

## US nationalism

While these streams of Canadian nationalism deeply influenced public opinion and eventually the Liberal government, the decisive pressure for action probably came from an outbreak of US nationalism. Without warning or consultation, the Nixon administration announced in 1971 a new economic policy intended to strengthen the US trading and payments position at the expense of its major competitors. Included in the policy was a 10 percent surcharge on imports entering the United States, with the intention of discouraging Americans from buying foreign goods. As Canada depended heavily on exporting its products to the United States, this threatened to be a serious blow. In the past US governments had usually recognized Canada's special economic relationship and had made provision for Canadian interests. But now the Nixon government refused any concessions. This came as a great shock to the Canadian government which soon concluded that it had to reexamine the whole question of Canadian dependence on US markets. The view that Nixon was seeking a fundamental change in the relationship was confirmed the following year when the President visited Ottawa and in an address to Parliament applied what he called the "Nixon Doctrine" to Canada:

The doctrine rests on the premise that mature partners must have autonomous independent policies; each nation must define the nature of its interests; each nation must decide the requirements of its own security; each nation must determine the path of its own progress . . . It is time for Canadians and Americans to move beyond the sentimental rhetoric of the past. It is time for us to recognize that we have very separate identities; that we have significant differences; and that nobody's interests are furthered when these realities are obscured.

While this was presented as new policy, it was in fact the reassertion of a very old idea — that the United States, Canada and other countries should act as independent powers. It was an attempt therefore to deny the reality that the democracies were becoming more interdependent, and for this reason it was generally welcomed by Canadian nationalists. The Canadian government, shaken by Nixon's economic policies and seeking a strategy that would reduce Canada's vulnerability in future, saw in Nixon's statement the assurance that the United States would not object if Canada adopted a more nationalist and independent position. Hence the Third Option, but what could not be foreseen, of course, was that Nixon would soon be gone from office in disgrace and that the worldview of the United States would change.

In summary, when Sharp acknowledged in his article that the Third Option was a response both to rising Canadian concern about the relationship with the United States — that is, to concern fostered by nationalists — and to Nixon's policies, he was referring to forces that were seeking to preserve the past rather than to shape the future, to ideas that were already out of date and certain to fail in the test.

## Failure of the Strategy

"The basic aim of the third option," wrote Sharp, "would be, over time, to lessen the vulnerability of the Canadian economy to external factors, including, in particular, the impact of the United States and, in the process, to strengthen our capacity to advance basic Canadian goals and develop a more confident sense of Canadian identity."

This was to be achieved by means of a "deliberate, comprehensive and long-term strategy" for the economy, and by encouraging the cultural industries. The economic strategy, in essence, was to diversify Canadian trade so that there would be less dependence on the US market, and to assist the specialization and rationalization of production and the emergence of strong, Canadian-led firms. The government followed this general prescription through the 1970s and into the 1980s, although not always in a coherent way or with the sensitivity to US interests that Sharp implied would be necessary. Trade with Japan, West Germany and other important markets was promoted with some success. To stimulate Canadian business enterprise, the government created crown-owned companies such as the Canada Development Corporation and Petro-Canada, offered tax incentives to private investors, and favored Canadian over foreign companies in the National Energy Policy. Although FIRA was not specifically designed to assist Canadian business by discouraging foreign competitors, it may have had that effect. From time to time, the government made efforts to develop an industrial strategy, but it ran afoul of business, labor, the provinces or economic conditions, or a combination of all of those forces, and made little progress. In the area of culture, the government used tax measures to divert advertising revenues from US magazines and border television stations to Canadian enterprises; supported book publishers and film makers; financed Canadian studies abroad; and tried generally to encourage the development of a Canadian identity.

So why were the results of the strategy so very different from those predicted by Sharp? One answer, as we have seen, is that it was based on out-of-date ideas about the world. Another is that Sharp and his advisers entirely misread the future. They were wrong in almost all their assumptions about the shape of things to come.

### The economic outlook

As Sharp saw it:

The present may be an auspicious time for embarking on this option. Our trading position is strong. We are regarded as a stable and affluent country with a significant market and much to offer our global customers in the way of resources and other products. Our balance of payments has been improving in relative terms. We are no longer as dependent on large capital inflows as we once were.

Within a year, Canada was entering the era of the energy crisis, rapid inflation followed by recession, the threat of Quebec separatism and of western alienation. The economy weakened, the standard of affluence fell in rela-