It is our hope, of course, that such a book as Klinck's will ultimately be made redundant for the study of Maritime literature by the progress of scholarship in the field. But the very real weaknesses of *Literary History of Canada* are not things for which individual essayists or the editor are entirely to blame; a better general history of Maritime literature cannot be produced by any method whatever until the specific history has been fully researched, and this is a process which is only beginning.

> The prospect has already been seized upon by some, and important works are going forward; there are unlimited literary undertakings lying at our feet ready to be done . . . . It is time to expand literary studies to embrace history, politics, sociology and science and other ways of looking — at this place, this past, this ever-present.[4]

The 1976 Literary Colloquium at Saint John was a valuable stimulous to literary research in Atlantic Canada. It is time for another. Literary scholars in the Maritimes have finally realized that they do not have to justify local research as an academically respectable pursuit. It is a simple matter of "getting our bearings", as Northrop Fry would say. The new generation of teachers and researchers at our Maritime Universities would do well to cultivate a healthy disregard for a literary establishment which fails to recognize the social and historical significance of Charles Bruce or Frank Parker Day.

ANDREW T. SEAMAN

Canada's Economic Problems and the American Connection

In recent years there has been a growing body of literature critical of Canada's economic performance. Critics of what may be described as 'the Canadian Syndrome' complain that Canada has concentrated far too large a portion of its employed labour force in low value adding activity, has allowed external interests to control a large part of the economy and to dominate critical processes essential to development, has failed to develop or attract sufficient indigenous entrepreneurship and innovative capacity, and lacks the necessary homogeneity and co-operating skills and the ability to identify and deal effectively with economic realities. Some Canadians may take offense at this list, but it is undeniable that Canada is developing at a rate far below its potential, that the economy increasingly relies on initiative, technical expertise, capital and advanced products of external origins, and that the nation has adopted living standards matched neither by productivity levels, nor by over-all

4 Lochhead, *op. cit.*, p. 8.

developmental achievement. This review article focusses on five very different publications which deal with aspects of these problems and with the closely interrelated question of Canadian-American economic relations.

Three of these publications deal with the complicated and very technical subject of the impact of the Canadian tariff. D.J. Daley and S. Globerman's *Tariff and Science Policies: Applications of a Model of a Nationalism* (Toronto, Ontario Economic Council Research Series, 1976), R. Dauphin's *The Impact of Free Trade in Canada* (Ottawa, Economic Council of Canada, 1978), and James R. Williams' *The Canadian-United States Tariff and Canadian Industry: A Multisectoral Analysis* (Toronto, University of Toronto Press, 1978), are written by economists. None of them constitute historical probes. All three concentrate on recent periods, using jargon and theories aimed primarily at a professional audience. Paying some attention to Canada's highly differentiated regional economies, the three studies attempt to capture the effects of the tariff structure upon a disaggregated economy. Williams concludes that the Canadian economy would not only expand under free trade, but that there would also be a shift toward more advanced manufacturing. To some extent Dauphin's findings are in conflict with Williams', since he concludes that there will be a shift in favour of resource processing under unilateral free trade. But Dauphin accepts that tariff removal would stimulate a move toward greater efficiency. Daley and Globerman show that the tariff has reduced and slowed the diffusion of new processes and new techniques into Canada. This observation is especially important in view of the fact that advanced industrial countries today compete largely on the basis of quality and technological sophistication, while price competition plays subordinate role. The constraints imposed by tariff barriers on an economy appear to be quite situation specific, in terms of their social costs and developmental effects. There can be little doubt that tariffs in practice can serve as a subsidy to a host of relatively inefficient, non-innovative foreign owned branch plants producing unnecessarily expensive commodities of unnecessarily low quality for captive domestic markets. Indeed, trade barriers may very well serve external interests. Canada is not exactly walled in by tariff barriers. As much as 53% of the value of all manufactured goods imported in 1970 entered Canada free of duty, as opposed to 6% for the U.S. Since these levels have remained quite steady recently, non-tariff barriers are in this reviewer's opinion quite powerful, although these authors appear to think otherwise.

Williams and, to a lesser degree, Dauphin rely quite heavily on formal theoretical presentations in the neoclassical tradition to prove their case. While non-economists may quite easily be taken in by all the jargon and formalism, as well as by the overly enthusiastic claims made by book jacket writers, there is a need for healthy scepticism. The authors have attempted to analyse very complicated processes and issues using methodologies designed for fictitious domains where a wide variety of disturbing forces are conventiently absent.

None of the authors deny that narrow restrictive assumptions have been imposed. Williams has even taken pains to outline his underlying assumptions, although only to conclude later that the effects of imposed restrictions and specification errors are so mild that one can conclude the findings apply unmodified to the real world. This reviewer does not agree. It is not safe to draw on partial and general equilibrium analysis in settings riddled with imperfections, undergoing significant structural change, and represented by data of questionable quality. Both Williams and Dauphin rely heavily upon the well known Leontief Input-Output analysis. In the I-O model, the economy is subdivided into a number of artificial homogeneous sectors. Intermediate goods flow from sector to sector, to become final goods in the end. These flows are inserted into a so-called transaction table, which can be viewed as a snapshot of the economy's technology. It is obviously possible to form an identity for each sector which equates its output to the sum of intermediate and final products which it produces. Taking all identified sectors simultaneously, a system of equations emerges.

But there are problems in applying the I-O model. Both Williams and Dauphin appear convinced that 1961 (or 1965) I-O 'snapshots' remain relevant for many years and that the I-O model is capable of predicting marked structural change. In fact, most I-O information is obsolete two or three years after compilation, as forecasting experiments indicate very clearly. Moreover, the I-O model is based on strictly fixed production coefficients. As there are constant relative proportions, the 'pictured' economy varies only in size, while real development (growth and change) cannot be accommodated. Numerous other restrictive assumptions are imposed on the analysis: constant returns to scale, instantaneous adjustment, linearity throughout, perfect market structures and perfect information, prices convey all the required information. These assumptions, and others not mentioned, are most convenient, but they are far from realistic. Statisticians responsible for I-O data set construction are usually not a happy lot; readers who take time off and study the manuals on the subject will soon understand why. Economic theorists have a tendency to postulate unobservable variables; they are often addicted to super-simplicity (who has not heard about 'the Ricardian Vice'); they even have the courage to add the so-called 'competitive imports' (i.e. imported commodities which can be produced domestically) to domestic production. All this creates problems for model users, who conveniently tend to forget about imposed peculiarities.

As an extension to the I-O analysis, Williams uses a linear programming model. Linear programming derives optimal solutions to objective functions, constrained by equality and inequality restrictions, such as resource limitations, minimal feasible scale, etc. The suggested objective function constitutes the most disturbing feature. Here Williams states that the aim is to maximize domestic production of consumer goods. There is no logical reason why this 'optimal' solution should even come close to a solution path compatible with comparative advantages. The critical needs for specialization, economies of scale, economies of agglomeration (critical mix), etc., are all ignored. For example, why not maximize net social returns instead, using a suitable optimal control theory model?

The neoclassical general and partial equilibrium analysis model, which all three publications use, keeps appearing in spite of a considerable body of literature focussing on disequilibrium, and on phenomena belonging to the realm called 'real economics' by Janos Kornai (as opposed to 'pure economics' which is considered an esoteric exercise in pure logic). There is in fact nothing terribly attractive about the pursuit of fuzzy equilibria, which are unlikely to be desirable by the time they can be reached (if this is at all possible). In the real world, economic adjustments are bulky; and aspirations and external conditions change as the economy evolves. A variety of powerful institutional forces are often dominant variables. Since none of this is taken into account by EQ models, there is no reason to expect that EQ based deductions and extrapolations have any real world relevance. There is no reason to expect that even 'second-best solutions' will emerge from the analysis. Daley and Globerman provide the least esoteric product among the three books under consideration. At least they have reduced the level of misspecification by including the important technology variable. This inclusion is highly relevant in the Canadian case, given slow adoption of technological change, given very low levels of innovation, and given recent Science Council recommendations which seem to suggest that the use of foreign technology should be restricted in Canada. This research effort could, however, have gone much deeper.

In fact, if one is going to understand the reasons for Canada's poor economic performance, institutional issues are critical. Both Wallace Clement's *Continental Corporate Power: Economic Elite Linkages* (Toronto, McClelland and Stewart, 1977) and John Hutcheson's *Dominance and Dependency: Liberalism and National Policy in the North American Triangle* (Toronto, McClelland and Stewart, 1978) grapple to some extent with these issues. Although Clement and Hutcheson also concentrate on the contemporary scene and their historical coverage is quite light, they have an advantage over the authors encountered above. They did not have to force their studies into theoretical straight jackets to maintain academic respectability. Hutcheson unfortunately falls for the temptation anyway, relying fairly heavily on Harold Innis' so-called 'staples theory'. This is a mistake. The staples approach merely describes a passive development sequence responding to exogenous forces. There is nothing of substance in this approach regarding the general developmental process and no real causality is built into the staples argument. There is no explanation, for example, why internally positioned human factors remained passive in Canada, while they become highly active and creative in countries like Switzerland, Japan, and Finland. The latter nations seem to have responded in part to the very absence of rich resource bases, developing advanced software, as well as products and services in demand, while Canada 'fell asleep', thinking heavy resource rent-taking would protect the nation's income position for all time. Both Finland and Switzerland are multicultural societies. Finland was even treated as a colony up to 1917, and the country still leads a precarious existence next to its super power neighbour, the Soviet Union. In fact, a considerable number of countries which have been relatively successful in the development field share borders with powerful dominating societies.

There is then nothing very unique about Canada's situation, if one considers its basic environment. The chain of fundamental forces and processes which generated contemporary Canada are not just lying at the surface for all to see. Neither Clement, nor Hutcheson provides any deep insights into evolution basics, into feasible alternatives, or into causal relationships among the variables which the authors mention. The reader is simply confronted with a great many sweeping generalizations and a great deal of rigid categorization. Clement utilizes the categorization device so widely that one cannot help but feel that the corporate elites are 'found guilty' merely on the basis of 'circumstantial evidence'. Of course, a considerable portion of the literature, dealing with our topic, tends to take the easy way out. There are exceptions such as a now dated book, written by Penrose.[1] But it is high time that someone developed in depth action and reaction profiles, 'relating' Canada-United States corporate elites, political spheres, and financial elites, to economic performance and development. We know very little about how the command, and influence structures function, and we know all too little about these structures' short-run and longer-run objectives. The incentives which led Canadians to opt for 'subordinated continentalism' have not been clearly examined. Reading these books the reader will not be significantly wiser, therefore, regarding the pressing questions. Why did Canada — a former colony — exchange the U.K. apronstrings for those of the U.S.? Why did Canada fail to push for a fair common market arrangement on the North American Continent, and develop fully as an economy? Why such passivity, when all could benefit simultaneously?

Both Clement and Hutcheson acknowledge that 'the Americanization' of Canada's economy became visible rather recently, but they do not give sufficient attention to the processes which led to this development. It would not have been too difficult to collect information on what happened to Canadian industry's innovative and entrepreneurial abilities right after World War II. At that time, all the critical embryos essential for advanced industrialization were in place. The world markets were hungry for products, and even able to supply additional entrepreneurship and patents, as well as labour on Canadian shores. The Canadian economy chose to become an American branch plant instead of opting for the far more rewarding and independent route, which no doubt would

1 E.T. Penrose, *The Theory of the Growth of the Firm* (London, 1959).

have led to formation of a dynamic continental common market. The Canadians' contribution to their own 'development' became a poorly focussed, and over-extended infrastructure, and a great number of care takers responding to demands and commands issued from externally located prime decision centres. One cannot really blame the foreign exploiters for accepting an open invitation. And it is not sufficient to seek the causes through classification of highly visible individuals (who may in fact have had a trivial impact on events), or by noting that high officials were born Americans and that leading public servants subsequently became highly placed in the international elite hierarchy, after terminating their public duties. The authors should have probed far deeper, and far wider. Most of the probing would almost certainly have pointed to complex causes far closer to home. All in all, Clement provides a book not very different from his earlier work, *The Canadian Corporate Elite: an analysis of economic power* (Toronto, McClelland and Stewart, 1975). And Hutcheson takes his cue from the heated debates over the Canadian identity which have taken place in the last decade. While both books may serve perfectly as late evening reading, they do not represent milestones in the search for fundamental knowledge about the topic considered central to this review.

The authors and their publishers may very well find this review too harsh. Yet there is a dire need for profound and in-depth analysis of the underlying causes of Canada's economic problems. This is not the time, if there ever was such a time, to aim for academic respectability, or to regurgitate conventional wisdoms. Perhaps some enterprising publishing house can discover a young, open-eyed, and non-pretentious 'Gunnar Myrdal', and ask him (or her) to write "The Canadian Dilemma" and "The Canadian Drama". This reviewer suspects that neither the elites, nor lack of opportunities, nor trade barriers will be singled out as key problems by this unknown writer. Our writer is more likely to label massive conflicts and inadequacies in regard to collective attitudes, capabilities, and aspirations as problem number one, and to point accusingly at institutional bottlenecks and weaknesses. Our writer will probably conclude that elites, trade legislation, R & D policies are generally quite capable of rising to the occasion, as long as the fundamental development climate is reasonably favourable.

H.K. LARSEN