

## **Canadian Lessons for International Economic Development: *Obiter Dicta***

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A growing consensus has emerged in the international literature suggesting that a handful of conditions must be in play in order to ensure successful state economic development. As I indicated in chapter one, these requisites are said to be: state guidance undergirded by bureaucratic planning, state-business cooperation characterized by collaboration and balanced relations, and an acceptance that state's primary role in economic development is to enable economic growth of key industrial sectors domestically and internationally.<sup>1</sup> My study has found that these theoretical guidelines are indeed relevant and important, with some qualification. While much of the study has detailed a track record of missed opportunities and outright failure, my findings nonetheless appear to contribute to the international theory on successful developmentalism in the areas of requisite *leadership and policy knowledge*. To be specific, I would like to argue that state and private business actors must exercise clear leadership and offer specific policy knowledge in order to engage in apposite state guidance, collaborative state-business relations, and expansion of economic prospects for business. In plain terms, state and private actors must demonstrate an ability to lead; that is, they must be willing to act and to engage in meaningful initiatives. They emphatically should not engage in symbolic gestures, nondecision-making, or self-interested solicitation of patronage, clientelism, cooptation, capture, or combine to restrict competition. Moreover, this study has pressed home the point that state agents and private business actors must know what they are doing; they must have "collateral knowledge" or something akin to collateral knowledge, as I have described it, and express

rational acts in relation to guidance and direction, collaboration and economic growth. In this section, I discuss these ameliorating theoretical dimensions of leadership and knowledge in reference to the three themes noted above, and also within the context of the research project as a whole. Here, then, are the *obiter dicta* of this study, my contribution of additional textual and subtextual lessons on changes needed to the theory and practice of state economic development.

### *State Guidance*

First, let me observe that chief executives and political managers cannot break the cycle of developmental disappointment and failure raised in this study if they do not address a leading and often unstated vulnerability related to *executive appointments*. As the Canadian parliamentary system seems to have entrenched, powerful, central executives as a permanent feature, it is crucial that chief political executives and their advisors understand that naming “inspired amateurs” or making affirmative action appointments to Cabinet portfolios representing business ministries in particular is profoundly counter-productive for state economic development. Not so many decades ago, Canadian Prime Ministers and Premiers accepted the practice -- notwithstanding contrary advice from governance scholars<sup>2</sup> -- that professionals having specific sets of collateral and professional knowledge obtained outside the state system were preferred choices for key Cabinet portfolios. For example, medical doctors were typically selected to lead health ministries, farmers led agricultural portfolios, corporate finance and business representatives led the finance ministries, and so forth. Much experimentation and change in this practice began during the Trudeau Ministries. Trudeau and senior mandarins accepted that that almost any M.P. with a pulse or at least an M.P. adhering to some fashionably ascriptive, social, cultural or demographic category could easily handle such portfolios. It also

became settled opinion that most Cabinet Ministers ought to be regularly rotated in and out of key ministerial portfolios. (I identified this turnstile problem in relation to Small Business Ministers in the 1970s and 1980s.) Canadian provincial governments began to follow this trend, or should I say, they followed the old view that Ministers could be and ought to be “inspired amateurs” lest they become too attached to “hobby horses” or “pet projects” inspired from their previous professions, external disciplines or prior business interests. Unfortunately, this trend, a reinvention of the nineteenth century British practice resulted in a general enervation of the quality executive governance in Canada, and also negatively influenced policy-making on economic development.

Do Ministers in charge of economic development portfolios need to be development experts, whatever that might entail? Dr. Terry Russell, a former deputy minister in Ontario and one of the most effective senior public servants Canada has produced has observed that a strong and knowledgeable minister is far better able to generate a “strength of instruction” for his/her officials than a weak and uninformed amateur. This strength of instruction is needed to energize Ministry program development and the capabilities of ambitious bureaucrats. Indeed, based on the findings of this study, considerably more attention ought to be given by chief political executives and political managers to recruiting and appointing Ministers evincing leadership styles *qua* “technopols,” “public entrepreneurs” and proven “business constituency mobilizers” who are equipped to take leading *policy* roles related to economic development. My point here is: state economic development does not work well when elected state executives -- national, provincial, or local -- are unschooled, and do not have the intellectual wherewithal to understand the basic requirements of governing structures, policy-making, the proper developmental role for the state, and the rigours of the marketplace. These Ministers do not all have to be technopols,

public entrepreneurs, or business constituency mobilizers, but these executive profiles are the models for state economic development executives.

Technopols, in particular offer the prospect of certain and stable state guidance. As Harvard University professor Jorge I. Domínguez notes:

[T]echnopols are political leaders a) at or near the top of their countries government and political life who b) go beyond their specialized expertise to draw on various ... streams of knowledge and who c) vigorously participate in the nation's political life d) for the purpose of affecting politics well beyond the economic realm and who may, at times, be associated with an effort to 're-make' their countries politics, economics and society. ... [T]echnopols[are often] outsiders to the bureaucracy: successful economic consultants, prominent academics, or leading opposition figures. Technopols fear politics much less than technocrats; for technopols, a rational policy is not only technically correct, but also politically enduring.<sup>3</sup>

We have observed a good example of a successful technopol in action through the executive activities of former Ontario Treasurer Frank Miller. Miller graduated in chemical engineering from McGill University and was subsequently a highly successful angel investor and entrepreneur in the Muskoka region of Ontario. While a case can be made that Miller did not exhibit sufficient political skills in his short tenure as Premier of Ontario, he had just the right mix of political acumen, business knowledge, organizational and management capability to be a successful technopol at the Ontario Treasury – later call the Ministry of Finance. Indeed, he was able to practise technopolitics well because his knowledge of the finer points of microeconomic

growth and entrepreneurial development was acute, and he knew how to represent the political interests of small capital and other constituents. Miller was skilled at “policy politics,” if not party and electoral politics. Prime Minister Pierre Trudeau and Alberta Premier Peter Lougheed would also have fit into this category. Both were skilled politicians and both had prior technical expertise: Trudeau in constitutional law and Lougheed in business management assisted by his Harvard MBA – although both also had blind spots on matter of political management. We do not see evidence of technopolitical status in Ontario Treasurers John White or Darcy McKeough, Finance Ministers John Turner or Donald Macdonald, Michael Wilson or Donald Mazankowski. Although John White came close to our ideal type as he had a firm understanding of relevant policy options in his day and he was an experienced businessman before arriving in elective office, he nonetheless did not have the independent knowledge and expertise normally associated with a technopol.

For too long, senior public servants in Ottawa have been playing the game of obscuring the boundary of the “politics-administration dichotomy.” In the old Wilsonian adage, bureaucrats were supposed to look after administration and politicians looked after policy. In the Ottawa model, these responsibilities are askew. Senior bureaucrats have happily entrenched the belief in their own minds and have been given altogether too much support by public administration scholars that senior bureaucrats are the exclusive agency of policy formation.<sup>4</sup> Members of this self-selected mandarin class have held that few inside the executive state corridors could be foolish enough to contemplate any other role for the senior public service. For mandarins, this noble calling has become a matter of *noblesse oblige*? Indeed, the central responsibility for senior public servants is to persuade Cabinet Ministers to do the jobs to which they have been assigned by the Prime Minister, the Prime Minister’s Chief of Staff, or the Secretary of

Cabinet/Clerk of the Privy Council, which essentially is to sell the well-crafted policy products bureaucrats have so responsibly turned out.<sup>5</sup> In a candid conversation several years ago, a national deputy minister of energy confirmed to me that it was his job to manage the policy questions of his department, and his Minister's job to sell the Department's policies and programs to the public.<sup>6</sup> A former, national Cabinet Minister in testimony to the Gomery Commission expressed this arrangement in more cynical terms. He noted:

Once named, a minister becomes just one more amateur in power. No one is familiar with the public administration. In general, his boss – the Prime Minister – has chosen him for the riding he has won, the region he represents, the ethnic group he belongs to; rarely for his competence in managing his portfolio. This new minister immediately becomes the hostage of civil servants. They know all the ropes, but show him only what he needs to know to avoid embarrassment to his department. In spite of this, he remains responsible for all decisions and initiatives taken.<sup>7</sup>

The bureaucratic policy aristocracy, however, too frequently fails to craft designs that are usable by its recipients: state political executives, business constituencies, and the electorate. Why is this so? “Knowledge deficits” and “bureaupathologies” have been regular features in the findings of this study. The policy aristocracy simply knows too little about too few policy domains, including the business of economic and business development. We have seen too much incompetence and hubris by senior bureaucrats in this study not to question the professionalism and integrity of the whole. The reader need only refer to the behaviour of the national Department of Finance, Industry Canada and its predecessor departments, the Small Business Secretariat or later the Office of Entrepreneurship and Small Business in the 1970s to the 1990s

to affirm this point.<sup>8</sup> This competence question begs an appropriate response from economic development theorists and practitioners. It is not good enough for bureaucrats in charge of policy, programming, and regulation not to know more about what the state ought to be doing, and not to generate plans that pass even minimal tests about what I have defined as state capacity and cooperative, productive relations with key business constituencies. It is not acceptable for these senior public servants to be incapable of functioning within the context of acceptable policy knowledge and expertise.

If they do not have the requisite knowledge and expertise, they need to formalize its appropriation from private “policy entrepreneurs,” or purchase it from professional consultants and business lobbies. The professionalism of the senior public service cannot be more assisted than hiring individuals who have policy experience, and none are better than external policy entrepreneurs who have track record of honest representations. This means, on economic development matters, senior bureaucratic recruiters will have to resist the urge to hire those immersed Marxian graduate courses and well-developed statist impulses. While rarely acknowledged, even by the putative state-business alliances such as the Public Policy Forum, there are at least four libertarian and neo-liberal think tanks established across Canada who are prepared to serve.<sup>9</sup> Who better to fix the problems related to state capacity than trenchant critics of state performance? Many policy analysts associated with these think tanks currently advance their careers in the United States in order to find appropriate audiences and patrons. Imagine the freshness of thought that would ensue if Canada’s senior public service began hiring these analysts – assuming they would agree to the change.

### *State-Business Collaboration*

On the second requisite for functioning state economic development, theorists are quite emphatic that state-business cooperation, collaboration and balanced relations are crucial. Chalmers Johnson emphasizes the slogan “intervention and protection to project this idea.” Robert Wade presents the idea of “governed markets;” Linda Weiss argues for “socializing risk,” and suggests that the private corporate sector should take the lead inside the state-business relationship to enhance targeting and efficiency of state resources. The results of this study emphasize the importance of balanced state-business relations; however, beyond this notion of balance my analysis points up the value of less *state coercive* and more *voluntary, plural sources of private support*. There is some evidence in this study that even “federal state pluralism” is a constructive aspect of economic development projects where there are quite literally multiple sources of state agency support advancing economic development in a common direction. Related to this, the study also underscores the inadequacy of “pilot organizations,” part of Johnson’s state guidance constellation of key characteristics. “Lead state agencies” tend to encourage a narrowing of constituencies and sustaining exclusivity in state-business participation. The plain idea inferred from the successful policy histories -- notably the pension funds reform agenda stream and in the post-design phase of SBDC program development -- is the inclusion of a wide variety of private participants in iterative rounds of consultations and deliberations. In this context, numerous ideas and interests are brought to the table, which gradually are vetted and made productive by state overseers and private policy experts *qua* policy entrepreneurs and lobbies. The most serious, committed, and most informed private participants voluntarily stay at the table and assist in developing policies and programs that aid the performance and completion of projects. When state leaders themselves are serious,



pluralism obviates the inclination to slide down the slippery slope of exclusionary behaviour relying on clientelism, cooptation, and the noxious intrusions of policy entrepreneurs with exclusively private agendas. Failing state economic development projects invariably sustain a closed circle of business participation. State agents round up the usual suspects and in secret deliberations pump them for dismissible advice and participation; then proceed with state management of the project on their own. Even the Ontario's successful Small Business Development Corporations program (1979-97) demonstrated that sooner or later broadening out the participation circle is a healthy undertaking. Moreover, knowing who to bring into the circle is also quite important. When the Corporate Taxation Policy Section in the Ontario Treasury and Treasurer Miller's personal political confidants insisted on seeking the counsel of corporate venture capitalists and bankers instead of legitimate entrepreneurs and proprietors, rather a lot was lost in constructive state-business collaboration. Being cooperative with the wrong business interests is just oafish; nothing productive can come of it.

### *Economic Growth and Business Expansion*

The third requisite enhancing the success of state economic development is the state's dedication to economic and business expansion with a view to growing domestic production and international trade. Chalmers Johnson refers to the state "conforming to market enhancing policies," "preserving market competition" and avoiding "the dead hand of state control." Evans promotes "midwifery" and "husbandry," which emphasize the importance of "nurturing of new entrepreneurial groups" and existing industry sectors, including conditions where entrepreneurial groups and industry sectors should be "cajoled to expand." My study finds that there is a lot of rhetoric on the need to expand small capital, particularly during the third wave of small business

policy-making, the post-Keynesian era, but there is not a much serious attention or understanding on what has to be done. Consequently, we observe considerable resort the “alphabet soup” production of government programming for business, all with excellent sounding monikers, but most were rather narrow in scope and limited in effectiveness. To be fair, several policy histories in this study give credence to Peter Evans’ salutary “midwifery” state development pattern. Yet we learn from many of the policy histories that engaging in state-assisted small capital expansion can be quite a difficult and failing undertaking. Certainly nothing can be taken for granted along the continuum of state intentions moving toward viable state-assisted small capital formation.

There are evident problems not just with the nature and scope of business participation, but also with its substance and quality of business advice for expansion. Business participants are not always committed to expansion and economic growth goals. From my personal observations and from the transcripts of executive interviews compiled for this study, business representatives often become distracted when interacting with state agents, and are too frequently inclined to become co-opted on matters of their original economic and business interests. Too often when business interests are invited into state councils and the corridors of power, they quickly derive a sense of privilege and gratitude for these invitations. This gratitude is shortly translated into a willingness and desire to be inoffensive to their state hosts. In Canada, this is a significant problem because, historically, elite social and business cultures have paid considerable attention to quiet diplomacy, proper decorum, an orientation to compromise, and the avoidance of anything labelled “maverick, renegade or making a fuss.” Hence, there is this overwhelming pressure for business participants to move closer to state preferences and to lose track of their own messages when inside the offices of the state. Inexperienced business representatives quickly fall victim to a kind of “Stockholm Syndrome” that turns business petitioners into

advocates of state goals. Over time, this syndrome can be particularly enervating. “Chamber socialists” begin to emerge, and, indeed are well known to attentive policy observers in Canada and the United States as are the expressions of inside-the-state “progressive” ideologies in favour of such nostrums as “sustainable development,” “corporate social responsibility,” and “smart growth.”<sup>10</sup> These nostrums are the trendy prescriptions marketed by state agents ostensibly to benefit to business interests, when indeed the underlying intent is to constrain economic growth and regulate business expansion. They are the subterfuge operating under the rubric of “market failure,” when state failure is the real problem, but never uttered. Without determined, disciplined, and aggressive private interest advocacy in favour of growth and expansion, it is clear business representatives can quickly be turned into agents of state capture.<sup>11</sup> State capture, undermining the goals of national economic growth and small capital growth has become a serious if less recognized problem in the national political economy, and should be added to my list of leadership and knowledge issues recommended to the attention of state development theorists and practitioners.

## Notes

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<sup>1</sup> See Chalmers Johnson, Robert Wade, Peter Evans, and Linda Weiss in chapter one, and also recently Ziya Onis, “Review Article: The Logic of the Developmental State,” *Comparative Politics*, October 1991, pp. 120-125, and Juhana Vartiainen, “The Economics of Successful State Intervention in Industrial Transformation,” in Meredith Woo-Cumings, ed., *The Developmental State*, Ithaca: Cornell University Press, 1999, pp. 218-225.

<sup>2</sup> See R. MacGregor Dawson, edited by Norman Ward, *The Government of Canada*, 5th Rev. Ed., Toronto: University of Toronto Press, 1970, pp. 194-197.

<sup>3</sup> Jorge I. Domínguez, “Technopols: Ideas and Leaders in Freeing Politics and Markets in Latin America in the 1990s,” in Domínguez, *Democratic Politics in Latin America and the Caribbean*, Baltimore and London: John Hopkins University Press, 1998, p. 104.

<sup>4</sup> See Donald Savoie, *Breaking the Bargain*, Toronto: University of Toronto Press, 2003, and David Good, *The Politics of Public Management*, Toronto: University of Toronto Press, 2003.

<sup>5</sup> For a review of this mind-set, see the publications and work product of two “inside Ottawa” education and advocacy organizations, the Canadian Policy Research Network and the Institute on Governance.

<sup>6</sup> Interview, Deputy Minister of Energy, August 6, 1982.

<sup>7</sup> Quoted in Francois Perreault, (trans. Carl Angers) *Inside Gomery*, Toronto/Vancouver: Douglas & McIntyre, 2006, p. 155.

<sup>8</sup> For an explicit declaration of incompetence and hubris by a former Assistant Deputy Minister at Human Resources Development Canada, see David Good, *The Politics of Public Management*, Toronto: University of Toronto Press, 2003, pp. 208-212.

<sup>9</sup> From east to west, there is the Atlantic Institute for Market Studies in Halifax, the Montreal Economic Institute, the Frontier Centre for Public Policy in Winnipeg, and the Fraser Institute in Vancouver. Nordex Research™ is a private, neo-liberal public policy and market development research organization with offices in London, Ontario and Toronto.

<sup>10</sup> See Kimble F. Ainslie, “Workforce Socialism: What Washington and Tallahassee have in store for Florida businesses,” *Gulf Coast Business Review*, October 6, 2000, p. 30.

<sup>11</sup> For related arguments see: William Watson, *Globalization and the Meaning of Canadian Life*, Toronto: University of Toronto Press, 1998, Part II.