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Supplementary Paper

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Remarks by Mr. S.S. Reisman, Deputy Minister of Industry, to the Association of Canadian Schools of Business, Vancouver, B.C., June 15, 1965.

A decade or so ago I studied and wrote on foreign ownership and control of Canadian industry for the Royal Commission on Canada's Economic Prospects. This work was undertaken in partnership with Professor Brecher of McGill University with a strong assist from Professor Safarian of the University of Saskatchewan. Both these eminent economists have done further work on this subject since that time and are a good deal more "learned" than I can ever hope to be. Neither Dr. Brecher nor Dr. Safarian knows what I will be saying to you today and, indeed, may disagree with it strongly. While I am deeply indebted to them for my earlier education in this field, they cannot be held responsible if I turn out to be one of their flock who has gone astray.

There are deep personal conflicts in undertaking to speak on a subject many years after having written about it. I am sure that some of you have had similar experience. If you say that history and events have confirmed your findings, it sounds rather like smug, self-justification. In any event, why come all the way across a continent simply to say that you have not learned anything new these many years? On the other hand, if you claim many new findings, are you not rather admitting that you were quite wrong in the first place? I hope you will take all this into account when you come to appraise my remarks to you today.

Perhaps the best way to proceed is to look back at the conclusions reached a decade ago and to re-appraise them critically-against later events, and the newer and perhaps more profound research that has been conducted since that time and my own experience in the field over the past few years.

I would also like to devote a little time to one aspect of the subject which has received rather scanty consideration in the past. I am referring to the broad political and social aspects, the matter of national independence and our ability to survive as a nation. I would like also to say a few words about policy - what can we do and what should we do as a nation to resolve the dilemma presented by the fact of extensive foreign control of Canadian business enterprise.

First, a quick look at the factual background - at the numbers - then and now. Let me remind you that the first really solid statistical work on foreign ownership and control was done by the Dominion Bureau of Statistics ten years ago in response to requests by the staff of the Gordon Royal Commission. The data developed at that time have been up-dated and extended somewhat. Writing in 1956, we had to make do with data relating to 1953 and 1954. The most up-to-date published material available now relates to 1962.

You are aware that wholly-owned Canadian subsidiaries of foreign corporations do not publish financial statements or provide public information of their activities in Canada. Among other things, one consequence has been to make research particularly difficult. The Corporations and Labour Unions Returns Act, introduced several years ago, should change this, but it has not been in effect long enough to have made much difference up to now. You will be glad to know that the Dominion Bureau of Statistics will be publishing a first report very shortly, based on material obtained from Canadian companies and unions under this Act.

In 1955, foreign long-term capital invested in Canada was valued at \$13.5 billion. Of this amount, \$10.3 billion (80 per cent) was owned in the United States. Direct investment - that is, investment in enterprises controlled outside Canada - was \$7.7 billion, of which the United States accounted for \$6.5 billion. In 1962, the last year for which data are available, foreign long-term capital invested in Canada was \$24.7 billion, of which \$19 billion was from the United States. Of this total, direct investment owned outside Canada was \$14.5 billion, of which the United States accounted for \$11.8 billion.

The figures showing foreign ownership in Canada's industrial sector are perhaps more revealing. In 1954, fully one-third of Canada's industrial sector was owned abroad, with the United States owning some 25 per cent. By 1962, the comparable figures are 35 per cent and 28 per cent respectively. In 1954, foreign control of Canada's industrial sector was 28 per cent, of which the United States share was 24 per cent. In 1962, the comparable control figures were 34 per cent and 27 per cent respectively.

A few more control figures with a rather more meaningful breakdown: In 1954, non-residents controlled 51 per cent of total investment in Canadian manufacturing - 69 per cent in petroleum and natural gas and 51 per cent in mining and smelting. In that year, the United States share was 42 per cent in manufacturing, 67 per cent is petroleum and natural gas and 49 per cent in mining and smelting. In 1962, non-residents controlled 60 per cent of investment in Canadian manufacturing, 74 per cent in petroleum and natural gas and 57 per cent in mining and smelting. The United States share for that year was 45 per cent in manufacturing, 62 per cent in petroleum and natural gas and 51 per cent in mining and smelting.

I don't want to burden you with too many figures, but let me read quickly the percentages for United States control in 1954 and 1961 for certain key sectors of Canadian manufacturing:

Automobiles and parts - 95 per cent in both years;
Rubber - 84 per cent and 91 per cent;
Electrical Apparatus - not available in 1954; 66 per cent in 1961;
Chemicals - 51 per cent and 54 per cent;
Pulp and Paper - 45 per cent and 35 per cent;
Transportation equipment - 21 per cent and 27 per cent;
Agricultural Machinery - not available in 1954; 25 per cent in 1961;
Iron and Steel mills - 6 per cent and 13 per cent;
Textiles - 10 per cent and 14 per cent.

What does all this mean? When we wrote a decade ago, we said that foreign direct investment in Canada is large, growing rapidly, mainly American and heavily concentrated in the resource and manufacturing industries. I think we can say much the same today, with the additional observation that the absolute increase has been greater than the relative increase, although the percentage shares of foreign ownership and control have also continued to grow at a significant rate. In manufacturing, only steel, textiles and beverages have escaped deep penetration from abroad. Writing ten years ago, we said:

> "It appears probable that, given the continuation of present policies, there will occur a substantial expansion in foreign direct investment in Canada. For the economy as a whole, it is not unlikely that this absolute increase will be associated with a relative decline in foreign ownership and control. For certain sectors of the economy, however - and more particularly for those industries in which foreign investment is now dominant - it seems reasonable to expect that the non-resident share will continue to rise in relative terms as well. It is also to be expected that the major source of foreign capital in the years to come will continue to be the United States; although recent experience suggests that there may also be increasing capital inflows from the United Kingdom and Western Europe."

It would appear that our forecast has been largely borne out, except perhaps in one respect. We do not have figures for the total economy but, if we take totals for certain select major categories, including manufacturing, petroleum and natural gas, mining and smelting, railways, other utilities and merchandising, (not a bad figure for a major part of the total economy), the foreign-control figures show a relative as well as an absolute increase. In this respect our prediction was not borne out.

Perhaps in no other advanced industrial country, at any time in history, has foreign enterprise penetrated as deeply and occupied so extensive a role as it does in Canada today. Moreover, the fact that such a high proportion is held in one country of vast industrial power and influence in the world, makes this situation even more unique.

We turn now to a more interesting aspect of our subject: the meaning and effects of this wide-spread participation by foreign enterprise in Canadian industry. Here we can range a little more freely, unencumbered by too many facts. Facts are hard to come by in this field because you are dealing with the subtle, intricate, and highly secretive area of corporate decision making - an area of intelligence privy only to very few individuals who make up the directorates of our leading corporations. Our work in 1956 proceeded by way of case studies. Since that time a number of scholars have also tilled this ground. To a limited extent I can add a little knowledge based on personal experience. One can never be sure that information drawn from case studies is accurate. There is, however, a sufficient range of common findings to suggest that a few useful things can be said reliably about the behaviour pattern of foreign controlled corporations.

Our earlier study approached this question under three headings:

(1) How far does foreign financial control by a corporation get translated into actual control with respect to the principal corporate decisions?

(2) Where foreign control is in fact exercised, is the behaviour of the foreign controlled corporation different than a corporation under domestic control?

(3) If differences in behaviour occur what are the consequences for Canadian economic interests?

These are good questions. I wish we had good answers. Let me interject that, when we talk about foreign controlled enterprise in Canada, we are talking mainly about United States enterprise, because this is where most of the work and most of the concern has been concentrated.

First, the question of the locus of control. By this we mean effective control, since the issue of financial control is, of course, embraced in the definition of a direct investment company. In our earlier work, we found that it was not possible to make any simple generalization. Case studies yielded a rather broad spectrum of control policy, which varied from complete direction by head office of even the most minute decisions, to virtually complete decentralization. Most firms were somewhere in between, with the day-to-day direction of the enterprise in local hands and the major decisions such as investment, new product lines, pricing and so on subject to close surveillance from head office.

Many factors influenced the place that a particular enterprise occupied in this broad spectrum: tradition and business philosophy of the major shareholder; whether the major shareholder is a parent company engaged in the same business as compared with shareholders interested principally in the financial results; age and maturity of the enterprise; whether a wholly-owned subsidiary or public company with Canadian minority participation; the calibre of local management, and many other factors. In the case of the large resource and utility companies, where major ownership was distributed over a large number of non-resident shareholders, the pattern indicated rather more local control. As might be expected, the reverse was more typical for wholly-owned subsidiaries of foreign corporations engaged in similar production. Other researchers commenting on the locus of effective control have come to about the same conclusions.

If I were writing today I would be inclined to be somewhat less cautious in identifying the locus of effective control. I would venture the opinion that foreign control is much more complete, and much more direct, than our earlier conclusions suggest on all important decisions. This I believe, is especially true in the manufacturing sector. The processes whereby direction is given from home base is often both subtle and pervasive. At times, the mechanical steps are not easily discernible. Whether by overt direction or through the selection of key management, their training and their own good commonsense on advising within the framework of parental wishes, I believe that control is effectively exercised from abroad.

Our earlier study examined most of the key decision-making areas in an effort to determine whether the fact of foreign control resulted in different decisions - e.g., marketing procurement, personnel, location, product lines, research and development, support to charitable and community activities and other areas. Here, the findings, if a little more explicit, were also cautious. Again, the behaviour patterns were so varied as between different companies as to defy generalization. Areas were identified where, because of their global or continental nature, the behaviour of a foreign-controlled enterprise differed from that of a Canadian-controlled company. Examples were cited where this led to policies and practices with identifiable adverse economic effects for Canada.

Paradoxically, we found that the policy or practice in question often had a double-edged effect, with both advantages and disadvantages experienced at the same time. Let me cite a few examples to illustrate this observation. But, before doing so, I would like to offer one overriding comment which I believe establishes the right framework within which particular cases may be appraised.

I quote from our earlier study:

> "The key to an evaluation of the effects of foreign direct investment (as of investment generally) is the overriding consideration of maximizing profit. This gives to private economic decision-making a fundamental unity of purpose that transcends the various geographic locales in which the decisions are made. Companies operating in more than one country may be expected, in the long run, so to respond to market demands and cost considerations as to maximize their global profit."

This, after all, is a basic proposition derived from economics. It is too often forgotten in the heat of emotional discussion on the subject of foreign ownership and control. In the main, it has been borne out by empirical investigation. It comforms broadly to my own experience in dealing with both foreign and Canadian-controlled corporations.

In the field of personnel policy, senior management posts are often filled by carefully selected officers from the parent company. Often this is done on a rotational basis as part of the overall training policy. Such a system provides management skills of a higher quality than would be available if the choice were confined to Canada, and this no doubt contributes to the efficiency and growth of the enterprise. But it also means that senior personnel drawn from home base often regard their posting in Canada as a stepping-stone and, as a consequence, do not integrate fully into the fabric of Canadian business and cultural life. It also means that we are rather slower in Canada in developing a sufficient number of top-calibre managerial and entrepreneurial personnel so vital to industrial efficiency and progress.

In the field of research and development, the Canadian enterprise with foreign affiliation usually has easy access to the fruits of extensive and costly research and development facilities which it could not support by itself. Similarly, there is access on very favourable terms to a broad range of technical and business services. While these facilities provide clear and substantial economic benefits to Canada, it also means that less of this kind of economic activity is carried on in Canada. The Canadian enterprise is often a stripped-down version of the parent without the more sophisticated appendages. This entails both an economic and a cultural loss. Enterprises which themselves do not engage in extensive research and development activities are not likely to be world leaders. Nor are they likely to be adequately staffed to absorb and apply the technological and scientific advances emerging elsewhere in the world. Speaking plainly, they remain satellites in areas of industrial activity which often are the driving force of the growth process.

Turning to purchasing policy, connection with a strong parent often yields a strong advantage by virtue of ready access to materials, components and machinery of a higher quality and at better prices than would be available to a Canadian enterprise operating on its own. At the same time, it also means that there is a tendency to follow the parent in procurement decisions, which tends to overlook the availability of goods and services in Canada. Where this occurs, the adverse economic impact on Canada's industrial development is obvious.

In the field of marketing, the foreign connection often provides an assured outlet for the subsidiary's production which places it in a much more secure position than an independent Canadian company. This is especially true for enterprises producing industrial raw materials and semi-processed goods. There are other cases where the reverse situation is found to exist; explicit or tacit restraints are imposed on the export activities of the subsidiary, which limit its freedom to search for markets. (We must be careful here to avoid confusing the effects of artificial export restraints and the consequences of commercial policies which have created in Canada a large number of foreign-controlled manufacturing enterprises which duplicate on a smaller scale, and at consequently higher costs, the output of the parent company abroad. This is the typical situation for many manufacturing enterprises in Canada, and their failure to achieve significant exports to the United States or other markets has little to do with company policy.)

In the matter of plant location, expansion and product diversification, findings are also rather mixed. Cases occur where installations to process raw materials in Canada are held up because the parent company already has substantial investments at home. There are other cases where product lines are introduced to Canada prematurely in fields already over-crowded by too many small-scale enterprises. We also find instances, however, where Canadian-controlled companies with subsidiaries abroad decide in favour of locating a major installation abroad because they happen to own a suitable idle plant or because they are concerned about changes in commercial policy which could later impede their terms of access. While we cannot provide positive proof, there is evidence to suggest that, on a strictly financial accounting, it would have been more profitable to locate the facility in Canada.

I could go on to examine other aspects of corporate decision-making such as pricing, labour relations, charitable contributions and so on. In these areas, minor differences in behaviour can also be identified which reflect foreign control and foreign influence. In some instances, these differences yield advantages; in others, they yield disadvantages. The performance is mixed, and the disadvantages are usually not very serious.

One aspect of the operations of foreign enterprise in Canada which has attracted considerable attention is the practice in relation to the sale of equity shares to the public. Many of the larger Canadian corporations controlled from abroad are wholly-owned subsidiaries. While the shares of the continental or global operation are traded freely and available to Canadians, there is no opportunity for public participation in ownership of the enterprise operating in Canada. Many Canadians believe that it would be desirable for such enterprises to make their shares available to the public. And they have drawn on a variety of rather sophisticated arguments to support their case. Canadians, it is argued, are entitled to an opportunity to share in the fruits of enterprises operating in their country. Partnership by Canadians, it is held, will ensure independent Canadian representation on the board of directors and the injection of a Canadian point of view into the decision-making process. It is pointed out, that sale of shares will convert the enterprise to a public company so that financial and operating reports will be available for public scrutiny. In further support of the desirability of an equity spin-off is the fairly consistent research finding to the effect that companies open to Canadian equity participation do, in fact, demonstrate a keener awareness of Canadian interests, and are in practice less tightly controlled from abroad than are wholly-owned subsidiaries.

The counter-arguments are also familiar to you; they are no less subtle. The existence of minority shareholders impairs the flexibility of operations which is desirable in the interests of efficient operation. A closer accounting of financial transactions between the parent and subsidiary would be required, often to the detriment of the subsidiary. Sometimes the case is put much more frankly; the parent corporation has taken the risks and does not see why it should share the profits with outsiders.

Objective studies tend to the view that foreign-controlled companies with local participation are not at a significant disadvantage over wholly-owned subsidiaries; and generally support the case for making shares available to the public. Apart from the advantages already mentioned, such a policy would have the additional merit of removing an oft-recited, and sometimes deeply-felt, grievance about the operations of foreign enterprise in Canada.

Another aspect of the operations of foreign enterprise in Canada which has attracted a good deal of public attention concerns the relationship between foreign government laws and policies and their influence on the activities of Canadian enterprise controlled abroad. Our earlier study dealt only briefly with this subject.

In recent years instances of extra-territorial application of United States laws and policies have become more common. A study prepared by Kingman Brewster, Jr., of Yale University for the Canadian-American Committee examines this aspect of the problem rather more fully. I recommend it to you as an original and worthwhile contribution to our knowledge in this field. In particular it examines the impact of United States tax law, anti-trust law, foreign-assets control and the Trading with the Enemy Act, in terms of their impact on the behaviour of United States controlled corporations in Canada. It points out features of United States laws which favour branch as against subsidiary operations, militate against the offer of minority partnership and deter the full development of exports and production in certain directions. It implies that, in strict economic terms, the adverse impact has been marginal, although it recognizes the possibility of rather more severe impact in some circumstances. Of special interest is his finding that the real concern is political rather than economic - a sense of loss of sovereignty by virtue of the extraterritorial application of United States laws.

We shall have more to say about the political implications later. It should perhaps be noted here that in this whole field of corporate decision-making, of which foreign laws and regulations are only one element, it is the fact of foreign control rather than the way in which control is exercised that has led to much of the worries and concern.

Mention should be made here of a recent development in United States government policy which is perhaps more important in terms of potential adverse economic effects. I refer to the recent efforts of the United States Government to deal with its balance-of-payments difficulties through moral suasion and informal directives to American corporations with financial and trade connections abroad. These directives and urgings have, with more or less precision, excluded Canada from their application. But given the informal nature of the policy, there would appear to be scope for varied interpretation of how Canada is to be treated and how individual enterprises will respond. The policy is much too recent to attempt an appraisal of its impact on Canada. What is significant, however, is that, by virtue of the extensive participation by U.S. controlled enterprise in Canada, the potential for conflict between the national interests of the two countries is particularly great. The fact of foreign control could produce an embarrassing degree of ambivalence if United States policy and Canadian policy in the matter of balance of payments were to pull in opposite directions.

Enough has now been said - however cursory and incomplete - to warrant an opinion as to the overall economic effects of foreign enterprise in Canada.

There can be no question but that Canada has derived tremendous economic benefits from foreign direct investment. The search for profits through the operations of direct-investment companies had led to advantages for Canada which permeate every aspect of its development, including the rate of economic growth, standards of living and industrial diversification. Without these enterprises, much of the investment in Canadian industry would have taken place much more slowly and at a higher cost, if at all. Through the operations of foreign enterprise, Canada has received a supply of capital, entrepreneurial skills, technological know-how and markets which, for magnitude, quality and stimulus to growth, has probably never been surpassed anywhere in the world. There is no shadow of doubt that without them Canada's industrial development and living standards could not possibly have approached their present levels.

It is true that instances of actual and potential adverse economic effects have been uncovered. For the most part, cases of divergence of interest arising from autonomous corporate decisions have been found to be few in number and marginal in their impact. Indeed, many of the "adverse" situation turn out, on close inspection, to be dictated not by the external control factor but rather by other considerations, particularly commercial policies.

There is, of course, the overwhelming fact of the size and power of our neighbour to the south. This has an influence on the activities of Canadian enterprise, whether foreign or domestic controlled. One cannot ignore the actual and potential economic disadvantages which flow from the fact that foreign-controlled enterprises are exposed to extraterritorial application of laws and policies over which the Canadian Government has no control. But adverse economic consequences for Canada arising from foreign laws and policies have thus far been marginal.

By comparision with the economic gains so obvious to all of us, the adverse economic effects arising from the operations of foreign enterprises in Canada are not of large dimension. Any objective economic judgment based on the facts as they are known to us must yield the unequivocal conclusion that, from an economic point of view, foreign direct investment has been good for Canada and its people. These are the conclusions we reached some ten years ago; these are the conclusions I reach today. I have seen nothing in the studies conducted by others which would lead me to alter this judgment.

Earlier in my remarks, I referred to the political and social implications for Canada of the extensive and growing foreign ownership and control of large segments of the Canadian economy. I fear that, in devoting so much time to the economic aspects of the problem, I may have led you astray. It may well be that I have obscured what are really the central issues - the political aspects, the grand international issues of sovereignty and independence. In our earlier studies, we recognized that, underlying much of the concern about foreign investment in Canada, was a deep sense of disquiet that control over our destiny was gradually slipping away through economic penetration and progressive take-over of key Canadian industries. In its simplest and most direct form (although rarely put in this way), the question is whether a country can have a meaningful independent existence, in circumstances where the nationals of a single, large, overwhelmingly powerful country own and control a substantial part of that country's basic resource and manufacturing industries.

Our earlier study recognized that the political and social aspects of this whole question may well be the really fundamental ones. But we begged off on the grounds that these aspects were outside our terms of reference. I am certain now that this approach was much too "clinical". It is a mistake for social scientists to compartmentalize their respective disciplines too sharply and still hope to say significant things about a problem which has so many complex and interrelated facets.

It has been a great disappointment to me, and I am sure to all of you, that so little systematic and orderly investigation has been carried out in this field by our colleagues the political scientists. I would like to use this occasion to make an appeal for more work and early work by our colleagues.

I should like to speculate a little on the political aspects of this great national issue and to offer a few personal comments on where these speculations have led me. In its simplest form, Canadians and others who are concerned about the political consequences of extensive foreign ownership and control of a country's industries, argue that economic independence go hand in hand and that impairment of the one will lead to impairment of the other. In the context of the Canadian debate, this proposition has rarely been articulated either in theoretical or practical terms. Rather it has been stated as an obvious fact, an <u>obiter dictum</u>, with the addendum that many countries, including highly-developed countries, have acted upon it without any apparent need to prove the proposition. Perhaps it is a self-evident truth; and perhaps this is why political scientists in Canada have not chosen to investigate this relationship.

I suspect that adherants to this viewpoint, although most of them would probably deny it, have, through some process of intellectual osmosis, been influenced by the propositions of Marxist ideology, the theories of state and of imperialism. Certainly, few of us living in a democratic society today would endorse the proposition that the owners of the means of production control the state. We know it is not so. Similarly, we would not see in the participation by foreign enterprise in our economy any sinister motivation associated with imperialistic objectives of the United States to take over Canada. It would take a vivid imagination indeed to suspect collusion or conspiracy between the thousands of individual private and corporate investors with the Government of the United States bent on absorbing us or of directing our domestic or international politics. These individuals have made investments in Canada over the extended period of time for the purpose of making profits. They are often in sharp competition with one another. Their activities have not been directed by the United States Government, which at times, such as at present, would much prefer if they decided to keep their money at home.

At the other extreme is the view that what really matters is not who controls the country's industries but rather who makes the laws. Corporations, like all other citizens, must abide by the laws of the land and it matters little whether the owners are Canadians or foreigners. This view has a certain superficial plausibility. But it appears to me unreal to separate a country's legislative process from the people and institutions that make it up. Governments are not abstractions that live in a vacuum. In any organized society, particularly in our type of democracy, there is continuous and complex interaction between government and the people in the legislative process. And it is more than a matter of legislation, it is the whole complex of attitudes and policies that together make up a country's politics. It is a simple fact that business enterprise has a powerful influence on government; and if that enterprise is controlled from outside the country, is it not likely that the attitudes and pressures emanating from it will reflect in part the interests and outlook of the people who control it.

I suspect that most of us, whether troubled or sanguine about foreign ownership and control, reject both extremes and occupy ground somewhere in between. There are many variations in the inbetween views. Let me try a few.

One line of analysis which has both plausibility and merit runs like this. No country is completely sovereign. All our links with other countries, whether political, economic or cultural, limit our freedom of action in some degree. This, they say, is particularly true of a country like Canada with close financial, trade, cultural and many other intimate links with its large imposing neighbour. That country by virtue of its size, weight and power is bound to have a very strong influence on all countries, but particularly on Canada. Control by its citizens of Canadian industry is only one channel of influence; important, yes, but no more important than trade, finance, culture, education. Canadian views are influenced by all these and governments in Canada cannot be oblivious to the basic truth that these links and influences exist. Why then get all excited by one particular form of influence? What worries me about this line of reasoning is that it is rather too easy to slide from it to a related and rather defeatist view. We have so little real sovereignty - and can have so little real sovereignty alongside the United States - that there is no point in worrying about foreign control of our industry.

Clearly there are many restraints on Canada's freedom of action. Clearly, too, there are many instruments and links through which foreign influence is transmitted and restraint exercised. But they are additive in their total impact - and they are by no means equal in their weight and influence. Many people believe that foreign ownership of a country's industries is a rather direct and powerful instrument of foreign influence and as such deserves rather special attention.

Still another line of reasoning holds that large corporations with international operations are themselves becoming internationalized in personnel, attitudes and policies; they know no national loyalties and act on behalf of their international shareholders. As such, if they have any limiting effects on national sovereignties, they do not discriminate and do not project the views, attitudes and policies of any particular nation. There is some truth in this. We are familiar with large corporations that fall into this category. But the fact is that such large international corporations are not typical. Most corporations we are talking about, and which we know have ultimate control over Canadian enterprises, are United States corporations, with head offices in the United States, subject to United States laws and under the direction of United States nationals. While this is an interesting idea, it just isn't true - at least not yet.

There is one further theory which I would like to mention. It accepts the proposition that foreign control does, in fact, provide a powerful instrument for political control, but argues that, in the context of U.S.-world relations in general and U.S.-Canada relations in particular, the United States would never wish to exercise this power. They have to get along with Canada. It is essential for their world position that they do. This proposition intrigues me. But it's a kind of brinkmanship that, to say the least, makes me nervous.

We can go on describing and discussing variations on this theme - and I am sure it would be entertaining. I would like to offer (humbly and without proof) my own viewpoint. But before I do, let us have a quick look at the empirical evidence - such as we have - because mine is a rather more pragmatic approach than a matter of doctrine or philosophy.

What are the facts? The fact is we don't have many facts. If we try hard we can come up with examples of intervention, by or on behalf of foreign corporations with business interests in Canada, which have tried to - sometimes successfully - influence action in Canada contrary to declared Canadian policy. There are cases of strong representations by the United States Government against Canadian measures or impending measures on behalf of U.S. corporations with interests in Canada; cases of Canadian corporations controlled in the United States who have resisted Canadian policy, say, in trade with China, because they were concerned about possible application of U.S. laws or U.S. public opinion; cases of action by Canadian companies whose decisions have been strongly influenced by United States anti-trust law, even though Canadian laws would have permitted quite different decisions; cases of Canadian enterprises who have rather automatically opposed policies in Canada in virtually the same terms formulated by their parent companies in opposing similar policies in the United States when circumstances in Canada were quite different; cases where parent companies have directed their Canadian subsidiaries to follow a particular line of policy because they believed it to be in line with expressed interests of the United States Government without regard for a different Canadian interest. And there are other cases too. But we can say this; all these cases taken together, at least all the cases that we know about, do not loom very large in the total complex of our economic and political life. It can hardly be argued on empirical grounds that, up to now at least, the large fact of large foreign control over Canadian enterprises has significantly limited Canada's freedom in domestic or international politics.

This is an important fact. But is it a conclusive fact? We may have been lucky. Over most of our recent history - at least since the United States has had a major stake in Canadian industry - there has been a remarkable symmetry between Canadian and United States economic, political and strategic policies. We have moved more or less together toward objectives that we have held in common. This has made it possible for enterprises in Canada, controlled in the United States, to guide themselves by consideration of maximizing return, without worrying about mixed political loyalties or mixed political attitudes or mixed political directions.

Some may say that this phenomenon is itself the <u>measure</u> and <u>evidence</u> of our lack of independence. I don't believe this is so, because there is good evidence to show that we formulated these objectives quite independently and in our own national interests.

But our policies have varied from time to time - on trade with China - on Cuba - and on a number of smaller issues. In some of these instances, difficulties have arisen, and on occasion we felt the heat and have experienced some frustration. What would the situation be if there were to occur more important and more frequent conflicts of policy? This could happen - and this would, of course, begin to test the effect of substantial United States control over our industries. Would we be able to strike out independently and make it stick? Would the fact of extensive United States control over our industry make any difference in how such differences were resolved? I don't know the answer; nobody does.

I believe that it should be possible to find solutions which will avoid any further political risks, while at the same time enabling us to enjoy in good measure the formidable economic advantages which flow from the participation of foreign enterprise in our economy.

This leads me to the final section of my remarks. What can we, what should we, do about this problem? It would not be right for me to recommend specific policies from a public platform of this kind. I would, however, like to review briefly policies and measures which have already been adopted in this field - and to say a few words about the broad approach, the framework, in which we might look for possible solutions.

Concern about the extent of foreign control of Canadian business enterprises is shared by all the political parties occupying the Canadian political arena today. While there may be considerable difference as to how to deal with the problem, it is noteworthy that the last two administrations - though of opposing political complexion - have each introduced legislative measures designed to slow down the extension of foreign control of Canadian enterprise. Apart from formal action, the moral suasion that both administrations have sought to apply has reflected what is virtually a multi-partisan philosophical approach to this issue. A good deal of the factual basis and the conceptual framework for these policies have been drawn from the 1957 Report of the Royal Commission on Canada's Economic Prospects.

The Conservative administration under John Diefenbaker took several important steps in this field and foreshadowed others. Legislation was passed in the period 1957-1963 to keep life-insurance companies under the control of Canadian directors, to confine oil, gas and mining development in the territories under federal jurisdiction to interests controlled in Canada. The Income Tax Act was amended to remove the differential on withholding tax which, unintentionally, favoured wholly-owned and majority-owned subsidiaries and also branch plants. The Corporations and Labour Unions Returns Act was introduced to extend the reporting requirements of all corporations above a minimum size operating in Canada. Legislation was passed to ensure that radio and television broadcasting in Canada would have a minimum Canadian content; and that broadcasting stations would remain under Canadian control. (I am not sure when the Canadian Football Association regulated the number of United States imports that could play on Canadian professional football teams.) Legislation was introduced but not enacted at the time that the Administration changed to prevent the further establishment in Canada of foreign-controlled general consumer magazines.

In the period since 1962, Mr. Pearson's Liberal administration introduced further measures. The withholding tax was modified to provide an incentive to foreign-controlled corporations to take in minority Canadian partners. A first version of this legislation was modified to reduce the incentive. A measure to impose a heavy penalty on foreign takeovers was abandoned in response to pressure from both inside and outside Canada. A generous capital-cost allowance aimed at stimulating new capital investment in the private sector was extended only to corporations that offered a minimum degree of Canadian ownership. Regulatory insurance legislation was amended to encourage life companies to acquire a larger share of equities in their portfolios. The withholding tax was modified to encourage capital inflows in the form of debt securities as compared to equity investment.

In the last budget, additional steps were proposed and are now before Parliament. A measure was introduced to amend the Bank Act which, among other things, will ensure Canadian control of chartered banks and will limit the activities of foreign-controlled banks in Canada. A resolution was introduced to prevent foreign control of Canadian newspapers and to confine Canadian periodicals under foreign control to those now operating in Canada. A measure was introduced to establish a Canada Development Corporation, with the express purpose of financing, under Canadian control, large new resource and industrial enterprises, and also to provide a pool of equity capital which could bid for enterprises exposed to foreign take-over. The generous capital-cost allowance on new investments - which was confined to enterprises open to Canadian equity participation - was extended for a further period. Public statements made by the Minister of Finance and others continued to emphasize a policy of discouraging further extension of foreign-controlled enterprise in Canada.

Taken together, these measures over the past decade are, in number and quality, a rather formidable expression of public policy on this issue of foreign penetration in the Canadian economy. I know you do not expect me to evaluate these measures, either from the point of view of strategy or of their objectives. I trust that competent Canadian scholars will perform this task. I would, however, like to offer a few concluding comments on policy.

First, we should be clear as to our objectives. I would suggest that we should, as far as possible, aim to discourage the extension, on balance, of the share of Canadian business enterprise controlled outside Canada. I am thinking here of actual control rather than statistical control (which is the technique we now use for measuring degree of foreign control). I am distinguishing here between enterprise wholly-owned abroad from enterprise with a degree of Canadian participation.

Second, we should aim to reconcile this first imperative with the desirability of continuing to draw on foreign direct investment where this makes a significant contribution to the growth and efficiency of the Canadian economy. This reconciliation will not be easy; indeed, it is at the heart of the Canadian dilemma. But I believe that, from a practical point of view, these apparently conflicting objectives can, to some degree, be reconciled.

To help resolve this dilemma, I believe that the guide to all policy measures in this field should, as far as possible, be positive and not restrictive. A restrictive policy will tend to discourage the desirable as well as the undesirable foreign direct investment. Such a policy would inevitably unleash divisive forces in Canada which would themselves weaken our national unity and independence.

We should not neglect the maximum use of moral suasion in all its forms. Foreign enterprise has a very large stake in Canada. It should be given every opportunity to learn why Canadians are troubled, and what Canadians expect of them if they are to be accepted as "good" corporate citizens. This is a slow and difficult process; but past efforts have produced some useful results and it should be stepped up. Discussion in the past decade has produced a code of good behaviour which, if adopted widely, would ease the public tension and moderate the exercise of foreign control. The areas of corporate decision-making in which there is need for improvement on the part of many corporations were outlined earlier in this paper. Not least of these is the making available of equity participation to Canadian investors and the appointment of independent Canadians to boards of directors.

But efforts of this kind will not be enough in themselves. Other measures and new institutions will also be required. I do not claim to have any special prescience in this field; but I have two thoughts in particular which I believe merit consideration.

The first concerns our commercial policy. Studies on the subject of foreign ownership and control of Canadian industry almost invariably refer to the influence which Canadian commercial policy, and the commercial policies of our trading partners, have had on the structure of our secondary industries and on the pattern of ownership and control which has emerged. The analysis is usually in terms of the incentive set up by Canadian tariffs to foreign enterprise to establish branch or subsidiary operations in Canada as a means of leaping over the tariff. Further, the existence of tariffs abroad inhibits the development of such enterprise in a direction which would permit exporting either to the country of the parent corporation or elsewhere. There is little question that commercial policy has, in fact, had effects of this kind. I would like to carry this analysis a step further.

Many foreign-owned firms are set up to produce in Canada a range of products identical to those produced by the parent company - but on a smaller scale - and almost always at higher cost. Such enterprises typically rely on the parent company for their design, research and development, business services, marketing techniques, sources for components, and machinery. Even in operations of this kind which are often no more than a small-scale model of the parent, it becomes difficult to see how such an enterprise in Canada can have any real independence in any of the principal corporate decisions. Indeed, one can almost establish a principle here. Miniaturization to serve the local market under the influences of tariff protection will generally be accompanied by a system of corporate organization which involves effective control by the parent company.

While I have not investigated this matter fully, I believe that there is evidence to show that the reverse is also true. Foreign-owned manufacturing enterprise established in Canada to produce unique products for world markets, or at least North American markets, have a good deal more independence. One would expect this to be so. To produce specialized products requires back-up at all stages of design, development and marketing, which requires independent decisions for successful performance. It would simply not be practical business to provide such back-up by remote control. Directors and management associated with such operations are bound to develop attitudes and capacities which make for industrial independence.

It has often been observed that foreign ownership (and hence control) of Canadian business has been an essential feature of our industrial expansion because of the dearth in Canada of equity capital - and especially large concentrated blocks of equity capital capable of financing large-scale risky enterprise. Certainly this has been true of earlier periods of our history, and to some extent remains true today. At present, the problem of adequate financial resources, I suspect, is less a matter of total savings and investment than of the forms of these savings and of the attitudes of financial institutions which have responsibility for the deployment of investment capital. The shortage of pools of equity capital has been felt particularly in the financing of large resource projects, and also in situations where existing Canadian enterprises have to be sold. The proposal to establish a Canada Development Corporation and the recent creation of provincial institutions with similar purposes may contribute to overcoming these gaps. The emergence recently of large private-investment companies in Canada and the change in the Insurance Act should also help. These are a beginning, but more will have to be done.

It would be a mistake, however, to attribute too much to the shortage of equity capital. Foreign direct investment is more than a matter of providing equity money. Along with it has come design, technology, entrepreneurial ability, assured markets, and many other elements which combine to make a successful business enterprise. In these matters we will have to do better in the future than we have in the past. In the matter of building up our capability in Canada for design, research and development, and technical know-how, I am hopeful that the new Federal Department of Industry will be able to make a useful contribution. A start has been made in this direction, and I am pleased to say that a number of important programmes have been introduced and others are now in the course of preparation.

In the matter of trained business personnel, professional managers and entrepreneurial talent, we will have to turn to you, the leaders and prospective leaders of our business educational institutions. For, in the last analysis, almost all our problems are problems of people, and we will have to work hard and quickly if we are to keep up with our competitors abroad.