Economic growth was interrupted in every industrial capitalist country beginning in the early 1970s. Annual productivity rates dropped to about one-half of their 1960s average by the mid-1970s in nearly every country within the Organization for Economic Co-operation and Development (OECD). Creeping inflation turned into runaway inflation over the same period. And intensified international competition, fuelled by the flight of capital to low-cost production zones throughout the world, undermined attempts by nation-states to simultaneously regenerate domestic production, maintain employment growth, control inflation, and limit trade and public sector deficits.
These developments rendered state intervention to facilitate national economic industrial adjustment both increasingly urgent and more difficult to achieve successfully. In these circumstances, an understanding of the social determinants of effective state intervention in national economies has become especially pressing. Among Canadian political economists, however, this analytical effort has been undermined by a failure to resolve two crucial problems. First, how are political inputs transformed by the legal and institutional apparatuses of a nation-state into economic policy outputs? And second, how are we to account for the wide variation in both the range of policies adopted by different nation-states and in the efficacy of those policies for capitalist reproduction?

With respect to the first problem, most practitioners of the "new Canadian political economy" have attended almost exclusively to the external determinants of state intervention. Whatever their differences, researchers informed by either "instrumentalist" or "structuralist" problematics have commonly emphasized those constraints upon the range of policy alternatives available to Canadian state that are generated either by political class conflict or by capitalist accumulation requirements. The institutional capacity of the state to effectively reproduce capitalist accumulation in response to such forces has largely been assumed. This approach fails to recognize that national economic policy is influenced not only by what a government is pressed to do, but also by what it is institutionally capable of doing.

The texts reviewed in the first half of this article examine how policy making processes in post-war Canada have transformed political inputs into national economic policies. They offer important insights about the institutional capacity of the Canadian state to facilitate industrial reorganization and plan national economic development in response to intensified international competition for domestic and foreign markets. The texts reviewed in the second half of this article address the problem of why different industrial capitalist nation-states have adopted such a wide range of economic policies during the post-war period, and they attempt to account for the relative efficacy of those policies for capitalist reproduction. By employing a comparative methodology, these latter texts also help
to clarify and further identify some of the key institutional arrangements that distinguish economic policy making in Canada and that account for the Canadian state’s relative capacity for national economic planning during the post-war period.

Neither Doern and Phidd’s *Canadian Public Policy* nor French’s *How Ottawa Decides* analytically situates economic policy making within a conception of the field of unequally structured social forces. Nevertheless, each illuminates ways in which particular state forms have structured policy making processes in Canada during the past two decades. The focal point of Doern and Phidd’s comprehensive overview of public policy processes concerns the means chosen to implement policies. Policy instruments, they argue, are not simply means for achieving political objectives, but are themselves subject to political contestation. This is because (1) policy instruments are differentiated primarily by the degree of legitimate coercion and public visibility characteristic of each; and (2) the means chosen to implement a policy involve significantly different policy making processes. The argument involves an attempt to analyze patterns in the use of policy instruments. Specifically, policy instruments are conceived to exist on a continuum of greater to lesser coercion: from public ownership to regulation and taxation, to expenditures, to exhortation or moral suasion. Doern and Phidd maintain that governments will seek to avoid unnecessarily coercive policy instruments in order to maximize their popularity. Increasingly more coercive instruments will be used when less coercive ones fail to achieve policy goals and when those goals are deemed to be of high governmental priority.

This thesis has been challenged by Woodside, who argues that particular instruments may be used in various ways involving different degrees of coercion. For example, while Doern and Phidd classify taxation as a highly coercive tool, tax policy may be disaggregated to provide discrete benefits to particular groups of taxpayers. Indeed, the Canadian state has shown a growing preference for employing corporate income tax policy to promote new investment in specific industrial sectors over the course of the post-war period. And business associations are well known for advocating state intervention in the form of tax breaks rather than outright expenditures. Furthermore, Doern himself has demonstrated
that since the late 1960s taxation and regulation have replaced expenditures as the policy tools most used by successive governments. Consequently, argues Woodside, while moral suasion and expenditures do appear to be less characteristically coercive instruments than regulation or public ownership, a more fruitful way of analyzing patterns of policy instrument usage may be to relate the degree of coercion with which an instrument is used to the power of the social group toward which the policy is directed.

According to this line of argument, the degree of coercion in the use of policy instruments directed at a particular social group depends upon the organizational links between that group and the governing party. Such an hypothesis has the added advantage of being applicable to a wider variety of governing parties of different ideological stripes and supported by different social constituencies. Thus, centrist and conservative governments may be more inclined to use coercive means in their dealings with organized labour and other popular groups than with business. For example, the growth of “tax expenditures” during the 1970s has been explained in terms of the Liberal Party’s need to cater more to the business-sector base of their governing coalition than was required in the 1960s. The increasing incidence of back-to-work labour legislation during the 1970s, and the greater effectiveness of the Anti-Inflation Program in limiting wage increases than in limiting price increases, provide additional support for this view.

Doern and Phidd’s argument that particular policy instruments engender different policy processes is based upon the recognition that different policy instruments involve varying degrees of centralized control, and thus can be used to pursue policies that are more or less integral to key governmental objectives. Although this argument is not systematically developed by Doern and Phidd, it appears to be of particular relevance for comprehending how instrument choice is determined, in part, by the structure of the state itself. For the choice of instruments available to departments and agencies is often highly specified and legally determined. Thus, the Department of Finance’s exclusive administration of tax policy restricts intervention from other agencies, and also determines that the use of tax policy for objectives desired by other
departments depends upon Finance's consent. By way of contrast, public ownership and regulatory policies are highly decentralized, and reflect to a far greater degree the objectives of individual departments and agencies. The fact that there is not a market of policy instruments available to each economic policy agency carries important implications for policy coordination. If a consensus concerning a particular policy objective and the appropriate means by which to achieve it cannot be negotiated among the relevant departments and agencies, then the policy making process may be stalemated. On the other hand, when such a compromise is reached it may involve a mix of means and goals that differ significantly from the policy objective of the initiating agency. This point is of particular relevance to the contentious issue of industrial adjustment. For tax policy and, at least until 1969, tariff policy have been administered by the traditionally market-oriented Department of Finance, which also, through the Bank of Canada, influences interest rate policies. Thus, despite its loss of control over economic planning during the 1970s and early 1980s, Finance's control over key economic policy instruments has provided it with means to undermine policy initiatives, such as those advocated by Pepin in 1972 and Gray in the early 1980s, that conflict with its conception of economic development.

The degree to which jurisdictional limits impose constraints upon policy instrument use provides an initial indication of the manner in which various departments and agencies possess more or less influence upon policy making. It also suggests that the institutional structure of the Canadian state problematizes policy coordination with respect to economic planning. These issues have been examined in greater detail by French, who combines an excellent descriptive analysis of industrial policy making during the late 1960s and 1970 with an explanation of the institutional constraints upon economic planning. French argues that the “overriding feature of planning [between 1968 and 1975] was the coexistence of three planning systems whose interactions frustrated rather than fostered cohesion in federal policy-making.” The three planning systems were centred in the Department of Finance, the planning branch of the Treasury Board Secretariat, and the Privy Council Office (PCO). What frustrated their interactions was that
each agency perceived and exercised its mandate in a way that frustrated the others.

PCO attempted to influence line departments to coordinate their activities in a more administratively efficient way and to plan with respect to medium- to long-term goals. But priorities were never clearly defined. As a result, elaborate consultation and coordination mechanisms simply produced a series of “wish lists” — a tendency most clearly evident in the failure of the 1974-75 Priorities Exercise. Finance, meanwhile, remained aloof from PCO’s schemes, jealously guarding its control of key economic policy tools and sticking to a vision of short-term macro-economic demand management that was resistant to anything but fine tuning. Consequently, the analytical and technical means necessary to realize PCO’s intentions were employed at cross-purposes to its economic planning objectives. Finally, the Treasury Board Secretariat (TBS) sought to disseminate an alternative vision of planning to that of PCO which was defined in terms of cost effectiveness program evaluation. But PCO’s control of the determination of governmental priorities frustrated TBS’s attempts to affect expenditure decision making among line departments. The split between planning ideas and the institutional means necessary to realize them, therefore, consistently undermined economic planning and determined the incremental nature of industrial policies. The formulation of the Anti-Inflation Program in 1975, and with it the demise of Keynesianism in Canada, dissolved PCO’s planning schemes. It also eliminated the Finance Planning System as a separate entity, “since the requirements of the controls program spelled the end of the splendid isolation of the Department of Finance in its macroeconomic ivory tower.” Although no coherent central planning agency existed for the remainder of the decade, “Finance was to begin to assert its leadership in the interdepartmental and cabinet committee areas, because the penalty for failing to do so, in terms of loss of control over crucial economic policies developed collectively, would become too great to risk.”

Whether economic planning was undermined because of conflicts between several full-blown planning systems remains a matter of debate. In essence, this question cannot be answered without comparative analysis — a point to which I will return below. But it is also a matter of interpretive debate.
Hartle argues that in the absence of clearly defined objects, administrative control of key policy instruments, and “analysis of the relationship between changes in the latter and the degree of realization of the former,” neither PCO nor TBS can be conceived to have been a planning system. I am inclined to agree with this assessment. But the gist of French’s contention remains intact and, indeed, may even be strengthened. For economic planning may be understood as having been defeated, not only by the lack of coordination between central agencies, but also by the combined absence, within central agencies, of disposal over economic policy instruments, analytic capacity, and clearly defined planning objectives. Finance was probably the only central agency that combined all three insofar as tax policy changes were occasionally made in an effort to facilitate higher growth rates. Finance’s preponderant, and distinctly market-oriented, influence upon economic policy making is a point on which French and Hartle, as well as Doern and Phidd, are in agreement. What none of them note, however, is the degree to which Finance’s perception and exercise of its mandate reflects the interests of financial and resource-based capital.

The relationship between state structure and class power is the focal point of Mahon’s excellent case study of the 1971 and 1981 textile industry policies. She is particularly concerned to examine two problems. First, how are weaker class forces capable of achieving favourable policy outcomes at the same time as the dominant fraction of capital stamps its material interests on the direction of economic development policy? And second, how does state structure transform the political inputs of competing class forces into policy outputs that reflect the relative power of respective classes and class factions? Mahon employs the concept of “hegemony” to answer the first problem, showing that the political pre-eminence of financial and resource-exporting capital rests upon a series of compromises with subordinate class forces, negotiated through the state, such that the latter win important material concessions without seriously undermining the reproduction of the dominant capitalist class fraction’s accumulation capacities. Mahon addresses the second problem by introducing her conception of the institutional configuration of the state as an “unequal structure of representation” to show how such compromises...
Studies in Political Economy

are negotiated. The resolution of historically specific conflicts between class and other social forces is inscribed upon state structure in the form of a hierarchical pattern of legal and jurisdictional relations between various departments and agencies which represent, in a highly mediated form, different class fractions and other social groups. These institutional relations subsequently structure policy making processes, much as described by Doern and Phidd and French, to effect the maintenance of a particular pattern of hegemonic class domination. As the balance of social forces in civil society shifts significantly, so too eventually does state form. New agencies may be created, jurisdictional boundaries changed, and the hierarchical pattern of inter-agency relations transformed, in order to alter the range of policy alternatives which the state is institutionally capable of implementing. This conception of state-society power relations has the important merit of transcending functionalist interpretations of state intervention in capitalist economies.

Mahon’s integration of theoretical construction and historical analysis is exemplary. She argues that the critical impetus for the formation of the 1971 policy came when textile capital strategically linked its interests with the concerns of labour and Québécois nationalism. Consequently, PCO mandated Industry, Trade and Commerce (IT&C) to review conditions in the industry. This led to a series of negotiations between representatives of capital, various state agencies, and later labour. Mahon argues that two critical organizational variables of the policy process then affected the policy outcome. First, state representatives of textile sector interests were counterbalanced by agencies that were closely tied to either Finance or Trade and Commerce and that possessed mandates relating to trade liberalization in support of resource-exporting capital. The ensuing conflict within the administrative structure determined that a compromise between free trade and subsidization proposals would be required. Second, among class actors directly involved in the negotiations, textile capital was the dominant player due to its greater relative organizational strengths. This had two effects. On the one hand, policy proposals tended to focus on the interests of textile capital rather than clothing capital or labour. On the other hand, concentration in the textile industry meant that textile capital had the potential to modernize in order to compete successfully with foreign
competitors. As a result, its interests could be redefined — particularly by state agencies oriented toward trade liberalization — in terms of industrial adjustment to import competition. Thus, the trade liberalization aim of more influential state agencies, combined with the competitive capabilities of textile capital, resulted in a policy compromise that required the textile sector to adjust to import competition with limited assistance.

A new administrative structure was then established in order to create an institutional capacity for achieving the policy goal. A Textile and Clothing Board was created to assess complaints. The Office of Special Import Policy (OSIP) would analyze these assessments and make recommendations to IT&C. But since OSIP was directly responsible to the Low Cost Import Policy Committee, which in turn was responsible to Finance, it tended to screen out any assessments that emphasized structural impediments to industrial modernization and rationalization. Finally, labour's primary gain was an adjustment assistance program for technologically displaced workers. It resulted, however, not so much from labour's strength, but from the efforts of export-oriented agencies to undermine arguments that the textile sector should be preserved because it was a major employer in Québec. In sum, the medium-term effect of the 1971 policy was industrial adjustment in the textile industry, enabling leading firms to move into a position from which they might benefit from trade liberalization. While the clothing industry achieved limited import protection from low-wage zones, its relatively labour-intensive and highly competitive character limited the capacity of individual firms to adjust in the manner required by the policy. Finally, the weakness of the adjustment assistance program for workers left them vulnerable to increasing levels of unemployment resulting from both plant closures and technological innovation.

Mahon's analysis offers an innovative model for comprehending how political inputs from a field of unequally structured social forces and policy outputs are concretely mediated by state structures. One of the theoretical merits of her approach is that its institutional definition of the state, combined with the recognition that political agents do not exist independently of the state, effectively avoids the dilemmas associated with instrumentalist state theory. Mahon's analysis also suggests
a way of empirically utilizing the concept of a state's "relative autonomy." Although she does not systematically indicate how an "unequal structure of representation" relates to the state's relative autonomy, we might draw out the implications of her analysis in the following manner. First, Mahon's approach registers the fact that the relative autonomy concept cannot serve explanatory functions by and of itself. For to employ the term in such a way reduces it to "an abstract, formal concept serving merely a diacritical function in demarcating our preferred approach from simple reductionism." Its status, rather, must be that of a concrete descriptive concept whose content varies across conjunctures.

Second, Mahon's approach indicates that two sets of relations must be described in order to determine the content of the state's relative autonomy. One is the matrix of legal constraints, jurisdictional mandates, and differential access to various policy instruments, which determine a formal hierarchy of interdepartmental relations at a given conjuncture. The other is the balance of social forces in civil society existing at the same conjuncture. However, these two sets of relations — the state forms that structure policy processes and the balance of social forces — rarely synchronize exactly. In other words, a particular configuration of state forms cannot be reduced simply to the balance of social forces existing at that moment. If this was so, then political inputs would be translated immediately into policy outputs, and state structure would not be an analytical problem at all. But this, as Mahon persuasively shows, is not the case. The legal and institutional outcomes of past social conflicts subsequently structure social relations until such time as the balance of social forces is transformed and state structure itself becomes an object of struggle. The transformation of state structure to embody a new condensation of social forces, however, is rarely a rapid process. In the meantime, to cite Hall, "the institutions that organize intergroup relations act as a kind of social memory, imprinting the conflicts of the present with the institutional legacy of the past." 

What must be problematized, therefore, is precisely the periodic disjunctures between the balance of social forces and what Mahon calls the "unequal structure of representation." And it is this disjuncture — its concrete character and its policy making effects — that must consequently be described
as the state’s relative autonomy. The description may then be employed as part of an explanation for policy outcomes. According to this line of thought, the concept of a state’s relative autonomy describes neither the electoral interests of ministerial officials nor any functional necessity. Rather, it describes the empirical content of a conjunctural mismatch between structural condensations of past social conflicts and an existing balance of social forces in civil society.

Despite its considerable merits, Mahon’s conception of state structure as an “unequal structure of representation” presents several minor difficulties. First, it is unclear what kinds of state-society policy making relations her concept of “representation” can include. She maintains that it is the mandate of an agency that orients it toward the concerns of a particular group.\textsuperscript{18} And her analysis of Finance’s ideological and jurisdictional representation of the export market interests of resource and finance capital seems to bear this out. But in other instances state agencies appear to be captive instruments of the social groups they represent. The Apparel and Textile Branch’s representation of the Canadian Textile Institute, the association of textile capitalists, is the best example. The existence of clientele relations between agency and class fraction seems to reintroduce instrumentalist notions despite Mahon’s intentions to the contrary.\textsuperscript{19} With respect to state economic planning capacities, it is also useful to note that the emergence of state-society clientele relations tends to politicize the operations of the state agency, and may lead to legitimation problems. When this happens, then the policy making capacity of the state agency in question may be undermined as its operations come under increased public scrutiny and political contestation. The policy making capacity of the agency may also become constrained as it becomes more and more dependent upon its private clientele and loses room for policy maneuverability. In this case, private sector conflicts become institutionalized within the state and policy coordination may become increasingly difficult. Such was the case, for example, in France during the late 1960s when the Planning Commission’s growing dependence upon leading industrial firms brought it into greater conflict with the main economic ministry, with the result that policy coordination was markedly undermined.\textsuperscript{20}
A second and perhaps more serious problem with Mahon's approach concerns its treatment of tripartite policy making processes. She argues that "corporatist institutions seem to function primarily as a means of transmitting decisions arrived at elsewhere. . . . [The site of] the formation of new compromises remains the executive-administrative apparatus." This conception accurately describes the role of corporatism in Canada, but it is inapplicable to some of the activities of corporatist institutions in countries such as Sweden and Austria. Business and labour representatives are directly involved in the activities of the Swedish Labour Market Board, which formulates and implements policies relating to training and retraining, geographical worker mobility, and job creation through public works. The Board seems also to have had periodically the capacity to influence industrial investment through an investment fund. In the case of Austria, the main labour confederation has played a direct role in the formation and implementation of collective bargaining legislation and incomes policy. These examples indicate that Mahon's "unequal structure of representation" concept needs to be further elaborated to account for tripartite policy making processes. For a theory of state-society power relations in policy making should, in principle, be able to account for the variety of governing forms in contemporary capitalist countries.

It is also useful to raise two interpretive questions relating to Mahon's analysis. First, her analysis of the 1971 textile policy and her assessment of the declining influence of Finance in industrial and trade policy do not pay enough attention to the role that PCO played in reorienting economic policy. For it was crucial both that IT&C, rather than Finance, was mandated to assess competitiveness in the textile sector, and that Finance lost considerable control of tariff policy in 1969. A second problem is that Mahon misinterprets the class politics of the 1981 textile policy. She argues that the policy, in tandem with the mega-projects episode, was a negotiated response to the challenge posed by the "nationalist fraction of the Canadian bourgeoisie" to the hegemony of the staples fraction. But she offers no evidence of the organizational basis of such a counter-hegemonic challenge. Mahon also assumes a far more proactive role by the state in the twenty-three sectoral task forces than existed. There were, in fact, no substantive guide-
lines established to orient the consultations toward any economic development strategy. Furthermore, the Ministry of State for Economic Development (MSED), which Mahon views as the administrative agent of the negotiations, played no part in the formation of either the National Energy Program or the Blair-Carr Task Force. Indeed, MSED’s growing influence within the state spelled the defeat of a nationalist industrial strategy of the kind proposed the Department of Regional and Industrial Expansion’s (DRIE’s) Herb Gray. And the mega-projects strategy, which was articulated most clearly by the 1981 Economic Development Statement, was largely influenced by the lobbying efforts of the resolutely anti-nationalist Business Council on National Issues, which feared the implementation of a Herb Gray-inspired industrial strategy. Finally, the administrative restructuring of early 1982, far from appeasing nationalist bourgeois interests, angered many manufacturers because it moved trade policy from DRIE to External Affairs, thus reinforcing trade liberalization tendencies. These developments suggest, contrary to Mahon, the continuing political dominance of financial and resource capital through state apparatuses that are more and more oriented to trade liberalization and less institutionally capable of industrial planning and intervention.

The relative absence of state intervention to facilitate industrial reorganization in Canada over the course of the post-war period, and particularly during the past two decades, continues to be the subject of considerable debate. While most of the attention has been directed toward the nature of the Canadian capitalist class, the texts reviewed above indicate that greater attention needs to be paid to what the Canadian state has been capable of doing institutionally. This is also one of the principal conclusions of Hall’s comparative analysis of economic policy making in Britain and France, and of Zysman’s analysis of variations in the financial systems of the major industrial capitalist economies. Inspired by Katzenstein’s work on state-society “policy networks,” these authors argue that cross-national variations in patterns of economic policy are determined most importantly by the organizational characteristics of capital, labour, and the state in each country. The neo-institutionalist approach employed by these writers also draws some inspiration from recent analyses, such as that...
of Esping-Anderson and Friedland, which explain economic policy variations in terms of the class coalitions that converge around specific policy alternatives. But it differs in its view that the process by which class interests are defined and organized is highly problematic and must be explained rather than simply assumed.

According to Zysman, national variation in industrial adjustment processes depends to a large degree upon the form by which savings are transformed into investments and allocated to competing industrial users: "The arrangement of the markets of finance helps shape the choices a government confronts, thus influencing the policies it adopts and the political process by which industrial change occurs." He argues that national financial systems vary along three structural dimensions: (1) the relative importance of securities versus credit markets for industrial financing; (2) the form of price setting; and (3) the goals and means of state monetary management (i.e., whether the goal of monetary policy is the control of the money supply or resource allocation, and whether that objective is pursued administratively or by manipulating market conditions). Zysman shows that national financial systems in advanced capitalist countries vary structurally along each of these dimensions.

On the basis of comparative analysis, three types of financial systems are located. Britain and the United States are characterized by a capital market-based system in which industrial finance is allocated by competitively established prices. The primary source of industrial finance is the securities markets. Deposit-taking institutions are highly specialized, and their industrial influence limited to short-term loans. Moreover, British banks are legally prohibited from holding equity in industrial firms, while in the U.S. the amount of equity that a bank can hold in a single firm is very minimal. Since investment and marketing decisions are concentrated in the industrial firm, the structural relations between industry and finance are relatively weak in these two countries. Securities prices are set by the market because new investment tends to flow to users that appear to offer the highest rate of short-term return. The activity of the central bank is oriented to controlling money aggregates either directly, by buying and selling, or indirectly, by manipulating interest rates. It acts as a lender only of last
resort (i.e., when private banks face liquidity problems). Under such conditions the state is structurally limited in the range of policy tools it has at its disposal to affect the course of industrial adjustment.

In credit-based financial systems, industrial firms depend primarily upon credit for their investment needs, and securities markets are relatively weak. Credit allocations, therefore, are longer-term and are assessed on the basis either of the future prospects of industrial borrowers, as in Germany, or of the requirements of the state's industrial strategy, as in France and Japan. Consequently, banking institutions are directly interested in, and use their market power to influence, the investment and marketing strategies of debtor firms. This determines that the structural relations between financial and industrial capital are far closer in these countries than in Britain or the U.S. In a credit-based system where prices are administered, as in France and Japan, the state possesses the institutional means to play a direct role in determining credit allocation. This is because under any fixed price there will be too many borrowers or lenders. By setting prices artificially low, an excess of demand over supply of credit is created, thus enabling the state to allocate credit in accordance with strategic preferences. This, Zysman persuasively argues, provided the French and Japanese states with critical means by which to facilitate “state-led” industrial change. For “discretion in the provision of industrial finance . . . is necessary for the state to enter continuously into the industrial life of private companies and to influence their strategies in the way that a rival partner would.”

While the German state has also been able to use the financial system to affect industrial change, it has been forced to use less direct means than were available in France and Japan. This is because price movements are determined by the banks' market power over credit allocation and their centralized control of access to securities markets. The state pursues aggregate rather than allocative monetary goals. It accomplishes this by manipulating market forces rather than by administrative means. But the nature of relations between financiers and industrialists in Germany has also determined that the state has not needed to facilitate industrial change as directly as in the French and Japanese cases. For the close
relationship between financial and industrial capital is based not only upon the banks’ market power over credit allocation, but also upon the banks’ legalized shareholding rights. As a result, German financiers take an active interest in the industrial growth of the country. In effect, finance capital plays the role in Germany that the state plays in France and Japan.

Zysman’s analysis has two critical implications for analysis of industrial planning in Canada that have thus far been neglected. First, Canada’s capital market-based financial system has left the state without such policy tools as are available to the French and Japanese states to direct industrial adjustment. For example, the National Energy Program (NEP)/mega-projects episode, which was the most extensive state-led economic planning attempt in post-war history, faltered in part because neither the banks nor the state controlled the direction of industrial investment. The NEP’s Canadianization policies unintentionally encouraged a huge outflow of domestic capital to buy foreign assets. The banks allocated credit for these take-over schemes, not on the basis of their interest in the growth potential of industrial firms, but rather because they believed that the government was so committed to Canadianization that the loans entailed little risk. The $6.6 billion capital outflow rapidly increased the balance of payments deficit, thus putting downward pressure on the dollar, and forcing Minister of Finance MacEachen to ask the banks to reduce credit allocation for take-over attempts. In sum, state-led industrial change contradicted the workings of the financial system, and produced disastrous results.

Zysman’s analysis of cross-national variations in the institutional relations between financial and industrial capital also indicates the limits of prevailing debates concerning the structure of the Canadian capitalist class. These debates have been based largely upon data regarding capital concentration and financial–non-financial corporate interlocks. But in a capital market-based financial system, banks have little or no control over stock markets; financial sector voting rights in industrial firm operations are legally restricted; and long-term industrial financing is generated largely through retained earnings and stock issues. Consequently, data concerning intra-sectoral capital concentration and inter-sectoral corporate interlocks are, at best, of minimal significance, and at worst may lead to
misleading findings about the closeness of relations between industrial and financial capital.

The great merit of Zysman's work is to demonstrate that it is simply not possible for a government, of whatever political orientation, to pick and choose from an abstractly defined market of policy instruments, even when policy goals are more or less intended to reproduce conditions of capitalist accumulation. Markets are politically mediated institutions which, in turn, condition policy making processes and delimit the range of policy alternatives available to a government. The major problem of Zysman's work is that it fails to explain adequately the social origins of the variation in national financial systems. Zysman's explanation relies heavily upon technological factors and state power in the historical development of a national economy. But the nature of technological change is determined by the social relations in which it is embedded. And state power is itself only a description of the struggle among classes and other social groups to realize their interests through institutionalized political action.

Hall's explanation of the variation in the development of financial markets in France and Britain is more helpful. He argues that because Britain industrialized around textile production, which has low start-up costs, its industrial sector was characterized by numerous, small, competitive firms. Investment was financed through retained earnings and by soliciting funds from kin and friendship networks. These networks eventually became institutionalized in the form of joint-stock forms of corporate organization and led to the development of a large and influential stock market. Consequently, the banking system that developed during Britain's first industrial revolution was neither large nor nationally integrated enough to finance the industrial conglomerates that emerged in the late nineteenth century. Industrialization occurred later in France and Germany, and centred around iron and steel. Since the start-up costs for these products are high, financing requirements involved long-term loans from massive investment banks. Consequently, the banking systems that emerged in these countries were highly concentrated and centralized from the beginning, and precluded the formation of a strong independent securities market. The French financial system subsequently differentiated itself from the German system when the French
state nationalized much of the banking sector and created parapublic investment banks for the main sectors of the economy immediately after World War II. This was made possible by the fact that capitalist opposition had been discredited by its collaboration with the Vichy regime, while labour and the political left had emerged from the war relatively strengthened.

Hall's analysis of post-war economic policy making in Britain and France complements Zysman's work on national financial systems by comparing the institutional determinants of macro-economic, industrial, and incomes policy in the two countries. Industrial capital in France is distinguished by its dependence upon long-term debt for finance, while the banking sector is substantially controlled by the state. French labour is characterized by low levels of unionization and organizational fragmentation. Hall argues that three features of state structure in France are particularly significant for the pattern of economic policy. First, the Ministry of Finance exerts a strong influence upon the central bank and thus is able to coordinate fiscal and monetary policy. Second, the traditionally conservative Ministry of Finance was reorganized immediately after the war to supervise industrial policy. And third, at the same time a set of institutions, most notably the Commissariat General du Plan and École Nationale d'Administration, were created to inculcate the bureaucracy with the view of being responsible for domestic industrial growth. These latter institutions persistently pressured Finance to adhere to the fiscal and monetary requirements of planning.

The control by the Ministry of Finance of macro-economic policy levers permitted it to pursue a path of relatively consistent fiscal expansion combined with (and more importantly) expansion of the money supply and periodic devaluations to aid export opportunities. Expenditure control, therefore, was subordinated to the expansion of industrial investment. This order of priorities was institutionally reinforced by Finance's responsibility for industrial growth and by the planning role of the bureaucracy. The key industrial policy instruments of the French state have been price administration, which is determined by a branch of Finance, and the selective allocation of credit to key industrial users in accordance with the aim of each five-year plan. Finally, incomes policy has been charac-
characterized by the absence of any form of tripartisn due to the weakness of organized labour. Instead, price controls have been used to pressure businesses to resist wage demands, and periodic devaluations have been applied to dampen the effect of wage increases upon export prices.

In Britain, finance capital's international orientation as well as the structure of the national financial system limited its interest in industrial capital's growth. The key features of British labour are its high union density and organizational decentralization. State structure is characterized by a strict de facto separation between the Treasury, which is responsible for fiscal policy, and the central bank, which is responsible for monetary policy. In contrast to France, the British Treasury's primary orientation has been expenditure control. In addition, it had virtually no capacity for assessing the impact of its actions upon domestic industry before 1975. Until 1962, in fact, there was not a single institution within the British state that possessed a mandate giving it responsibility for industrial concerns.

According to Hall, the institutional separation of fiscal and monetary policy in Britain, together with a persistent concern until the early 1970s to defend an overvalued currency, was largely responsible for the country's famous "stop-go" cycle of reflation and deflation. Not only was the Treasury ill-disposed to pursuing devaluation rather than deflation, but any such measure would have been resisted by the central bank, whose officials considered themselves to be spokespersons for an internationally oriented financial community. British industrial policy has largely been directed toward dampening regional depression and restricting unemployment. The strength of organized labour and the existence of corporatist decision making bodies ensured that employment stability was a high priority. But the lack of institutional orientation within the state toward industrial expansion, and the absence of means to channel investment to favoured industrial interests, precluded the implementation of an effective state-led industrial strategy. Industrial policy, therefore, tended to rely upon tax and expenditure instruments. But as Hall notes, tax policy is too blunt an instrument to effectively enforce industrial rationalization, and subsidies entail little control of industrial investment behaviour. Finally, in the area of incomes policy,
the British state has been unable to achieve sustained voluntary wage restraint as in Germany because labour is too decentralized to enforce such a policy. And the use of enforced controls, as in France, has been considered too politically contentious due to labour's power.

Hall's comparative analysis helps to illuminate some of the institutional determinants of industrial policy making in post-war Canada. It confirms the implications of Zysman's analysis that the importance of securities markets for financing industrial investment precluded intervention by the Canadian state in industrial development in a way that proved extremely advantageous in France. Hall's analysis also underscores the views of French and Hartle regarding the influential role of the Department of Finance in resisting any attempts to reorient economic policy toward industrial development. And it illuminates the significance of the lateness with which an administrative capacity for industrial intervention was achieved. An agency responsible for industrial interests was not created until 1963, and its mandate was subsequently undermined when it was integrated with Trade and Commerce in 1968. Moreover, its orientation, and that of its successors, has been baffled by its conflicting responsibilities for industrial rationalization and regional development. In sum, these institutional features of economic policy making in post-war Canada determined that, even when pressed to do so, the state's capacity for industrial planning and intervention never existed in any effective or concerted way.

Hall's analysis, and that of Zysman, also have an important methodological implication for the study of Canadian political economy. To the extent that comparative analysis has been conducted, it has often examined Canadian economic development in relation to Britain and the U.S. Yet institutional arrangements in these three countries are so similar that the conclusions rendered by such comparison are not very significant. One of the merits of the comparative cases chosen by Hall and Zysman, on the other hand, is that they vary sufficiently to provide highly illuminating findings. The lesson to be taken from this is that comparative analysis would benefit from contrasting Canada with countries other than Britain and the U.S.
Finally, it is useful to comment on Hall's critical stance toward neo-Marxian political economy. In large part, his position stems from his characterization of the latter as functionalist and unable to account for cross-national variation in the patterns of economic policy to facilitate capitalist accumulation. While these criticisms are true of many neo-Marxian analyses of state-society power relations, Hall's point is overgeneralized. With respect to his criticism of left-wing functionalism, Mahon's work is a case in point. Indeed, Hall's illumination of inter-agency relations and conflicts within the British and French states, and his attempt to relate these to competing business and labour interests, bear a remarkable affinity to Mahon's approach. In this respect, the major difference between the two approaches is that whereas Hall simply provides a sophisticated description of state-society relations, Mahon explicitly attempts to theorize these relations by means of the concept of an unequal structure of representation. Hall's approach, therefore, differs from that of other neo-institutionalists, like Katzenstein and Zysman, as well as “state-centred” analyses of policy making, according to which the state is an autonomous agent of policy making. Instead, Hall appears to recommend an approach that has much in common with the neo-Marxian notion of relative autonomy: “To say that policy is the product of state action, whether in the public interest of not, is hardly an explanation. . . . We must be careful not to search for, and even postulate, autonomy, when we should be sketching the institutional outlines and limits of societal influence.”37 Hall's criticism of neo-Marxian analyses, therefore, seems to represent not so much any real difference as it does an attempt to carve out a distinct place for himself.

The convergence of Hall’s and Mahon’s approaches to the analysis of state-society power relations can be seen most clearly when their analyses are contrasted with the “capitalist state” versus the “state in capitalist society” debate which characterized much of neo-Marxian thinking on state-society relations during the 1970s and early 1980s. This convergence signals the emergence of a new paradigm that cannot be understood within the terms of the old debate. It transcends both the super-structuralist and functionalist dilemmas associated with the “capitalist state” thesis and the subjectivist tendencies associated with the “state in capitalist society” thesis. The analyses
of Mahon and Hall indicate the emergence of a new understanding of state power as (to use Jessop's expression) "a form determined condensation of social forces in struggle."\textsuperscript{38} In other words, the institutional configuration of state structure is to be understood as a crystallization of the balance of social forces in civil society.

If there is a significant difference between Hall and neo-Marxians like Mahon, it concerns the degree to which capital-labour relations are conceived in terms of exploitation as opposed to social stratification theory. In contrast to Zysman, as well as to some of his own earlier work, Hall explicitly recognizes that capital is placed better structurally than labour to affect policy making.\textsuperscript{59} But the reasons for such structural inequality remain unclear in his work. Consequently, Hall's assessment of business-labour alliances in support of particular economic policies turns on the associated redistributive costs and benefits, and avoids questions concerning labour's gains or losses in areas such as labour process control and technological change, industrial investment strategies, and so forth. In addition, Mahon's use of the neo-Marxian concept of capitalist class fractions allows for a more nuanced analysis of the organization of capital and of competing strategic political demands by business associations than does Hall's simple distinction between industrial and financial capital.

In conclusion, the growing literature on policy making processes, and particularly the literature that employs comparative analysis, warrants considerable attention. This literature concretely demonstrates that the range of policy options available to a governing party is defined by the pattern of interdepartmental relations, the policy orientations of existing agencies, and the kinds of policy instruments available to a particular agency. An alteration of policy options requires a change in state structure which, in turn, depends upon changes in the balance of social forces in civil society to support such a transformation. The neo-institutionalist approaches of Hall and Zysman also indicate that the politics of coalition-building and distributional conflict are not determined simply by the power resources available to competing groups. For power is mediated by organization, and conflicts occur through institutional structures which leave their imprint on the result. These conclusions go a long way toward resolving the analyt-
matic problems identified in the introduction of this article. In so doing, the texts reviewed here present new questions, and, it is hoped, will contribute toward a reorientation of some of the debates concerning class politics and state intervention in contemporary Canadian political economy.

Notes

I thank David Wolfe and Rianne Mahon for their helpful advice.
2. Doern and Phidd, *Canadian Public Policy*, chaps. 5 and 12. (See n. 1 above.)
6. Woodside, “Policy Instruments,” p. 786. (See n. 3 above.)
11. French, *How Ottawa Decides*, p. 147. (See n. 1 above.)
12. Ibid., p. 84.
13. Ibid.
19. In a personal communication, however, Mahon argued why the Apparel and Textile Branch should not be understood as a captive agent: ‘Although the bureaucrats here ‘lean toward’ textile capital, their inputs to the internal-to-state policy debate do not come from’ clothing or textile capital. Rather,
their proposals are formed in relation to the ‘knowledge’ which these bureaucrats display.”

20. Hall, *Governing the Economy*, pp. 166-76. (See n. 17 above.)


27. Doern, “The Mega-Project Episode.” (See n. 25 above.)


32. Zysman, *Governments, Markets and Growth*, p. 285. (See n. 29 above.)

33. Ibid., p. 76.


37. Ibid., pp. 15 and 17.

38. Jessop, *The Capitalist State*, chap. 5. (See n. 16 above.)