3	7	6	4	2	1	1
1979 U.S.	0	1	0	1	1	1	0	0	0	0	0	0
1979 O.F.*	1	1	0	2	0	2	1	0	0	0	0	0
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1980 TOTAL	2	4	0	1	2	3	2	0	2	0	0	0
1980 CDN.	2	4	0	1	2	3	2	0	2	0	0	0
1980 U.S.	0	0	0	0	0	0	0	0	0	0	0	0
1980 O.F.*	0	0	0	0	0	0	0	0	0	0	0	0

* Other Foreign Firms

(1)

Changes of Head Office locations in Canada are reported in: Canada, Department of Consumer and Corporate Affairs, Bureau of Corporate Affairs, Bulletin: Canada Corporations Bankruptcy and Insolvency (Ottawa: Supply and Services, Canada), Data for March and April, 1977 were not separated by month, and therefore in this table and the figure the data was apportioned equally for each month. Country of Control information was taken from: Statistics Canada, Intercompany Ownership 1975 and 1978/79 (Ottawa: Supply and Services, Canada, 1978 and 1979), catalogue no. 61-517. While this document provides country of control information for foreign firms operating in Canada, Canadian-owned firms that are not part of a conglomerate or group are not listed, therefore, all unidentified firms are listed in this table as Canadian.

Appendix-Chapter 2

FIGURE 2-6: TABLE (CONTINUED)

NUMBERS OF HEAD OFFICES MOVING INTO QUEBEC: NOV., 1975 TO DEC., 1980, BY COUNTRY OF CONTROL(1)

	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1975 TOTAL	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1	7
1975 CDN.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1	6
1975 U.S.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	0
1975 O.F.*	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	1
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1976 TOTAL	1	4	5	4	3	2	3	4	0	2	2	5
1976 CDN.	0	2	4	4	2	2	3	2	0	2	2	4
1976 U.S.	1	0	1	0	0	0	0	2	0	0	0	0
1976 O.F.*	0	2	0	0	1	0	0	0	0	0	0	1
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1977 TOTAL	2	4	.5	.5	2	0	1	0	1	0	2	2
1977 CDN.	2	3	.5	.5	2	0	1	0	1	0	2	2
1977 U.S.	0	1	0	0	0	0	0	0	0	0	0	0
1977 O.F.*	0	0	0	0	0	0	0	0	0	0	0	0
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1978 TOTAL	0	1	1	0	1	0	1	0	0	0	1	1
1978 CDN.	0	1	1	0	1	0	1	0	0	0	1	1
1978 U.S.	0	0	0	0	0	0	0	0	0	0	0	0
1978 O.F.*	0	0	0	0	0	0	0	0	0	0	0	0
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1979 TOTAL	1	0	2	0	1	1	0	0	0	0	0	0
1979 CDN.	1	0	1	0	0	0	0	0	0	0	0	0
1979 U.S.	0	0	1	0	0	1	0	0	0	0	0	0
1979 O.F.*	0	0	0	0	1	0	0	0	0	0	0	0
	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
1980 TOTAL	0	0	0	0	0	1	0	0	1	0	0	0
1980 CDN.	0	0	0	0	0	1	0	0	0	0	0	0
1980 U.S.	0	0	0	0	0	0	0	0	0	0	0	0
1980 O.F.*	0	0	0	0	0	0	0	0	1	0	0	0

* Other Foreign Firms

(1)

Changes of Head Office locations in Canada are reported in: Canada, Department of Consumer and Corporate Affairs, Bureau of Corporate Affairs, Bulletin: Canada Corporations Bankruptcy and Insolvency (Ottawa: Supply and Services, Canada). Data for March and April, 1977 were not separated by month, and therefore in this table and the figure the data was apportioned equally for each month. Country of Control information was taken from: Statistics Canada, Intercompany Ownership 1975 and 1978/79 (Ottawa: Supply and Services, Canada, 1978 and 1979), catalogue no. 61-517. While this document provides country of control information for foreign firms operating in Canada, Canadian-owned firms that are not part of a conglomerate or group are not listed, therefore, all unidentified firms are listed in this table as Canadian.

FIGURE 2-7: TABLE

QUEBEC'S BALANCE OF TRADE (\$ MILLIONS)(1)

YEAR	EXPORTS	IMPORTS	EXPORTS	IMPORTS	BALANCE OF TRADE	
	TO U.S.	FROM U.S.	TOTAL	TOTAL	U.S.	TOTAL
1968	2030.0	1555.7	3083.3	3151.5	474.3	-68.2
1969	2177.5	1660.3	3364.8	3493.2	517.2	-128.4
1970	2219.9	1634.0	3797.8	3546.3	585.9	251.5
1971	2382.7	1740.1	3687.9	3869.5	642.6	-181.6
1972	2372.1	1934.5	3753.9	4346.3	437.6	-592.4
1973	2747.6	2551.7	4391.3	5449.1	195.9	-1057.8
1974	3465.6	3414.4	5531.8	7858.5	51.2	-2326.7
1975	3540.0	3628.8	5904.9	8411.2	-88.8	-2506.3
1976	4062.6	3687.5	6582.8	8729.2	455.1	-2146.4
1977	4862.7	3784.8	7487.4	8699.7	1077.9	-1212.3
1978	6136.5	4517.5	9434.7	9883.4	1619.0	-448.7
1979	7786.5	6247.1	12205.9	12168.3	1539.4	37.6
1980	8913.1	7058.6	14886.4	13714.9	1854.5	1171.5
1981	10354.5	7520.9	15939.1	16302.2	2833.6	-363.1
1982	9526.0	5704.1	15056.1	12766.4	3821.9	2289.7

(1)

Source: Québec, Bureau de la Statistique, Evolution du Commerce International du Québec, 1968-1982 (Québec: Editeur Officiel du Québec, 1983).

FIGURE 2-8: TABLE

QUEBEC TOTAL EXPORTS TO THE U.S.: 1968-1984
(\$ MILLIONS)(1)

YEAR	ACTUAL EXPORTS			
	JAN-MAR	APR-JUN	JUL-SEP	OCT-DEC
1968	402.4	521.8	485.3	542.4
1969	448.4	503.3	517.8	628.3
1970	443.5	543.6	564.2	612.0
1971	524.9	572.9	585.2	636.1
1972	501.1	615.2	538.3	634.9
1973	561.4	666.1	634.7	761.2
1974	717.0	812.4	830.5	948.1
1975	762.7	861.4	836.0	911.0
1976	811.9	1115.0	974.4	1021.1
1977	1024.6	1224.7	1164.4	1291.3
1978	1205.1	1470.5	1530.8	1764.3
1979	1715.2	1917.5	1805.3	2135.4
1980	2358.6	1996.4	1973.3	2341.6
1981	2152.0	2719.6	2571.6	2540.3
1982	2147.9	2308.2	2209.5	2483.1
1983	2173.1	3246.8	2085.9	2862.8
1984	2966.1	3462.2	3236.8	3319.0

(1)

Data from Quebec sources, for total exports to the U.S., was available for 1968 to the third quarter 1979, at which point Quebec, Bureau de la Statistique du Québec, began using data from Statistics Canada. [See: Québec, Bureau de la Statistique du Québec, *Review Statistique du Québec* (Québec: Le Service de la diffusion, 1969-1980).] This data was used for the period 1968 to 1976 as the base for building the model for the projection period, 1977-1982. Data from Statistics Canada, for total Quebec exports to the U.S., was available for the period 1973 to the present. [See: Statistics Canada, *Exports by Countries* (Ottawa: Supply and Services, Canada), catalogue no. 65-003.] Statistics Canada data was used for the 'Actual Exports', for the period 1977 to 1982. Projections were computed using the SPSS 'BOX-JENKINS' routine. [See: C. Hadlai Hull and Norman H. Nie, *SPSS UPDATE 7-9* (New York: McGraw-Hill Book Company, 1981), pp. 80-93.]

FIGURE 2-8: TABLE (CONTINUED)
 QUEBEC EXPORTS TO THE U.S.: PROJECTIONS FROM 1977 AS COMPARED WITH ACTUAL EXPORTS AFTER 1976

YEAR QUARTER	\$ MILLIONS				QUEBEC DATA
	ACTUAL EXPORTS	UPPER 95% CONFIDENCE LIMIT	LOWER 95% CONFIDENCE LIMIT	FORECAST EXPORTS	AS A % OF STATISTICS CANADA
1973 (JAN-MAR)	561.4				99.9
1973 (APR-JUN)	666.1				100.0
1973 (JUL-SEP)	634.7				99.1
1973 (OCT-DEC)	761.2				99.1
1974 (JAN-MAR)	717.0				100.0
1974 (APR-JUN)	812.4				99.8
1974 (JUL-SEP)	830.5				100.2
1974 (OCT-DEC)	948.1				99.9
1975 (JAN-MAR)	762.7				100.0
1975 (APR-JUN)	861.4				100.0
1975 (JUL-SEP)	836.0				99.8
1975 (OCT-DEC)	911.0				99.6
1976 (JAN-MAR)	811.9				100.0
1976 (APR-JUN)	1115.0				100.0
1976 (JUL-SEP)	974.4				88.5
1976 (OCT-DEC)	1021.1				96.7
1977 (JAN-MAR)	1024.6	1041.4	771.6	896.4	96.8
1977 (APR-JUN)	1224.7	1297.4	925.9	1096.0	97.4
1977 (JUL-SEP)	1164.4	1259.8	869.1	1046.4	105.0(1)
1977 (OCT-DEC)	1291.3	1422.7	951.6	1163.6	99.5
1978 (JAN-MAR)	1205.1	1236.1	788.0	986.9	100.0
1978 (APR-JUN)	1470.5	1537.5	947.0	1206.6	100.0
1978 (JUL-SEP)	1530.8	1491.7	889.7	1152.0	98.6(2)
1978 (OCT-DEC)	1764.3	1684.0	974.5	1281.0	100.0
1979 (JAN-MAR)	1715.2	1464.1	808.0	1086.6	100.0
1979 (APR-JUN)	1917.5	1817.1	971.2	1328.4	100.0
1979 (JUL-SEP)	1805.3	1763.1	912.3	1268.3	100.0
1979 (OCT-DEC)	2135.4	1991.1	999.0	1410.3	NA
1980 (JAN-MAR)	2358.6	1726.9	828.7	1196.2	NA
1980 (APR-JUN)	1996.4	2148.4	995.7	1462.5	NA
1980 (JUL-SEP)	1973.3	2065.5	934.9	1396.3	NA
1980 (OCT-DEC)	2341.6	2356.4	1023.1	1552.7	NA
1981 (JAN-MAR)	2152.0	2043.8	848.7	1317.0	NA
1981 (APR-JUN)	2719.6	2543.9	1019.2	1610.2	NA
1981 (JUL-SEP)	2671.6	2470.8	956.4	1537.2	NA
1981 (OCT-DEC)	2540.3	2793.7	1046.0	1709.4	NA
1982 (JAN-MAR)	2147.9	2423.6	867.4	1449.9	NA
1982 (APR-JUN)	2308.2	3018.4	1041.1	1772.7	NA
1982 (JUL-SEP)	2209.5	2933.6	976.4	1682.4	NA
1982 (OCT-DEC)	2483.1	3865.4	916.3	1882.0	NA

(1)

Using Quebec source data: 'Actual Exports' = 1222.8.

(2)

Using Quebec source data: 'Actual Exports' = 1509.0.

Appendix-Chapter 2

FIGURES 2-9 AND 2-10: TABLE

EXPORTS TO THE U.S.: QUEBEC AND ONTARIO (\$ MILLIONS)(1)

YEAR	CRUDE MATERIALS		FABRICATED MATERIALS		END PRODUCTS		TOTAL		QUEBEC AS A % OF ONTARIO			
	QUE.	ONT.	QUE.	ONT.	QUE.	ONT.	QUE.	ONT.	CRUDE MAT.	FABRICATED MAT.	END PROD.	TOTAL
	1973	386.5	349.2	1418.2	1600.1	637.8	6206.7	2635.7	8597.0	110.7	88.6	10.3
1974	457.3	414.8	1839.6	2251.5	858.2	6378.6	3308.3	9404.0	110.2	81.7	13.5	35.2
1975	507.7	329.5	1622.6	2039.9	1080.1	6550.3	3377.3	9383.2	154.1	77.3	16.5	36.0
1976	745.9	458.0	1919.8	2986.1	1221.6	8869.6	4083.7	12742.0	162.9	64.3	13.8	32.0
1977	860.3	439.8	2440.3	3759.0	1163.4	10804.3	4705.0	15458.6	195.6	64.9	10.8	30.4
1978	708.5	555.7	3210.9	4990.4	1764.1	12913.7	5970.0	18977.7	127.5	64.3	13.7	31.5
1979	966.7	703.4	3532.0	6207.1	2383.8	13503.7	7573.4	21106.4	137.4	61.7	17.7	35.9
1980	887.8	643.6	4715.6	7552.1	2648.9	12970.2	8669.8	21912.2	137.9	62.4	20.4	39.6
1981	1120.8	551.7	5165.7	9239.6	3313.7	15353.6	10083.6	25943.4	203.2	55.9	21.6	38.9
1982	632.2	644.8	4962.5	8531.7	2955.6	19331.0	9148.7	29430.7	98.0	58.2	15.3	31.1
1983	468.1	308.1	5427.7	9654.0	3709.0	24606.0	10368.5	35798.8	151.9	56.2	15.1	29.0
1984	878.4	738.2	6850.9	11755.7	4535.7	34382.4	12984.1	48200.6	119.0	58.3	13.2	26.9

(1)

Calculated from: Statistics Canada, Exports by Countries (Ottawa: Supply and Services, Canada), Table 4, catalogue no. 65-003.

FIGURE 3-1: TABLE

COVERAGE BY THE WALL STREET JOURNAL
OF QUEBEC POLITICAL AND ECONOMIC NEWS
(Column inches by 2.4 inches wide)

MONTH	1976	1977	1978	1979	1980
Jan.	10.5	79.3	86.8	12.4	3.0
Feb.	8.6	48.1	16.0	14.2	2.5
Mar.	16.4	42.4	137.4	45.2	54.8
Apr.	10.6	31.7	88.0	51.4	12.8
May	21.2	23.9	64.6	56.4	130.4
Jun.	40.5	27.0	90.6	77.5	34.3
Jul.	47.3	47.9	45.4	20.0	8.9
Aug.	41.3	22.9	9.9	31.8	0
Sep.	7.5	48.3	49.7	48.2	14.9
Oct.	6.7	22.1	32.9	55.2	10.0
Nov.	97.1	69.4	42.5	64.9	0
Dec.	82.3	52.3	128.7	47.2	7.0

Appendix-Chapter 3

TABLE A-3-1

QUEBEC EMPLOYMENT IN INTERGOVERNMENTAL AFFAIRS OFFICES(1)

	Mar. 31 1977	Mar. 31 1978	Mar. 31 1979	Mar. 31 1980	Mar. 31 1981	Mar. 31 1982	Mar. 31 1983	Mar. 31 1984
Abidjan	1	-	1	1	1	1	1	1
Atlanta	-	-	4	5	6	6	8	9
Beirut	2	1	1	1	-	-	-	-
Boston	4	6	8	10	9	9	10	10
Brussels	7	14	19	19	17	18	18	17
Buenos Aires	-	-	1	-	-	-	-	-
Caracas	-	-	6	7	8	8	8	7
Chicago	2	3	6	7	7	5	5	6
Dakar	-	-	5	-	-	-	-	-
Dallas	1	2	4	4	4	1	1	2
Dusseldorf	2	12	12	12	11	10	10	10
Edmonton	-	-	-	5	5	5	5	-
Frankfurt	-	-	1	-	-	-	-	-
Gabon	-	-	-	1	-	-	-	-
Geneva	-	-	3	-	-	-	-	-
Hong Kong	-	-	2	2	2	2	2	2
Lafayette	2	3	4	2	3	3	4	4
Lisbon	-	-	1	-	1	1	1	1
London	9	12	18	17	16	17	16	16
Los Angeles	2	3	7	9	8	7	7	8
Mexico	-	-	-	6	10	12	12	14
Milan	2	6	8	8	7	7	7	9
Moncton	-	-	-	2	2	2	2	-
New York	10	21	31	25	25	22	22	21
Ottawa	-	-	-	1	1	-	-	-
Paris	26	57	66	58	60	59	58	66
Port-au-Prince	3	3	4	6	6	4	4	4
Rome	4	1	1	2	2	3	3	4
Tokyo	1	5	7	7	7	8	8	9
Toronto	3	7	16	15	16	16	15	-
Washington	-	-	2	2	1	1	1	1
Total (U.S.)	21	40	64	64	63	54	58	61
Total (Can)	3	7	16	23	24	23	22	-
Total (All)	81	159	238	234	235	227	228	221

(1)

Québec, Ministère des Affaires Intergouvernementales, Rapport Annuel (1977-1984).

Appendix-Chapter 3

TABLE A-3-2

DESTINATION OF ISSUES OF QUEBEC UPDATE(1)

	1978/79*	1979/80*
NEW YORK	150,000	132,000
BOSTON	26,000	14,000
ATLANTA	15,600	18,000
CHICAGO	21,250	20,000
LAFAYETTE	21,300	11,500
LOS ANGELES	40,300	14,000
DALLAS	26,000	14,000
U.S. (TOTAL)	300,450	223,500
TORONTO	20,800	25,000
LONDON	12,500	10,000

* Fiscal Year (Apr. 1 to Mar. 31)

(1)

Québec, Ministère des Affaires Intergouvernementales, Rapport Annuel (1979 and 1980).

TABLE A-3-3

VISITS BY QUEBEC OFFICIALS TO THE U.S.

René Lévesque: New York [25 Jan. 1977], at the Economic Club of New York and private meetings with American financiers, accompanied by Finance Minister Jacques Parizeau, Energy Minister Guy Jorm, the Deputy Finance Minister, the President of Hydro-Quebec, and the President of the James Bay Corporation.

Boston (Harvard), [19 Apr. 1978].

New York [18 May 1978], at the Council on Foreign Relations and appearing on NEC-TV's "Today".

Three city tour: Chicago [27-28 Sept. 1978], at the Council on Foreign Relations, and the opening of a new Quebec office; San Francisco [29 Sept. 1978]; Los Angeles [2 Oct. 1978].

Louisiana [8-11 Jan. 1979], including a meeting of business and investment executives at the New Orleans Plimsoil Club (international trade forum).

Washington [25-26 Jan. 1979], the National Press Club.

Boston [30 Jul. 1980].

Bernard Landry: Illinois [27 Apr. 1978].

A ten day tour of various American cities [May, 1978], including an address to the Public Relations Society of America in Atlanta on May 4, 1978.

New York [30 Mar. 1979], at the Executive Sales Club of New York.

Boston (Harvard) [17 Nov. 1979].

Claude Morin: Boston [18 May 1977], at the Council on Foreign Relations.

Washington [13 Apr. 1978] at the National Press Club.

Atlanta [Mar. 1979].

Jacques Parizeau: Vermont [2 Jun. 1978], at a meeting of American bankers.

Yves Duhaime: Washington [2 Feb. 1978], at the opening of the Washington office.

Roger Gosselin (President of l'Office de la langue française) [20 Jun. 1978], New York.

FIGURE 5-1: TABLE

DESTINATION OF QUEBEC MANUFACTURING SHIPMENTS(1)

YEAR	SHIPMENTS BY DESTINATION (\$ MILLIONS)				SHIPMENTS BY DESTINATION AS A % OF TOTAL SHIPMENTS		
	TOTAL	QUEBEC	OTHER		QUEBEC	OTHER	
			CANADA	EXPORTS		CANADA	EXPORTS
1969	12750.3	6453.4	3836.1	2460.8	50.61	30.09	19.30
1970	13072.6	6488.8	3893.3	2690.5	49.64	29.78	20.58
1971	13780.4	6938.3	4243.4	2598.7	50.36	30.79	18.86
1972	15091.6	8274.6	4557.4	2259.6	54.83	30.20	14.97
1973	17451.7	10257.3	4888.2	2396.2	58.78	28.01	13.73
1974	22627.0	12162.1	6962.6	3512.3	53.75	30.73	15.52
1975	23966.5	13566.0	6798.6	3611.9	56.56	28.37	15.07
1976	25802.9	14621.2	7385.3	3796.4	56.66	28.62	14.71
1977	28010.3	14516.0	9117.9	4376.4	51.82	32.55	15.62
1978	33272.8	18613.0	8836.7	5823.1	55.94	26.56	17.50
1979	39117.3	20254.9	11140.8	7721.6	51.78	28.48	19.74
1980	44906.3	24326.1	11949.5	8630.7	54.17	26.61	19.22
1981	50243.7	27378.0	13736.8	9128.8	54.49	27.34	18.17

(1)

Source: Québec, Bureau de la Statistique, *La Situation Économique au Québec* (Québec: Editeur Officiel du Québec).

Appendix-Chapter 5

TABLE A-5-1

ASBESTOS PRODUCED AND MANUFACTURED IN QUEBEC AND CANADA: (1)

Units in Metric Tonnes:

YEAR	PRODUCTION		USED IN	QUEBEC	MANUFACTURED
	CANADA	QUEBEC	MANUFACTURING	AS A % OF	AS A % OF
	CANADA	QUEBEC	CANADA	CANADA	CANADA
1972	1530	1250	35	81.70	2.29
1973	1690	1378	36	81.54	2.15
1974	1644	1394	52	84.79	3.15
1975	1056	802	40	75.95	4.68
1976	1536	1246	47	81.12	3.09
1977	1517	1253	48	82.60	3.14
1978	1422	1263	43	88.82	3.06
1979	1493	1328	55	88.95	3.68
1980	1323	1151	37	87.00	2.81
1981	1122	961	29	85.65	2.55
1982	834	745	24	89.33	2.84

Units in \$ Millions:

YEAR	PRODUCTION		USED IN	QUEBEC	MANUFACTURED
	CANADA	QUEBEC	MANUFACTURING	AS A % OF	AS A % OF
	CANADA	QUEBEC	CANADA	CANADA	CANADA
1972	206	157	7	76.16	3.58
1973	234	178	8	75.91	3.39
1974	302	234	11	77.62	3.75
1975	267	177	15	66.21	5.60
1976	452	339	16	74.99	3.64
1977	537	416	17	77.56	3.17
1978	532	440	15	82.65	2.78
1979	607	506	21	83.25	3.43
1980	618	496	16	80.12	2.51
1981	548	420	14	76.59	2.56
1982	365	298	10	81.73	2.77

(1)

Source: Statistics Canada, Miscellaneous Non-Metallic Mineral Products Industries (Ottawa: Supply and Services, Canada), catalogue no. 44-201; Statistics Canada, Miscellaneous Non-Metallic Mineral Manufacturers (Ottawa: Supply and Services, Canada), catalogue no. 44-220; Statistics Canada, General Review of the Mineral Industries (Ottawa: Supply and Services, Canada), catalogue no. 26-201.

FIGURE 5-3: TABLE

QUEBEC GOVERNMENT BORROWINGS BY MARKET(1)

QUEBEC TOTAL: QUEBEC (PROVINCE) AND HYDRO QUEBEC							
YEAR	\$ MILLIONS				AS A % OF TOTAL		
	CANADA	NEW YORK	OTHER	TOTAL	CANADA	NEW YORK	OTHER
1973	411.326	440.045	35.234	886.605	46.4	49.6	4.0
1974	370.000	469.798	230.000	1069.798	34.6	43.9	21.5
1975	567.000	803.653	0	1370.653	41.4	58.6	0
1976	765.000	1528.265	156.900	2450.165	31.2	62.4	6.4
1977	1072.000	303.094	688.660	2063.754	51.9	14.7	33.4
1978	1095.000	285.063	372.687	1752.750	62.5	16.3	21.3
1979	1910.600	1455.898	115.000	3481.498	54.9	41.8	3.3
1980	2155.600	1285.948	1020.379	4461.927	48.3	28.8	22.9

QUEBEC (PROVINCE)							
YEAR	\$ MILLIONS				AS A % OF TOTAL		
	CANADA	NEW YORK	OTHER	TOTAL	CANADA	NEW YORK	OTHER
1973	206.326	215.022	0	421.348	49.0	51.0	0
1974	230.000	200.849	0	430.849	53.4	46.6	0
1975	302.000	142.412	0	444.412	68.0	32.0	0
1976	645.000	211.827	0	856.827	75.3	24.7	0
1977	847.000	63.809	137.615	1048.424	80.8	6.1	13.1
1978	725.000	114.025	247.547	1086.572	66.7	10.5	22.8
1979	975.600	638.427	40.000	1654.027	59.0	38.6	2.4
1980	1250.600	350.713	103.659	1704.972	73.4	20.6	6.1

HYDRO QUEBEC							
YEAR	\$ MILLIONS				AS A % OF TOTAL		
	CANADA	NEW YORK	OTHER	TOTAL	CANADA	NEW YORK	OTHER
1973	205.000	225.023	35.234	465.257	44.1	48.4	7.6
1974	140.000	268.949	230.000	638.949	21.9	42.1	36.0
1975	265.000	661.241	0	926.241	28.6	71.4	0
1976	120.000	1316.438	156.900	1593.338	7.5	82.6	9.8
1977	225.000	239.285	551.045	1015.330	22.2	23.6	54.3
1978	370.000	171.038	125.140	666.178	55.5	25.7	18.8
1979	935.000	817.471	75.000	1827.471	51.2	44.7	4.1
1980	905.000	935.235	916.720	2756.955	32.8	33.9	33.3

(1)

Calculated from: The Bond Record: Canada and Provincial Funded Debt 1982 (Toronto: The Financial Post Corporation Service, 1982). Dollar values are adjusted to Canadian dollars according to the exchange rates found in: Statistics Canada, Quarterly Estimates of the Canadian Balance of International Payments (Ottawa: Supply and Services, Canada), catalogue no. 67-001.

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