

tion to other countries, Canada was forced to borrow heavily abroad and the dollar dropped in value. In the eyes of much of the world, Canada went from being a stable, well-governed and prosperous country to a country that was badly managed, economically backward and so divided that it might not survive as a single state.

Government, business, labor

In prescribing in very general terms a national industrial strategy implicit in the Third Option, Sharp acknowledged that:

The close co-operation of government, business and labor would be essential . . . It is not expected that the pursuit of this particular option will radically alter the relation between Government and the business community, even if the Government were to concern itself more closely with the direction in which the economy was evolving.

In fact, there was little or no cooperation among government, business and labor on economic problems in the 1970s, and certainly no consensus on an industrial strategy. Business was generally suspicious of any attempt by government to direct the economy and opposed to nationalist measures. Labor at least claimed to favor more government planning and more nationalist policies, although it was always reluctant to cooperate with government. The government, for its part, could not articulate a strategy acceptable to either business or labor. For this among other reasons, relations between the government and the business community declined through the 1970s. By the end of the decade, the leaders of organized labor could hardly bring themselves to speak to the Prime Minister.

The provinces

Sharp recognized also that the Third Option strategy would require the cooperation of the provinces, but he saw no long-term difficulties in that:

It is true that in the diverse circumstances that are bound to prevail in a country like Canada, the task of aggregating the national interest is not always easy. There may be problems, therefore, in achieving the kind of broad consensus on objectives, priorities and instrumentalities on which the successful pursuit of anything on the lines of the present option is likely to hinge. Part of the problem may derive from a divergent assessment of short-term interests. In terms of longer-range goals, it is much less apparent why federal and provincial interests should not be largely compatible or why the elaboration of this option should not enhance and enlarge the opportunities for cooperation with the provinces.

Most of the provinces, however, thought otherwise. They were suspicious of all federal attempts to direct the economy, resentful of any industrial policies that might encroach on their jurisdiction over natural resources, and inclined more toward free markets than to government planning. These basic disagreements with the policies implicit in the Third Option contributed to the deterioration of federal-provincial relations in the 1970s.

US reaction

Sharp saw that the reaction of the United States to the Third Option might be crucial, and he weighed the pros and cons, noting that "Much would depend on what policy instruments were selected in support of this option and how we deployed them." But he concluded:

On any reasonable assumptions, however, such impact as the option may unavoidably have on US interests would be cushioned by the time-frame over which it is being projected and should be relatively easy to absorb in a period of general growth and prosperity.

Sharp pointed out also that the Canadian strategy would not be inconsistent with the Nixon Doctrine that no self-respecting country should always be economically dependent on another.

As events turned out, the years following were not those of growth and prosperity to offset for Americans the impact of Canadian policies, but years of stagflation that irritated every difference. And Nixon was succeeded by Presidents Ford, Carter and Reagan, all of whom sought closer and more cooperative relations with Canada. The Canadian government, however, persisted in policies intended to promote greater independence. In the end, increasing friction and confrontation led to a crisis of sorts in 1981.

As the circumstances were so completely at odds with Sharp's expectations, it is not surprising that his strategy utterly failed to achieve his objectives. Trade with the United States continued to grow so that there was no significant diversification; the United States continued to absorb about 70 percent of Canada's exports. US ownership and control in the Canadian private sector declined, but Canadian corporations (including some of those established for nationalist reason by the government) rushed to invest in the United States, creating new linkages and business attitudes. It cannot be said, therefore, that Canada is any less vulnerable, any more independent of the US economy. Indeed, taking into account the deterioration in relations between the governments in 1981 and the inclination in Washington to respond to nationalist policies in Canada with counter-measures, Canada became more vulnerable than before. Relations improved after 1981, and are better now under the Conservative government than under the Liberals, but the vulnerability remains. The capacity to advance basic Canadian goals is certainly no stronger, and the goals themselves remain to be defined. Nor is there a more confident sense of identity; in fact, the economic failures of the past dozen years have tended to undermine national confidence. The Third Option, therefore, has contributed to a worsening of relations between government and business and labor, a worsening of federal-provincial relations, and a worsening of relations with the United States — with little if anything to put on the positive side of the account.

World wouldn't hold still

It would be unfair, however, to place the blame for the entire misadventure on Sharp. While the Third Option was not presented as a statement of official government policy, Sharp was certainly not simply speaking for himself. Indeed, in his foreword, he acknowledged "the advice and assistance of my colleagues in the Government." He could