

both social and economic development objectives that sought primarily to avoid massive post-war unemployment. The IDB started its operations as a subsidiary of the Bank of Canada and grew during an unprecedented boom that lasted more than a quarter of a century. Its sense of mission was directed to business enterprises in Canada. It responded to market forces and filled a gap in the capital market. Social development objectives were pursued by providing assistance to businesses that were self-employment enterprises or to firms that were discriminated against by financial institutions due to their type of business, remote location, lack of track record, limited security, or other factors. The objective that was pursued at this level is tied to the social fabric of Canada's economic life. It is protective of the right of individuals to choose between self-employment or employment in any employer-employee relationship. Economic development objectives were to be pursued by providing for assistance to small and medium firms in various sectors of economic activity at various levels of development of their life cycle: start-up, recapitalization, rationalization, expansion. The objective that is pursued at this level is economic impact measured in terms of jobs and income generated, "production" impact (the effect of a business's growth on other businesses), productivity improvement, import replacement, and exporting activity, among others. It also placed on the IDB the very difficult task of being at once prudent and pioneering.

The creation of DREE in 1969 to promote economic growth in designated regions in Canada, the reorganization of IDB into the Federal Business Development Bank in 1975 to expand equity financing operations, the Enterprise Development program, the revision of the Bank Act in 1980, the vast array of incentives and programs at the federal and provincial levels, were all steps taken to meet the malaise that was already looming at the horizon, marking the end of the third phase and ushering the fourth phase of economic development which is characterized by slow growth, high unemployment and high inflation. Canada's malaise is seen to be due to, among other things: 1) a foreseeable crunch in natural resources, 2) a continuing sense of U.S. cultural and economic domination, 3) high wages, low productivity and militant unions, 4) a high level of capital outflow. It is no longer a problem of financing business expansion and ensuring the availability of credit to that purpose. We are dealing today with a general malaise that has overtaken not only Canada but, for a variety of reasons, the rest of the ACNs and, with generalized inflation, the rest of the world. Among the reasons of the present malaise in ACNs is that the industrialization of the *South* should lead to an industrial re-deployment along lines which remain to be defined, i.e. whether there should be a further specialization towards an optimal global economy, with every group of countries making the most of its

comparative advantage, or whether a more balanced self-centred development will be sought.

In November, 1981, the Science Council of Canada issued a statement entitled "Hard Times, Hard Choices". The statement is predicated on the growing fear that our economy will continue to fall behind. At the centre of the Science Council's concern for the Canadian economy lie profound doubts about the health of Canada's manufacturing sector. The challenge is that Canadians have yet to build an advanced industrial base in the face of intensifying international competition. This situation is entirely different from that which prevailed in the 1940-1950s. More than ensuring the availability of credit to creditworthy business, it is a true process of engineering an industrial future based on excellence and specialization that is now needed. The concern is no longer only with a social goal or with the orderly financing of business expansion or with filling a gap in the capital market and the banking system. It is now crucial to take a long-term view of the economic development process. This is a political as well as an analytical challenge. It has been demonstrated that in ACNs, actions by government have always been a consequence rather than a cause of economic movements. Government corrects "*acta*" rather than orients "*agenda*", but it remains "*le maître des cohérences*". The intensified Canadianization process — whether of ownership or of performance requirements — in certain key sectors is reactive in nature and corrective in purpose and is expected to render the economic base capable of generating technological innovations particularly in the high technology sectors in which Canada's future lies.

Megaprojects and big business lead in technological innovations, but their success depends, to a large measure, upon a healthy network of small and medium enterprises (SMEs) that undertake their complementary operations and satisfy the needs they create.

These SMEs have seen their debt/equity ratios increase gradually over the years, thus limiting their capacity to undertake an orderly modernization process and the capital outlays it requires particularly under a volatile interest rate pattern. Financing of that long-term process, as opposed to financing short-term business expansion and natural growth, will befall the public as well as the private sector and in both cases will imply deliberate calculated risk-taking by financial institutions with sufficient financial stamina to do so.

Having been established for purposes that were somewhat different from those of other development banks elsewhere in the world, Canada's development bank may well be required today to adopt the same orientation, face the same concerns and further diversify the scope of its operations and take a more active part in the coming regenerative process.



Federal Business Development Bank