# PUBLIC FINANCIAL INSTITUTIONS, INDUSTRIAL POLICIES, AND QUEBEC CAPITALIST DEVELOPMENT, 1960-2018

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# Abstract

This thesis analyzes the role of public financial institutions and industrial policies in Quebec capitalist development between 1960 and 2018. This study is informed by a Marxist analysis articulating the transformations in public financial institutions and industrial policies to the systemic shifts in private finance and business organization during different phases of the uneven capitalist development in Quebec.

Quebec's public financial institutions evolved in response to the weaknesses and "short-termism" of private finance. The dissertation argues these policy instruments became disciplined by market imperatives, enabled by class conflicts that made public financial institutions and industrial policies subservient to capitalist "catch-up" and internationalization. Document analysis tracks the main regulatory changes of these policies and institutions and the political struggles waged by business associations and unions over their goals.

Multiple firm-level cases reveal that Quebec's public financial institutions shared features with "patient capital" at odds with financialization, but they still accommodated neoliberal corporate restructurings. This process is captured by the concept of "neoliberal loyalty". While these institutions protected the province's businesses from predatory rentiers, these firms still faced intensifying capitalist competition in the world market.

A case study of Bombardier analyzes if the company's accumulation practices were consistent or in contradiction with Quebec's industrial policies. Bombardier became involved in financial activities distinct from its core manufacturing operations, but it still remained predominantly an industrial conglomerate. The case study supports a conception of financialization intensifying financial discipline upon "real" production, and as compatible with the province's neoliberal industrial policies.

In contrast to the institutionalists depicting the "Quebec model of development" as a policy regime divergent from neoliberalism, this thesis contributes to a literature locating Quebec's economic policies, labour market trends, and overall policy regime as a variety of neoliberalism. A conclusion of this thesis is that public banking should not be considered as a ready-made "progressive" alternative to financialization. This conclusion challenges the assumptions of institutional perspectives on "patient capital".

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# List of Acronyms

| | |
|---|---|
| ABCP | asset backed commercial paper |
| BC | Bombardier Capital |
| BDEQ | Banque de Développement Économique du Québec |
| BERD | business enterprise expenditure on R&D |
| BNC | Banque Nationale du Canada |
| BRP | Bombardier Produits Récréatifs |
| BT | Bombardier Transport |
| CEO | corporate executive officer |
| CDPQ | Caisse de Dépôt et Placement du Québec |
| CME | coordinated market economy |
| COEQ | Conseil d'Orientation Économique du Québec |
| CPQ | Conseil du Patronat du Québec |
| CSE | Calgary Stock Exchange |
| CSN | Confédération des Syndicats Nationaux |
| ESG | Environment, Social, and Governance |
| FDE | Fonds de Développement Économique |
| FDI | foreign direct investment |
| FSFTQ | Fonds de Solidarité of the FTQ |
| FTA | free trade agreement |
| FTQ | Fédération des Travailleurs et Travailleuses du Québec |
| GATT | General Agreement on Trade and Tariffs |
| GM | General Motors |
| H-Q | Hydro-Québec |
| ICT | information and communication technologies |
| IQ | Investissement Québec |
| KfW | Kreditanstalt für Wiederaufbau |

| | |
|---|---|
| LASU | Large Aircraft Sector Understanding |
| LBO | leveraged buy-out |
| LME | liberal market economy |
| M&A | mergers and acquisitions |
| ME | Montreal Stock Exchange |
| MIC | Ministère de l'Industrie et du Commerce |
| MIL | Marine Industries Ltd. |
| MNC | multinational corporation |
| NEP | National Energy Program |
| NFC | non-financial corporation |
| NYMTA | New York Metropolitan Transport Authority |
| PFI | public financial institution |
| PLQ | Parti Libéral du Québec |
| PQ | Parti Québécois |
| R&D | research and development |
| REXFOR | Société de Récupération et d'Exploitation Forestière |
| SDI | Société de Développement Industriel |
| SGF | Société Générale de Financement |
| SIDBEC | Sidérurgie du Québec |
| SME | small and medium enterprise |
| SOQUEM | Société Québécoise d'Exploitation Minière |
| SOQUIA | Société Québécoise d'Initiatives Agricoles |
| SOQUIP | Société Québécoise d'Initiatives Pétrolières |
| SNC | Surveyer, Nenniger and Chênevert |
| TSE | Toronto Stock Exchange |
| VSE | Vancouver Stock Exchange |

# Chapter One

# Introduction

Institutionalists[1] saw the Quebec political economy of the 1980s and 1990s as a more egalitarian model of development diverging from neoliberalism. They highlighted Quebec's financial system, notably composed of extensive public financial institutions (PFIs), as a central institution behind Quebec's so-called "progressive" society. As these financial institutions nurtured national shareholding blocs, they insulated non-financial corporations (NFCs) from hostile takeovers by predatory rentiers. Consequently, Quebec finance secured the autonomy of domestic managers for pursuing risky investments in the high value-added sectors targeted by the state's economic policies. But according to institutionalists, the effect of such financial institutions did not stop there. They were also interpreted as contributing to a corporate governance favourable to sharing productivity gains equitably between business profits and workers' wages. Quebec finance was therefore considered part of wider institutional configurations that altogether produced a *non*-neoliberal "Quebec model of development", at least until the Parti Libéral du Québec (PLQ) government of Premier Jean Charest in 2003 (Bourque 2000; Lévesque 2002; 2004; Zorn 2017).

For institutionalists, the "Quebec Model" became undermined by the reforms of the Charest Liberals introduced during the 2000s. In the sphere of finance, an important example was the 2004 reform of the public institutional investor managing the public pension funds – the Caisse de dépôt and placement du Québec (CDPQ) – which was blamed for the CDPQ's involvement in derivative markets and the asset-backed commercial paper (ABCP) financial crisis in Canada in 2007-08 (Hanin 2016). This financial transformation of the province's central economic institutions was considered part of a broader financialization of Quebec's economy extending to NFCs. In the latter case, firms had become subordinated to new financial logics pressuring them to accumulate

[1] Quebec institutionalists refer here to different political scientists, economic sociologists, and historians who hold similar assumptions about extra-market institutions. According to their views, Quebec institutions favoured historically negotiated compromises both to the advantages of capital and labour and represented institutional advantages for competing in the world market.

financial assets at the expense of “real” investments (Bourque 2013; Laurin-Lamothe 2019).

If NFCs became “financialized” in this way, however, as the above authors contend, this implied that the economic space for successfully pursuing industrial policies was no longer existent. Industrial policies are a subset of economic policies that creates incentives and constraints to channel the investments of NFCs in sectors that can be considerably risky for businesses, with the objective of “modernizing” an economy’s productive system (Bourque 2000: 14). If Quebec firms were to move from “real” investments to the accumulation of financial assets, this would hinder the ability of the Quebec state to steer the investment decisions of NFCs toward high value-added manufacturing sectors. Providing NFCs with public, low-cost and “patient” finance in this context would be like pushing on a string, to employ an expression often attributed to Keynes.

In the face of a manufacturing crisis associated with “financialization”, Quebec institutionalists advanced a reform agenda for re-making Quebec’s PFIs as instruments of a new green industrial policy financing the sustainable re-industrialization of the “real” economy. The rejuvenation of a social-democratic “Quebec Model” would build from past institutional capacities and provide greater support to civil society initiatives (Lévesque 2004: 21), resulting in the re-equilibration between the public, private and social sectors (Hanin and L’Italien 2012).

Since the 2007-08 crisis, these agendas were part of wider analyses and policy proposals emanating from heterodox political economists that explored the role “patient capital” could play as a policy strategy to limit “financialization” (Cozzi, Newman, and Toporowski 2016; Mazzucato 2015a). Patient capital is often defined as “equity or debt whose providers aim to capture benefits specific to long-term investments and who maintain their investment even in the face of adverse short-term conditions for the firm [and which] shields NFC management from the short-term pressures of financial markets, producing a range of outcomes linked to long-term decision-making” (Deeg, Hardie, and Maxfield 2016: 617-18). Within heterodox policy circles, the aim is to re-embed money as a nationally circulating currency financing the “real” economy rather than a fleeing entity roaming the world for the highest returns (Pettifor 2017). PFIs should be privileged to finance renewable energy infrastructures, electrified transportation, and “green” modernization programs (Mazzucato 2015b; Mazzucato and McPherson 2018; Pettifor 2019; Marois 2021). Many of these authors locate their analyses and policy proposals as part of wider calls for a "return" to industrial policies as an alternative to neoliberal market-led development. By stimulating green growth, green industrial policies could break with stagnation and provide green "quality" jobs.

Such calls for a "return" to "patient capital" as an alternative to financialization tend to rely on the assumption that, given that this type of finance is at odds with capital-gains-seeking behavior, it is favourable to *non*-neoliberal institutional compromises. But it is not at all evident that these are interdependent, inseparable claims. On the one hand, "patient capital" may have shielded NFCs from the destabilizing and short-term financial practices associated with financialization. On the other hand, it is not at all clear that these same financial institutions have protected NFCs from the imperatives of international competitiveness in commodity production. What the above literature does not entertain is the possibility that, while "patient capital" may act differently from predatory rentiers, these same institutions may be forces of neoliberal restructuring in various institutional contexts. Consequently, it cannot ask under what conditions finance may take the form of *neoliberal "patient capital"* since the latter is presumed in advance to be an oxymoron.

As Thelen (2012) has argued, "coordination" and "long-termism" should not be automatically equated with "egalitarianism". Particular institutional *functions* and their constituent *social relations* should not be inferred directly from their institutional *forms*. In the case of public banks, this point has been forcefully established by Marois (2021) who has argued that *contra* much of heterodox political economy, we should not derive *a priori* institutional functions from public ownership forms. Marois' concern behind this latter claim is to not reduce public banks to a complementary source of finance favourable to capital accumulation in order to register cases of public banks with democratic, ecological, and "de-financializing" emancipatory potential. For the purpose of this dissertation, Marois' theoretical starting point is also critical for raising the following underinvestigated question: if and how market imperatives and class biases have shaped "patient capital" institutions during different historical periods.

Capitalist markets act as a competitive imperative in the sense that average rates of profitability are a constraining force on the production of commodities (Wood 2002;

Shaikh 2016). They structure antagonistic interests between employers maximizing profits and workers defending their needs. These contradictory interests can take the specific form of class conflicts over the goals and means of PFIs within industrial policies. Therefore, an investigation of public finance must centre how market imperatives and class conflicts shape the practices of these institutions in its analysis.

This study also requires examining the thesis that the "financialization of NFCs" entails an antagonistic shift from production and trade to finance. A critique of this view has been developed by several Marxian authors who define the financialization of NFCs as the expansion of financial mechanisms intensifying the pressures of market imperatives upon *"real"* investments (Bryan and Rafferty 2006; Albo, Gindin, and Panitch 2010; Husson 2006; Maher 2017). Rather than pushing firms away from engaging in "industrial" and "high-risk" endeavors in favour of financial speculation, financial relations pressure NFCs to raise the rate of exploitation of their workers as a means to secure their competitiveness.

In this reasoning, financialization is no longer seen as rendering ineffective industrial policies. Indeed, providing lower cost and long-term finance through PFIs could be compatible with the accumulation strategies of NFCs. To encourage the industrial upgrading of NFCs in particular "high-tech" sectors, we would expect these public banking institutions and policies to support the international competitiveness of firms in turn. It is necessary, then, to investigate PFIs as a potential source of *neoliberal* industrial policies and financial discipline imposed on NFCs.

In the Quebec case, some studies have challenged the "Quebec Model" literature by highlighting the neoliberal character of Quebec's industrial policies as illustrated by their impact on labour market trends (Graefe 2000; 2012). This has been consistent with studies showing how Quebec wage trends vis-à-vis labour productivity were convergent with Anglo-liberal economies and related to the weakening of the Quebec union movement (Rouillard 2021; Petitclerc and Robert 2018). A wider literature has also shown how divergent institutional forms could, however, lead to convergent neoliberal social relations, or *varieties of neoliberalism* (Baccaro and Howell 2017; Streeck 2009). Yet, few studies have delved into the roles played by Quebec's PFIs in the formation of a neoliberal policy regime. This dissertation aims to address these lacunae.

**The "Quebec Model of Development": A Critical Review**

The "Quebec model of development" has attracted both academic and popular attention across Canada and internationally, for its relatively vibrant "social economy" and for its social policies conventionally associated with a "social democratic" welfare state. Institutionalist studies of the Quebec Model have also had significant interest in its industrial policies and PFIs, and these themes are briefly introduced below.

This literature sees the "Quebec Model" as characterized by two phases: a first phase that begins in 1960 and ends with the re-election of the Liberals under the Premier Robert Bourassa in 1985, marking a crisis of the model and an uncertainty about its future; and a second phase between the end of the 1980s and the election of the Charest Liberals in 2003. The two periods are distinguished by the prevailing technological paradigms and the types of firms and states most adapted to them (Bourque 2000). What unites these periods as variants of a similar "Quebec model of development" lies, according to Bourque (2000: 3; my translation), "at the level of the relatively original forms of concertation,[2] related to a national project of economic development based on a partnership logic and to institutions firmly rooted in relationships between the main economic actors." For institutionalists, the period opened by the Charest Liberals' reforms (2003-12) subordinated the Quebec economy to market-led development dominated by financialization, resulting in the "disorganization" of the so-called "Quebec Model". What follows is a critical review of how this literature conceives of these successive periods.

To address Quebec's position in the world market as an extractive-dominated and dependent economy, the Quiet Revolution initiated in the 1960s a "modernization" of the Quebec state and economy (Bélanger 1994: 448). The government pursued an industrial policy within the Quebec economic space to create a higher value-added, nationally integrated industrial structure.

To overcome the subordinate position of its "entrepreneurial" class, a central obstacle to be confronted was the lack of Francophone-controlled financial institutions capable of financing larger firms in leading sectors. In particular, in the institutionalist

[2] Concertation mechanisms were various state-level and sectoral institutional channels used to bring together various stakeholders, from businesses, unions, segments of the cooperative sectors and government representatives, to negotiate compromises and forge "consensus" on central economic and social policies.

account, the blockage was a consequence of the Anglo-Canadian domination of finance which thwarted Quebec's domestic development (Hanin and L'Italien 2012; Vallières 2015). A unique set of PFIs would have to be built, it was contended, to overturn financial "dependency". Bélanger (1994), a key representative of the institutionalist literature, notes that what evolved was a pragmatic policy response to the frailty of private finance under Francophone control. A key example was the CDPQ with its dual mandate of "profit-satisfying" returns and long-term development, highlighted in the institutionalist account as an expression of Quebec's "embedded liberalism" (Hanin 2016: 52).

According to advocates of the "Quebec Model", the Quebec state was a particular expression of the construction of the postwar welfare state, distinct by the standards of its economic nationalism and concertation mechanisms due to its minority nationalism within the Canadian state (Bourque 2000: 38-41). Beyond policy differences, both the PLQ and the Parti Québécois (PQ) saw the development of a stronger domestic bourgeoisie as a means to secure full employment, increase living standards, and enhance national sovereignty. As Bourque (2000: 41; my translation) highlights, this represented "the collective achievement of a community that searches a will to live together […] *Beyond class conflicts*, [the Quiet Revolution] allows a greater integration of the cooperative and union movements to this emancipatory project, by giving them, more than elsewhere in America, key roles" (emphasis added). As L'Italien (2014; my translation), another key representative of this approach, adds: "Born out of this movement, we need to recognize that Québec Inc. is a political product of an ambition *that went beyond it*" (emphasis added).

The Quiet Revolution is therefore interpreted as a nationalist project *transcending* the interests of classes, *including the interests of the Quebec bourgeoisie*. This has consequences for this literature's interpretation of Quebec's PFIs and industrial policies during this period. What these authors fail to register is how these institutions and policies were initially shaped by class conflicts that secured their roles for a *capitalist* modernization project foreclosing alternative socioeconomic ends. This literature then fails to identify the competitive constraints of building domestic capitalist firms and the consequences this had on labour.

Following an interlude where the Bourassa Liberals in the second half of the 1980s appeared to turn their backs on the legacies of the Quiet Revolution, institutionalists depict the second life of the so-called "Quebec Model" as an evolution toward a *non*-neoliberal society, from the end of the 1980s to the re-election of the Liberals in 2003 under Charest (Bourque 2000; Lévesque 2002; Zorn 2017). As compared to the "Anglo liberal models" of the US, Canada and Britain, Quebec's social policies, public sector, financial institutions, and rate of unionization have been highlighted as proof of a divergent "coordinated" form of capitalism leading to progressive social outcomes. It is assumed that while this "Quebec Model 2.0" was an adaptation to the new competitive pressures that emerged with the new information and communication technologies (ICT), it preserved the redistributive role of the welfare state (Béland and Corbo 1998: 52-54, 69-71; Bélanger 2000).

Quebec's renewed industrial policies were a key component of the "Quebec Model 2.0". According to institutionalists, these policies rejuvenated concertation mechanisms, but shifted peak-level discussions with labour and other social actors from supporting hierarchical bureaucratic firms to sectoral "networks" where the state facilitated the negotiation between "stakeholders" and firms to encourage the diffusion of ICT in high value-added manufacturing and favour wealth redistribution (Bélanger 1994; Bourque 2000; Lévesque 2004: 19; Noël 1994).

In this context, Quebec's PFIs were remade as a key component of this new industrial policy. The public "banks", financial coops, and union investment funds formed a network of "patient capital" geared toward extensive interlocking directorates, insider information, and lower financial pressures that favoured "real" economic development and industrial policies (Noël 1994: 429). As Lévesque (2002: 11-12; my translation), another central figure of Quebec's institutionalist literature, argues: "these investment practices [by Quebec's financial institutions] […] constitute a significant inflexion from a financialization of the economy operating a disconnect of finance from the real economy, composed of territories and economic sectors." As an illustration, the CDPQ is considered during this period to have reached the "golden age" of its dual mandate of "profit-satisfying" returns and long-term "real" economic development (Hanin 2016: 62).

According to institutionalists, this created the economic space for a cultural-political evolution of the Quebec "entrepreneurial" class toward negotiated compromises through concertation. As Bourque (2000: 169; my translation) argues: "It seems that more and more employers are becoming conscious that the challenges of globalization can be met with the greatest success, as much for private businesses *than for the society in which it is embedded*, through concerted actions" (emphasis added).[3]

As argued earlier, while Quebec's PFIs may have shielded NFCs from hostile takeovers through their roles in nurturing national shareholding blocs, this does not mean that these institutions insulated these same firms from intensified competition within the world market. As global capitalism is reduced by institutionalists to market opportunities opened by new technological possibilities, this then misinterprets Quebec's capitalist interests during this period. As Graefe (2000; 2012) argues, Quebec capitalists welcomed a neoliberal policy regime and only participated in concertation mechanisms as these were not institutionally constraining. Various authors have also shown how, prior to the redistributive effects of Quebec's social policies, Quebec's market-based distribution were convergent with neoliberal labour market trends observed elsewhere (Graefe 2012; Nguyen 2020; Rouillard and Rouillard 2021). If and how Quebec's PFIs participated in these neoliberal trends is yet to be investigated.

According to the institutionalist position, the reforms pursued by the PLQ under Charest since 2003 were considered a radical break with the "Quebec Model" (Lévesque 2004: 19). Applying Bourque's (2000: 71) previous critique of "market-led" economic development to the Charest Liberals' policy turn is relevant here: these reforms were detrimental to Quebec's "industrial" development since, while deregulated markets might be suitable for some financial services, trade, and the private services sector, they were unsuitable for promoting "high-tech", value-added, "quality" production.

Lévesque (2004: 19-20) argued that the pursuit of a neoliberal project by the Charest Liberals reforms were at odds with the deep-seated social structures, historical role

[3] The openness of Quebec socioeconomic actors to concertation and the nationalist institutional legacies of the Quiet Revolution are seen by Canadian comparativists as central causal factors of Quebec's more interventionist industrial policies. While other subnational states in Canada were also undertaking provincial industrial policies, such as Ontario's policies to support its auto sector (Anastakis 2018), none had the economic scale of Quebec's and none relied on an extensive set of public financial institutions as in Quebec (Haddow 2015: Ch. 6).

of the Quebec state, and cultural values of Quebec society and therefore, would form an institutional mismatch in the Quebec state and thus policy incoherence. The dismantling of concertation mechanisms would, moreover, contribute to a disarticulation of industrial policy and regional development. A more authoritarian form of the state, marginalizing the participation of civil society and especially unions, while more closely incorporating business interests and private consulting firms, could easily emerge on the political scene (Lévesque 2004: 14; Rouillard et al. 2009: 41, 62).

According to institutionalists, the Charest Liberals' reforms contributed to transforming some of its public economic institutions into forces of financialization. For these authors, a key illustration of this paradigm shift was the 2004 CDPQ reform, which made the pursuit of optimal financial results its primary goal (Joly 2016). By aligning the Caisse with the dominant practices of the financial sector, this led to the CDPQ's involvement in the ABCP crisis, a Canadian variation of the crisis in derivative markets that would trigger the Great Financial Crisis in 2007-08 (Hanin 2016; L'Italien 2014).

The institutionalist literature has insisted that the financialization of the Quebec economy also affected NFCs. This was associated with a shareholder value corporate governance regime and its adoption of from compensation schemes (such as stock options) and rising shareholder nominees on boards of directors that encouraged management to support the market capitalization of their firms and a market for corporate control that threatened under-performing firms with hostile takeovers (Aglietta and Rebérioux 2004; Fligstein 1993; Morin 2017). Within Quebec studies of the financialization of NFCs, this was substantiated in reference to how leading Quebec companies in the forestry sector like Tembec and Abitibi Bowater had become regulated by shareholder value imperatives resulting in multiple plant closures (Duhaime et al. 2010; L'Italien et al. 2012). Accordingly, Quebec NFCs were interpreted as becoming embedded in new circuits of financial accumulation which led these firms increasingly to derive their profits from financial activities rather than from "industrial" investments (Bourque 2013; Laurin-Lamothe 2019). These firm-level incentives and constraints were considered incompatible with the goals of industrial policies, which were in fact interpreted as abandoned by the Charest Liberals.

According to advocates of the "Quebec Model", as Quebec's institutions became adapted to, rather than divergent from, neoliberal globalization and financialization, this period resulted in the "disorganization" of the Quebec Model (L'Italien 2014; Savard-Tremblay 2016). According to these views, such economic trends are taken to have *disoriented Québec Inc. as a collective actor* (Lévesque 2002). As Laplante, another key representative of this group of intellectuals, argues in an interview conducted by Hanin and L'Italien (2012: 12; my translation):

> …the [Quebec] business class has no minimal vision of what the national interest is, in the sense of what would represent a minimal industrial structure allowing everyone to play in the market game. In the absence of an agreement on such issues, *this implies that these actors are not only atomized but also fragilized by this atomization*, because the notion of strategic control, ownership and how to structure a sector no longer finds a content on which there is a minimal consensus (emphasis added).

This echoed a previous remark made by Bourque (2000: 206; my translation): "Quebec's business class, as a collective actor, did not elaborate a real strategy for taking advantage of globalization *that could benefit the collectivity* who had, during many years, supported its aspirations in the name of the general interest" (emphasis added). As a result, these authors consider that market forces flowing from neoliberal globalization and financialization had produced a new comprador bourgeoisie, selling patiently nurtured domestic assets to transnational capital, marginalizing a national bourgeoisie that had been successfully forming within the so-called "Quebec Model" (L'Italien 2014).[4]

This account of the timing, sources, and consequences of Quebec's neoliberal turn is problematic for multiple reasons. First, associating Quebec's neoliberal turn with the Charest Liberals' reforms in the 2000s flows from an ideologized definition of neoliberalism as markets displacing states. Rather, starting from a conception of neoliberalism as a decisive shift of class relations favourable to capital will allow us to trace the construction of a neoliberal policy regime to policy shifts pursued by both the PQ and the PLQ *during the 1980s*. While the forms of finance and industrial policies in the "Quebec Model" were different from North American trends during the 1980s and 1990s,

[4] For Laurin-Lamothe (2019), this split was taking the form of a dominant financialized elite and a declining "industrial" economic elite.

this did not prevent them from being institutions constitutive of Quebec's variety of neoliberalism.

Secondly, by associating financialization with the shift from production and trade to finance, this assumes that greater financial discipline leads NFCs to shelve "real" investments in favour of speculating on financial assets. As already mentioned, deeper financial discipline may in fact lead the management of NFCs to raise the rate of exploitation of their workers as a means to secure their competitiveness in "product" markets. When financialization is defined in this way, industrial policies no longer represent a dead end but would need to be embedded in a deeper neoliberal policy regime.

Finally, this institutionalist literature is problematic for its way of understanding Quebec's capitalist class interests. As the quotes cited above demonstrate, this literature confuses normative criteria (such as sector development, strategic control, and wealth redistribution) with capitalist criteria of profitability and competitiveness. This becomes a theoretical obstacle to actually investigating what the Quebec capitalist class interests are vis-à-vis PFIs and industrial policies over time. In fact, actual research on how these interests are formed and expressed through business associations are lacking in this literature, as Bourque (2000: 206; my translation) admitted himself: "To better understand the role of the business collective actor, it would be necessary to conduct a global research program on this associational movement." While this dissertation does not claim to represent such a research program, it nonetheless moves in this direction by investigating how these class interests were institutionalized within these institutions and policies.

**Research Questions and Dissertation Outline**

Capitalism is a particular historical form of social relations which depends upon the separation of workers from the means of production and subsistence. This leads not only workers but also capitalists to be systematically subjected to market dependence (Wood 1994). If states are formally separated from the economy, market imperatives, *as long as capitalist social relations prevail*, constrain states in adopting a policy regime favourable to dynamic capital accumulation. These processes, related to how NFCs are disciplined to remain competitive, are mediated by money and finance. On the one hand, business management is pressured to allocate money capital toward the most profitable activities.

On the other hand, this investment process critically depends on external financial institutions at different times (such as new commodity development and in periods of crisis). These external financial institutions are also pressured to allocate money capital toward the most competitive firms.

Capitalism evolved through uneven development characterized by capitalist leaders holding competitive advantage and “backward” societies looking to emulate these leaders through “catch-up”, making competitiveness a continual challenge. For “backward” societies, building competitive productive capacities is a long-term process that cannot be financed by private financial institutions going for the highest and short-term returns. As part of industrial policies, interventions by the state in monetary and financial affairs often involve setting up PFIs that can act as “patient capital” nurturing “infant industries”.

These preliminary claims lead to the following theoretical question: *are public financial institutions, as part of industrial policies, regulated by market imperatives and if so, how does this impact the way they mediate the investment process of NFCs?*

**Part I**, composed of Chapters Two, Three, and Four, investigates this question through the following structure. **Chapter Two** theorizes why and how PFIs can be regulated by the role of money as a measure of value, namely the imperative to allocate money capital to competitive firms. This material foundation will be important for not reifying PFIs as having inherent progressive functions at odds with capital accumulation. Whether or not PFIs can be subservient to capital’s interests, however, depends on the actual outcomes of political struggles over the goals and means of these institutions. The chapter then turns to a narrative of the history of PFIs between the postwar and neoliberal periods. A central feature of this history is why and how such institutions can come to participate in neoliberal corporate restructuring.

To further understand how PFIs support the competitiveness of firms, **Chapter Three** explores why and how the corporate organizational structures of NFCs can come to internalize market imperatives in the first place via their investment process. I analyze how these business organizations have changed between the postwar and neoliberal periods, intensifying competition within the firm’s internationalized plants, product lines, and suppliers. The chapter follows with the contours of the financialization of NFCs, by arguing how this should be understood as financial mechanisms enforcing greater market discipline on capitalist production. This will show how firm-level incentives and constraints have not compromised industrial policies.

As PFIs are analyzed here in respect of their roles within industrial policies, **Chapter Four** provides a theorization of these policies rooted in a Marxian theorization of the state. I then analyze how industrial policies have transformed between the postwar and neoliberal periods from developing vertically integrated national economic linkages to supporting private-led, regionally rooted sectors embedded in internationalized circuits of capital. I argue that the particular forms taken by such policies are tributary of a society's location within the world market and its class politics specific to a particular historical period. The chapter then locates industrial policies within the wider policy regime needed to secure the international competitiveness of NFCs.

In summary, **Part I** lays out my theoretical foundations on "public" forms of finance, NFCs, and industrial policies. Each chapter follows this structure: 1) fledging out the institutionalist theoretical foundations behind the "Quebec Model" literature on finance, the firm, and industrial policies; 2) presenting a critique of such theories and laying out the Marxian framework informing my analysis; and 3) analyzing these issues across the postwar and neoliberal booms and crises.

These theoretical foundations then inform my investigation of the practices of PFIs and their roles within industrial policies between the end of the postwar boom and the current neoliberal period in the case of Quebec, a regional economy within North America and the world market. This study is informed by the following empirical and historical questions: *how did market imperatives and class conflicts shape Quebec's history of public financial institutions and wider industrial policies and policy regime? What were the differentiated effects of these institutions and policies on domestic capitals and labour? Under neoliberal globalization and financialization, were the accumulation practices of Quebec's NFCs in synergy or contradiction with Quebec's industrial policies and how is this visible in the case of Bombardier, a Francophone-controlled firm in a technologically intensive and internationalized sector?*

These questions are explored in **Part II** composed of Chapters Five to Nine. A first sub-part (Chapters Five to Seven) analyzes the Quebec case study through three different historical periods and each chapter covers the following content: 1) the transformations of

Quebec's industrial policies; 2) the roles played by PFIs within these policies; 3) the wider policy regime within which they operate; 4) the class conflicts over the goals and means of these policies and institutions; and 5) their respective effects on Quebec capitals and labour.

**Chapter Five** analyzes Quebec's project of capitalist economic "modernization" and how this shaped the initial forms of its industrial policies and PFIs between 1960 and 1983. It also demonstrates how the political conflicts between various class actors resulted in making these policies and institutions subservient to supporting the competitiveness of domestic capitals. This chapter is therefore important for understanding the historical preconditions for the later roles of Quebec's PFIs as neoliberal forms of "patient capital". It then contrasts the limited breakthroughs of Quebec's economic "modernization" with the evolution of labour's working conditions.

**Chapter Six** covers the neoliberal turn in Quebec's industrial policies and public finance between 1983 and 2000. I analyze the ways Quebec's industrial policies were rejuvenated under neoliberal globalization to support private-led regional sectors embedded in internationalized circuits of capital. I then demonstrate how Quebec's PFIs nurtured national shareholding blocs that insulated domestic capitals from the destabilizing short-termist pressures of predatory rentiers within financial markets. While these institutions provided limits against the worst forms of financialization, this chapter shows how Quebec's PFIs participated in the neoliberal restructuring of NFCs. The chapter then analyzes how such policies and institutions were embedded in a broader neoliberal policy regime favourable to Quebec capitals' interests. The chapter ends by showing how, while this period was most dynamic in terms of Quebec "catch-up", it resulted in neoliberal labour market trends.

**Chapter Seven** focuses on the continuity and changes in Quebec's industrial policies and PFIs between 2000 and 2018. An important part of the chapter delves into how the Charest Liberals' reforms made Quebec's PFIs subservient to leverage private sources of money capital and underwrite private investments more firmly. While this certainly limited the industrial policy mandates conferred to some of these PFIs, this chapter shows how industrial policies did not vanish away but took a different form. While highlighting persistent policy differences between the PLQ and the PQ over the form of industrial policies, I show how these parties continued to converge on implementing a deeper neoliberal regime. This chapter then shows which class interests were best served by these policy changes. It ends by analyzing why the evolution of the global capitalist economy led to a Quebec manufacturing crisis and the increasing constraints this posed for achieving industrial policy objectives.

The section on the Quebec case study is followed by **Chapter Eight** on the Bombardier case. It delves into the *capitalist state* rationale behind the Quebec and Canadian states' extensive support of Bombardier between 1960 and 2020. The chapter presents how PFIs were central for socializing the costs of technologically intensive investments that the private sector was unwilling to shoulder. As this chapter shows, however, these institutions also backed the neoliberal restructuring of Bombardier. I then analyze if Bombardier's accumulation practices shifted from production to finance. The chapter shows that while Bombardier was temporarily involved in financial activities far removed from its manufacturing operations, it remained predominantly a manufacturing company. I also show that, the moment Bombardier became more deeply regulated by shareholder value corporate governance, this led to deepening financial discipline upon its "industrial" divisions. Consequently, the point is made that Bombardier's firm-level incentives and constraints did *not* compromise Quebec's neoliberal industrial policies. Therefore, Bombardier represents an excellent firm-level case study to explore if Quebec's NFCs' accumulation practices were in line or inconsistent with Quebec's industrial policy goals. The chapter ends by demonstrating how intensified competition amidst over-accumulation led to Bombardier's "permanent crisis".

**Part II** ends with **Chapter Nine**, which synthesizes the findings of Chapters Five to Eight to evaluate the limits and extent of the financialization of the Quebec economy. It includes two additional analyses relevant to this issue. First, I analyze how the material roots of the CDPQ's use of derivative assets were most related to its internationalization and liquidity management in the context of systemic shifts in capitalism and financial markets. While it is true that the Charest Liberals' reform legally mandating the Caisse to pursue higher returns marginalized the CDPQ as an industrial policy instrument, I nevertheless argue that this responded favourably to the interests of Quebec capitalists and was compatible with neoliberal industrial policies. Secondly, the chapter locates the transformations of Quebec public finance analyzed in previous chapters within an analysis of the historical transformations of Quebec *private* finance.

Following the concluding chapter, a Methodological Appendix lays out the Marxian ontology and epistemology guiding the selection of the most relevant relationships to this dissertation's research questions. This section includes a presentation of the main sources used for tracking the contested shifts of Quebec's PFIs and industrial policies, for elaborating the firm-level cases involving the province's PFIs in corporate restructuring, and for establishing the Bombardier case study. This appendix also presents the qualitative document analysis informing this empirical research.

**Argument Summary**

This dissertation covers a lot of ground, theoretically and historically, in the evolution of a regional economy of the world market represented by a subnational state animated by a distinct minority nationalism. This is explored by analyzing how PFIs, as part of wider industrial policies, are an essential component of state-building, economic "modernization" within capitalist development, and the internationalization of capital in the Quebec context. Here, I present my answers to the research questions laid out above through ten theses, elaborated and demonstrated in subsequent chapters. They represent the main theoretically-informed empirical claims on Quebec's PFIs and their differentiated effects on industrial policy, the relationship between the state and domestic capitals, and Quebec labour and the case of Bombardier.

**First**, Quebec's PFIs played essential roles within Quebec's industrial policies. Set up to compensate for the inadequacies of private finance, they continued to play key functions even when domestic finance became stronger during the neoliberal period. By pursuing long-term and lower rates of return, public finance supported risky "real" investments that private finance was unwilling to shoulder given its profit maximizing orientation. In a small economy like Quebec, domestic public finance "coordinated" its interventions to develop the financial clout to support the internationalization of domestic capitals. These interventions nurtured national shareholding blocs which provided institutional limits against a market for corporate takeover, preventing hostile takeovers by predatory financial institutions. This provided Quebec capitals with the managerial autonomy to engage in risky fixed capital investments.

**Second**, the pursuit by Quebec public finance of industrial policy goals were conditional upon the long-term profitability of targeted firms. This was due to reforms which constrained these institutions to: 1) tighten their monetary allocation toward firms in sectors targeted by industrial policies; 2) select projects on the basis of stricter profitability; 3) limit generally their investments to minor participations; and 4) limit their interventions to unlock private investments. This governance framework was to ensure these institutions would support the competitiveness of Quebec capitals. This led Quebec's PFIs to back corporate management restructuring plans. This reflected how such PFIs came to internalize market imperatives. While these institutions engaged in long-term financial relationships with NFCs at odds with short-term capital-gains-seeking behavior, they supported the neoliberal restructuring of businesses, a practice I define as "neoliberal loyalty".

**Third**, the above governance framework resulted from political processes that insulated Quebec's PFIs from: 1) radical demands to transform these institutions into levers for securing full employment and democratize the economy; and 2) unions calling such institutions to side with the demands of workers rather than management during labour conflicts. In addition to pursuing higher returns and engaging in international markets while playing roles that private finance was unable or unwilling to play, these PFIs became increasingly biased in favour of the Quebec capitalist class's interests.

**Fourth**, these PFIs were part of wider industrial policies. Its long-standing features were supporting larger firms in "high-tech" sectors and linking domestic firms and foreign multinationals to develop domestic managerial and technological capacities. During the neoliberal period, their main transformations were: 1) a shift from developing vertically integrated national economic linkages to supporting private-led regionally rooted sectors embedded in internationalized circuits of capital; and 2) a move from direct "subsidies" based on "coordinated" institutions with autonomous capacities for intervention to more indirect means of support that more decisively back the initiatives of private capitals.

**Fifth,** as these industrial policies increasingly moved into supporting the international competitiveness of NFCs, the Quebec state embedded such policies and institutions in a wider neoliberal policy regime. While the PLQ and the PQ had their policy differences over the forms of industrial policies, both parties converged in adopting reforms that flexibilized labour markets and led to a fiscally competitive environment.

**Sixth**, domestic capitalists were not opposed to industrial policies per se, as long as they operated within a deeper neoliberal regime. While they preferred limiting state institutions to market failures, the Quebec capitalist class recognized the need for public institutions to fulfill financial needs not satisfied by the private sector. Also, while Quebec capitalists rejected across the board subsidies, they welcomed them for research and development (R&D), export promotion, and professional training. The Quebec capitalist class also pushed for governance rules which prevented the politicization of these institutions. It also rejected "protectionism" to not compromise its own internationalization within the rules of global capitalism. The participation of Quebec capitalists in concertation mechanisms was conditional on the absence of institutionally binding constraints.

**Seventh**, Quebec's industrial policies promised to expand the economic opportunities of Francophone citizens. A relatively successful component of this project was the increase in the Francophone ownership of the Quebec economy and the enforcement of French as a language of business and work. This agenda also promised a sustained expansion of well-paid jobs. In that regard, this policy failed by rather leading to regressive labour market trends. While Quebec's distinct institutional forms, notably in finance and industrial policy, insulated firms from certain predatory institutional investors within financial markets, the "coordination" and "long-termism" associated with these policies and institutions should not be equated with "egalitarianism". Such socioeconomic outcomes were the result of the weakening of Quebec workers' power in the context of intensified competition and systemic crises.

**Eighth,** the Bombardier case study builds from and expand theses one through seven. The favourable terms of Quebec's institutional support to Bombardier reflects the tendency of capitalist states to socialize costs while privatizing benefits in the context of geo-economic competition, especially for industries like aerospace where private finance shies away from the level of risks involved in these ventures. Also, Quebec's industrial policies were not undermined by "financialization" because: 1) Bombardier benefitted from mechanisms that insulated Bombardier's management from hostile takeovers; 2) while Bombardier expanded its financial activities, they remained a complementary profit centre while manufacturing provided the bulk of the company's profits; and 3) when Bombardier implemented a deeper "shareholder value" corporate governance, this coincided with Bombardier's dismantlement of its financial division and the consolidation of the company's "industrial" divisions. This enforced a greater financial discipline upon Bombardier's manufacturing divisions, in line with a definition of financialization as financial mechanisms deepening the pressures of market imperatives on "real" investments. The 2000s context of intensified competition exacerbated by manufacturing over-capacity in the world market reduced profit margins, shortened the time horizon of technological leadership, and enhanced the risks of commercial "failure", underlying Bombardier's "permanent" crisis.

**Ninth,** as the 2000s' over-capacity in manufacturing was exacerbated by low interest rates, Quebec's recent industrial policies operated under an increasingly zero-sum game. This constrained the ability of states to secure dynamic private investments, despite implementing the neoliberal environment wished for by private capitals. Neither of Quebec's governments' respective economic policy preferences could resolve these profitability problems. By reducing economic policy debates to challenges of governance and policy design, this narrow spectrum of industrial policies mystified the systemic contradictions of capitalism.

**Tenth**, if capitalism is structured by market imperatives that constrain firms and states to adopt practices conducive to competitive profitability, the struggle for market shares can lead to policies and institutions that also mitigate these pressures. This is rooted in money's two main roles: 1) a measure of value, understood as when money is allocated toward the most competitive firms; and 2) a means of circulation, understood as money used to facilitate investment and sales irrespectively of the conditions of production. PFIs internalize these two tendencies. They enforce competitive relations while also mitigating short-term financial pressures led by private institutional investors and providing lower cost finance to support domestic firms at the expense of "foreign" capitals. These disciplinary and "looser" pressures are shaped by the booms and busts of capital accumulation and geo-economic competition.

The Quebec case study presented here will allow scholars to critically assess the institutionalist claim that Quebec's PFIs, as part of a wider evolution of state economic policy, state coordination, and "extra-market" institutions, offered an alternative capitalist-based development to neoliberalism. As the institutionalist literature on the "Quebec Model" has historically contended, Quebec's "patient capital", supported by PFIs, supposedly offered during the 1980s and 1990s an alternative to financialization, creating an economic space favourable to *non*-neoliberal labour market trends. This thesis will critically assess these claims and offer a very different argument about the limits of alternative forms of finance within capitalism, the policy trajectory of the Quebec state, and the particular forms that neoliberalism has taken in Quebec in terms of finance, industry, and policy regime. While its originality resides in its focus on the roles of public finance within industrial policies, this dissertation contributes to a growing literature that increasingly locates Quebec as a *variety of neoliberalism* since the early 1980s.

By analyzing if and how market imperatives shaped PFIs during different historical periods in the Quebec context, this dissertation hopes to contribute more widely to a critique of "patient capital", even when supplied by PFIs, as a ready-made *progressive* banking alternative to financialization. By engaging with the class interests that are being served by these economic institutions, and the class conflicts that shaped historically their institutional functions, this dissertation encourages further studies of public finance and industrial policies to analyze their impact on capitalist firms and on workers' lives and work conditions.

# Chapter Two

## "Public" Forms of Finance: Theory and History

By forming long-term financial relationships which shield "non-financial" corporations (NFCs) from the short-term pressures of financial markets, public financial institutions (PFIs) are often considered a progressive alternative to financialization. These forms of "patient capital" have been promoted by heterodox political economy to play roles inadequately played by "impatient" private equity and asset-managers before and after the 2007-08 crisis. PFIs are considered an important policy instrument for green industrial policies and long-term infrastructure funding. PFIs tend to be associated with state-guided institutional configurations that favour negotiated compromises between "stakeholders" and capitalist firms.

While PFIs may have shielded NFCs from predatory financial institutions within financial markets, it does not follow that these public "banks" have shielded NFCs from the constraints of market imperatives. It is important to disentangle extra-market "coordination" and "long-termism" in finance from "egalitarianism" in economic outcomes as they are not necessarily related. We should not derive from public institutional forms *a priori* institutional functions, social relations, and redistributional policy results. Indeed, it is necessary to ask the question: can PFIs in fact act as policy instruments for neoliberal corporate restructuring, including in the Quebec context?

This chapter provides a Marxian theoretical framework for analyzing how PFIs are differentially shaped by market imperatives, and thus mediate the exploitative class relations peculiar to capitalist production, in different historical periods. To do so, the practices of PFIs need to be located within certain general monetary and financial functions inherent to capital accumulation. This theoretical starting point will be important for exploring how PFIs can be constrained to allocate its money toward competitive firms, especially for PFIs mandated with industrial policy goals. While public forms of finance can fulfill the institutional functions which are inadequately played by private finance, PFIs are not necessarily immune to market discipline. However, how PFIs respond to the pressures of capitalist markets is the result of class pressures and conflicts that shape the governance frameworks of PFIs and their institutional relations with NFCs.

The section on Marxian theory is preceded by an overview of the institutionalist approach to money and finance and how it informs a different understanding of PFIs. This will allow us to render explicit the theoretical presuppositions behind the following problematic institutionalist claim: PFIs engage in long-term financial relationships that not only enhances the growth of the "real" economy but also creates the economic space for the political negotiation of redistributive compromises amongst societal "stakeholders". Such reasoning underpins the claim that Quebec's PFIs were favourable to *non*-neoliberal labour market trends, at least until the Charest Liberals.

The final section of this chapter turns to an historical narrative of the development and transformations of PFIs from the postwar to neoliberal periods, in relationship to the evolution of private finance. The point is made that PFIs may provide financial institutional limits against a market for hostile corporate takeovers, but they can also be forces in the neoliberal restructuring of NFCs, which are discussed in this chapter as practices of "neoliberal loyalty".

**Money and Finance: Between Fundamental and Speculative Value**

For institutionalists, capitalism is split between two main economic paths: 1) a "productive" circuit focused on investment in the growth of the "real" economy (where material compromises over wages and even corporate strategy might be negotiated with social partners); and 2) a "financial" circuit dominated by the accumulation of financial assets for their own sake (and benefiting primarily shareholders). Whether money is mainly channelled in the "productive" or "financial" circuit of capitalism depends on whether the economy is dominated by actors oriented toward what Orléan (2005: 17-31) calls "fundamental" or "speculative" value.

For institutionalists, money is considered first and foremost credit money created ex nihilo by banks (Ingham 2004: 69-74). The "productive" circuit is based on "the entrepreneurial use of credit-money produced by banks to take speculative positions regarding the production of commodities for future sale" (Ingham 2004: 26). This circuit is initiated by bank loans financing the "real" investments of firms engaged in production. The profits generated through this circuit provides the money to settle prior debt obligations (Ingham 2004: 54).

The use of credit money for commodity production involves expectations based on "fundamental" value. When economic actors form expectations oriented by "fundamental" value, they focus on the entrepreneurial challenge of investment decisions under conditions of uncertainty, as what available technologies or patterns of consumption will exist in the future remains unknown. This invests entrepreneurs with a progressive role since "those who are in charge of such a task bring a surplus of efficiency to market society because they allow an efficient allocation of capital" (Orléan 2005: 21; my translation).

The monetary economy of production refers to the process of producing new goods and services that increases standards of living (Stanford 1999: 9, 10-13). When credit is put at the service of the "real" economy, "money can help create employment…it does not just 'circulate'. It helps create activity – artistic, scientific, practical or therapeutic" (Pettifor 2017: Ch. 6). As Wray (2012: 272) argues, "If successful, the debt is repaid, in both senses: the producer can retire her debt to the bank and to society as a whole."

By contrast, the "financial" circuit refers to the buying and selling of financial assets, a process regulated by "speculative" value (Orléan 2005: 25-55). Since the price of financial assets depends upon their future demand, stock market evaluations are the outcome of the aggregated average perceptions of financiers about one another's anticipation of their future value. Finance is associated, therefore, with a dynamic of its own characterized by a social psychology which oscillates between euphoria and panic.

While fixed capital investments depend on a longer time period of valorization, financial liquidity offers a way to escape the risks of such future uncertainty. While this tempers the anxiety of stockholders, it also encourages capital-gains-seeking behavior. While good for self-serving financial interests, this is detrimental to societies which depend on the creation of real wealth for jobs and better standards of living. As Stanford (1999: 14) notes: "A financial investment is characterized by a process of money in, money out. In contrast, a real investment might be characterized as a process of 'production in, production out'".

The institutionalist perspective on finance is, however, problematic for counterpoising its "speculative" view of the financial economy to a *use-value* view of the "real" economy. By seeing the financing of the "productive" circuit as the production of new use-values that improves standards of living through a process of "production in, production out", institutionalists often become fixated on how finance can become a destabilizing force for a potentially "harmonious", "real" economy. This misreads the role of finance in mediating exploitative class relations and crisis tendencies rooted in capitalist production. For institutionalists, "it is manifestly not capitalist profit as the specific form in which unpaid surplus-labour is pumped out of the direct producers that is seen to be the determining element in capitalist development, as Marx sees it. But rather the presence or absence, the suppression or expression, of Schumpeter's entrepreneurial will and action" (cited in Panitch 1981: 13).

### *Public banks*

If the profit motive is universal under capitalism, various national – even regional – financial systems will lead, according to intuitionalist political economy, to different balances between "profit satisfying" or "profit maximizing" behavior of finance and industry (Hollingsworth and Boyer 1997: 37). Whether regulated by "fundamental" or "speculative" value, financial systems produce different forms of corporate governance that whether allow for "win-win" compromises between businesses and workers or lead to capital-gains-seeking behavior that results in growing inequalities.

In market-based financial systems, firms have diffused corporate ownership structures allowing for outsider control by institutional investors driven by the pursuit of shareholder value. A firm's performance is evaluated according to its short-term financial bottom line. Bank-based financial systems are based on finance-industry interlocking directorates that constitute national ownership blocs. By having access to insider information that increase the tolerance of investors to risks, financial institutions support NFCs long-term growth. "State-dominated" financial systems provide lower-cost and long-term finance monitored by bureaucratic administrative processes according to rules set by the state. These systems can include a large public financial sector, often tied to interventionist industrial policies (Deeg 2010: 310-15).

This comparative institutionalist approach is both analytical and prescriptive. As societies engage in economic "modernization" at different points in time, "backward" societies cannot adopt the same financial systems of the "leading" countries. As their prior weak accumulation base prevented strong stock markets, catch-up strategies have relied on bank- or state-based systems (Gerschenkron 1979). Institutionalists also contest the calls to universalize market-based financial systems by stressing that other financial systems can match or even surpass the level of economic growth the former promote. This has been highlighted by their works on developmental states (Woo-Cumings 1999) and by their critiques of Anglo-Saxon financialization (Lazonick and O'Sullivan 2000). The above typology has been most developed by the "varieties of capitalism" approach, which has associated bank- or state-based systems as more favourable to institutional compromises based on higher productivity and increased shared incomes from higher growth (Hall and Soskice 2001).[5]

For institutionalists, the above typology explains why PFIs tend to be prominent in state-dominated financial systems. However, the presence of PFIs within a given state can be marginal or dominant, and their existence bears no necessary correlation with a country's relative wealth or "stage" of capitalist development. PFIs as a form of "patient capital" can also be found, therefore, in market-based or bank-based financial systems (Deeg, Hardie, and Maxfield 2016).

Deeg and Hardie (2016: 631-36) establish three criteria to evaluate the degree of "patience" of different financial institutions: 1) the time horizon of the financial investment; 2) the existence or not of pressures exerted on a firm with the aim of increasing its market capitalization or credit rating in the short term; and 3) the reaction of an investor to a business experiencing financial distress in the short run. Accordingly, a public pension fund facilitating long-term business investments by protecting them from hostile takeovers is considered having a high level of "patience". In contrast, the same pension fund will be classified as "impatient" (and thus "short-termist") if it uses its "voice" immediately to force a company to increase its "shareholder value" to pocket rapid capital gains and sells the stocks of firms going through temporary profitability problems (McCarthy, Ville-Pekka, and van der Zwan 2016: 753).

The institutionalist understanding of PFIs is that their public ownership form determines in turn their institutional functions, irrespective of the broader financial system

[5] In Chapter Four, the "varieties of capitalism" approach is further discussed by showing how institutional compromises depend on complementary institutions beyond finance.

they are situated in. Public "banks" are, for heterodox economics, inherently market-fixing mechanisms, and even market-creating (Macfarlane and Mazzucato 2018). For example, by socializing the risk of "real" investments in specific sectors judged too risky by private capital, PFIs can be useful for achieving the goals of industrial policies. As "patient capital" institutions, PFIs are often adopted for infrastructure development and "green" modernization programs.

As Marois (2021) forcefully argues, this reduces PFIs to a catalyst for capital accumulation operating within segments of the financial system that private finance capital considers too risky or insufficiently profitable. Viewed through the lens of an "additionality" framework, PFIs are understood as a segmented supply of finance set up in response to "market failures" and which can be used to leverage private sources of money capital (Marois 2021: 17, 64).

Marois' concern is to register cases of public banks that are not reducible to the "additionality" framework, contending that their democratic, ecological, and "de-financializing" features offer emancipatory potential. The concern here is less about exploring these roles that PFIs might play, but to examine their role in mediating capital accumulation (as in the case of Quebec PFIs as they historically evolved).

However, it is my intent to challenge the corollary claim associated with this "additionality" framework that PFIs support the "public interest" directly by assisting industrial development and, in doing so, favour more egalitarian distributional compromises and stimulate aggregate demand. Only by not inferring an *a priori* progressive institutional function from public ownership forms can an investigation of the role of PFIs in mediating capitalist class relations of production begin.

*Power struggles over finance*

For institutionalists, money is neither a neutral veil nor a harmless voucher. Rather, it reflects purchasing power whose distribution – between classes and between the state and the market – is the outcome of power relations. Interest rates and the legal rules governing finance are the result of struggles driven by contending conceptions of *distributional* justice (Ingham 2004: 59-68; Streeck 2015: 5-11). The central conflict in capitalism is understood, in these views, as one between debtors (such as businesses or households) calling for "soft credit" and creditors (in the form of various financial institutions) calling for "hard money" (Ingham 2004: 82). The relations between financiers and entrepreneurs, therefore, have a causal primacy over the conflicts between labour and capital. While "softer credit" creates the space for "win-win" social compromises, high interest rates and short-term profits undermine that possibility (Wright 2015: 231-45).

A central policy challenge for states becomes, then, how to find in-between rates which are both satisfying to creditors and productive capital; not too high to discourage production, not too low to discourage creditors (Ingham 2004: 151). Keynes' proposal for "euthanizing the rentier" implies the regulation of money-market rates to guarantee that "industrial" investment would be the most profitable and preferable option. Capital controls are necessary to make sure money circulates as a low-cost national currency financing domestic investments rather than a globally mobile force roaming the world for the highest returns (Berger 2000: 54). Under appropriate policies, the short-termism of finance would decline, while the long-termism of fixed capital investment would flourish (Pettifor 2017). In addition to these regulatory structures, PFIs are recommended policy instruments to finance technological breakthroughs and "high-tech" sectors considered too risky in the eyes of private finance (Macfarlane and Mazzucato 2018).

This latter regulatory structure is most associated with the institutionalist interpretation of the postwar boom, a period where finance was considered a servant of the "real" economy as economic actors were oriented by "fundamental" value. By contrast, the neoliberal era of "deregulation" allowed predatory financial institutions oriented to "speculative" value to dominate the economy. This historical narrative is most problematic, as I argue below, for failing to trace back this "deregulation" to the processes of uneven capital accumulation, its crisis tendencies, and the class conflicts that flow from such dynamics. This problem arises from the tendency of the institutionalist perspective to limit analysis of the power struggles over finance to the sphere of distribution. This evacuates from view struggles over finance, including those that affect PFIs, which are tied to class conflicts over conditions of production.

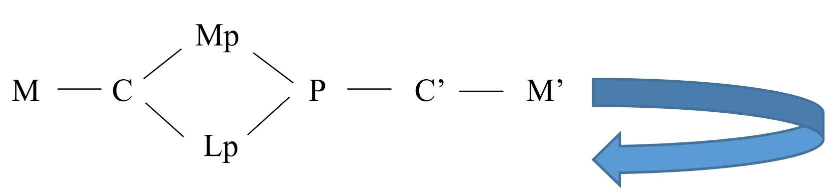
## Capitalism and the Circuits of Capital

In contrast to institutionalist political economy, which limits its analysis of financial systems to the sphere of circulation, a distinctive feature of Marxian political economy is that it analyzes monetary and financial relationships as rooted in the unequal social relations of production peculiar to capitalism (Coates 2005: 23).

Capitalism is often reduced in liberal accounts to money-making, the mere existence of markets and trade, or financial activities stretching even as far back as ancient history. This position confuses similar forms of revenues with their different sources, which stems from distinct social structures and class relations. Under mercantilism, for example, profits made on “buying cheap and selling dear”, or interest on state bonds, were secured by military control of trade routes and successful war-making (Wood 2002: 11-33; 73-94).

As Wood (1994) stresses, capitalism is a radically different type of society which depends upon the separation of workers from the means of production and subsistence, which turns labour-power into a commodity. This leads not only workers but also capitalists to be systematically subjected to market dependence; capitalist competition turns profitability into an imperative rather than an opportunity. Capitalism is driven by accumulation for accumulation’s sake, where money begets more money, in the sense of seeking out expanded exchange-values as an end in itself. In this sense, as Marx theorized, capitalism is a process of value valorizing itself, where capital is neither money, labour-power, means of production, or commodities per se but its continual metamorphoses through all these social forms.

**Figure 2.1 The Circuit of Capital Accumulation**




M = money, C = commodities, Mp = means of production, Lp = labour-power, P = production, C’ = newly produced commodities and M’ = profits.

What is shown by these essential moments of this basic circuit of capital is not that money is invested with the goal of making more money, which is also a feature of pre-capitalist trade. What distinguishes capitalism from pre-capitalist societies, as Figure 2.1 shows, is that, to make more money, capitalists hire workers to put in motion machinery to transform raw materials at levels of productivity that allow to produce commodities that are competitive both in terms of "quality" and price. A central dimension of competitiveness then derives from the ability of capitalists to extract more labour from labour-power (surplus value) than their competitors.

Market imperatives translate dominant rates of profitability into a real constraining force on the production of commodities. This means that expected profitability, *based on the objective constraint of past profitability,* regulates investment. This constraint implies that raw materials, means of production, and disciplined labour need to be available at competitive prices, in addition to sufficient outlets (Mandel 1999: 38-39). In contrast to the Keynesian emphasis on the *subjective anticipations* (and its related "animal spirits") of entrepreneurs and financiers as a regulator of economic growth, capitalist investment is "neither supply-side nor demand-side: *it is profit-side*" (Shaikh 2016: 616; emphasis in original).

In contrast to the tendency of institutionalist political economy to limit the practice of profit-making for its own sake to the sphere of financial asset trading, for Marxian political economy, not only finance but also production is driven by exchange-value. Still, to recognize the latter does not deny that "industrialists" and "financiers" are confronted with distinct constraints in their strategies for reproduction. As an illustration, if the loans advanced by conventional bank credit is vulnerable to the uncertain returns of "real" investments, the liquidity of stocks represents a relative emancipation from the barriers of fixed capital (Harvey 2006: 264-70). However, a distinctive feature of the Marxian conceptualization of finance is its emphasis on the importance of the connections – and not structural antagonisms – between spaces of financial flows and spaces of production in order to not fall into financial fetishism (Roberts and Joseph 2015). In periods of capital market inflation, understood as the continual rising value of assets, asset trading appears as if the accumulation of capital gains can be limitless. Money appears to breed money out of exchange, with no detour from production, and where the sources of value are deeply mystified (Durand 2014: 63-64; Harvey 2006: 269). As Morin (2017: 65; my translation) notes, "[T]he capitalist economy, even in its financialized form, depends fundamentally on this production of value, the source from which all other revenues are subsequently distributed."

*Money's functions and the disciplinary role of finance*

A Marxian theory of money and finance must, therefore, begin from a theorization of capitalism, as it is only under systematic market dependency that money takes the form of capital. Capitalists use money to buy the formally free labour-power of workers and convert it into a productive activity from which surplus value can be extracted only in the historically unique conditions of capitalism. Access to large sums of money or finance – either through profits or loans – becomes a source of class power over the creative capacities of labourers. While money's functionality remains tied to the buying and selling of commodities, as in pre-capitalist societies, what makes money a form of capital is its role in and dependence upon surplus value extraction in the sphere of production.

Capitalism thus reconfigures the various functions of money – medium of exchange, unit of account, measure and store of value, general equivalent – and their relationships to productive investments and class power. Capitalism's dynamics are mediated by these monetary functions who, in turn, regulate how finance and its different institutional forms, such as PFIs, operate. Harvey (2006: Ch. 10) argues that such a monetary theory of finance is crucial for not erecting specific historical configurations of finance as universal forms characteristic of a particular capitalist period, blind to variations between countries and transformations in time. For our purposes, grounding the roles of PFIs within fundamental monetary functions is important to not reify public finance as having inherent progressive functions associated with their "public" form.

A unique function of *capitalist* money is its role as a measure of value (Harvey 2006: Ch. 9). Commodities are products of concrete labour processes, with specific labour times embodied in them. But what is valorized is abstract labour, which corresponds to socially necessary abstract labour time, a magnitude that is not directly observable. Money therefore provides the objective form of appearance of abstract labour. The money form renders possible the commensuration of commodities across space and time (Arthur 2005: 119; Elson 2015: 138-39; Moseley 2005: 2; Reuten 2005). While it allows the expression of the value of commodities, money conceals the social relations of production by making appear commodity values as if they flowed from market exchange (Harvey 2006: 17). This mystification of capitalist exploitation within the sphere of production, which Marx defined as commodity fetishism, is unacknowledged by institutionalists as their analysis of financial systems is focused on credit creation and exchange in the sphere of circulation.

Money's role as a measure of value is preserved insofar as it is channeled toward competitive businesses who produce according to the dominant productivity norms. In turn, money and credit are steadily withdrawn from the firms that fail to meet average profit levels and thus face devalorization and ultimately bankruptcy in the absence of restructuring. In this sense, finance becomes the *external* enforcer of competition and the equalization of the rate of profit (Duménil and Lévy 2006; Itoh and Lapavitsas 1999: 101). Market imperatives constrain finance in all its forms, from banks to hedge funds, to act as a disciplinary force on the investments being made and the labour employed. The discipline of capitalist competition is proportional to the level of capital mobility across space and forms of capital (Husson 2006: 233).

Money is also a medium of circulation which allows for the purchase and sale of commodities, including financial assets. This function is expanded through the credit system by extending the possibilities of investment and supporting the effective demand. This process of expanding credit to support the expanded reproduction of capital will come up against barriers that will end up compromising money's role as measure of value (Harvey 2006: Ch. 9).

The predominant roles of money as measure of value and means of circulation are critical to understanding how finance, in all its different institutional forms (including PFIs), operates within capitalism's booms and busts. As a general definition, finance "essentially amounts to advancing monetary value either against a promise to pay it back, or against a title of ownership over the economic activities that would deploy the advanced value" (Lapavitsas 2013: 108). From here, finance can be broken down into different institutional forms and functions; importantly, the *same* function can be undertaken by *different* economic organizations.

Loan capital relies on the systematic mobilization of savings. As capital accumulation expands, money hoards tend to increase (Itoh and Lapavitsas 1999: 69). The mobilization of idle money by financial institutions, from both private and public banks to other forms of finance, is not limited to the available money held by NFCs but also extends to households. The credit system has a special status amongst these financial institutions as it can advance loan capital without being limited by the pre-existing stagnant funds that it has managed to concentrate and centralize, leveraging loans against different forms of capital reserves (Bellofiore 2005: 137-38; Itoh and Lapavitsas 1999: 72-73). The ability to integrate and make various social classes dependent upon the financial system relies on asymmetrical power relations rooted in different institutional and customary practices that vary according to national and regional financial systems (Knafo 2009; Lapavitsas 2013: 120).

Money becomes interest-bearing loan capital when it is advanced, particularly by capitalist banking institutions, for the purpose of appropriating a share of surplus value. As money is advanced for future appropriation, this involves a process of pre-validation, since business loans bear the risk of non-payment and losses (Bellofiore 2005: 134; Durand 2014: 63-69). The notion of fictitious capital captures the issue since ‘‘what is fictitious here is not the success or failure of the future valorization of capital, but its frailty’’ (Durand 2014: 64; my translation).

Another institutional form of finance is money-dealing capital, which involves a variety of monetary activities (such as bookkeeping, money reserve management, and public bond trading) that can be necessary to “industrial” capital but are not driven by the goal of directly appropriating a share of surplus value (Fine and Saad-Filho 2010: 125). A remaining form of finance is speculative capital, which involves financial relations tied to the management of risk in the sphere of exchange, most associated today with derivatives (see below).

These different financial forms involve various social relations which in turn enforce discipline upon firms in different ways based on their own material stakes. Interest involves a compulsory reimbursement, backed by legal claims, from borrowers to financial creditors. Bank departments monitors the investment projects of borrowers to manage risk and thus minimize losses and maximize returns (Lapavitsas 2013). Differential interest rates enforce various levels of financial discipline, reflecting the differential risks of business ventures. The financial analysts of private equity and pension funds evaluate the financial reports of firms with listed stocks monitoring their share valuations and dividend payouts. When NFCs see their stocks substantially bought or sold by these financial institutions, this affects positively and negatively a company's market capitalization which can then translate into a higher or lower credit rating that determines the borrowing costs of a firm (Sablowski 2008). These institutions also "voice" their demands upon management they see essential to improve a company's financial performance.

These different financial pressures can lead to conflictual distributional relationships with NFCs (Harvey 2006: 72). However, they should not be reduced to a zero-sum game of parasitic practices. Enforcing competitive pressures can be translated into a higher rate of exploitation of workers and increases in the level of surplus value, beneficial to the entire capitalist class (Lapavitsas 2013: 122; Gindin 2015). The credit system is, moreover, essential to finance not only growing fixed capital investments, but also mergers and acquisitions. More recently, derivatives allow for risk management favourable to the better planning of production (Bryan and Rafferty 2006: 41). The capitalist class *as a whole* has an interest in securing a stable, sophisticated financial system composed of different financial institutions, including PFIs, that offer a complex array of financial products critical to the expanded reproduction of capital accumulation.

### *Money, finance, and crisis*

While the credit system overcomes limits to capital accumulation by supporting the expansion of production and consumption (Harvey 2006: 285-86), it does not abolish the tendency toward over-accumulation of capitalism. On the contrary, it exacerbates this contradiction while introducing new dimensions of financial instability.

The role of credit in supporting larger investments in machinery and equipment is highly contradictory. Since labour-power is the source of value, its displacement by the tendency of fixed capital to rise creates the basis for the tendency of the rate of profit to fall. The mass fixed capital complexes used as a competitive mechanism by individual capitals turns into its opposite, creating the basis for over-accumulation (Harvey 2006: 67-68). The disciplinary role of money as a measure of value is then threatened, as socially *un*necessary labour time tends to increase with the growth of idle labour and capital and unsold goods.

Various forms of finance capital have their own logics of sharing and assessing risk but remain dependent upon the extraction of value in productive activities producing new value-added goods and services. When the latter is compromised, over-speculation turns into a capital market devaluation, sometimes for specific asset classes, but regularly for financial assets as a whole, through crashes in the stock markets (Harvey 2006: 269). If financial institutions monitor the firms in which they have a material stake to secure their profits, the financial system remains limited in its "rational foresight" by the unplanned dynamics of capitalist investment (Itoh and Lapavitsas 1999: 72-73).

To relaunch accumulation, monetary and financial discipline needs to be restored. This can occur through the state's economic authorities imposing high interest rates and fiscal austerity, or by financial markets that cut asset valuations and lead to corporate restructuring (such as the shareholder value corporate governance practices of the neoliberal period).

### *PFIs and market imperatives*

These fundamental functions and tendencies of money and finance under capitalism are not limited to private finance but also set boundaries on public finance, even if PFIs have different mandates that often appear relatively removed from capital accumulation. What is the degree, then, that PFIs still have to adhere to market imperatives, and to what extent can they serve public needs without constraints?

These questions require a definition of PFIs that does not infer *a priori* institutional practices from public ownership. Marois (2021: 11) provides a helpful definition: PFIs (1) are located within the public sphere; (2) they perform financial intermediation and banking functions *but with no innate purpose or policy orientation*; (3) they may function for public *and private interests*; and (4) they exist as legitimate, contested and evolving forms of finance.

PFIs take diverse forms. Public commercial banks accept deposits which are then used as a capital base for short-term and long-term lending. Notably, public development banks supply financial and technical support to small and medium-sized companies

(SMEs) and large corporations in targeted sectors. They are either funded by revenue transfers from government or from government-backed bond issuances. Universal public banks merge commercial and development banks functions as they collect deposits from the public and investors for development projects (Marois 2021: Ch. 2). There are also a range of other financial institutions in the state sector. For example, public pension funds collect and manage pensions and their fiduciary responsibilities often justify profit-maximization mandates (Blackburn 2002).

These diverse PFIs often engage in inter-institutional coordination. For example, the extensive branch networks of public commercial banks can provide a means of mobilizing domestic savings by development banks which typically lack such geographical reach. As an illustration, the “cooperative” credit union Desjardins played such a role in the making of the *Société générale de financement*, Quebec’s public development bank, making the dispersed savings it collected across Quebec available to “industrial” capital (Brunelle 1978).

The state may promote PFIs for specific purposes, as with specialized banks commonly struck for housing finance, agricultural credit, development projects in depressed areas, business loans, and venture capital markets for SMEs (Harvey 2006: 281). Several of these institutions are often integral components of industrial policy in response to the failures of private finance initiatives under conditions of “economic backwardness” (Gerschenkron 1979), or are used to underwrite the extensive credit risks of the “innovative economy” (Macfarlane and Mazzucato 2018). PFIs are also used to finance the costs of infrastructure with uncertain revenue flows (Skerrett 2017).

Industrial policies mandate PFIs with social rates of return. The latter can include an increase in the higher tech composition of manufacturing and regional employment. To achieve this, these institutions will intervene in fields that can be of considerable risk for individual capitals. This implies to mobilize money away from the activities that may generate the highest short-term profits and channel it toward activities that leads to economy-wide industrial transformations (Chibber 2003: 17). Here, the role of money as a medium of circulation that extends the possibilities of investment in targeted sectors can appear removed from market discipline.

PFIs can perform industrial policy goals since they are publicly mandated and outside of the control of private shareholders. This gives PFIs the leeway to provide long-term finance at lower cost as they are not under the pressure to distribute high dividends. PFIs have also a greater knowledge of credit risks as they develop close relationships with their business clients, a feature of what is called “relationship banking”, at odds with the “passive” investments of portfolio managers (Epstein and Ugurlu 2020: 50-51).

If different forms of finance capital involve differentiated levels of risks and time horizons for profitability, they are nonetheless unitary in their respect of the private ownership of the means of production and market imperatives. While all financial institutions are open to political contestation, competitive imperatives, and how they operate in different periods of capitalist history, act as a constraining force on all institutional forms. This includes “public” finance capital, which does not operate outside of the “law” of value, if it is to reproduce itself as a capitalist industrial policy instrument (apart from further direct capital supports from the state). Skerrett (2017: 123) has highlighted this point relatively to pension funds: “pension funds have generally operated as conventional financial capital, seeking investments in securities of companies that generate their profits at the expense of workers’ wages and that are generally indistinguishable from other financial investors”.

The duality between money as measure of value and money as means of circulation is therefore not between market (private) finance and state (public) finance. These dual roles are not referring to different types of agents that have inherent essential functions based on ownership alone. It is an internalized contradiction within the capitalist money form itself which, in addition to NFCs and states more generally, pulls financial institutions including PFIs in contradictory directions during booms and busts. Grounding public “banking” in these monetary processes is important in order to examine the extent PFIs have been complicit in, or have charted an alternate path over, the period of neoliberal restructuring of corporations.

A democratized financial system would be based on different social structures, but under capitalism, market imperatives constrain finance to act as a disciplinary force that ensures the re-payment of creditors, returns to asset holders, and sustains labour exploitation. If these pressures compel financial institutions to operate in accordance with the social logic of capitalist markets, they are not absolutely constraining. How these institutions respond to such pressures is not pre-determined as financial systems are shaped by the contingent outcome of struggles and compromises within specific institutional settings that vary across states. Continually subject to transformation, finance, in this sense, is not an abstract logic unfolding in an institutional vacuum outside of class relations (Knafo 2009; Lapavitsas 2013; Wright 2010: 193, 204).

For banks and pension funds that have a "public" form, this exposes them to a level of politicization. PFIs are contested, therefore, by contradictory interests, whether openly at the level of the state as with conflicts over legal governance frameworks, or at the firm level with decisions over investments or labour disputes. PFIs are made and remade through conflicting interests rooted in class-divided societies in different periods of capitalist history (Marois 2021: 6, 8-10, 12, 71-73).

Capitalists and their political representatives will engage in political struggles to insulate these institutions from effective democratic controls that could channel finance in favour of the rights of workers, the environment, and economic democracy rather than giving primacy to capital accumulation and private property rights (Skerrett et al. 2017). The challenge for the state is to confine PFIs to legal-institutional rules that allows for "public" interventions that support private capital accumulation without leading to a politicization process guided by popular demands (Wright 2010: 204).

Depending on working class organization, PFIs can also mitigate capitalist competition in ways that favour distributional outcomes for workers (Epstein and Ugurlu 2020: 46). As workers' struggles over the conditions of production and the level of wages can lead to slower productivity gains and higher unit labour costs, this will nonetheless hurt the relative competitive position of firms. For the economy as a whole, these competitive pressures might be mitigated through monetary mechanisms such as competitive devaluation of the exchange rate, or subsidized production, or lower interest rates. However, these policy orientations cannot be indefinitely sustained without compromising the economic competitiveness of the capitalist sector. *As long as capitalist social relations prevail*, popular gains face a potential counter-offensive from employers and the state to protect the competitiveness of domestic capitalists The political pressures from market imperatives can, therefore, only be overcome sustainably by a process to democratize the economy (Smith 2006: 252).

**Finance and PFIs in the Postwar Era, 1945-80**

The previous theoretical discussion informs the following narrative on the historical transformations of PFIs. Given the focus of this dissertation, the history is largely limited to the role of PFIs within industrial policies during the postwar and neoliberal periods, and makes no claims to exhaust the full range of institutional functions played by PFIs. The emergence and transformations of PFIs are typically related to whether private finance is too weak or short-termist depending on country-specific contexts and the historical transformations in finance.

The institutionalist literature presents the postwar period as an era where finance was subordinate to the "real" economy. The Bretton Woods system of fixed exchange rates, interest rate ceilings, and capital controls allowed for interest rates favourable to "industrial" capital. In subordinate societies, establishing a degree of public control over banks was seen essential to mobilize savings to promote economic "modernization". These institutional conditions favoured enhanced national policy autonomy based on social compromises that advantaged both labour and capital (Ingham 2004; Pettifor 2017).

This approach presents a narrative that misses some of the expansionary dynamics of finance during the postwar boom and their exploitative and crisis-prone tendencies. It also fails to register the place of PFIs relatively to these characteristics of postwar finance.

Initially, the postwar period was one of reconstruction and consolidation of capitalism (Gindin and Panitch 2012). As part of this project, regulatory structures provided institutional limits to competition and volatilities in speculative financial markets previously dominated by investment banks. Still, commercial and investment banks, in addition to pension funds, expanded within these new institutional rules, not only through loans and equity stakes in "industrial" capital but also through credit lending in housing, private transportation, education, and leisure (Konings 2014). Beyond business profits, the disposable incomes of various social classes were mobilized through different financial institutions and more liquid equity markets constitutive of mass financial systems. These savings were centralized and made available for "industrial" capital, notably for "catch-up" strategies, through both financial markets and state subsidies, tax allowances for capital investments, and loans.

In societies lacking a strong private financial sector, public forms of finance flourished to initiate processes of economic "modernization" (Amsden 2004; Zysman 1983). By the 1950s, public banking became significant, even dominant within certain national economies.[6]

In the case of workplace-based public pension funds but also nationwide plans like the Canada Pension Plan, their fiduciary responsibilities tended to originally limit their role to bond finance for financing public infrastructures (Skerrett 2017: 127). Public "development" banks were used to expand the public sector, such as Quebec's PFIs in the financing of state-owned enterprises set up since the Quiet Revolution (Fournier 1979).

The role of PFIs were also extended to support private capital. In the case of certain public institutional investors like the CDPQ in Quebec, their role was not limited to finance public bonds but was also extended to equity financing in large established firms (Hanin 2016). Other types of PFIs, such as public "development" banks, were also used to finance industrial policies. They did so by providing venture capital and equity financing, subsidized interest rates, preferential terms and conditions, and reduced fees to "industrial" capital.[7] One such example was the German *Kreditanstalt für Wiederaufbau* (KfW), set up for German reconstruction and managing US Marshall Plan funds, which came to finance SMEs and NFCs exports, in addition to energy infrastructures to fuel domestic industrialization (Naqvi, Henow, and Chang 2018). Export financing agencies engaged in import–export finance and guarantees. These different PFIs tended to provide investment

[6] In advanced capitalist countries, estimates suggest that public banks controlled 40% of the largest banks' assets by the 1970s while public banks in developing capitalisms controlled 65% (Marois 2021: 93).
[7] In the case of the North Dakota Bank, a regional US public bank initially set up in 1919 to provide rural credit to farmers, it provided such lower cost finance to smaller banking branches that then lent to small businesses, in addition to other activities such as residential mortgages (Epstein and Ugurlu 2020: 55-58).

services, in-house research and development, project preparation services, technical and sectoral expertise, and performance standard-setting and monitoring.[8]

In contrast to private forms of finance, PFIs incorporated social rates of return determined by industrial policies (Mazzucato 2015a). But PFIs did not necessarily present a logic at odds with capital accumulation during this period. Public institutional investors like the CDPQ allowed for a socialization of risk but tended to support the *long-term* competitiveness of domestic capitals (Rouzier 2008: 54-55).

If PFIs tended to be disciplined by market imperatives, this did not mean that their goals and means were insulated from political conflict, especially as the 1970s crisis unfolded (Epstein and Ugurlu 2020). In the case of public pension funds, the varied strategies of "pension fund socialism" pointed to the *possibility* of unions effectively controlling their deferred wages and using pension funds as a means to improve their working conditions and even make inroads into governance of firms at the expense of capitalists (Blackburn 2002). For capitalists, turning pension funds into money capital for firm-level investments required limiting such alternative strategies. Business associations fought tenaciously for laws to enforce the primacy of fiduciary obligations as a means to prevent unions from increasing their economic power and translating it into political power (McCarthy 2017: 108-12). Fiduciary prudence was consequently established as a legal standard in reference to the governance practices of mutual funds and insurance companies.

## The Neoliberal Transformations of Finance, 1980-2000

The institutionalist literature highlights the ascendancy of neoliberal ideology in successfully promoting the "deregulation" of finance as the main cause behind the erosion of the compromises of the postwar period (Major 2008). But this account leaves out how the postwar boom was eventually compromised by a systemic profitability crisis (Brenner 2006). To revive accumulation, monetary discipline was imposed through anti-inflation targeting and austerity, marking the onset of neoliberalism (McNally 2011). As the postwar boom also led to extra-national credit relations and the greater internationalization of capital, financial institutions became increasingly involved in global money markets (such

[8] For a fuller account of the diversity of institutional functions by types of agencies, see Marois (2021: 98-100; Table 3.1).

as the offshore Eurodollar market), in conflict with past regulations meant to constrain finance (Bryan 1995). In addition to the 1970s stagflation crisis translating to declining financial profits, this context led financial institutions to push for financial "deregulation" (Panitch and Konings 2008).

A key dimension of this financial "deregulation" was the transition from the Bretton Woods fixed exchange rate to a floating exchange rate regime, initiated by Nixon's decision to unpeg the US dollar from gold, followed by other states floating their currency. In addition to the liberalization of interest rates, the desegmentation of financial markets, and the dismantlement of capital controls, this led to an unprecedented expansion of financial relations, most notably in derivatives markets (Konings 2010).

Derivatives became a central dimension of risk management by internationalized capitals under a floating exchange rate. Derivatives are unique in that they allow for the competitive evaluation of assets (according to their risk-adjusted rates of return) across time and place. By playing this role, derivatives enhanced capital mobility, making each asset, including those used by NFCs in their production processes, more responsive to competitiveness. Derivatives had therefore the notable effect of pressuring NFCs to raise the rate of exploitation of their workers (Bryan and Rafferty 2006: 213-14). While these speculative markets have an internal dynamic that can take a life of its own, it is a mistake to neglect the functional role they play alongside the predatory speculation that can disrupt capitalist accumulation.

In addition to "free trade", the "deregulation" of finance led to a period in capitalist history where capital mobility was most enhanced, not only in "industry", but most of all in money (Husson 2006: 233). This allowed money capital to move toward the economic activity and location which generates the highest return, therefore intensifying competition by deepening the disciplinary role of the "law" of value. As investors and financial institutions roamed the world for higher returns, they no longer needed to limit their investments in nationally-based firms and locations. This context formed the background that led some states to revive the roles of PFIs.

*The "neoliberal loyalty" of public finance*

In general, the growth of public forms of finance slowed down during the neoliberal period, even reversing in certain countries. Even in the postwar period, "public banks" were often seen as temporary, contingent solutions to the frailty of available private financing. As banks and other financial institutions profited from the expansion of financial relations over the boom, their push for the "deregulation" of finance included public bank privatizations (Marois 2021: 58).

As private finance capital moved increasingly into activities that provided the highest and short-term returns, moving away from riskier long-term ventures with uncertain returns, the period also saw the resilience and transformation rather than disappearance of public forms of finance (Epstein and Ugurlu 2020; Lapavitsas 2020; Naqvi, Henow, and Chang 2018). PFIs were called upon to close the gaps in domestic financial systems produced by private finance's "short-termism", notably for financing the early stages of domestic capitals attempting to penetrate the new "high-tech" sectors of the period.

States continued to mandate PFIs to perform older financial functions, from socializing risks and costs through venture capital, funding mergers, leveraging private capital, and providing counter-cyclical lending. But now, states, especially in small and regional economies like Quebec, mandated PFIs to amass sufficient financial capacities to support the internationalization of national firms through the coordination of public and private domestic financial institutions (Rouzier 2008).[9] Notably, this was supported by reforms adopted to allow PFIs, such as public pension funds, to invest increasingly outside of government bonds for infrastructure into new asset classes such as company stocks, not only domestically but internationally (Blackburn 2002; Skerrett 2017: 129).

In addition, some states sought to *limit* certain predatory forms of finance as part of their role in supporting the expansion of domestic capitals. Notably, this meant states facilitating the mobilization of the financial means to oppose hostile corporate takeovers

[9] As certain PFIs came to support the internationalization of domestic capitals and were involved in the buying and selling of assets in global financial markets, they also came to depend on derivatives to offset risks of offshore currency fluctuations that might damage the future "realized" profitability of their investments.

(Courchene 1990), often associated with shareholder value corporate governance, and reforming corporate governance laws (Soederberg 2010). This role was also often shouldered by PFIs particularly as part of industrial policies focused on building-up firms in "strategic" sectors. As Marois (2021: 147, emphasis added) observes, "Public banks can similarly shield finance capital, the wealthy and privileged, large financial *and non-financial corporation*s, and even the financial world market from these same financial imperatives, entrenching their social power over social reproduction."

If PFIs were re-tooled to compensate for monetary functions which were ill-provided by private finance, public banks tended to be more closely aligned with private sector priorities in the neoliberal period (Marois 2021: 21). Even if their mode of operation were at odds with the short-termism associated with financialization, these institutions may have participated in the neoliberal restructuring of capital as competition intensified, a process I refer below as "neoliberal loyalty".

The specificities of the "neoliberal loyalty" of public finance contrast with other types of financial behavior: "exit" and "voice". Investors can sell their stocks in a particular firm ("exit") which then reduces the share price of the firm, exerting pressures on the firm itself. Another mechanism is "voice", which can refer to "activist" shareholders pushing for a reform agenda within the firm to increase its profitability.

There is a third investor type of behavior, which has been coined "loyalty". In Hirshman's theory (2004), this refers to the long-term relationship of supporting a company in good and bad times. This has been associated with a key feature of "patient capital" institutions. For the purpose of this dissertation, this concept will strictly be used to refer to *financial institutions supporting management decisions through longer-term detention of shares*. Theories of financialization tend to see this practice as a thing of the past, given the tendencies toward a higher turnover time in asset trading and disintermediation (Smith 2006: 123-24). However, this remains a useful notion, given the persistence of PFIs involved in long-term corporate interlocks relationships. What makes these "loyal" shareholdings neoliberal is that those managing the portfolios of these financial institutions can potentially side behind the management decisions of the firms in which they have important interests to *restructure along neoliberal lines, rather than "voice" against labour concessions*.

## Continuity and Change in PFIs, 2000-20

The phase of neoliberalism that began with the end of the "Clinton boom" was marked by two systemic crises: the dot-com crash of 1999-2000 and the 2007-08 Great Financial Crisis. If these crises often highlighted the roles of private financial institutions and NFCs in speculative, predatory and fraudulent practices, the participation in derivatives market trading was not limited to these institutions and firms. As the role of the CDPQ in the asset-backed commercial paper (ABCP) crisis in Canada revealed (Hanin 2016), PFIs also participated and were exposed to these contradictory capitalist financial dynamics.

These crises reflected financial volatility amidst a world economy marked by manufacturing over-capacity. Low interest rates only exacerbated the latter tendencies of over-accumulation by keeping afloat companies that would otherwise go under, preventing the restructuring of capital needed to relaunch accumulation sustainably (McNally 2011; Roberts 2016).

In the face of such crises, certain private financial institutions were taken over by the state. However, this was often part of a crisis management to stabilize the global capitalist financial system, as these financial institutions often remained temporarily under public control (Lapavitsas 2020). These state interventions were far from the more radical demands to democratize the financial sector and turn it into a public utility to finance a jobs guarantee program, the expansion of social provisioning, and the creation and renovation of public infrastructure based on needs rather than profits (Blakeley 2019; Panitch and Gindin 2010).

PFIs, such as public pensions funds, were often reformed to operate more narrowly according to profit-maximization, underwrite private investments, and pool private sources of capital (Hanin 2016). However, the previous crises posed challenges for finding new asset classes that could be profitable in line with such profit-oriented mandates. As a "solution", this period was marked by growing public infrastructure privatizations, as public-private partnerships multiplied, opening infrastructure ownership to profiteering by various financial institutions. Canada's public institutional investors, including in Quebec, were highly involved in this process (Skerrett 2017: 124).

The reforms that subordinated PFIs more deeply to profitability mandates were driven by a wider corporate governance movement which deepened and extended shareholder value governance rules to new institutions and firms (Laurin-Lamothe 2019). On the other hand, this period also saw the proliferation of socially responsible investment as a new ideological paradigm adopted by an increasing amount of financial institutions, including public ones like pension funds (McCarthy 2017). These "stakeholder" currents of governance reforms advocated notably for having more diverse constituencies represented on corporate board of directors. As Soederberg (2010) argues though, these "progressive" financial movements tended to see capitalist financial markets as an even playing field that could become a lever to transform corporate practices. As she notes, corporate law allowed capitalist managers to refuse taking into consideration shareholders' assembly resolutions that would interfere with "day-to-day" business practices (such as labour process), therefore preventing "stakeholder" pressures form subordinating corporate decisions to the improvement of workers livelihoods.

Public finance also became increasingly mobilized during this period in favour of "green" industrial policies (Mazzucato 2015b).[10] The actual tendencies of this process still remained within the "additionality" framework of socializing the risks of "green innovation" for future profitable capital accumulation (Marois 2021). This remains a contested process since, as ecological movements across the world pressures these financial institutions to end financing fossil fuel industries, what alternative ends such financial institutions should serve remains an open and contentious question (Belliveau, Rowe, and Dempsey 2021).

As a result, if PFIs continued to decline in relative terms, they remained a substantial financial actor during this period as they held 20% of all bank assets, public and private, even if this was much lower than their peak of 40% during the 1970s (Epstein and Ugurlu 2020: 49).

[10] Of the $454 billion invested in climate finance in 2016, public and private finance invested similar levels of money, even if PFIs held approximately 20% of all banks assets public and private (Epstein and Ugurlu 2020: 63).

## PFIs: A Particular Form of Capitalist Finance

Locating PFIs within money's roles as measure of value and medium of circulation was important to prevent reifying them as having inherent "pro-public" functions at odds with the private interests of capital. While PFIs can allocate money capital according to social rates of return that appear relatively removed from the discipline of capitalist markets, in line with money's role as medium of circulation, we showed how PFIs, as those mandated by industrial policies, can come to be disciplined to channel their money capital toward firms that are competitive in the long run.

During the postwar era, PFIs were most prominent in societies like Quebec lacking a strong private financial sector to finance the "modernization" of industry. However, class conflicts over PFIs could not but emerge in states where they gained prominence. The role of PFIs in support of industrial policy and competitiveness of national (or regional) firms were in contrast to demands from unions and social movements for using PFIs to finance jobs, the democratic ownership of firms, and expanded public social provisioning.

In response to the financialization of the neoliberal period, public forms of finance continued to provide lower cost and "patient" public credit and equity as private finance could not on its own shoulder the risks for large loans in the restructuring the capital stock or in research in innovation that came with the ITC revolution and globalization. For small economies like Quebec, PFIs, with the support of the state, had the financial capacities to coordinate with private and cooperative financial institutions to finance the internationalization of domestic firms. These "coordinated" interventions constituted something like a national shareholding bloc, which insulated firms from hostile takeovers. Although these long-term financial relationships were at odds with short-term capital-gains-seeking behavior, this also meant accommodating the intensified competition and financial disciplines of the neoliberal period, a practice that can be labelled as "neoliberal loyalty".

This theoretically grounded history of PFIs, which will inform my critical analysis of Quebec's "coordinated" forms of finance, contributes to expand the Marxist critique of the "varieties of capitalism" approach to finance. Marxian political economy has often critiqued the latter based on analyzing the transformation of "coordinated" financial systems into “liberal” ones (Sablowski 2008). While these studies are rich in grappling with the transformations of these financial systems, prior to such transformations, we are left with the impression that such financial institutions were conducive to more egalitarian outcomes, as the “varieties of capitalism” approach claims. As Thelen (2012) observed, it is important to disentangle “coordination” and “long-termism” from “egalitarianism”.

If this chapter has provided some of the theoretical foundations to understand the historical transformations of PFIs, there remains a similar theoretical task to account for the changing relationship of finance to NFCs as they coped with deepening competitive constraints within their own organizational structures. This will then allow us to better understand the role PFIs played in the process and why states used PFIs to insulate capital against the worst forms of financialization that could compromise industrial policy goals. That is what will be discussed in the next chapter.

# Chapter Three

## Corporate Capital, Competition, and the Relationships between Finance and Industry

It is necessary to examine how particular so-called "patient capital" institutions are shaped by market imperatives and class structures in different historical periods and in different regional contexts (in our case in Quebec). In the last chapter, I laid out a Marxian theoretical framework appropriate to the historical investigation of Quebec's public financial institutions between the postwar and neoliberal periods. It explained how capitalism reconfigured central monetary functions that were critical for analyzing not only private finance but also PFIs.

Mandated by industrial policy goals, PFIs provide money as a medium of circulation that can appear removed from the immediate pressures of market imperatives. PFIs can also be constrained to provide money capital to non-financial corporations that are internationally competitive in the long run, in line with the role of money as measure of value. It is critical, then, not to reify public forms of finance as serving inherent and unalterable "public" mandates at odds with capital accumulation. These "patient capital" institutions, while at odds with the short-termism of predatory financial institutions, can support the neoliberal restructuring of NFCs, referred to as practices of "neoliberal loyalty". This understanding points to the need for an investigation of the ways states and class conflicts shape the governance frameworks and practices of PFIs.

This chapter adds to this argumentative thread by analyzing how NFCs can come to internalize competitive constraints within their own organizational structures in the first place. That is, it is necessary to clarify the pressures on firms to restructure their financial and organizational relations, notably with their workers and their surrounding communities, and why PFIs, operating as they do in capitalist markets, need to accommodate firm-level restructuring. This theoretical orientation contrasts with the failure of institutionalists to investigate how PFIs mediate the class relations peculiar to capitalist production. The presentation below of the institutionalist *use-value* view of the firm will further clarify why this is the case.

The point is made below that the modern corporation's new ownership and managerial structures, while opened to new distributional conflicts, do not necessarily involve antagonistic relationships between "industrialists" and "financiers". The ways in which capitalists valorized corporate assets changed as corporate organizational structures transformed between the postwar and neoliberal periods. Understanding how NFCs responded to intensifying market pressures across different institutional contexts is important to challenge the "varieties of capitalism" assumption that in economies like Quebec, institutional configurations encouraged a non-neoliberal path to international competitiveness. This chapter also explores how the financialization of NFCs can refer to financial mechanisms deepening financial discipline upon capitalist production (which will be part of examining the financialization of Bombardier and its manufacturing strategies in Chapter Eight). This issue is important for this dissertation's concern with understanding if firm-level incentives and constraints have compromised industrial policies.

**The Use-Value Institutionalist Conception of the Firm**

As noted in the previous chapter, institutionalists rely on a conception of capitalism in which finance is either dominated by "speculative" or "fundamental" value, with respectively detrimental or favourable effects on the "productive" economy to the extent that "patient capital" is available to support the investments of NFCs.

Underlying this perspective is a view of the firm as a *use-value* organizational complex as institutionalists associate each prevailing technological paradigm with distinct use-value constraints that determine the best practices for firm organization and the matrix of skills needed by workers. In this view, the postwar Fordist manufacturing industry required large fixed-capital investments for mass production, specialized skills in applied sciences and engineering, long-term horizons for capital investments, and a top-down technocratic management (Galbraith 2007). By contrast, the information and communication technologies (ICT) of the "post-Fordist" period allowed custom-made production, requiring lower levels of fixed capital investments and flexible firm organizations based on cooperative arrangements between management and workers (Castells 2010).

Adapting business organizations to the prevailing socio-technical paradigm is a process vulnerable to institutional failure. For example, a technocratic firm that is unable to tap into the tacit knowledge of its workforce will fail to capture the productivity gains offered by ICT (Lazonick and O'Sullivan 2000). An appropriate organizational model will also depend on a type of financial system and corporate governance that allows the operational branches of the firm to steadily acquire and build-up the know-how for technologically advanced production. This is not automatically guaranteed. Predatory financial institutions can pressure corporate management for short-term and higher shareholder returns incompatible with these long-term organizational challenges.

For institutionalists, different linkages between finance and "industry" are possible given the institutional features of the modern corporation. With the emergence of the corporation, ownership was no longer tied to the direct control over the valorization of corporate assets but took the financial form of a stock giving right to a share of the firm's revenue stream (dividends) and votes in shareholder meetings. Once openly tradable on stock markets, stocks gave their proprietors the right to capital gains from the buying and sales of these assets. Shareholders had limited responsibility in relation to company losses, proportional to their investments. As a legal moral person granted under bureaucratized business law, the corporation was an entity formally independent from any owner or manager and its lifespan became potentially "infinite".[11] The valorization of a corporation's tangible and intangible assets was under the administrative control of new management structures (Berle and Means 1991; Itoh and Lapavitsas 1999; Roy 1997).

Berle and Means argued that the formal separation of ownership and management characteristic of the corporation resulted in the managerial control of firms since, according to them, ownership had become diluted into a large number of shares held by a myriad of dispersed shareholders. For neoclassical financial economics, Berle and Means' analysis demonstrated that in the absence of appropriate firm-level incentives and constraints, firms would no longer be run according to shareholder value. For contemporary institutionalists, Berle and Means (2008) pointed instead to a potential conflict at the heart of the corporate

[11] These institutional features of the modern corporation contrast with pre-modern corporate forms, which were limited to time-delineated mercantilist ventures sanctioned by royal decree and with joint investments between trusted business partners where property rights are non-negotiable and owners have unlimited liability.

form between the interests of financiers, management, and wider stakeholders. To prevent the takeover of a *shareholder value* view of the firm, *stakeholder* corporate governance currents advocated for boards of directors representing diverse constituencies (such as employees, suppliers, and financiers). For institutionalists, corporations could *potentially* be institutions regulated by democratic pluralism abstracted from capitalist constraints (Diamond 2022).

Similarly, Galbraith (2007) argued that corporations had become run by a new technostructure composed of engineers and other members of the professional middle-class. According to him, managerial autonomy from short-term profit maximization and the instability of capital markets derived from the ability of NFCs to finance investments through retained earnings (see also Toporowski 2014). A neutral technostructure could then have the latitude to not only engage in growth-maximization strategies but to channel corporate revenues toward more noble social and political ends than the self-enrichment of rentier shareholders.

For institutionalists, the fact that this rationalized managerial function could serve different goals was also the result of the marginalization of price competition. The rising costs and risks of large fixed capital investments were considered incompatible with "classical" competition. Large corporations became "price-makers" rather than "price-takers", with lead firms setting a floor price that others followed (Schumpeter 2005). This regulated capacity utilization and expansion to prevent price and profit depression due to overproduction. From the perspective of institutionalists, inter-firm competition was a problem throughout the 20$^{th}$ century, solved through different regulatory and governance environments favourable to competition over "quality" rather than price (Fligstein 1993: 12-13).

The standpoint of the *use-value* view of the firm informs the institutionalist critique of the financialization of NFCs. If a society will acquire the organizational capacities and skills specific to a prevailing technological paradigm, shareholder value corporate governance is seen as most detrimental for meeting such *socio-technical* challenges.

*Shareholder value corporate governance*

For institutionalists, the financialization of NFCs is intertwined with the emergence of a "shareholder value" corporate governance pressuring managers to take business decisions favourable to higher returns for shareholders (Aglietta and Rebérioux 2004; Fligstein 1993; Lazonick and O'Sullivan 2000). The financialization of NFCs, in this sense, encompasses a shift in power from corporate boardrooms and executive offices to the financial markets, dominated by institutional investors and credit rating agencies. Shareholder value corporate governance is seen to mark a transition from the long-term planning system (or "retain and reinvest") of the "Golden Age" era to a pervasive short-termism focused on increasing stock prices, dividend payouts, and stock buybacks (or "downsize and distribute") as the central objectives of the firm (Morin 2017: 95-96; Krippner 2012: 9; Lazonick and O'Sullivan 2000).

This transformation in corporate governance occurring from the 1980s onwards was the result of regulatory changes. The development of new markets for corporate takeovers were favoured by reforms diluting national shareholding blocs and opening the ownership structures of NFCs to foreign institutional investors. As institutional investors mobilized savings on the promise of delivering higher returns than their competitors, these financial institutions pushed firms to increase their profits and their dividend pay-out ratio and share buybacks. Failure to match these pressures could result in a lower market capitalization and a hostile takeover by "activist" shareholders (Morin 2017: 101-09). Managers also received new compensation schemes, such as stock options and annual performance bonuses, to incentivize them to make decisions that increased the market capitalization of companies in line with the interests of shareholders. Higher senior executive pay was facilitated by tax cuts on the capital gains corporate managers made from selling their stock options on inflated share prices (Laurin-Lamothe 2019).

Quebec case studies of the financialization of NFCs argued that large companies in the Quebec forestry sector like Tembec and Abitibi Bowater became subordinated to shareholder value imperatives resulting in plant closures and mass layoffs (Duhaime et al. 2010; L'Italien et al. 2012). Canada's FTAs and the dismantlement of capital controls had enabled large foreign institutional investors to penetrate the ownership structures of

Quebec-based corporations. Also, the creation of larger financial institutions in Quebec and Canada resulted from the "deregulation" of the financial sector, previously segmented into four pillars: commercial banking, trusts and estate management, underwriting of insurance, and investment banking (Babad and Mulroney 1993; Bienefeld 1992: 36; Coleman 1996) (see Chapter Nine). These larger financial institutions were then better positioned to pressure NFCs to deliver higher shareholder value. Reforms to increase shareholder representatives on corporate boards in Canada were also adopted, especially after the dot-com crash of 2000 (Carroll 2010). Bourque (2013) and Laurin-Lamothe (2019) argued that a pervasive shareholder value corporate governance had encouraged Quebec NFCs to hold back "real" investments in favor of financial investments.

Case studies of NFCs in the US context showed how companies like General Electric and Ford turned their internal finance units into huge financial enterprises partially decoupled from their manufacturing activities. These financial activities included consumer and commercial financial services, issuing private-label credit cards, managing trade receivables, financing leveraged buyouts, selling mortgage insurance, borrowing, and trading varied financial assets on own account (Froud 2006; Krippner 2012).

For institutionalists, such financial claims and practices were incompatible with the patient acquisition of high value-added technological know-how (Lazonick and O'Sullivan 2000). As firms became seen as a bundle of assets to be bought, restructured, and sold for short-term capital gains, they could no longer be coherent productive agents pursuing a long-term organizational strategy. As Fligstein (1993: 15, 30l emphasis added) argued: "The *product* mix of firms is less important in the finance conception because each of the firm's businesses are no longer *product lines*, but *profit centers* [...] Firms than paid more attention to short-run objectives." These "financialized" corporate strategies may keep companies *financially* afloat but, as institutionalists contend, they undermine the ability of firms to compete with companies embedded in alternative corporate governance structures favourable to "quality" production (Erturk 2008: 308; Milberg and Winkler 2013: 231). Firms fixated on shareholder value were, moreover, incompatible with institutional compromises with workers and long-term commitments toward suppliers and communities (Morin 2017: 95-96; Wright 2015: 231-45).

The critique of financialization developed by institutionalists is made, as Fligstein's perspective makes clear, from the standpoint of a *use-value* view of the firm. This conveys the impression that only when firms became "financialized" were they regulated by *exchange-value as an end in itself*. But under capitalism, both finance and production are driven by the pursuit of exchange-values and profits. This claim informs an alternative conceptualization of the financialization of NFCs developed below.

*Divergent financial systems and firms*

The "varieties of capitalism" approach sees the financialization of NFCs as mostly limited to "liberal market economies" (LMEs) located predominantly in Anglo-Saxon countries. Institutionalists thus defend bank-based financial systems, as has been argued, as favourable to a stakeholder corporate governance that supports both the growth of the "real" economy and "socially-just" institutional compromises. They are considered suited for corporate organizations adapted to the prevailing technological paradigms, such as Japanese "Toyotism" and its "network" firm conducive to productivity gains (Erturk et al., 2008: 300-01, 328). Lipietz (2001: 30-31), for example, pointed to regions such as Northern Italy and Southern Germany where "banking capital remains intimately tied to industrial capital … [T]hese are the local societies where 'negotiated mobilization of human resources' are favored as a way out of the crisis of Fordism." The "Quebec Model" institutionalists also interpreted Québec Inc. as a mixture of bank- and state-based financial systems based on long-term relationships between "industry" and finance. These linkages relied on ownership blocs between national business managers and "patient" capital providing institutional limits against hostile corporate takeovers, they argue, and insulated the Quebec economy from processes of financialization. This favoured Quebec's industrial policies (Bachand 2001; Lévesque 2002: 11-12; Noël 1994: 429). For institutionalists, the financial systems and corporate governance of "coordinated market economies" (CMEs) contributed to a business rationality favourable to long-term employment relations, professional training, and an equitable profit-wage share compatible with international competitiveness (Hall and Soskice 2001).

These models of institutional coordination have, however, still been subject to constraining economic and political pressures. Governments in the countries and regions mentioned above adopted in recent decades measures to promote capital market developments, wider share ownership, and pension schemes funded in capital markets (Toporowski 2014: 43). For Quebec institutionalists, some of these policy shifts tend to be associated with the Charest Liberals' reforms in the 2000s, resulting in a so-called break with the Quebec Model as a CME.

Prior to their liberalization, institutionalists nevertheless fail to register how CMEs financial systems and corporate governance could be subjected to market disciplines and competitive conditions in which labour exploitation is increasing. While PFIs – and "patient capital" more generally – can mediate the construction of national blocs of ownership that insulate NFCs from the predatory practices of speculators, it does not necessarily follow that these same institutions can avoid being implicated in neoliberal corporate restructuring. Therefore, there is a need to assess the conditions and forms in which NFCs internalize competitive constraints within their own organizational structures.

**Capital, Organizational Forms, and Finance**

The Marxian conception of capitalism insists on historically unique social relations of production mediated by market imperatives, where not only finance but also production is driven by exchange-value. Corporate organizational forms are rooted in value and class relations, and they can neither suspend nor transcend surplus value production and appropriation (Soederberg 2010: 12-13). Moreover, competitive tendencies to the concentration and centralization of capital result in continual transformations of previous business organizations (Harvey 2006: Ch. 5). The type of firm that emerges dominant to further the expansion of capital is tributary of domestic and international politics (Bryan 1995: 41).

Joint stock capital is the historical Marxian concept used to grasp the modern corporation. While the shifts in time and space of the firm's institutional features are accounted for, the focus is on how corporations internalize and mediate new forms of capitalist competition and work relations (Bryan and Rafferty 2006; Itoh and Lapavitsas 1999).

Within the firm, finance and investment are under the supervision of centralized management structures. Decentralized labour processes dispersed geographically are under the oversight of technical and human resources personnel; the sales of the corporation's products are managed and monitored by marketing and accounting departments. In an organizational hierarchy, the "technical-social" organizational forms of the labour process are subordinated to the juridical form of the corporation, which itself is disciplined by its internal and external financial forms (Morin 2017: 63-68).

Joint stock capitals internalize market discipline even more deeply as corporations have moved from horizontally and vertically integrated firms to conglomerates and from "national" to multinational corporations (Harvey 2006: Ch. 5). Centralized corporate headquarters allocate money capital toward the plants, product lines and suppliers that promise the highest returns, that is, to the plants which have similar levels of technological know-how and lower labour costs. The degree to which firms are vertically organized will depend on whether it is more cost competitive to buy out suppliers and restructure them or to deal with globalized value chains (Milberg and Winkler 2013). These profit calculations also impact other organizational decisions such as sticking with existing product lines or adopt conglomeration strategies by entering new sectors (Brenner 2006; Fligstein 1993; Serfati 2008).

As noted previously, finance plays the role of enforcer of capitalist competition through its supply of loan capital and its underwriting and monitoring of corporate stocks. With the separation of ownership from the direct control of corporate assets, the conditions for a secondary market for stocks trading and a market for corporate control is created, with the direct consequence that firms become increasingly disciplined by the impersonal force of market capitalization (Bryan and Rafferty 2006: 84-85). These financial processes have a direct impact in compelling NFCs to secure their competitiveness by extracting more labour from labour-power (and thus more value and profits) than their competitors.

The institutional features of the modern corporation have resulted in a new composition of the capitalist class: large shareholding institutional investors, boards of directors (dominated by representatives of financial and industrial capital), and senior shareholding executives (CEOs). Large investors own shares and thus, a claim on a company's revenue streams, in addition to sufficient voting rights to determine strategic decisions such as the nomination of a company's board of directors. While absent from corporate day-to-day management, financiers' investment choices, based on an assessment of the profitability profile of firms, enforce competitive pressures. Boards of directors are composed of smaller groups of owners supervising corporate decision-making that, if conducive to capital accumulation, will honor their fiduciary obligations and sustain their remuneration (which can include stock options) for such administrative services. CEOs uniquely combine their ownership positions with direct operational knowledge of the firm, putting them in a strategic position to orient business decision-making. In contrast with financial investors, CEOs and corporate boards are better positioned to control a corporation's tangible and intangible assets (Diamond 2022).

As Diamond (2022: 98, 101; emphasis in original) argues, "instead of being locked in a ceaseless conflict […] the occupants of these roles largely *cooperate* […] these three elements (investors, boards, and executives) hold the complete bundle of rights needed to carry out the purpose of the corporation: *sustaining the valorization and capital accumulation process.*" These institutional layers of the capitalist class have common interests since successful value extraction is the material basis for raising profits, allowing both company reinvestments and income redistribution to these economic elites (Grant and Thille 2000: 153). It is mistaken to see the relationship between "industry" and "finance" as necessarily antagonistic, as institutionalist critiques of financialization contend.

The unity between finance and industry is always contingent and is not automatically reproduced since disjunctures can undo institutional configurations between finance and industry (Harvey 2006: Ch. 10). For example, corporate ownership can be under the controlling interests of various entities (such as families, pension funds, and hedge funds) oriented by different modes of operation: long-term stockholdings, pressuring management to change their business practices (also known as "voice"), or engaging in short-term stock trading for capital gains (Morin 2017). Distributional conflicts can occur over *how much* should be redistributed toward financiers relatively to a company's retained earnings. To illustrate this conflict, predatory financial actors can lead a hostile takeover to force a company deliver a higher cash flow to shareholders. These destabilizing financial pressures can undermine the long-term planning capacities of firms. To better balance money redistributed to investors and internal funds for investments, R&D, and mergers and acquisitions (M&As), managers can push for a joint strategy with other "more reasonable" shareholders, or they might look toward the state for laws that curtail the power of predatory institutional funds, with no guarantees of success.

The above account of how corporations internalize competitive pressures differs from the institutionalist thesis on "managerialism" reviewed above. Against the latter's view that large firms can serve ends emancipated from profit maximization, Mandel (1999: 232) argued that corporations pursued *long-term* profit maximization in line with market imperatives. As disparate economic activities became increasingly integrated by the world market, the law of value made itself more deeply felt throughout the changing organizational forms of firms (Harvey 2006: 153).

The particular forms taken by corporations are vulnerable to the booms and busts of capital accumulation. When firms face sustained profitability losses, political pressures increase, and potentially disrupt existing institutional configurations of "industry" and finance. Changing corporate organizations need to be located within the crisis tendencies of capitalism and the particular ways such crises are temporarily resolved (Harvey 2006: Ch. 10).

When firms introduce new state-of-the-art technologies, they will have a capacity to cut costs and gain a competitive advantage and threaten past investments of competitors with devaluation. The tendency for the fixed capital stock to increase also lengthens the time horizons needed to recover sunk costs and realize profits. The existing company's "product lines" can thus face cost pressures from their competitors and, moreover, the dilemma of scrapping past technologies too early and threatening their profitability, incurring bankruptcy. While fixed capital investments are the central means to increase surplus value extraction in capitalism, they are also a contradictory process for securing future valorization (Brenner 2006: 29-37; Harvey 2006: 221, 237-38).

As the contradictory processes of accumulation leads to the concentration and centralization of capital, corporate organization take the form of joint-stock capital that facilitates fixed capital investments. Within these larger firms, the growth phase of the business cycle has built-in tendencies toward an "over-speculation" as the expected profitable opportunities opened by the initial boom cannot be met, and firms do not coordinate their individual investment projects, leading to excess "industrial" capacity, a lack of realized profits, and the scrapping of past investments. As the fixed capital in any given labour process increases in size, scrapping becomes more costly, the relocation of investment becomes more difficult, and, therefore, crises tend to become more profound and prolonged (Itoh and Lapavitsas 1999: 119-20).

Are financiers able to escape the constraints of over-accumulation as their capital circuits are relatively autonomous from those of industrial capital? Capital market inflation, for example, depends on concentrated and massive sums of money capital being channeled toward specific asset classes, driving prices upward and reaping sustained capital gains with appropriate market timing, in a process quite distinct from the over-accumulation of industrial capital (Knafo 2009). But without surplus extraction and accumulation of the "real" economy, capital market inflation will encourage instability and form the basis for financial crises (Bryan 1995). While finance can accelerate capital accumulation in larger corporations, it can also have a predatory and destabilizing role (Harvey 2006: Chs. 9-10).

To revive capital accumulation, a restructuring of the capital stock and labour processes is required; this will also encompass organizational forms. This does not automatically occur, however (Harvey 2006: Ch. 10). NFCs can be led into pursing financial manoeuvres (such as financial activities, M&As, and asset stripping) as ways to revive their profits in the short-term. Still, NFCs cannot sustainably revive their profitability without a restructuring of their production processes (Harvey 2006: 320). Whether this is led by top management or by "shareholder revolts" (or by the state – as discussed in Chapter Four) is a matter of historical investigation.

## Emulating Large Vertically Integrated Firms, 1945-80

The previous theory section informs the following narrative on the transformations of the organizational forms of NFCs between the postwar and neoliberal periods and crises. This history will explain why and how NFCs internalized more deeply competitive pressures as they moved from vertically integrated firms to multinational corporations' (MNCs) new production networks based on extensive outsourcing. This analysis will inform the way states with a project of economic "modernization", like Quebec, emulate and adapt the corporate forms of leading capitalist countries considering their own economic constraints, giving rise to variations in the relationships between "finance" and "industry".

The leading capitalist countries were already home to large corporations, that had been forming since the late 19th century (Gindin and Panitch 2012: Chs. 2-3). For these firms, the postwar period intensified their strategy of vertical integration of all stages of production, from inputs to final assembly. In addition, NFCs adopted strategies of manufacturing conglomeration extending into retail operations (Fligstein 1993). For well-established multidivisional corporations, investments were financed by internal funds, granting corporate managers decision-making autonomy in the allocation of assets from shareholders, while still directing investment toward the most profitable plants and product lines to secure the firm's long-term profit maximization (Mandel 1999: 232).

In contrast to leading states, those attempting to "catch-up" could not expect existing corporations that were already technologically lagging to initiate spontaneously industrial upgrading. These national and regional states would need to rely on industrial policies (as discussed in the following chapter). Finance posed a particular problem as the prior accumulation base in these cases was limited, liquid capital markets were not likely well developed, and thus bank- and state-based financial systems were more prominent for financing. This often led to interlocking directorates between "finance" and "industry" and greater national ownership blocs, favoring financial institutions with a more "long-term" outlook (as discussed in the previous chapter).

These "backward" countries also faced the challenge of developing a domestic capitalist class equipped with the technological and managerial know-how to run competitive large businesses. This often favoured nationalist state policies authorizing FDI in exchange of constraining these MNCs to hire domestic managers that spoke the national language in their branch plants. While this process first occurred in Canada during the first half of the 20th century, European countries also came to emulate US corporate forms while adapting to their own managerial resources and contexts (Gindin and Panitch 2012: 112-17; Smardon 2014).

This cross-border interpenetration of different capitals had the consequence of undermining the project of a "national" bourgeoisie geared toward securing a home market by excluding foreign capitals and tempted to challenge US hegemony. The image of the postwar boom as forming an integral national economy should be judged with caution (Halperin 2013: Ch. 7; Sassen 2007: Ch. 3). If forward and backward linkages between domestic primary and manufacturing production contributed to a strong home market, the latter was used as a launching pad for exports, most often into the US market (Brenner 2006: Chs. 5-6). This is what led Poulantzas (1978: 73) to argue that states during this period increasingly internalized the reproduction of the dominant (imperialist) capitals (and states) within their own domestic power blocs.

"Modernizing" societies legitimated their "catch-up" projects on the basis that developing a stronger domestic nationalist capitalist class would be a means to increase the living standards of the entire nation. But contrary to the postwar ideology of the "mixed economy" superseding class antagonisms and the capitalist crises of the past (Streeck 2014: 1-6), there was a systemic profitability crisis during the 1970s. This crisis was caused by a combination of intensified competition, an exhaustion of the past technological paradigm, and a "full employment" profit squeeze on income shares at the peak of the boom (Brenner 2006; Gindin and Panitch 2012: 135-44). The falling market capitalization of corporations was a financial symptom of real profitability decline.

This crisis put strains on corporate organizational forms. NFCs responded to this crisis in different ways. Early multinational firms began to relocate some of their production processes in lower-cost, un-unionized regional or national economies (Moody 1997). Firms also extended into financial activities, from merchant credit to derivatives trading (Froud 2006). Nevertheless, NFCs did not shift their investments from production into financial investments (as Krippner (2012) contends) since NFCs initially maintained during the 1970s real investment rates proportional to the postwar boom's peak years levels (Brenner 2005: 230-31). Across different financial systems, firm were being pressured to restructure by various means, from selling off divisions insufficiently profitable or with low growth potential (such as in the US-leveraged buyouts during the 1980s) (Henwood 1998) to PFIs siding with management demands for workers concessions (such as in the Quebec case (see Chapter Five).

**Corporations under Globalization and Financialization, 1980-2000**

The revival of capital accumulation could not be limited to financial manoeuvres or stand-and-fight standoffs in existing product lines, as was attempted during the 1970s. The transition to neoliberalism beginning in the 1980s was critical to facilitate corporate restructuring. Through monetary discipline and fiscal austerity imposed by the economic authorities of the state, alongside legislative restraints on the collective bargaining power of unions, this provoked a recession and mass unemployment, which moderated worker militancy. This initiated a process of rationalization of the capital stock that would eliminate over-capacities detrimental to profitable private investment. The neoliberal restructuring of capital eventually led to a revival of profitability within both finance *and* production in the 1990s (Lévy and Duménil 2001; McNally 2011; Gindin and Panitch 2010; Roberts 2016: 61-62; Shaikh 2010),[12] if at lower rates of growth than the postwar boom. This formed the material basis for the *unitary* interests between shareholders and managers as both these class fractions came to recognize how this policy regime was critical to restore capitalist profitability and their class power (Gindin and Panitch 2012: Ch. 7).

The neoliberal period was also characterized by FTAs and the dismantlement of capital controls, interest rate ceilings, and fixed exchange rates. As a result, capital mobility, and thus competition, intensified both in manufacturing and finance (Bryan 1995). Firms had a constrained incentive, *both from product market competition and capital markets*, to intensify exploitation and redistribute money upwards (Seccombe 2000: 131-32).

New markets and financial mechanisms were used by institutional investors to enforce new disciplinary pressures upon firms. A key example associated with shareholder value corporate governance was the formation of new markets for corporate takeover, initially developed in the US during the 1980s. In the face of NFCs with lower market capitalization and dispersed ownership structures, predatory financial institutions led hostile takeovers, pressuring firms to restore profits, notably through "corporate downsizings" and mass layoffs. New accounting norms were introduced to evaluate the returns of each corporate division rather than the firm as a whole, which led firms to sell off insufficiently profitable assets and re-centre their activities on their "core" expertise (Morin 2017). Eventually, during the 1980s and 1990s, these financial pressures

[12] The revival of profitability was greater in finance than in production (Roberts 2016: 61-62; Toussaint 2019), although this does not mean that finance displaced production and trade.

contributed to the push for NFCs to scrap excessive fixed capital that had built up during the 1970s crisis (Brenner 2006: 213-14).

In response to these competitive pressures, firms changed their organizational forms. Corporations further centralized financial, R&D, marketing and accounting in corporate headquarters located in a home base (Hirst and Thompson 1996). Tangible assets were increasingly outsourced, whether in lower-cost, un-unionized regions or "foreign" countries. As new centres of accumulation emerged that could both compete in high value-added manufacturing production but with lower costs, this led corporate horizontal and vertical *disintegration* and geographical dispersal of fragmented labour processes, which Serfati (2008) designated as centralization with *de-concentration.*[13] This trend was not without limits, since in manufacturing sectors (such as auto and aerospace) where final assembly involves proprietary knowledge and advanced technology, NFCs kept productive capacity located in advanced capitalist states (Starrs 2013: 819).

This gave rise to international production networks under the dominance of MNCs, with global value chains being one important strategy. While subcontractors were typically not formally owned by these corporations, the latter retained an indirect control over suppliers through their market dominance as purchasers of component parts and assembly lines. With MNCs controlling the new production mandates that their suppliers could receive, supply chain management represented a new form of corporate power throughout the neoliberal period (Milberg and Winkler 2013).

These organizational developments led to new linkages between corporate headquarters and accounting, legal, marketing and logistics firms (Sassen 2007). Changing corporate forms also placed competitive pressures on the postwar boom's forward and backward linkages between "national champions" and domestic suppliers. Rather than leading to a full hollowing out of manufacturing, domestic suppliers were forced to restructure themselves to preserve and expand contracts with domestic and foreign MNCs. This pushed some domestic suppliers to internationalize some of their operations, by opening new plants near MNCs' offshored factories. This shifted the material basis of industrial policies geared toward building nationally integrated sectors to policies focused

[13] This centralization of corporate power and global dispersal of production processes was facilitated by innovations in transportation, communications and finance.

on leveraging regional clusters of high value-added manufacturing embedded in global value chains (as will be discussed in the next chapter).

These organizational transformations should not be reduced to impositions *from without* by financial institutions since they represented strategic responses *from within* NFCs to the new competitive environment. Beyond being compensated in stock options, corporate managers made business decisions that increased stock prices, since market capitalization affects the credit rating of NFCs and therefore their borrowing costs (Sablowski 2008). Access to credit represents a key weapon in capitalist competition (Harvey 2006: Ch. 10), and management must be guided by this consideration when administering firms. Also, NFCs increasingly relied on financial activities on their own accounts, such as derivatives trading to manage the risk of their internationalized investments and sales in the context of floating exchange rates (Gindin and Panitch 2012: 187-88).

This does not deny that corporations are involved in financial activities that may be decoupled from their historical "core" businesses (Froud 2006). Financial profits may represent a complementary and temporary profit-centre within manufacturing conglomerates (as Bombardier did). If NFCs made higher profits in financial activities, this did not imply automatic exit from their industrial activities. The decision to exit manufacturing divisions is always weighed against the costs of scrapping past fixed capital investments too early.

From the above, the following operational definition of financialization of NFCs (which will inform the Bombardier case) can be defined as the financial mechanisms that: 1) increasingly enforce financial discipline upon firms and thus intensify competition within production; 2) facilitate wealth appropriation to the section of the capitalist classes owning and controlling NFCs; and 3) allow NFCs to accumulate financial profits within the financial circuits of capital without displacing production.

The financialization of NFCs makes the class relation between labour and capital more antagonistic since capitalist competition requires the extraction of more labour out of labour-power and, in turn, pits corporations against their workforce (Bryan and Rafferty 2006: 210). The financialization of NFCs should not be conceived of as an opposition between rentiers and entrepreneurs (Grant and Thille 2000) but as financial disciplines setting profitability targets satisfied or undermined by the overall balance of class forces within the dynamics of capital accumulation domestically and internationally (Gindin 2015).

Certain processes of financialization in this period of capitalism may have been common, but others associated with shareholder value corporate governance have varied by national and regional spaces and institutional forms. As mentioned, some national financial systems associated with CMEs are characterized by institutional *limits* to a market for corporate takeover (as in Quebec). While certain PFIs, in association with other domestic financial institutions, nurtured national ownership blocs insulating NFCs from predatory financial institutions, PFIs did not insulate NFCs from the competitive pressures emanating from global product markets. "Patient capital" financial systems at odds with the short-termism of "financialization" do not necessarily lead toward a form of "stakeholder capitalism".

Different linkages between finance and industry remained embedded within a world market marked by intensified competition. As new centres of accumulation (such as East Asia) were able to combine production based on cutting edge technologies and speed-up, longer hours, and lower wages, countries in the Global North were pressured to relocate their investments toward more cost-competitive plants, to adopt tougher bargaining stances asking workers for concessions, and to change their suppliers (Bryan 1995: 177). Consequently, it appeared rational for these firms, *across institutional contexts*, to push for a neoliberal policy regime that enhanced the discretionary power of NFCs to engage in such corporate restructuring (Baccaro and Howell 2017). The agenda for "progressive competitiveness" is a highly contradictory one (Albo 2004).

**Crises and Their Impact on NFCs, 2000-20**

This period was marked by two important crises: the dot-com crash of 2000-01 and the Great Financial Crisis of 2007-08. These events and how states responded to these crises affected how NFCs further transformed their organizational forms and accumulation practices.

Corporate board reforms multiplied to increase "independent" administrators representing shareholders, who were seen as an antidote to the corporate frauds associated with the dot-com crash (Carroll 2010; Laurin-Lamothe 2019). In the case of "coordinated" models of finance, reforms were introduced to dilute past national shareholding blocs, exposing NFCs in such cases to new markets for corporate control and to hostile takeovers by foreign institutional investors (Sablowski 2008). Alternatively, "stakeholder" currents of governance reforms advocated for electing diverse constituencies on boards of directors to subordinate corporations to social and ecological concerns. As noted in the previous chapter, these attempts were most limited by corporate law, which empowered capitalist managers to decline shareholders' assembly resolutions that would interfere with daily business practices, such as "progressive" changes in the labour process (Soederberg 2010).

In this context, firms more deeply internalized financial disciplines associated with shareholder value corporate governance. *Contra* institutionalist accounts of financialization, this did not lead corporations to shift their accumulation practices further from production to finance. On the contrary, both the dot-com and the Great Financial crises negatively affected the profits NFCs derived from their previous financial activities, leading many of them to sell their financial divisions. As a result, these corporations "de-financialized" their profit sources and further re-centered their focus on "core" manufacturing activities. This process affected many NFCs like GM and GE, and their respective financial arms GMAC and GE Capital (Moody 2017: 48).[14]

NFCs encountered obstacles in sustaining profits from financial activities. When faced with profitability problems on their "industrial" divisions, as this occurred following the dot-com crash of 2000, NFCs saw their credit rating degraded (Froud 2006: 265-77). If financial profits derive from the differences between borrowing and lending rates, a higher borrowing rate pressured downward the ability of NFCs to accumulate financial profits (as Bombardier experienced during the early 2000s with its own financial division (see Chapter Eight)).

This greater "industrial" focus and divestment from past financial divisions of NFCs, however, occurred within a context marked by deepening competition, shaped by "emergent" countries like China. As the firms in these Global South states could compete over "quality" *and* price, the ability of Global North NFCs to enjoy "super-profits" from

[14] Some financially "sound" NFCs continued to lend to other financially precarious NFCs (Toussaint 2019).

technologically advanced "custom-made" commodities became an increasingly risky venture as such technological rents were shortened (Smith 2006). NFCs in advanced capitalist countries did experiment with new technologies, such as artificial intelligence, robotics and digital platforms, to increase their productivity gains and develop new commodities (Bianchi and Labori 2020: 611). To keep up with the disciplinary constraints emanating both from financial and product markets, these NFCs closed down plants more often and increased worker layoffs while engaging in further subcontracting and offshoring. As a result, advanced capitalist societies experienced a dramatic decline in manufacturing employment (Kellogg 2015).

Following the dot-com crash, lower interest rates fueled a financial bubble rather than spurring a new wave of robust "real" investments. This plausibly seems to be related to excessive fixed capital investments that began to accumulate in different industries by the end of the 1990s, reducing the profitability made on new added manufacturing capacity (McNally 2011: 41; Roberts 2016). Still, the income derived from asset price inflation, in addition to expanded military spending following 9/11, did spur effective demand for different manufacturing commodities (notably in luxurious consumer goods). As the mortgage-backed securities bubble imploded, the 2007-08 crisis disrupted this "wealth effect" and resulted in stagnation. The further reduction of interest rates and corporate tax cuts had limited effects on reviving private investment, as manufacturing over-capacity tended to persist after 2007-08. These policy measures kept firms which were lagging behind in capitalist terms financially afloat, shielding them from the disciplinary threat of bankruptcy. Lower interest rates, in addition to quantitative easing, rather led to a new wave of capital market inflation indicated by soaring price / earnings ratio. In this context, finance appeared increasingly removed from any economic "fundamentals" (Brenner 2020). These capitalist contradictions were mystified by both "shareholder" and "stakeholder" currents of corporate governance reform (Soederberg 2010).

## Corporations: A Capitalist Institution across Time and Place

The centralized managerial structures of corporations internalize competitive constraints through their investments, choice of product lines, and suppliers. This process became more profound between the postwar and neoliberal periods as vertically integrated firms and conglomerates moved toward MNCs increasingly reliant on global value chains. During the neoliberal era, disciplinary constraints were also enforced on NFCs by various financial institutions to deliver higher profits and returns to shareholders. If distributional conflicts between "financiers" and "industrialists" can occur, both shareholders and corporate managers have joint interests in surplus value extraction to secure a firm's competitiveness and profitability. If NFCs got involved in financial activities, even ones which were removed from their industrial operations during the 1980s and 1990s, they were often limited to a complementary and temporary profit centre within manufacturing conglomerates.

Different institutional configurations of finance and industry can exist. Where NFCs have dispersed ownership structures in a context of liberalized trade and capital mobility, large institutional investors can use markets for corporate control to launch hostile takeovers, resulting in short-term financial pressures destabilizing corporate managerial structures. As argued in the previous chapter, CMEs' financial systems can provide institutional limits against predatory financial institutions which, in turn, secure managerial autonomy for corporate investment planning. While PFIs can play these roles, they do not necessarily insulate NFCs from intensified competition within product markets. In the face of growing competitors who could combine high value-added manufacturing with lower labour costs, corporations across advanced capitalist states turned to neoliberal restructuring. This context may explain why it is possible that PFIs have participated in such processes, even if how they did so is yet to be investigated.

If this chapter has provided the theoretical foundations to understand the historical transformations of corporations, the task of analyzing how the latter impacted the changing forms of industrial policies remains. The following chapter locates PFIs as part of wider industrial policies and policy regimes to secure the international competitiveness of firms in different institutional contexts.

# Chapter Four

# From "Nationally" Integrated to Neoliberal Industrial Policies

The role public financial institutions play as "patient capital" within industrial policies depends on the wider state interventions to support domestic investments in high value-added sectors. What follows is an account of what these policies tend to include and the various forms they took between the postwar and neoliberal periods.

This chapter begins with an overview of institutionalist approaches to industrial policies, seen as suited for creating the conditions for technologically advanced production and redistributive compromises. This reasoning underpins the contention that the Quebec model of industrial policies diverged from neoliberalism (at least until the Charest Liberals). Alternatively, the following section provides a Marxian account of how the imperatives of capital accumulation, uneven development and class politics determine the forms and effects of industrial policies in different places and times.

As corporations moved to re-organize their nationally centred and vertically integrated firms in global production networks, this posed new policy challenges for states in how to develop domestic productive capacities in high value-added manufacturing while supporting the internationalization of domestic capitals. The point is made below that these industrial policies shifted from facilitating national linkages between sectors in the postwar period to developing private-led regionally rooted sectors embedded in internationalized circuits of capital in the neoliberal period. To secure the international competitiveness of NFCs and business buy-in, such policies were embedded in a wider neoliberal policy regime; concertation mechanisms, when used, were lacking any institutional constraints.

## Institutionalist Perspectives on Industrial Policies

Neoclassical economics analyzes the creation of institutions as contractual arrangements between utility maximizing agents to protect property rights and enforce contracts (North 1981). Against this ahistorical individualist ontology, institutionalists argue that institutions establish the incentives and constraints in which agents constitute their interests, rationality, and identity (Hall 1996). Institutionalists emphasize how extra-market institutions are necessary to solve coordination problems (such as labour training and technological "learning") and favour cooperation between business managers, workers and research and development (R&D) institutions. According to this view, industrial policies can serve as a means to embed markets in the pursuit of long-term goals beyond the sole logic of profit maximization, such as social peace and national well-being (Hollingsworth and Boyer 1997: 2-36).

Industrial policy is different from monetary and fiscal policies which set incentives and constraints indifferently across sectors. While conventional Keynesian macroeconomic management shows concerns with the *volume* of investment, industrial policies attempt to regulate the *direction* of investment. Industrial policies aim to channel investments in high value-added production, develop domestic technological capabilities and a skilled workforce, with the goal of changing the position of one's economy in the international division of labour (Bianchi and Labori 2020: 597; Chibber 2003; Oqubay 2020: 20).

Beyond direct supports to firms or sectors, industrial policies can be composed of an education policy, R&D networks linking universities, technical institutions and firms, a public procurement policy, PFIs, and the development of energy and transport infrastructures. To shape private markets, states can use fiscal credits, preferential loans, export subsidies, joint public-private investments, and conditionalities to leverage foreign direct investment (FDI) for domestic development. "Horizontal" programs apply to all firms and industry while "vertical" measures are directed toward particular sectors and investment projects (Bellack and Cantwell 1998: 66; Bianchi and Labori 2020: 597-98; Oqubay 2020: 20, 44-48; Tsipouri and Gaudenzi 1998: 79).

Mainstream economics does not see growth as flowing from specific sectors. For heterodox approaches, manufacturing (and its composition) has a central role in determining the pace and quality of economic growth (Ashman, Newman, and Tregenna 2020: 180-81). Manufacturing is recognized as having greater potential for inter-sectoral linkages, economies of scale, technological applications, productivity gains, and direct and indirect job growth (Oqubay 2020: 22). Production linkages exist not only between manufacturing sectors but can extend "backward" to technology-intensive resource extraction, and "forward" to retailing and financial services (Bellack and Cantwell 1998: 69; Bianchi and Labori 2020: 597; Oqubay 2020: 24, 45).

To access various forms of state support, firms can be required to rely on domestic raw materials and manufacturing inputs, agree to export targets, and to invest in specific sectors. Amsden (2004) highlighted how conditions attached to state subsidies are central to successful industrial policies. In the absence of control mechanisms, firms can come to depend on and profit from subsidies in ways that shield NFCs from market competition (also known as "rent-seeking" behaviour) and fail to orient investments toward desired economic outcomes. To legitimately enforce such "disciplined subsidization", institutionalists have highlighted the need for competent rational-legal bureaucracies with institutional linkages with civil society to adopt, monitor, and revise policies in what Evans (1995) defined as the conditions for a state's "embedded autonomy".

For institutionalists, industrial policies vary historically according to the prevailing technological paradigm. Postwar "statist" models were supportive of technocratic hierarchical firms typical of "Fordist" mass production (Galbraith 2007). During this period, industrial policies tended to provide "top-down" R&D, skills training, and financial incentives as part of a wider economic management of balancing investments between sectors, firms and re-allocating labour (Storper 1998: 14).

With the advent of the information and communications technologies (ICT) revolution in the 1980s, "flexible" industrial policies began to emerge to foster technological learning (Oqubay 2020: 30-31). Past state supports were seen as best capable of producing individually profitable investment projects without resulting in linkages and innovative cultures necessary to produce economic change and sustained growth (Tsipouri and Gaudenzi 1998: 76-79). As Storper, Thomadakis, and Tsipouri (1998: 5) argue: "The primacy given to coordination-for-learning does not mean that all the standard tools of industrial policy are to be abandoned, but rather that their substantive purposes are now altered to include and give priority to coordination over time for learning."

The goal was to mobilize the technological possibilities of ICT for custom-made mass production that cannot be easily standardized and substituted by lower cost competitors and result in downward wage and employment pressures (Storper 1998: 13). Exporting "quality" goods based on high value-added manufacturing could reap technological rents, representing a "high road" strategy of increased profits and wages sustained by continuous productivity gains.

This industrial policy turn required institutions that would foster a business culture oriented toward constant innovation. For “backward” societies, moving from initial emulation of economic leaders to autonomous technological capacities is critical to sustain manufacturing productivity. A national innovation system can, beyond purchases of patents and licensing agreements, foster joint technological projects between domestic small and medium-sized companies (SMEs) and foreign MNCs. Financial support can also be attributed to the potential or demonstrated market success of firms and their “technological learning curve” in products, processes and management (Bellack and Cantwell 1998: 47-49; Hollingsworth and Boyer 1997: 36; Oqubay 2020: 34-37, 48; Tsipouri and Gaudenzi 1998: 90-98).

Institutionalists highlight how the “learning economies” associated with ICT flourish within industrial hubs at the regional level (Castells 2010: 66, 412, 419). Also known as clusters, they regroup firms with potential linkages (including inward FDI), in addition to government, unions, and research institutes (Bellack and Cantwell 1998: 70; Oqubay 2020: 46-47). Industry clusters avoid any tendency for internationally competitive firms to remain isolated and thus fail to make linkages with local suppliers and increase the R&D necessary to become leading NFCs (Tsipouri and Gaudenzi 1998: 81-84).

These industrial policies often resorted to concertation between firms, employees, and the state (Bourque 2000: 71-72). In advanced capitalist liberal democracies, these concertation mechanisms have often been dubbed “*neo*-corporatist”, by contrast to fascist “corporatism” based on the suspension of liberal democracy. Hicks defines “neo-corporatism” as the representation of economic interests in negotiations over various national policies or sectoral agreements, resulting in decisions beyond short-term market adjustments (Hicks 1999: 129). For the purposes of this dissertation, “neo-corporatism” will be limited to *institutionally binding* mechanisms while “concertation” will be used to define *non-constraining mechanisms of voluntary and non-binding spaces of consultation and decision-making*. In countries like the US and English Canada, neither neo-corporatism nor concertation is really existent, as relationships between unions and businesses are mostly limited to firm-level collective bargaining, in contrast to institutionally binding national neo-corporatist structures as found in places such as the Scandinavian countries (Bellack and Cantwell 1998: 54). For institutionalists, neo-corporatist or concertation structures are critical to develop "social capital" favourable to cooperation and stable relations between economic actors and thus, to tackle the higher market uncertainty resulting from accelerated changes in consumer demand and technology (Hollingsworth and Boyer 1997: 24-27).

The politics of industrial policymaking is shaped by prevailing economic ideas. Neoliberal "market fundamentalists" reject industrial policy, seen as necessarily leading NFCs to adopt rent-seeking behaviours (as referred to above). Other approaches consider industrial policies as potentially positive when they are limited to correcting "market failures". According to this perspective, governments can intervene through "facilitative" measures such as professional training and segments of R&D and financial "services" that markets fail to adequately deliver in certain conditions (Oqubay 2020: 38). A third perspective advocates for a more "activist" state to develop a dynamic private sector, as the state is not only market-fixing but market-creating (Amsden 2004; Wade 2004; Mazzucato 2015a). For this perspective, if market-led approaches may be suitable for competition in finance, commerce and services (Bourque 2000: 71-72), industrial policy is critical to acquire the organizational capacities to compete in "quality" production.

In recent decades, PFIs have been a crucial component of industrial policies to counter the orientation of private finance under financialization (Macfarlane and Mazzucato 2018; Naqvi, Henow, and Chang 2018). Critiquing the short-term financial rents pursued by venture capitalists and large corporations, Mazzucatto (2015) contends that financing effective industrial policies requires renegotiating risk and reward-sharing amongst states, firms and wider stakeholders.

For institutionalists, industrial policies depend on the institutional complementarity between various policy areas. Monetary policies must be based on interest rate levels that do not discourage investment by NFCs. Exchange rates should not compromise targeted manufacturing exports (Bianchi and Labori 2020: 597-98; Oqubay 2020: 48-50). Institutional complementarity is not automatically secured as compromises are not negotiated simultaneously across different institutions and markets (Boyer 2004: 26, 37). An institutional mismatch can occur when the long-term goals of industrial policy are undermined by a liberalized financial system encouraging capital-gains-seeking behavior (Bourque 2000: 16-17).

The "varieties of capitalism" approach has insisted on an institutional complementarity to harness markets and dynamic technological development for socially just redistribution. Beyond financial systems and corporate governance discussed in previous chapters, this approach identifies several other institutional variables – training and education systems, industrial relations, and social policies – which can lead to "liberal market economies" (LME) or "coordinated market economies" (CME). Beyond bank-based financial systems and a stakeholder view of the firm, CMEs are also characterized by a highly skilled labour force favoured by firm- or sector-level training systems, centralized industrial relations, and de-commodifying social policies. Beyond market-based financial systems and a shareholder view of the firm, LMEs are characterized by a low-skilled workforce, decentralized bargaining, and market-based welfare. According to this approach, both LMEs and CMEs supports economic growth but differ in their distributional outcomes, the latter being more egalitarian than the former (Hall and Soskice 2001). The features of LMEs and CMEs cannot be selectively re-combined since their respective "effectiveness" depends on each model's institutional complementarity (Lévesque 2004: 20).

The aforementioned "varieties of capitalism" are seen as different institutional means to competitive advantage (Hall and Soskice 2001; Hollingsworth and Boyer 1997: 38). For institutionalists, "what matters is not trade liberalization or integration with the global market but how each country inserts itself into international trade" (cited in Oqubay 2020: 24).

During the postwar period, industrial policies depended on financial regulations (such as ceilings on interest rates and capital controls) which permitted "governments to constrain local investors to provide funds for industry at lower rates of return than they would receive abroad" (Berger 2000: 54). Following the liberalization of interest rates and the dismantlement of capital controls, the ability of governments to provide lower cost finance for industry would become a much more difficult task. The financial rents demanded by predatory financial institutions would become too high for productive capital, discouraging technologically advanced quality production (Ingham 2004; Pettifor 2017; Wright 2015). In this context, industrial policy becomes a dead end since short-term financial incentives and constraints at the firm level are incompatible with long-term investments supported at the state level.

For the "varieties of capitalism" approach, these mismatches were particularly evident in the "Anglo-Saxon" LMEs. In contrast, CMEs' financial systems and corporate governance insulated their economies from the short-term financial pressures associated with financialization and thus, were supportive of industrial policies and progressive forms of redistribution. Such varieties of capitalism, however, are not immune to being destabilized and even from entering a crisis (Bourque 2000: 73). Hall and Soskice (2001: 61) identified the Anglo-American led globalization of finance as a serious challenge to the institutional features of CMEs.

**Capitalist Industrial Policy**

Institutionalists identify industrial policies with solutions for meeting the socio-technical challenges of technologically advanced production. A point of departure of Marxian political economy on industrial policy is its emphasis that capitalist industrial development entails exploitative and conflictual class relations. Economic activity is not understood as technical sectors with potential linkages that can sustain economic growth but what position different forms of production, trade and finance have within the circuit of capital (Ashman, Newman, and Tregenna 2020: 178-84). To paraphrase a claim in Marxian state theory, the extent to which industrial policies are capitalist is revealed by "the functional relationship of various institutions to the process of surplus-value production and appropriation" (cited in Barrow 1993: 56).

Industrial policy intervenes in different moments of the circuit of capital. In the sphere of money and finance, NFCs seek investment funds at different moments of their development, whether for R&D or for mergers and acquisitions. As the sums necessary for these business ventures exceed a firm's revenues, access to external finance becomes critical. In leading capitalist countries, this problem can be solved by well-developed equity markets or private banks. In more "backward" countries, PFIs can be set up by the state as part of industrial policies (as discussed in Chapter Two).

In the sphere of business investments, industrial policies often involve licensing agreements, an R&D policy or an advantageous amortization policy of investments. As

NFCs are compelled to engage in mass investments, states increasingly socialize the costs of developing large firms in high value-added manufacturing (Mandel 1999). Society's resources mobilized behind these "modernizing" objectives foreclose alternative patterns of democratic and socio-ecological "development". Capitalist industrial policies therefore tend to limit democratic representation and participation (Jessop 2016).

The class nature of industrial policies is further understood when located within the wider interventions of the state vis-à-vis capital accumulation (Poulantzas 2014: 166-89). States can turn to fiscal austerity, low minimum wages and regulations aimed at curtailing union power (such as back-to-work legislation) to contain labour costs below productivity levels and preserve capitalist class power.

If Marxism differs from the institutionalist view of industrial policies as supports for stimulating linkages between sectors, Marx nonetheless interpreted capitalist manufacturing as opened to more advanced technological developments and mechanization, fragmented and dispersed labour processes, economies of scale, and greater productivity potential. "Services" tend to be more labour-intensive and to have lower productivity potential. However, if manufacturing tends to be more amenable to relative surplus value extraction, technologically intensive agriculture or extractive activities can rely even more on such exploitative "techniques" than labour intensive "low-tech" manufacturing activities (Ashman, Newman, and Tregenna 2020: 182-83; Moody 2017).

While governments have historically secured autonomy from particular firms and sectors, capitalist states fail to secure full autonomy from capital as a whole (Chibber 2005: 123-25). States depend on the maintenance of conditions conducive to capitalist accumulation for taxation revenues and popular legitimacy (Gindin and Panitch 2012: 3-4). Still, the structural dependency of the state on capital does not abolish the need of capitalists to cohere as a class to formulate their preferred policies. While capitalists can express their opposition through investment strikes, they need institutional channels to lobby for their political demands (Barrow 1993: 62). If accumulation models shape class incentives and constraints and affect capitalist preferences, "they do not make politics irrelevant… [T]hese models serve to set the terms on which politics are conducted" (Chibber 2003: 233).

In cases of industrial policies based on “disciplined subsidization”, it is not evident that states can secure the support of capital for these economic policies. Conditionalities to access state finance can encroach on capitalists’ prerogative over investment decisions. In “backward” societies, domestic capitalists may have welcomed these state interventions as “beneficial constraints” to their future export competitiveness. However, capitalists tend to accept such state disciplines as temporary until they have built the capacities to compete without them (Chibber 2003).

Bryan (1995: 89-93) identifies several *spatial* circuits of capital for analyzing how capitalist class politics varies historically and regionally: 1) the circuit of *national capital*, where production, realization, and reinvestment all occur within a single national space. It is likely to be small scale, whether in import-competing sectors or protected industries; 2) the circuit of *global capital*, where realization and reinvestment will be conducted according to international conditions of profitability. This circuit should not be equated with exporting capitalists per se or “foreign capital” since a portion of output may be sold, or investments be made, within the nation(s) where commodities are produced, as long as they remain internationally competitive; 3) the circuit of *market constrained capital* involves production for realization only within the nation of production, whether in services involved in production of perishables or commodities not produced at internationally competitive costs of production given their protection by tariff and exchange rate policies; and 4) the circuit of *investment constrained capital* is composed of SMEs selling their commodities as exports while their investments remains nationally constrained. Firms within it tends to support policy agendas that make “national industry” more internationally competitive while supportive of national foreign investments and capital controls.

As nationally based power blocs integrate international, national, and regional capitals into a political unit to articulate economic strategies, the latter do not necessarily have the same composition. The relative weight of these forms of capital within a particular society will tend toward variations in policy preferences. While a particular form of capital tends to dominate at a particular time and place, the more subordinate elements can continue to exert political pressures which gives rise to political negotiations and accommodations. Linkages between sectors also result in relationships between particular capitalist class fractions and the state, shaping the form of particular industrial policies (Ashman, Newman, and Tregenna 2020: 185-86).

Therefore, states are sites of political struggles over the creation of an accumulation strategy and state projects (Jessop 2016: 84-88, 110-14). An accumulation strategy secures for the business class as a whole an accumulation model that mediates the various interests of capitals within a specific nation-state, since specific policies can advantage one "spatial" form of capital but penalize another (Bryan 1995: 106-07). Less competitive capitals or firms in older sectors with lower growth potential will not automatically accept to exit the market for the well-being of the competitiveness of a national economy. To secure their hegemony, dominant capitalists depend on an accumulation strategy to incorporate other class fractions through various constraints and incentives. Such an accumulation model can be formulated by the capitalist class via business associations or through the state policy-planning networks (Jessop 2016: 109-14). The more autonomous the state is from particular firms and sectors, the better positioned it is to achieve this task.

Class politics "from above" need to be articulated to class struggle "from below". Popular mass movements, including unions, can struggle for radical forms of industrial policies. The degree of national linkages between sectors can enhance the structural power of workers, but as linkages are weakened, the ability of workers to strike and disrupt a whole national economy can be dramatically reduced, negatively affecting their political power (Rojas 2018). Institutionalists miss such emancipatory projects and working-class power, as they tend to reduce labour as a passive agent and treat the politics of industrial policymaking as intra-elite bargains (Ashman, Newman, and Tregenna 2020: 187).

The results of class politics therefore place limits on the extent to which a particular model of industrial policy may be exported outside of the country where it has been "successful". In the absence of sufficient capitalist class support or an alternative popular-based power bloc, a particular industrial policy may not be replicated (Albo 2004; Smardon 2014).

The tendencies that might have been generated by nationally specific "modes of development" are overridden by capitalism's booms and busts, which result from the interactions between societies within the world market (Ashman, Newman, and Tregenna 2020; Brenner and Glick 1991; Callinicos 2001). By focusing on the "right" policy mix adapted to one's society, institutionalists miss how crises can undermine past industrial policies and the institutional "models" that form around them. Past "beneficial constraints" become burdensome for capitalists in situations of profitability decline. As crises result in shifts in class preferences, this can lead to increasing dynamics of conflictual politicization. Business associations can blame extensive state interventions and public institutions as responsible for such politicization of the economy. Capitalists can push for the marginalization of institutionally binding concertation mechanisms characteristic of past industrial policies (Clarke 2001: 85). These capitalist contradictions also explain why one's past "success" is vulnerable to regression as well as potential marginalization if industrial restructuring does not generate new productive capacities.

## The "Golden Age" of Industrial Policy and Its Crisis, 1945-80

Following the Great Depression and the Second World War, the postwar era was one of reconstruction and consolidation of capitalism under US leadership. As part of its Cold War project, the United States' goal was to restore and consolidate the legitimacy of capitalist social relations, as many capitalist classes and states were facing a crisis of legitimacy after fascist collaboration. Rebuilding capitalist states and economies in Europe and Japan would necessitate limited institutional compromises between the social classes and contending political projects to relaunch accumulation in war-torn societies. Capital controls, for example, were accepted by states as temporary mechanisms to re-establish "open" capitalist competition (Gindin and Panitch 2012).

Within the core capitalist zones, this also meant addressing regional inequalities in manufacturing capabilities. Concerted efforts to "catch up" in technological capacity were used to develop domestic manufacturing firms that would emulate large US firms (Brenner 2006). Creating competitive firms presented a whole set of difficulties such as accessing sufficient financing, bringing technologies up to date, securing raw materials, establishing new organizational hierarchies within firms, and building a disciplined labour force. An additional challenge for combatant states was to convert industries engaged in military production back into peacetime factories (Bianchi and Labori 2020: 601-02).

Countries "catching up" in productive capacity used industrial policies to tackle these challenges and break with uncompetitive disadvantages. These policies were often characterized by a more comprehensive design geared toward developing vertically integrated firms and favouring national linkages between manufacturing and primary sectors (Cozzi, Newman, and Toporowski 2016: 3; Storper 1998: 14).

To acquire the technological and managerial know-how of "cutting-edge" corporations, states often welcomed US FDI on the basis of conditionalities including: domestic hires of managers and engineers speaking the national language; and input provisioning by domestic suppliers including financial services (Fournier 1979; Oqubay 2020: 26).[15] As domestic firms became larger and made mass fixed capital investments, states often used public contracts and underwrote technologically advanced companies to support their profitability (Mandel 1999: 229-30).

As discussed in Chapter Two, many societies faced domestic financial constraints in the absence of well-developed capital markets. To compensate for these financial weaknesses, bank- and state-based financial systems (including PFIs) provided low-cost "patient capital" to industrial capital. Capital controls were also used to set lower interest rates favourable to domestic private investment (Berger 2000; Crotty and Epstein 2004; Pettifor 2017).

With its 1948 Marshall Plan, the United States played a key role in easing such financial constraints for war-torn European countries. As an example, Germany's *Kreditanstalt für Wiederaufbau* (KfW) was created that same year to manage the low-cost loans from the American-led Marshall Plan. KfW initially financed SMEs before extending its activities to export financing during the 1960s. KfW was part of a wider German banking system, including other PFIs that provided long-term lending and low-cost funds to industry (Bianchi and Labori 2020: 605).

Industrial policies varied according to different accumulation models. Initially, an import-substitution industrialization (ISI) program, based on protecting certain industries from imports or inward FDI,[16] would help domestic firms develop manufacturing capacities. Public procurement policies were also used to support firms that could not yet produce at internationally competitive costs of production (referred above as "market

[15] As more and more societies "modernized" their economies, FDI from other countries, such as Japan in South Korea and France in Quebec, would play a similar role.
[16] To achieve an ISI program, states often rely on capital controls, tariff barriers and strict FDI regulations.

constrained capitals"). State policies accepted contracts that favoured domestic suppliers even if their price submissions were above more competitive "foreign" firms, as Moreau (1981: 127) discusses in reference to the first decades of existence of Quebec public energy utility company *Hydro-Québec* (see Chapter Five).

The industrial home base could then be used as a platform for export-led industrialization (ELI), based on increasing market shares in export markets in targeted sectors.[17] The complementarity between ISI and ELI has been most registered in the East Asian newly industrializing countries such as South Korea and Taiwan (Amsden 2004; Wade 2004). Other states also combined them in synergy. For example, the use of tariffs and capital controls in Canada or in European countries during the 20th century did not close off the borders of these countries to US FDI (Gindin and Panitch 2012; Smardon 2014), similar to South Korea having welcomed Japanese inward FDI (Chibber 2003). In these cases, industrial policies promoted conditionalities to support linkages with FDI in ways that might assist economy-wide spillovers. SMEs selling their commodities as exports while their investments remained limited to the "national" economy (referred above as "investment constrained capitals") also benefitted from initial trade barriers and FDI and capital controls typical of ELI policies.

The postwar period was characterized by more "interventionist" industrial policies based on selected targeted sectors. The state often set up publicly owned enterprises in sectors considered "strategic", whether for provisioning whole manufacturing sectors with lower cost inputs (such as energy and first transformation of raw materials like coal and steel), or because they required high investments or had lower profitability perspectives unattractive to private investors (Bianchi and Labori 2020: 594-95). France relied extensively on public ownership for its industrial policy, following a wave of nationalizations of private enterprises in finance, energy, utility and transport after the Second World War (Bianchi and Labori 2020: 603-04).

In some countries, industrial policies took the form of indicative planning based on compensating for information failures of markets through coordination between the state and the business class. For example, five-year plans were elaborated to favour investment

[17] In addition to ISI typical measures, ELI programs often include financial incentives and conditionalities to orient firm behavior toward desired sectors and levels of exports.

planning between sectors and prevent shortages and over-capacity, stimulating linkages between private and state sectors. By contrast with the central planning of the Soviet economies, indicative planning was elaborated through concertation to secure the participation of private actors. Different policy instruments were used to change the incentive structures of businesses to steer their investment decisions in directions favourable to the structural transformation of the economy (Nielson 2018). French industrial policy was the most extensive European case of indicative planning led by a small bureaucratic elite, based on public control of credit, many nationalized sectors and cheap imports of raw materials and immigrant labour, to support the following three step program: accelerated industrialization, exporting "national champions", and emerging sectors such as electronics and aviation (Howell 2018: 90).

Building manufacturing competitive sectors was also linked in certain countries to the defence industries. In France and the UK, publicly financed R&D programmes with military applications were used to develop nuclear and telecommunications capacities. By contrast, formerly fascist countries (like Germany and Italy) saw their defence industries limited by the terms of their military defeats at the end of the Second World War (Bianchi and Labori 2020: 601-04). Canada also had a limited military apparatus compared to other advanced capitalist countries (Kellogg 2015), explaining why its aerospace sector mainly developed through civil aviation (as discussed with regards to Bombardier in Chapter Eight).[18]

As discussed above, industrial policies often relied on "neo-corporatist" or concertation mechanisms. While concertation mechanisms were used for various issues such as labour training, neo-corporatist structures became prominent where income policies were negotiated to contain wage-pushed inflationary pressures, such as in Sweden and the Netherlands (Panitch 1986: 144-47). In Germany, co-determination emerged in the early 1950s as a concertation system allowing equal representation of workers and shareholders on the board of directors of iron and steel companies (and more limited representation in other sectors), supplemented by sectoral bargaining structures, notably

[18] However, Canada's integration into the US military-industrial complex through the 1959 Defence Products Sharing Agreement allowed domestic manufacturers to bid for US military contracts and develop certain industrial capacities (Smardon 2014: 143-44).

for wage structures (Streeck 2009). In the French case, labour was excluded and economic policy was state-led, especially as French capitalists were initially discredited following their fascist collaboration under the Vichy regime (Howell 2018: 88-91).

Where institutions incorporated labour, the state relied on bureaucratized unions as legitimate "partners", recognized for their ability to contain rank-and-file militancy (Jessop 2016; Moody 1997). The ability to incorporate unions in neo-corporatist structures in a relatively sustainable manner was proportional to the level of union centralization, as in Austria, Norway, Sweden, and the Netherlands. Unions could then serve as vehicles to force the consent of workers to a policy of wage moderation, even under conditions of "full employment" (Panitch 1986: 147, 152). A successful "catch-up" case like Germany was based not only on the ability to profit from technological emulation but also on the use of "co-determination" to keep wage costs below productivity increases (Brenner 2006: 77-78).

These mechanisms of representation also extended to industrial policy institutions, including finance. As Marois (2021: Ch. 6) notes, the KfW developed a board constituted by various "stakeholders" including unions. As Brunelle (1978) argues relative to the Quebec case, however, the voices of unions were limited to a minority of seats within the boards of public institutions (see Chapter Five).

The 1970s crisis began to limit postwar industrial policy goals as investment rates in targeted sectors slowed down, as well as compromising full employment and wage growth. In this context, attempts at incorporating unions in accepting wage settlements to prevent inflation and protect profits was becoming increasingly unstable, destabilizing previous "neo-corporatist" experiences (such as in Sweden)[19] or voluntarist policies between the state, unions, and employers (also known as "tripartite", such as in the UK). Rank-and-file union militancy was breaking out of the bureaucratized and centralized unions and pressured them to exit these institutional structures. As negotiated wage restraint failed, states often resorted to more coercive measures to break "wage-pushed inflation" (Panitch 1986: 152-54).

[19] In the Netherlands, the undermining of previous wage settlements occurred as soon as the late 1950s and mid-1960s.

In certain countries, radicalized unions and parties struggled for industrial policies based on needs rather than profits, based on extended nationalizations, financial support for workers' coops, and democratic planning. In the early 1970s, the UK's Labour Party industrial "modernization" plan projected to nationalize 25% of the country's largest manufacturing companies. The goal was to use these nationalized firms to introduce innovative products and processes to push private firms in doing the same. Planning agreements between such firms and the government were supposed to regulate output, investment, and employment (Glyn 2012: 20). In this context, Wainwright (2018) highlights the 1970s struggle by the Lucas Aerospace workers who fought to nationalize the firm to preserve jobs and reorient production from military uses to civil applications.

In 1976, German unions won new co-determination rights over training and employment conditions. Worker representation on the boards of directors of Germany's large firms increased from one-third to nearly one-half (Glyn 2012: 18). Such co-determination was used to implement new technologies and re-organize work by re-allocating labour in high value-added industries and develop new training programs (Coates 2001). The 1976 Meidner plan was to create wage-earner funds financed by the emission of new stock by firms with more than 100 employees, equivalent in value to 20% of their annual profits. The goal was to socialize companies in the long run and change the balance of class forces in favour of workers (Blackburn 2002).

In France, the 1981 government of President François Mitterand represented the last major effort to develop a more radical, "interventionist" industrial policy, which included the reduction of work time and increased wages and social benefits. The plan projected to double from 11% to 22% the share of nationalized industries in industrial employment (such as electronics, chemicals, steel, and banks). Again, the goal was to use nationalized firms to stimulate the "modernization" of industry, a task the private sector was seen as unable to do by itself (Glyn 2012: 21). However, the Mitterand government was isolated in a period of emerging neoliberal governments in the US, Britain, and Germany, and faced the discipline of international currency markets. By 1983, the French government was forced to devalue the franc and turn to fiscal austerity (Castells 2010: 139).

These struggles all raised, to a degree, the issue of workers' control, whether at the firm, finance or state levels, even if their gains often proved minimal. The capitalist class was opposed to these various plans which they saw as unwarranted intrusions in managerial prerogatives, inimical to the restoration of profits and "shareholder value".

States also nationalized companies on the edge of bankruptcy as temporary mechanisms to preserve technological know-how while preventing a greater level of foreign ownership. These temporary nationalizations were often part of more defensive industrial policies. For example, the Canadian government nationalized aerospace companies de Havilland and Canadair, before re-privatizing them in the 1980s (Emerson 2012: 12-13) (see Chapter Eight).[20] In 1980, the Trudeau Liberal government adopted the National Energy Program (NEP) to extend nationalizations to gas and oil to lower energy prices for consumers and industry, a goal no longer relevant as energy prices decreased during the 1980s (Smardon 2014: 279-81).

Both neoliberal "market fundamentalists" and institutionalists came to see many of the past state-guidance formulas of industrial policies as lacking disciplinary constraints, making subsidized firms and publicly owned companies vulnerable to mounting competitive pressures and crises (Bianchi and Labori 2020: 595).

**Neoliberal Industrial Policies, 1980-2000**

As discussed in Chapter Three, the neoliberal turn involved the restructuring of corporate organizational forms. Even if MNCs became increasingly internationalized, they still kept a strong home base where centralized headquarters controlled finance, investment, R&D and marketing (Hirst and Thompson 1996). Changing urban economies in advanced capitalist societies were characterized by new linkages between corporate headquarters and accounting, legal, marketing and logistics firms (Sassen 2007). Firms in manufacturing sectors (such as auto and aerospace) where final assembly involves proprietary knowledge and advanced technology still located their leading productive capacities within their home bases, even if component processes were increasingly internationalized, notably in low value-added production where wage costs could be radically lowered (Starrs 2013: 819).

[20] The UK government also temporarily nationalized Rolls-Royce as the company faced critical financial difficulties in the 1970s (Bianchi and Labori 2020: 604).

These corporate transformations created strains within historical national linkages between domestic and foreign MNCs and domestic SMEs, as the latter were put in competition with suppliers from around the world. This did not result in a complete hollowing-out of manufacturing through offshoring, but it forced a restructuring on domestic firms to cope with the pressures of international competitiveness. The "global circuit of capital" (as referred to above) came to encompass *both* SMEs and large NFCs (Bryan 1995; Moody 1997).

In this context, industrial policies turned toward developing clusters embedded in global value chains (Cozzi, Newman, and Toporowski 2016: 3). The state broke with certain practices of subsidizing uncompetitive firms, protected by the use of tariffs, capital controls and low exchange rates (Bryan 1995: 65, 176). Conditional subsidies and public enterprises to orient investments in targeted sectors tended to be replaced by incentives-based mechanisms (such as tax credits) underwriting private investments.

Industrial policy measures became more open to all firms irrespective of their sectors. New international trade rules tended to enforce this shift. For example, the European Maastricht Treaty of 1993, which led to the formation of the European Union, mandated member states to support innovative SMEs with measures that applied to all economic sectors (referred above as "horizontal" state supports). Measures applying to particular sectors and firms (referred above as "vertical") could only be considered once "horizontal" measures were in place (Bianchi and Labori 2020: 595-602). In this view, private firms were seen as best placed to decide in which sectors to invest in.

In this approach, the state had to facilitate the adoption of "best practices" with respect to finance and capitalization, research and development, innovation, management development and training, labour relations, design, quality, and export marketing. To create such a "business learning curve", the government provided a series of tax credits, venture capital funds and partnership possibilities with publicly funded research centers to re-orient firm behavior toward new targeted sectors (such as software development), innovation, and internationalization (Bianchi and Labori 2020: 595).

Many countries privatized firms and sectors which had been previously nationalized. Across the political spectrum, governments came to see market-disciplined private firms as better placed to make "modernizing" investments. Using public money for these tasks was seen as inimical to fiscal austerity and privatizations were used by governments to reassure financial markets about their commitments to monetary discipline. As these privatized firms were restructured, well-paid workers were laid off, boosting the firms' labour productivity and profits, while their new investments tended to be modest (Glyn 2012: 37-41).

In the case of the UK, Thatcher went most far in such privatizations, with telecommunications, gas, airways, and steel public enterprises passing into private hands, with the addition of coal and rail public companies in the early 1990s. The UK state then limited its industrial policy to innovation policy and attracting FDI. In France, privatizations began as a more selective process by the end of the 1980s, with the state remaining a substantial shareholder in former state-owned firms. By the second half of the 1990s, privatizations reached record highs under the Jospin government, opened to acquisitions by foreign private institutional investors (Glyn 2012: 39-41).

This reflected how the French state had turned toward a more "market-led" approach to industrial policy, based on "horizontal", incentives-based measures to stimulate business competitiveness. Following German reunification in the 1990s, industrial policy became attuned to create the "right" incentives for stimulating the innovation of medium-sized exporting firms and establishing production networks in Eastern Europe (Bianchi and Labori 2020: 604-06; Streeck 2009).

The dismantlement of capital controls is often taken as an indication of the limits on the government's ability to guarantee low-cost funds for industry and, therefore, for industrial policy during the neoliberal period (Berger 2000: 54). But as discussed in Chapter Two, PFIs were also transformed to provide long-term finance for industry R&D, sharing the risk of large investments, and financing the internationalization of domestic capitals in smaller economies. In Germany, the KfW public bank tapped into financial markets to increase its funds by exploiting regulatory loopholes in a context of fiscal austerity. Notably, KfW further supported the expansion and internationalization of domestic capitals (Naqvi et al. 2018).

Another financial dimension of industrial policies has been the adoption of institutional limits to markets for corporate control. As the Quebec case will show, PFIs developed core national shareholding blocs preventing hostile takeovers (Courchene

1990). Such limits to the short-term pressures of shareholder value corporate governance helped states support the long-term reproduction of the domestic capitalist class.

These institutional limits to capital mobility in finance is an expression of a dynamic registered by Bryan (1995: 101): “To promote international expansion within one form of accumulation, the nation state must intervene so as to restrict international expansion within another form. From this perspective, controls on the terms of capital mobility can be directly compatible with the promotion of the international expansion of capital, so long as capital is seen as divided, not monolithic.”

During this period, NFCs became involved in financial activities, most being integrated with their internationalized investments and sales while others were removed from their manufacturing operations. In this latter case, these “financialized” activities represented a complementary profit centre and a temporary shift. The greater role of financial disciplinary mechanisms on NFCs could result in higher labour exploitation within “real” production rather than leading to financial forms of accumulation (as discussed in Chapter Three). It is therefore problematic to assume that long-term industrial policy goals of building institutional and productive capacities are compromised by the short-termism of rentiers (Jessop 2001: 295-96).

This period’s industrial policies were embedded in a wider neoliberal policy regime. A workfare state was implemented through more repressive labour laws, the flexibilization of labour markets, and punitive social policies. The goal was to restructure the social wage downward as the latter became a cost in international competitiveness (Jessop 2001: 293, 298).

In certain countries, the neoliberal turn was most imposed directly by the state, as in the UK. In other societies, sectoral or centralized concertation mechanisms were used to introduce neoliberal reforms, whether through derogations to sectoral bargained rules, such as in Germany, or by legitimating austerity measures through central neo-corporatist structures, such as in Sweden. In all these varieties of neoliberalism, the business class enhanced its managerial prerogatives over wages, hires and layoffs, and the labour process (Baccaro and Howell 2017).

Beyond welcoming this neoliberal policy regime, capitalists participated in industrial policies that relied on carrots and few sticks with concertation mechanisms (when existent) being voluntary and non-binding, with the state playing only a facilitative role (Graefe 2000: 11).

The diversity of industrial policies, whether based on more PFIs, or formal or informal mechanisms of consultation incorporating varied "stakeholders", have faced common intensifying international competitive pressures. New centers of accumulation changed value relations which, in turn, served as a constraint on all particular locations of production and national models of regulation (Brenner and Glick 1991: 112). If the value of labour-power mobilized in place-specific spaces of production is nationally determined through national wage systems and class structures, commodity values always have international determinations that constrain wage-setting to keep unit labour costs appropriate for producing at competitive rates of surplus value (Bryan 1995: 77).

Only countries which are able to sustain lower unit labour costs and thus higher profit rates are able to support higher wages. Countries unable to mobilize the most competitive technological advances tend to be confined to lower-tech sectors that rely on intensified absolute surplus value techniques and the lowering of the value of labour-power (Bryan 1995: 76-77; Smith 2006: 121-22). In the face of societies equipped with relatively similar technological know-how and skills, investment will tend to gravitate toward locations where the value of labour-power is the lowest (Bryan 1995: 76). This formed the material basis behind the capacity for the international mobility of capital (whether actualized or not) to enforce neoliberal restructuring (Radice 2004: 157; Smith 2006: 117). The institutionalist "high road" industrial policy of competing over "quality" rather than price, based on constantly producing differentiated commodities insulated from the forces of standardization, is rife with contradictions. As Smith (2006: 125) notes, the more effective state industrial policy is in attaining its objective of "the technological competitiveness of units of capital operating within its territories, the more it fails to attain a second objective, a global order in which the vast majority of humanity are not condemned to radical economic insecurity".

### Reviving Neoliberal Industrial Policy, 2000-18

During the 2000s, intensified competition from "emerging" countries like China and Brazil, which were using more "interventionist" industrial policies, led to growing plant closures, offshoring, relative deindustrialization, and a decline in manufacturing jobs.[21] Also, new technologies emerged such as artificial intelligence, robotics, digital platforms, and nanotechnologies, opening new potential productivity gains and possibilities for custom-made mass production. Advanced capitalist states responded to these competitive challenges in different ways. In certain societies, such as Quebec under the Charest Liberals, limited productivity growth was blamed on industrial policies which were still "too interventionist", which led to the adoption of a more "market-led" approach (see Chapter Seven). Other states rather renewed the use of industrial policies to rejuvenate the productivity and competitiveness of "their" domestic firms (Bianchi and Labori 2020: 595, 610-11; Dean et al. 2021: 286-91).

This "new" industrial policy remained geared toward supporting regional clusters inserted into internationalized circuits of capital. Incentive-based and sector-neutral measures continued to be privileged, while not excluding measures to provide targeted support to manufacturing sectors in difficulty. Policy debates opposed advocates of "vertical" measures to be granted whether to manufacturing or innovation-intensive services while others defended "horizontal" measures made available to all private initiatives (Bianchi and Labori 2020; Dean et al. 2021).

European countries were among the first countries to experiment with the "new" industrial policy, with France and Germany the leading proponents of this policy turn. Germany created new concertation mechanisms between firms, R&D institutions and "social partners" to stimulate new technological breakthroughs and diffusion. The German state also declared that it would buy important equity stakes in domestic companies to preserve "strategic" technological know-how and prevent foreign takeovers. Following its intervention to save Alstom (a railway equipment producer) from bankruptcy in 2004, the French state also developed a new industrial policy, based on clusters regrouping businesses, training facilities, R&D centers, and local governments. Initially allocated to France's largest firms, state supports moved to innovative SMEs to develop new "national champions". The French state also created BPI France, an integrated state holding of all

[21] Between 1991 and 2018, European capitalist countries saw a reduction of their manufacturing GDP share. Germany retained the highest share at 21 per cent in 2018, while France and the UK having the lowest shares at 10 and 8.9 per cent respectively (Bianchi and Labori 2020: 609).

France's sovereign funds, to support business innovation, growth and internationalization. Beyond country-specific policies, growing voices also called for greater supra-European coordination to mobilize sufficient resources, for example in R&D, to match US and China's investments and competitive pressures (Bianchi and Labori 2020: 610-16).

States increasingly socialized the costs of private investments (notably through more tax breaks and lower energy costs). States were part of a geo-economic competition to support the international sales of domestic businesses and attract FDI. In this process, PFIs, such as exporting agencies, were pulled toward defending the market shares of domestic capitals in an increasingly zero-sum game, based at times on money allocated according to non-market conforming criteria (Friedenzohn 2011). Capitalist competition can take the form of geo-political conflicts overriding multilateral financial and trade rules aimed at regulating PFIs and industrial policies.

In the face of intensified competition amidst over-accumulation exacerbated by low interest rates (see Chapter Three), states were severely constrained in their ability to secure a dynamic rate of private investments. Profit margins opened by technological rents were shortened as an increasing number of "emerging" states developed cutting edge technological capacities combined with lower labour costs (Smith 2006). The spectrum of industrial policies used during this period was unable to resolve such system-wide contradictions, even if it could advance the market shares of specific capitals located in some states at the expense of others. By reducing economic policy debates to what were essentially challenges of governance and policy design, these capitalist contradictions remained mystified (Soederberg 2010).

Finally, these "new" industrial policies were increasingly presented as means to support ecological transitions framed as new market opportunities and based on new cross-class coalitions (Newell 2015). Many states provided new incentives such as R&D supports, public provisioning, and price regulations, to develop new sectors such as energy renewables with varying degrees of success (Mazzucato 2015: Chs. 6-7). The combined effects of increasing players in renewable energy production appears, however, to have led to multiple bankruptcies and business failures.

## Corporate Capital, Industrial Policies, and PFIs

Capitalism subordinates both finance and production to the pursuit of exchange-value as an end in itself. Market imperatives constrains NFCs, states and finance (including its public forms) to long-term competitiveness.

With the advent of the modern corporation, competition became mediated by centralized corporate structures and stock markets. The stocks of NFCs can be held by diverse financial institutions which can hold stocks for long periods of time, "voice" their demands upon management or engage in short-term stock trading. If both financiers and managers have joint interests in surplus value production and appropriation, distributional conflicts can emerge between financial institutions and corporate managers. Linkages between finance and industry can lead to short-term financial pressures detrimental to the planning structures of NFCs, or secure the managerial autonomy of firms for long-term investments.

During the postwar boom, large NFCs became vertically integrated and early conglomerates emerged. For societies attempting to "catch up" with US capitalism, emulating the technological advancement and labour productivity of US firms was a challenge. Such societies faced important financial constraints given the lack of domestic investors and well-developed capital markets. Bank- and state-based financial institutions (including PFIs) were critical to finance larger firms in high value-added manufacturing. To acquire the necessary technological and managerial know-how, states initially enforced conditionalities on FDI for domestic hires of managers and input provisioning. Industrial policies were geared toward stimulating national linkages between domestic primary and manufacturing sectors, used as launching pads for exports.

Following the dismantlement of capital and FDI controls and the multiplication of FTAs under neoliberalism, competition intensified, shaped notably by the emergence of new centres of accumulation. NFCs further centralized investment, R&D and marketing while subcontracting and offshoring many of their past tangible assets.[22] These corporate transformations put strains on the past national linkages between large NFCs, domestic

[22] An exception was manufacturing sectors such as aerospace, whose final assembly incorporated proprietary knowledge and advanced technologies. Such firms kept productive capacity within their home base even if their production processes became increasingly internationalized.

plants and suppliers. As a result, industrial policies transformed toward supporting private-led regional clusters embedded in global value chains. Such industrial policies were embedded into a wider neoliberal policy regime, subordinating the national economic space to international competitiveness.

NFCs increased financial activities, which were integral to their internationalized investment and sales. NFCs also engaged temporarily in financial profit-making removed from manufacturing while remaining manufacturing conglomerates. The “financialization” of NFCs did not represent a shift from production to financial forms of accumulation. Firm-level incentives and constraints did not, therefore, compromise industrial policies goals of stimulating “industrial” upgrading in “real” production.

As many advanced capitalist countries faced important manufacturing plant closures, offshoring, and job decline, industrial policies were rejuvenated in many of these states. These policies responded to the competitive challenges of new centres of accumulation that had benefitted from more “interventionist” industrial policies, such as China. Nevertheless, technological rents were increasingly shortened as more and more states competed both over “quality” and price, a problem exacerbated by growing over-accumulation and intensified competition.

PFIs played key roles in these processes. Within “backward” societies, they were initially set up as a response to the frailty of private finance. As private finance became stronger but more short-termist, public finance was often rejuvenated to fill the gaps in the financing chain of NFCs, notably for R&D. Smaller economies also relied on the coordination of PFIs with other financial institutions to assemble the necessary financial clout to support the internationalization of domestic capitals.

In this context, PFIs often nurtured national shareholding blocks that provided institutional limits against hostile takeovers by predatory financial institutions, supportive of the state’s industrial policies. While the long-term stockholdings of PFIs were at odds with the short-termism of shareholder value corporate governance, PFIs may not have protected NFCs from the intensified competition within “real” production. An investigation of “if, when, and how” such PFIs may have sided with corporate neoliberal restructuring is therefore critical for disentangling “coordination” in finance from “egalitarianism”.

Part II of this dissertation investigates the Quebec context for the emergence and transformation of PFIs within industrial policies. Beginning with the Quiet Revolution will allow us to explore the institutional foundations of the relationships of Quebec's PFIs with Quebec capitals and their effects on labour. Analyzing how Quebec's PFIs became subordinated to a capitalist "modernization" project will establish the preconditions for their later role in supporting the internationalization of Quebec capitals. Pursuing such an investigation will allow us to critically interrogate the "Quebec Model" literature's claim that Quebec's PFIs and wider industrial policies resulted in a "model of development" diverging from neoliberalism at least until the Charest Liberals. More generally, the chapters to come will allow us to explore how "patient capital" such as PFIs can potentially be forces of neoliberal restructuring and, therefore, should not be considered as ready-made progressive alternatives to financialization.

Multiple firm-level cases will be explored to substantiate these claims, most of all the Bombardier case. Bombardier's changing corporate forms will show how the transformations of the Quebec state's industrial policies were shaped. The company's relationships to finance will allow us to rethink the financialization of NFCs and how its firm-level incentives and constraints did not compromise Quebec's industrial policies. Finally, Bombardier's "permanent restructuring" during the 2000s will highlight the more general contradictions of Quebec's "progressive competitiveness" strategy.

# Chapter Five

## The Making of Industrial Policies and Public Finance for Quebec's Capitalist Modernization, 1945-83

As noted in previous chapters, countries and regions attempting to "catch-up" to the US could not rely on existing technologically lagging firms. Creating high value-added businesses resulted in multiple challenges: accessing up-to-date technologies, training a new managerial class, and securing a skilled workforce. The weak accumulation base of these societies also prevented the development of domestic private financial institutions. To solve these problems, these states used industrial policies to channel investments in the leading sectors of the world economy. During the postwar period, such policies were geared toward developing national linkages between manufacturing and primary sectors, and domestic and "foreign" capitals. Public financial institutions were often set up to provide "patient capital" for manufacturing investments in targeted sectors. Creating a strong domestic bourgeoisie was legitimated as part of a wider cross-class project to open new economic opportunities for citizens speaking the national language.

The constraints posed by a capitalist "modernization" posed two supplementary challenges for these states, absent from the institutionalist use-value view of the firm, finance and industrial policies. First, to develop financial, industrial and institutional capacities subservient to domestic capital accumulation, states had to marginalize demands and defeat struggles for alternative socioeconomic ends. Second, to develop competitive firms, states needed to secure disciplined and cost-competitive labour-power. How these challenges were met, and if they were met at all, depended on the result of class conflicts over industrial policies and finance.

In what follows, I investigate how the Quiet Revolution managed to initiate a break with Quebec's resource-dependent economy and English-dominated ownership of businesses. This chapter traces how the contradictory rhythms of capital accumulation translated into competitive challenges for Quebec-based firms which, in turn, led policymakers to experiment with new industrial policy interventions and policy regimes. The key questions explored in the following historical investigation are as follows: 1) Which sectors were supported; 2) How would they be financed; 3) What roles did economic state enterprises play; 4) How did class interests and conflicts shape such institutional practices; and 5) What were the differential effects of these industrial policies on capital and labour?

A central focus of this chapter is the emergence, consolidation and transformation of Quebec's PFIs. The point is made below that if these financial institutions were mandated to pursue social rates of return (such as sectoral and regional development) at odds with "short-term" profit maximization, their legal governance and institutional practices were developed to support the "long-term" competitiveness of Quebec capital.

**The Postwar Boom and Quebec's "Backward" Economy**

If Quebec's industrialization experienced a certain dynamism, particularly concentrated in Montreal and its environs, during the first half of the 20th century (Rouillard 1997), most of the province's natural resources were exported to the US with minimal processing. When forward and backward linkages to other sectors occurred (as with pulp and paper in the forestry sector), control by the Francophone population remained largely absent (Coleman 1984: 38-43). The Francophone business class was concentrated in SMEs in manufacturing deploying simpler processes (such as food and beverages, textiles, and leather) or in the retail trades.

Quebec's economic "backwardness" was the legacy of the province's late capitalist transition. French colonialism implanted a pre-capitalist seigneurial regime, reinforced by the British state after the Conquest (1759-60) (Evans 2018; Gheller 2015).[23] The lack of generalized capitalist social relations in "Quebec", notably in agriculture, had limited the domestic surplus and outlets. Despite the early industrialization of Montreal, Southern Ontario's greater economic dynamism was the result of the spillover of the US Midwest's agro-industrial revolution into this region (Smardon 2014: 72-73). The federal's state's economic policies following the Canadian Confederation (1867) further reinforced Ontario's relative industrialization as the Canadian centre of economic gravity, compared to Quebec's own (Kellogg 2015: 198-201; Rocher 1994: 466).

[23] The Constitutional Act of 1791 abolished the seigneurial tenure in Upper Canada but further reinforced it in Lower Canada.

The aforementioned economic weaknesses were reinforced by Quebec's own political regime prior to the 1960s. While the Adélard Godbout Liberal government (1939-44) converged with the Canadian turn toward "Keynesianism" during the Second World War, Maurice Duplessis' Union Nationale governments (1944-59) were opposed to extensive state intervention and "Fordist institutional compromises" (Lévesque and Petitclerc 2010: 21). Duplessis' government was rather committed to the low regulation and taxation of US foreign direct investment (FDI) in natural resources and a repressive anti-union regime.[24] The Catholic Church, who administered hospitals and schools, supported Duplessis' policy regime in a joint "anti-communist" conservative alliance.

In the sphere of finance, Montreal was the financial centre of Canada until the 1950s. Still, Montreal's financial syndicate, controlled by English financial institutions, charged a high premium on Quebec government bonds vis-à-vis Ontario (Pelletier 2009). English Canadian finance also favoured larger Canadian and US corporations, disadvantaging smaller businesses in Quebec (Hanin and L'Italien 2012: 2).[25] As Francophones had been confined to subsistence agriculture and peripheral trades and manufactures, this had constituted a weak accumulation base preventing the emergence of large domestic financial institutions. These financial constraints contributed to the Quebec bourgeoisie's subordinate position as it lacked the money capital to make mass investments (Bélanger 1994: 446).

While the Canadian constitution granted the federal state the exclusive powers over the regulation of chartered banks, provincial states could permit the formation of other financial institutions, such as credit unions. In Quebec, these financial developments became favoured by the growth of the population's annual revenue per person, which increased from $655 in 1941 to $1455 in 1961 (Linteau, Durocher, and Robert 1994: 319). Most importantly, this allowed the expansion of the *Caisses populaires*, which had existed since 1900 (Lévesque and Petitclerc 2010: 21-23). At the time, these financial institutions were, in any case, peripheral to industry finance since the corporate loan market remained dominated by Canadian chartered banks (Parizeau 1969).

[24] FDI tripled between 1953 and 1960 and reached a peak between 1957 and 1961 (Bélanger 1994: 446).
[25] English Canadian finance priviledged financing businesses operating in the centres of economic and population growth in Canada moving west of Quebec.

During the 1950s, Francophone capitalists became concerned with the relative backwardness of Quebec compared to the pace of growth in Ontario and the US, and began to experiment its own market-led solutions to its problems (Bélanger 1994: 444; Rouillard 1997). In the sphere of finance, the richest French Canadian families created financial institutions, such as the *Corporation d'Expansion financière* and the *Compagnie Nationale de Gestion*, designed to support the development of larger domestic industrial firms. These initiatives were in the end torn apart by bankruptcies and succession conflicts (Bélanger 1994: 445). This revealed the inadequacy of a self-regulated private financial sector for Quebec's "catch-up".

Quebec's "backwardness" was accentuated by the North American recession of 1957-61 that came following the stalemate of the Korean War. If the province's unemployment rate was only 2.7% in 1947-48, it increased from 6% in 1957 to 9.1% in 1960 (Linteau, Durocher, and Robert 1994: 204, 271).[26]

This context led to the emergence of a *conjunctural* coalition comprised of three factors: a domestic business sector supportive of new state capacities for Quebec's industrial "catch-up" to Ontario and the northeastern US; unions looking to the state for economic stimulus to achieve full employment and social rights; and a new "middle class" favourable to higher tax revenues and a stronger provincial state for defending Francophone culture. These various interests were articulated in 1960 by the Jean Lesage *Parti Libéral du Québec* (PLQ) (Coleman 1984: 92-99). The PLQ's "modernizing" elite welcomed a greater role of the state to increase the share of the Quebec economy under Francophone ownership and open new opportunities for Quebec citizens.

## The Lesage Liberal Governments and the Turn to Indicative Planning, 1960-66

Created by the Liberal Godbout government in 1943 but abolished by Duplessis when coming to power one year later, the *Conseil d'orientation économique du Québec* (COEQ) was revived in 1961 by the Liberal Lesage government as a planning structure (Brunelle 1978: 95-97). The *Ministère de l'Industrie et du Commerce* (MIC) was also created for

[26] In contrast, the Canadian unemployment rate increased from 3.4% in 1956 to over 7% in 1960 and 1961 (Norrie, Owram, and Emery 2008: 378).

these tasks but the limited capacities it had formed during the Duplessis years kept the ministry in a secondary role during the 1960s (Bourque 2000: 42).

After recommending the "full" nationalization of *Hydro-Québec* (H-Q), the creation of the *Société générale de financement* (SGF), the *Caisse de dépôt et placement du Québec* (CDPQ) and *Sidérurgie du Québec* (SIDBEC), the COEQ declared that indicative planning, a method for changing the incentives of market actors to encourage investment planning between firms and linkages between sectors (as noted in Chapter Four), was possible despite Quebec's provincial status. A first five-year plan (for 1965-70) projected the following: 1) a guarantee of full employment; 2) the development of state capacities to stimulate technological development and domestic entrepreneurship; and 3) improved economic growth and the achievement of balanced regional development (FTQ 1973a: 8).

The "full" nationalization of H-Q in 1963 was a central legacy of the Lesage Liberal government. Providing lost cost energy to businesses was a key locational advantage to stimulate private investments (Rouillard et al. 2009: 14). Hydro power also played a key role in stimulating backward linkages with capital goods production (such as Marine Industries Ltd. (MIL)) and engineering companies (such as Surveyer, Nenniger, and Chênevert (SNC) and Lavalin).[27] H-Q's procurement policies also privileged Quebec capitals that could not (yet) produce at internationally competitive costs of production (referred to as "market constrained capitals" in Chapter Four), by tolerating contract submissions that could involve prices up to 15% higher than those submitted by foreign companies (Moreau 1981: 127).

*Creating a public circuit of finance*

As noted in Chapter Two, PFIs were often set up to pursue industrial policy goals. The ability of PFIs to provide low-cost "patient capital" was enabled by the absence of controlling private shareholders pressuring for short-term profits. PFIs practiced a type of "relationship banking", by providing investment services to their clients. Different PFIs

[27] Between 1960 and 1987, 90% of the H-Q engineering contracts were done in the private sector (Couturier and Schepper-Valiquette 2015: 210).

played different institutional functions. They might serve as: public development banks supplying finance and technical support to SMEs and large corporations; as universal public banks collecting deposits from the public and investors for development projects; or as public pension funds investing money for economic development within fiduciary rules. These institutions often increased their economic leverage through inter-institutional coordination.

The Liberal government set up new PFIs as a segmented supply of finance complementary to private financial institutions and operating within a relatively liberalized financial system (Parizeau 1969: 233). Framed within an "additionality" framework (as referred to in Chapter Two), this decision was not made from an ideological preference for state institutions per se. Rather, it was the outcome of a pragmatic decision given the prior failures to build large and viable Francophone-controlled private financial institutions. As explained by René Paré (1961: 303-04), President of the COEQ:

> Nous avons fait des efforts louables, uniquement par l'entreprise privée, pour tâcher de remédier à cette situation. Mais rien […] n'a pu être fait pour que les mesures remédiatrices soient à l'ampleur des besoins. Ceux mêmes qui ont fondé récemment des organismes privés de cette sorte […] admettent qu'ils sont présentement loin de pouvoir faire face à la situation et qu'il faut faire quelque chose de plus si l'on veut vraiment régler le problème.

The Lesage government created the *Société générale de financement* (SGF) in 1962, mandated "to suscitate and favour the formation and development of industrial businesses … in a way to expand the base of Quebec's economic structure, to accelerate its progress and to contribute to full employment [while also] bring[ing] the Quebec population to participate in the development of these businesses by investing a portion of its savings in them" (*La Société générale de financement du Québec* 1962; my translation).

The SGF's capitalization structure tempered the fears of the private sector while maintaining national control of the institution. Half of its funds came from the government and the *Caisses Desjardins*[28] as illiquid stocks placed in a trust. The remaining 50% of its money capital was hoped to be collected from individual subscriptions across classes and

[28] Desjardins' centralized national structure mobilized the dispersed savings across its Quebec branches and made it available to industrial capital through SGF's investments (a form of joint "universal" development bank as noted in Chapter Two) (Brunelle 1978).

from domestic and foreign private financial institutions (Paré 1961; La Société générale de financement du Québec 1962).

The SGF's interventions included: blocking the liquidation of existing industrial capacity by buying foreign firms for sale and facilitating the transfer of ownership to Francophone capital; acting as a lender of last resort in relation to firms with liquidity problems, on the edge of bankruptcy or threatening to be sold; and providing administrative and research services to its targeted firms (Bélanger 1994: 447). Once SGF-backed firms were financially sound, it would sell them and allocate its funds elsewhere. As René Paré (1961: 304-05) again made clear:

> La société de financement […] achètera des actions communes des institutions qu'elle veut aider et promouvoir, en prendra le contrôle si nécessaire, pourra provoquer directement la fondation d'industries ou de commerces. Mais, dès que ces organismes seront replacés, bien lancés […], elle se désistera […] de ses intérêts dans ces institutions pour utiliser ailleurs ses capitaux.

A few years later, the Lesage Liberal government created the *Caisse de dépôt et placement du Québec* (CDPQ), set up to manage the assets of the *Régie des rentes du Québec* (RRQ) created in 1965. The Lesage's government decision to create its own retirement regime was not related to develop a more generous retirement social policy than in the rest of Canada (Couturier 2019: 190-95). Inspired by the *Caisse des dépôts et consignations française* (Couturier 2019: 193; Pelletier 2009), the goal behind the CDPQ was to use state pension funds to increase Quebec's financial autonomy to pursue nationalist economic policies.

The double mandate of the Caisse was to stimulate Quebec's long-term economic development while managing its assets profitably in line with its fiduciary responsibilities, as Lesage summarized in these terms: "Elle doit pouvoir satisfaire à la fois des critères de rentabilité convenable et rendre disponibles ses fonds pour le développement à long terme du Québec" (cited in Hanin 2016: 52).

The CDPQ's director was named by the National Assembly for ten years to guarantee its autonomy from the state's executive power and its board was composed of representatives from different sectors. Functionaries from the Finance Ministry and from state agencies were also present to guarantee that the government's economic strategies would be factored in the Caisse's "development" mandate (Hanin 2016: 56-57).

The nomination of Claude Prieur as the first CDPQ President, a former high-level administrator at Sun Life (Pelletier 2009: 32), ensured that the Caisse developed de facto a practice of considering social rates of return only once its investments satisfied its fiduciary rules. As indicated by the CDPQ's 1974 Annual Report: "Dans la détermination de la politique de placement, ce rôle fiduciaire prévaut en effet sur toutes les autres considérations et permet de concilier les objectifs et les contraintes de placement dans une politique cohérente et rationnelle" (cited in Rouzier 2008: 54-55). This constrained the Caisse to allocate its funds toward the most promising profitable businesses, in line with the government's *capitalist* "modernization" goals.

The CDPQ could legally own up to 30% of its total assets in stocks and up to 30% of a single company's shares. Initially, this level of investment was more the exception than the rule since most Quebec-based businesses were small and not trading their stocks (Pelletier 2009: 43-44; Rouzier 2008: 61-62). The government also feared that holding large ownership blocs would limit the ability of the Caisse to navigate financial markets without sparking resistance from domestic or "foreign" businesses (Fournier 1979: 31).

The CDPQ also enhanced the Quebec state's latitude for financing its budgetary policies. By contrast to the prior restrictive lending conditions imposed to the Quebec state by the dominant English Canadian lenders in the bond market, the Caisse offered lower interest rates and guaranteed the liquidity of Quebec bonds (Fournier 1979: 26).

*"Thin" concertation*

Given the failures of past market-led solutions, the above institutions were generally welcomed by the Francophone bourgeoisie (Bélanger 1994: 445; Brunelle 1978). Certain segments of the business class initially opposed measures like the "full" nationalization of H-Q, as they feared the over-politicization of the economy (Coleman 1984: 122-23). The low-cost energy provided by H-Q to Quebec companies was, however, conducive to high satisfaction amongst businesses with the public enterprise (Fournier 1979). For the Francophone capitalist class as a whole, the new Quebec state's legitimation was based on the business opportunities opened by the Quiet Revolution (Graefe 2000).

In contrast to Duplessis's political *exclusion* of labour (Rouillard 2011; 1989: 297), Lesage's early concertation mechanisms relied on *weak* labour incorporation. The union movement was represented on the board of the COEQ, H-Q, the SGF and the CDPQ, and by 1967, in 43 public commissions and organizations with a nominal voice only. Initially, unions were supportive of these participatory mechanisms, even calling for their expansion. Conflicting visions, however, existed between unions, business associations, and the government, especially as unions became increasingly influenced by a more "radical Keynesian" industrial policy,[29] and business and government focused on economic catch-up with adjacent regions. For example, the *Fédération des travailleurs du Québec* (FTQ) critiqued how the SGF was reduced to a supplementary financial and technical instrument to support private businesses (FTQ 1962) while the *Confédération des syndicats nationaux* (CSN) challenged the CDPQ's initial conservative investment policy (Rouzier 2008: 48-49).

Such institutional spaces contrasted with other cases of sectoral or centralized institutionally binding neo-corporatist structures as found in some European states (as discussed in Chapter Four). In Quebec, concertation meant that representation was dominated by other socio-economic groups and ensured that union influence would remain weak (Brunelle 1978; Rouillard 2011: 40). In practice, domestic capitalists and foreign MNCs were the *dominant* development partners of the Lesage Liberal governments, a trend which would be further manifested under the governments of the next ten years.

**The Quiet Revolution Continues: The Union Nationale Governments, 1966-70**

The return to power of the Union Nationale under the leadership of Daniel Johnson (1966-68) and Jean-Jacques Bertrand (1968-70) did not represent a reversal of the Quiet Revolution.[30] But these governments took their distance from any notion of economic planning (Bourque 2000: 47; FTQ 1973a), as indicated by the abolition of the COEQ in

[29] Unions were advocating for the nationalization of natural resources and steel, chemicals and petrochemicals and for more "interventionist" economic institutions invested with greater financial means.
[30] Union Nationale governments created the *Collèges d'enseignement général et professionnel* (CEGEPs), and a public network of universities (*Universités du Québec*), a national universal health insurance plan, abolished the Quebec equivalent to the Senate, and reformed electoral law.

1968 (Brunelle 1978: 110).[31] This was not equated with the rejection of industrial policies, as Union Nationale governments created the *Société québécoise d'initiatives pétrolières* (SOQUIP), the *Société de récupération et d'exploitation forestière* (REXFOR) and SIDBEC. Founded in 1968, SIDBEC was a response to the low royalties on iron extraction and the lack of a domestic steel industry. By producing steel at lower prices, its creation favoured indirectly the development of a mechanical construction industry. These state institutions were limited to the exploration and inventory of resources (Bourque 2000: 44-48).

*Dispersed interventions, weak results*

Without significant policy shifts during the 1960s, the institutional practices of Quebec's PFIs tended to overlap across the Lesage Liberal and Union Nationale governments. During its first decade of existence, the SGF intervened in industries such as forestry, pulp and paper, electrical, heating, food processing, automobile assembly, heavy industry, and textile. These dispersed interventions led, at best, to mixed results for creating new avenues for Francophone capitalists and led the SGF into financial difficulties.

For example, the creation of the SOMA plant in 1965, a Fiat-Renault joint venture and a 100% owned SGF subsidiary, faced the challenge of building a Quebec-based auto industry amidst intensified competition between US, German, and Japanese car manufacturers. The Auto Pact signed in 1965 between Canada and the US suspended sectoral tariffs and favoured US car manufacturers expanding in Canada (including in Quebec) rather than the entry of new competitors like SOMA. With the additional lack of conditional investment levels and job security in exchange for SGF support, these pressures led to the plant's closure in 1972-73 (CSN 1972).

The SGF's scattered interventions were symptomatic of the growing family businesses facing financial difficulties (Coleman 1984: 102; Fournier 1979: 50). They also

[31] According to Brunelle (1978: 107-13), the end of indicative planning in Quebec was due to an increasing integration of Quebec and "foreign" capitals in English Canada and the US. For him, this limited the ability of the Quebec state to re-orient investment priorities according to a national economic plan, especially as the centre of economic activity in Canada was further moving westward to Quebec.

reflected the previous governments' lack of well-defined sectoral industrial policy objectives.

The SGF's financial problems limited its ability to convince the "public" to buy SGF stocks en masse. In 1972, the subscription levels of the Quebec population represented near 15% of the institution's assets, roughly at parity with the *Caisses Desjardins*'s declining participation, while the government and the corporate sector owned 38% and 32% respectively (Giroux 1972: 1). As part of the corporate share, even France-based financial institutions held more SGF assets than the province's citizens (*Le Soleil* 1971: n.p.).

As the 1970s crisis unfolded, these negative results, in addition to rising unemployment, became contrary to the institution's industrial policy and full employment mandates, and conflicted with the financial pressures exerted by its private shareholders. As discussed below, this led the Liberal Robert Bourassa government to reform the SGF.

### *Marginalization of concertation*

The Union Nationale's return to power in 1966 marked a partial return to the *exclusion* of labour as a "development" partner. By contrast to Lesage's "thin" concertation mechanisms, Union Nationale governments more closely coordinated with the business class through new institutional linkages such as the *Conseil de l'Industrie*, composed of 55 "industrialists" and financiers (FTQ 1973a: 12-13).

Between 1966-70, work stoppages (as measured by days per person loss) were three times higher than the five previous years when Liberal governments were in power (Rouillard 1989: 410). This level of confrontation reflected how the expectations unleashed by the Quiet Revolution were frustrated by the timidity and slower pace of the Union Nationale reforms. These labour conflicts were also determined by the recourse of these governments to back-to-work legislation, which denied the right to collective bargaining in the public sector, which had just been recognized in 1964-65 (Rouillard 1989: 408, 417; Petitclerc and Robert 2018: 417).

**Leveraging FDI for "Catch-Up": The Bourassa Liberal Governments, 1970-76**

The election of the Liberal party under the leadership of Robert Bourassa in 1970 marked a turning point in Quebec's industrial policies. *Une politique économique québécoise* (1974) noted that many economic institutions set up since the Quiet Revolution were not only underfunded but poorly designed to meet the challenges posed by the liberalization of trade and the emergent new technological paradigm. If left as such, these institutions would be unable to transform Quebec's economy, as indicated by the loss of market shares by Quebec firms in key sectors.

In addition to a "national champions" policy, the 1974 document recommended better defined sectoral strategies enforced through new conditionalities attached to its financing measures and institutions. To stimulate the acquisition of greater technological and managerial know-how, these conditionalities extended to FDI to force MNCs' branch plants to subcontract some of their operations to local firms and hire Francophone managers (Fournier 1979: 14-15; Rouillard et al. 2009: 20). This policy stance was influenced by the 1973 document *Le cadre et les moyens d'une politique québécoise concernant les investissements étrangers*: "…l'intégration à l'économie québécoise des entreprises étrangères qui canaliseraient alors, au sein de celle-ci, leurs effets d'entraînement et rendraient disponibles au milieu l'ensemble des connaissances, techniques de gestion…" (cited in Fournier 1979: 14).

The MIC became more prominent under the Bourassa government, as it coordinated the implementation of these new industrial policies and became responsible for Quebec's economic agencies, receiving greater human and financial resources for such tasks. The MIC's budget increased to more than double the 1961 amount (Bourque 2000: 52-54, 60).

*Targeted interventions, initial breakthroughs*

These policy shifts informed key changes of Quebec's PFIs. To break with its previous weak results, the SGF was then mandated to finance larger businesses using a "modern" technology and operating within markets with high growth rates. To leverage FDI, the SGF participated in joint ventures with foreign corporations that promised technological transfers and created outlets to domestic SMEs. This reform also subordinated SGF investments to a stricter long-term profitability orientation (Fournier 1979: 57). Rather than controlling and managing companies on its own, the SGF then participated in joint ventures, leaving its private associates in charge of day-to-day operations. In exchange, the SGF ensured its partners hired and trained Francophone managers (Coleman 1984: 105-06). The SGF also became a fully public institution with greater financial means, ending its previous mixed capitalization structure.

In line with the new sectors targeted by the Quebec state, the SGF consolidated its interventions in heavy industry, electro-mechanic machinery, and pulp and paper (SGF 2005: 4), while selling most of its forestry assets and putting to an end "new experiments" like the SOMA car plant. In 1975, the SGF made its first profit after years of deficits (Fournier 1979).

The *Société de développement industriel* (SDI) was created in 1971. Initially, foreign multinationals were privileged by the institution's lending rules even if they lacked linkages with Quebec firms. To change this situation, the Bourassa government reformed the SDI in 1973-75 to support greater integration between domestic and foreign companies. To access SDI's funds, companies had to buy more raw materials and machinery and equipment from Quebec-based suppliers, do business with domestic engineering, construction, and insurance companies, hire Francophone managers, and increase their budget allocated to R&D. These rules were generally accepted by foreign firms, who argued that they tended to prevail worldwide at the time. Only three firms then refused SDI's aid as they did not privilege hiring Francophone managers (Fournier 1979: 65-68, 74-75; Moreau 1981: 65).

The SDI relied on four modes of intervention: support the creation and expansion of fast-growing businesses engaged in "modernizing" investments; favour M&As between smaller domestic firms; back profitable businesses lacking access to private finance capital; and privilege exporting SMEs (Bourque 2000: 61; Linteau, Durocher, and Robert 1994: 471).

If in 1971, 50% of SDI's interventions were in primary metals and chemical products, between 1975-76, its financing became concentrated in chemical products, metallic products, non-metallic mineral products, pulp and paper, machinery, and transport material. Industries in decline or with low growth potential (such as textiles, rubber, and furniture) received much less in subsidies. These results conformed with the new sectoral industrial policies of the Bourassa governments of the 1970s (Fournier 1979: 69-72).

As for the CDPQ, its practices tended to overlap across governments prior to the PQ's election in 1976. The CDPQ's investments in Quebec businesses remained marginal between 1965 and 1975, worth only about $70 million dispersed in 66 businesses, while the CDPQ managed $4 billion assets in 1975 (Bourque 2000: 48). These limited interventions in favor of Francophone capitals, such as Provigo and Bombardier (Pelletier 2009: 39, 61), were normally part of its *Service de placements privés,* a CDPQ division dedicated to support medium-sized businesses with financing needs of $500,000 or more. These *Placements privés* involved active counselling in technical, financial and managerial issues, in contrast to its predominant passive investments at the time (Pelletier 2009: 62).

With the size of its portfolio, the CDPQ became the largest owner of shareholding assets by the mid-1970s (Rouzier 2008: 64). In 1976, the CDPQ held minority control positions such as in Loeb (26%) and Norcen (14%). This contrasted with the dispersed shareholdings of Canadian institutional investors (Carroll 2010: 46). The Caisse also exerted pressure for representation on the boards of firms in which it had a sizeable interest, but only when such companies were exclusively run by English-speaking managers, such as Loeb, which was headquartered in Ottawa (Fournier 1979: 34).

*The 1970s crisis and the radicalization of class conflicts*

Quebec business associations supported Bourassa's industrial policy shift in favour of greater integration between domestic and foreign capitals. "Le CPQ [Conseil du patronat du Québec] s'est toujours réjoui du fait que les gouvernements successifs, outre qu'ils ont développé chez nous un certain capital autochtone, n'ont pas fermé l'accès aux capitaux étrangers. Ceux-ci, en effet, ont grandement aidé le développement économique du Québec" (Dufour 2000: 161).

This interpenetration of "national" and "foreign" capitals undermined the project of creating a Quebec "national bourgeoisie" driven toward securing a national economic space exclusively for itself (as argued in Chapter Three) (Carroll 2010: 103). These linkages with foreign capital were not to be confused with the creation of a new economic elite enriching itself out of selling the province's wealth to foreign companies, a Quebec version of a comprador bourgeoisie (Kellogg 2015: 171). The new Francophone capitalists benefitted from such business relations to increase their domestic market shares in multiple sectors, which were later used as a launching pad for their own internationalization.

To attract greater levels of FDI and stimulate more linkages with domestic firms (Rouillard 1989: 411), the Bourassa government commissioned to the Chicago company Fantus a report called *Industrial Development in Quebec*, to understand how North American corporations perceived the business climate in Quebec. As noted by the report, while companies praised Quebec for its abundant natural resources and cheaper labour than in Ontario, it highlighted the problem of Quebec radicalism:

> Labor union leadership is frequently equated with radicalism and political motivations. Most often repeated complaints refer to: a) Irresponsible attitude of leadership; b) Government attitude and resultant legislation are unduly pro-labour; and c) Excessive interrelation of labour matters with social and political problems with too little concern for industry's economic problems (Fantus Company 1972: Section II - 83).

In response, the Bourassa government increasingly marginalized and repressed the union movement. Bourassa adopted provincial wage controls, in line with the federal Liberal government's "anti-inflation" policy.[32] This was welcomed by the CPQ who had advocated for wage repression since 1969 (CPQ 1976: 15, 62-63; Dufour 2000: 159).

Labour fought against these measures by demanding wage indexation to prevent the erosion of their real wages as annual inflation increased from 4.25% in 1968 to 12.62% in 1981 (Rouillard 1989; Rouzier 2008: 76). Union struggles extended over managerial prerogatives such as hiring and firing, work organization, health and security, corporate accounting transparency, and job security, as the unemployment rate increased from 9.3% on average between 1974-81 to 11.5% in 1981 (Dostaler 1982: 65-66; FTQ 1973a; Noël 1994; Rouillard 1989). These struggles included conditionalities of job guarantees for financial state aid (FTQ 1973c). The radicalization of the union movement even led to attempts at workers' takeovers in the face of plant closures (CEQ 1975: 3, 35; FTQ 1973a: 45; Pelletier 1972).

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[32] The 1975 Anti-Inflation Board declared to limit wage increases to 10, 8 and 6% for the next three years. This contrasted with the Board's less strict price and profit controls (Rouillard 2004: 439-40).

These conflicts did not spare the private firms in which Quebec's PFIs had substantial stakes. If the latter were exempted from wage controls, this did not prevent these companies from resisting wage indexation clauses and firing thousands of workers (Gauthier 1978: n.p.; CSN 1982; *Le Soleil* 1977: n.p.). The SGF, the CDPQ and the SDI were increasingly targeted for their complicity with "business as usual" practices (FTQ 1973a: 43; FTQ 2012: 70-72). For example, the SGF partnership with French multinational *Compagnie générale d'électricité de France* to produce electric machinery was involved in union repression, firing militant union leaders, suspending employer contributions to the insurance regime and denying union recognition (Syndicat national des travailleurs en accessoires électriques 1972). Quebec's PFIs, operating in capitalist markets, needed to begin accommodating such firm-level restructuring under these crisis conditions (as discussed in Chapter Two).

In this context, unions not only struggled to extend the nationalization of finance under the management of the CDPQ (Rouillard 1989: 319-21) but also for the Caisse's democratization (FTQ 1973b: 33-36; 2012: 126). Unions called for a "development" policy which would no longer be subservient to the private sector, by including the financing of producer and consumer coops in Quebec's PFIs' mandates (Pelletier 1972: 108; FTQ 2012). These policy stances were expressed in actual strikes demanding that Quebec's PFIs nationalize firms (*Le Soleil* 1976: n.p.). Firm-level struggles to democratize finance were met by the most hostile business opposition (FTQ 1973b).

These struggles were informed by an alternative view of economic planning based on what were more or less radical forms of industrial policies based on an expanded nationalized sector and democratic coops (Rouillard 1989: 319-20; FTQ 1973c). This process of union radicalization was being shaped by a socialist-leaning segment of the Quebec national liberation movement (Mills 2010; Rouillard 1989: 337-42, 418). In contrast, the Bourassa government changed industrial policy that introduced new conditionalities targeting high value-added manufacturing and linkages with FDI, but its reforms were clearly at odds with the democratic administration of such institutions, the support of worker-controlled coops, and the defense of workers' jobs in threatened sectors.

The number of work stoppages increased by 48% between 1966-70 and 1971-75, with about 80% of the conflicts being in the private sector (Rouillard 1989). The deteriorating state-labour relations were made worse by the increasing recourse to back-to-work legislations by Bourassa. The union movement's declining confidence in the government was indicated by unions' exit from concertation mechanisms (Denis and Denis 1994; Rouillard 1989).

In response to union radicalization, Quebec capitalists came to reject not only extensive nationalizations and any encompassing economic planning, they also questioned "mixed enterprises" and an extensive public sector seen as responsible for the "over-politicization" of the economy (CPQ 1972; 1976; Dufour 2000: 94-99). While the CPQ recognized that the state could play a temporary role in cases of "market failures", it highlighted a fundamental contradiction between the market imperative of profit-maximization and the politicization of the social rates of return mandated by public institutions (CPQ 1976: 19-20). The CPQ recommended limiting the number of public corporations to roles unfulfilled by the private sector, while granting them greater means with a management model borrowed from the private sector (CPQ 1979).

**Expanded Resources for New Technology Sectors: The PQ Governments, 1976-85**

Under René Lévesque, the PQ's economic policies *Bâtir le Québec* (*Comité ministériel permanent du développement économique* 1979) and *Le Virage technologique* (1982) argued that the Bourassa governments' policies had not delivered their promised results. Despite economic gains in certain sectors, *Bâtir le Québec* deplored the still-high level of labour-intensive and non-durable goods industries composing the Quebec economy. Beyond stimulating more integration between foreign and domestic firms, the Lévesque government pursued an industrial strategy that favoured stronger linkages between sectors and greater collaboration between business and labour associations (*Comité ministériel permanent du développement économique* 1979: 27, 35). As a sovereigntist party, the PQ promised that an independent Quebec would inform foreign investors which sectors they could invest in vis-à-vis those partially or fully closed to them, a position at odds with the federal government's Foreign Investment Review Agency, which focused on evaluations of single investments and was considered an administrative formality rather than an effective regulating mechanism of FDI (*Comité ministériel permanent du développement économique* 1979: 47).

For the Lévesque government, Quebec's still "backward" economy justified to preserve Quebec's public economic institutions while adapting their rules to new economic circumstances (*Comité ministériel permanent du développement économique* 1979: 51-52). "Mixed" public enterprises became strongly regulated by performance criteria found in the private sector to guarantee that both partner firms operated on the basis of profitability. For example, public enterprises paid consumption taxes from 1979 onwards.

The PQ provided greater public resources for these tasks. The MIC's budget increased from $71 million in 1975-76 to $327 million in 1984-85 (by the end of Lévesque's second mandate). This expanded state machinery was justified on the basis that Quebec "interventionism" remained limited relatively to other advanced capitalist states (*Comité ministériel permanent du développement économique* 1979: 51).

The MIC determined in 1981-82 three main priority sectors (electromechanics, forestry products, and petrochemicals), with the addition of biotechnologies and aluminum the following year. *Le Virage technologique* clearly privileged emerging technology sectors with strong growth potential (civil engineering, new information technologies, transport material, and biotech), while remaining committed to "modernizing" lower tech sectors (Bourque 2000: 52-53). This sectoral approach was combined with a "national champions" strategy, based on identifying and supporting medium-sized corporations with a strong export potential (*Comité ministériel permanent du développement économiqu*e 1979: 59).

As a *party*, the PQ had been subject to internal disputes over the type of economy to be developed; in contrast, the PQ as a *government* was committed to the primacy of capitalist market relations and private investment (*Comité ministériel permanent du développement économique* 1979: 35; Rouillard et al. 2009: 24-25). As was written in *Le Virage technologique* : "Le gouvernement du Québec se préoccupe au premier plan de créer et de maintenir des conditions favorables au développement et au dynamisme des initiatives privées et croit que l'économie de marché doit être, de façon générale, préservée comme le système le plus apte à l'allocation efficace des ressources" (*Comité ministériel permanent du développement économique* 1982: 25).

*An "activist" turn in finance*

Under the impulse of the PQ's industrial policies, the SGF was reformed in 1980 with the objectives of: 1) managing an industrial group with the goal of operating businesses of significant size in the emerging technology sectors; 2) planning and coordinating businesses controlled by the SGF; 3) favouring – alone or preferably with partners – the operation and development of businesses at normal conditions of profitability; 4) privileging the participation of Francophone managers to the management of these corporations; and 5) initiating and even unblocking industrial projects to develop targeted sectors (SGF 2005: 4). To play this role, the state invested $150 million from 1980-84, more than during all of the previous 18 years of SGF's existence (Létourneau 1981: n.p.).

In the case of the CDPQ, the PQ government extended the nationalization of finance under the Caisse's management (Fournier 1979: 42).[33] The unions' demands for democratizing the administration of the CDPQ as a tool for democratizing the economy, as discussed above, were marginalized by the Lévesque government.

Given the limited results of past industrial policies, Jacques Parizeau, the PQ Finance Minister, promoted a more "activist" role for the CDPQ. The CDPQ's previous minor participations, normally limited to investments up to 10% of a firm's stocks (Pelletier 2009: 89), were considered by the new PQ government as "share substitution". This meant that the level of assets bought by the Caisse only tended to replace other private asset holders rather than leading to financial interventions with more substantive transformative effects on Quebec's economy. Parizeau argued that the Caisse's growing financial clout should be mobilized to trigger higher investments by domestic firms, secure greater subcontracting to Quebec firms, and promote more Francophone managers (Fournier 1979: 32).

If the Caisse started to have a higher level of investments in businesses operating in Quebec by the late 1970s,[34] the "activist" turn of the CDPQ took off under the presidency of Jean Campeau, nominated for a ten-year term by the PQ in 1980. From the 1980s

[33] The PQ nationalized car insurance for personal injuries, although car insurance for car repairs remained entirely private.
[34] By the end of the 1970s, the Caisse had assets in 279 firms, 161 of which had their corporate headquarters in Quebec (Rouzier 2008: 65).

onwards, the Caisse became a central instrument mediating industrial policy between the provincial state and Quebec capital. Previously, this policy orientation was resisted by the Caisse administration under the presidency of Marcel Cazavan.[35] Examples of the Caisse's greater investments in a similar company, a sign of the Caisse's "activist" new role, included its financial intervention to prevent the sale of Provigo to Sobey's, its acquisition of Gaz Metro in 1980, and the Caisse's equity stakes in Domtar (21.6%),[36] an English Canadian pulp and paper company (Pelletier 2009: 91).

*Quebec's early neoliberal turn*

The PQ's new industrial policy aimed to develop deeper forms of concertation between labour and capital than Quebec had experienced to date. In total, thirty sectoral and regional conferences were held during the PQ's two mandates mandate between 1976-85, as well as three national socioeconomic summits, to develop informal networks between the MIC, business associations, and unions (Bourque 2000: 51-57).

Although the first PQ government was inspired by Scandinavian tri-partite centralized and binding arrangements (Lévesque 1978: 187-88), the concertation mechanisms which were actually developed should not be exaggerated. While a dialogue was progressing between the "social partners", the national socioeconomic summits did not rely on formal or permanent spaces of negotiation (*Comité ministériel permanent du développement économique* 1979: 37). These summits represented large discussions with modest results and mainly a largely publicized consultation, rather than institutionally binding concertation mechanisms (Rouillard 2004: 45).

Following its election in 1976, the PQ responded favorably to some of unions' previous demands by abolishing wage controls as part of other labour market reforms, such as the anti-scab law, and health and security laws. The adoption of these laws was part of the PQ's goal to put an end to the radicalization of class conflicts which had shaped the previous Bourassa governments.

[35] As president of the Caisse between 1970 and 1980, Cazavan had been a promoter of a "passive" investment policy that followed market trends.
[36] With the SGF, the Caisse formed a 42% controlling interest in Domtar with proportional board representation. The money invested by the CDPQ-SGF partnership and its active interventions at the corporate board led Domtar to "modernize" its East Angus plant and prevent its closure (CSN 1986).

The PQ initially underestimated the depth of the crisis by hoping that these "institutional compromises" would end labour upheaval and restore business confidence (Lévesque 1978: 75-77). Under the PQ government, worker militancy was soon being led by public sector workers struggling for better wages and social benefits (Linteau, Durocher, and Robert 1994: 427). If in 1974-75, the private sector was responsible for 95% of days loss in Quebec's strikes and lockouts, in 1976, 30% was due to public sector workers and in 1979, it was 40% (CPQ 1980).

This union militancy was compromising the PQ's wage moderation policy, which relied notably on a low minimum wage policy to prevent wage increases compromising the competitiveness of targeted sectors (*Comité ministériel permanent du développement économique* 1979: 47). Defeating public sector worker militancy was critical, therefore, to the success of the PQ's industrial policy, since such workers were acting as a locomotive driving wages and better conditions for the whole of the economy, including the private sector (Dufour 2000: 507-08; Piotte 1998: 175; Rouillard 1989: 431-32).

In response, the Quebec state, like most Canadian provinces, followed the Canadian's state turn toward fiscal restraint. Following the 1980 referendum defeat and in the midst of a recession ignited by US and Canadian high interest rates, the PQ government searched for a more resolute solution to the crisis. It organized a socioeconomic summit in 1982, proposing either a public sector wage freeze or the cut of nearly 17,500 public sector jobs as a means to moderate wage growth and restore "sound" budgetary policies (Petitclerc and Robert 2018: 97-99).

Believing that a social democratic resolution to the crisis was possible, the FTQ proposed a tripartite re-industrialization fund financed by the pension contributions of workers through fiscal incentives and the contributions of financial institutions, to circumvent high interest rates and reduce money capital costs, in order to revive private investment and employment growth (MacDonald and Dupuis 2018: 32). While the *Centrale des enseignants du Québec* was open to supporting this proposal as a compromise, the CSN opposed it from the left. Business associations were opposed to institutionally binding and social democratic resolutions to the crisis, such as this re-industrialization fund (Piotte 1998: 173, 188). While business associations did not reject the PQ's supply-side industrial policies, their support was conditional on non-binding concertation and the implementation of a new neoliberal policy regime (CPQ 1979; Graefe 2005: 536). Business associations had opposed the PQ's previous legislations on health and security and anti-scab laws (Bourque 2000: 77).

The Lévesque government ultimately rejected the FTQ's proposal, after having discarded other union proposals for a more radical industrial policy, the socialization of finance, and labour time reduction (Petitclerc and Robert 2018: 98). The PQ favoured a more moderate FTQ proposal in the form of the *Fonds de solidarité* of the *Fédération des travailleurs du Québec* (FSFTQ), which would be created in 1982 (MacDonald and Dupuis 2018). Supported by generous fiscal advantages granted by the Quebec and Canadian states, the FSFTQ's initial goal was to mobilize Quebec workers' available income to provide lower cost "patient capital" finance to under-capitalized SMEs in the face of high interest rates (Piotte 1998: 189). By redefining workers as shareholders and tying the future of their pensions to the profitability of "their" firms, the FSFTQ led workers to limit their demands to those compatible with business competitiveness as a mean to "save" jobs (MacDonald and Dupuis 2018: 36-38).

The PQ government remained committed to fiscal restraint, as it imposed a 20% wage cut for public sector workers for three months, equivalent to the wage increases workers had won in their previous contract, and also cut public pensions by $700 million over three years. To break the union resistance against these measures, the PQ government adopted a harsh back-to-work legislation (Petitclerc and Robert 2018; Rouillard et al. 2009: 26).

The PQ's "*préjugé favorable aux travailleurs"* had more ideological weight than actual significance. Far from being a "Labour party" (Denis and Denis 1994: 159-60; Rouillard 2011: 164-65), the PQ never treated labour as its dominant political partner. The PQ failed to form a social partnership between capital and labour in support of the state's industrial policy and the competitiveness of Quebec-based companies. The PQ's failure to do so was not the result of an overly technocratic centralization of the Quebec state which, unable to favour intermediate interest aggregation representation, lacked an oft-called "embedded autonomy" (Bourque 2000: 67). The material conditions that underpinned the contradictory class policy preferences of the period blocked a social democratic resolution to this crisis in Quebec. In the face of a deepening crisis and sharpening class conflict, a choice had to be made between allying more closely with labour or with capital's interests. Given its commitment to restoring business confidence and building Quebec capitalism, the PQ's fiscal austerity and coercive wage moderation policies began to track the neoliberal turn emerging most prominently in the so-called Anglo countries (Dostaler 1982: 68).

### Early Breakthroughs for Quebec Capital

The promises that Quebec's industrial policies would lead to full employment and better viable working conditions and wages were compromised by the 1970s crisis and Quebec's early turn to neoliberal policies. But what about the results of these economic policies in terms of advancing the market positions of Francophone Quebec-based capitals?

Quebec's state interventions since 1960 contributed to increasing Francophone-controlled domestic ownership, most notably in finance,[37] natural resources,[38] and engineering[39] (Bélanger 1994: 451). Important inroads were also made in certain manufacturing sectors such as transport material, primary metal, non-metal mineral products, and rubber.[40] These breakthroughs gave rise to larger Quebec-based corporations such as Bombardier, Gaz Metro, Quebecor, Lavalin, SNC, MIL, Cascades, and Domtar (Linteau, Durocher, and Robert 1994: 457; Rouillard et al. 2009: 22). These rising stars of the Quebec bourgeoisie, however, remained outside the dominant Canadian corporate elite whom, by the mid-1970s, further consolidated its presence westward to Quebec and mostly in Toronto (Carroll 2010: 94).

These results remained below the objectives of Quebec's industrial policies. Francophone businesses remained largely concentrated in SMEs. Within manufacturing, Quebec capitalists tended to operate firms in non-durable consumer goods and light industries rather than durable goods and heavy industries. Between 1971 and 1983, the

[37] In 1979, 60% of the assets of financial institutions operating in Quebec were held by Quebec proprietary interests (Moreau 1981: 107).
[38] Employment from foreign owned firms in forestry passed from 37.7 % in 1978 to nothing in 1987, and from 64.9 % to 24.6 % in foreign mining companies (Rocher 1994: 472).
[39] Of the ten largest engineering companies in the world at the time, three were Quebec-based (Moreau 1981: 142).
[40] Between 1961 and 1974, the value of manufacturing sales by Francophone Quebec-based firms was: transport material (+29.1%); iron and steel (+17.2%); non-metal mineral products (+13.4%); and rubber (+ 8.9%) (Moreau 1981: 143).

composition of Quebec's manufacturing sectors went from 42.56% to 40.65% in consumer goods production, from 33.78% to 36.16% in intermediary goods, and from 23.67% to 23.19% in equipment goods. In Ontario, the latter went from 40.80% to 41.08%, holding almost two-thirds of the production share in Canada (Bourque 2000: 64).

Quebec's high concentration of low value-added sectors (such as leather, textiles, clothing, and tobacco) were affected by competition from lower-waged "developing" countries, in the context of the liberalization of trade tariffs through the GATT process. The Quebec-based SMEs which survived in these sectors tended to re-orient themselves in "niche" segmented markets, by leaving mass production to foreign lower-cost competitors (Linteau, Durocher, and Robert 1994: 458, 482-83).

More than 40% of Quebec's commodities were destined for either interprovincial or international trade. In 1977, 60% of international exports were toward the US. The composition of Quebec's exports remained concentrated in raw materials and "light" industries, with the exception of paper products, cars, and airplane parts. A very small number of firms were responsible for a large proportion of exports (*Comité ministériel permanent du développement économique* 1979: 16-17).

If the 1970s crisis was sparked by excessive fixed capital investment in major industries such as chemicals, rubber, automobile, steel, and mechanical equipment, these sectors, which were already concentrated in Southern Ontario, remained relatively weak in Quebec (Piotte 1998: 175). However, the Quiet Revolution initiated in 1960 was affected by this crisis through other transmission belts. Certain Quebec plants in high value-added sectors were exposed to intensified competition, such as the bankrupt SOMA auto plant. In this context, foreign MNCs cut their demand for raw materials and manufacturing inputs, reducing the outlets of Quebec firms. The policy turn toward monetary discipline and fiscal austerity reduced public investments, reducing the state contracts firms had previously benefitted from.[41]

In addition, Quebec's PFIs' industrial policy goals were difficult to achieve given the profitability imperatives of their private partners. For example, the SGF failed to

[41] For example, following its control by SGF, MIL became closely integrated with H-Q by producing hydro-electric turbines. MIL's new industrial focus had led the company to abandon its naval division, which led to massive layoffs. In response to the 1970s fiscal pressures, the Quebec state made expenditure cuts at H-Q, reducing MIL's contracts and resulting in even more layoffs (CSN 1982: 2-3).

enforce upon companies in which it had a substantial stake a supplier's policy that would privilege Quebec-based firms, if this meant SGF business "partners" had to then assume higher production costs.[42] For these firms, the pressures of competitive accumulation had primacy over the principles of a nationalist industrial policy.

These limited results should, however, be interpreted with caution since they were part of a transitional "catch-up" process. In contrast to ownership control and export composition figures, investment and R&D expenditures in multiple manufacturing sectors would drive Quebec's further economic "modernization" (discussed in the following chapter). Between 1973 and 1985, investment growth increased importantly in the following industries: machinery (+420%), primary metals (+254%), transport material (+231%), paper (+77%), chemical products (+73%) and electrical goods (+71%). R&D investments were also significant in electronic material, office machinery, electrical machinery, and chemicals (Bourque 2000: 65-66). These were the sectors most targeted by Quebec's 1970s industrial policies.

If the social promises of Quebec's Quiet Revolution had already been compromised by the 1970s, these early breakthroughs represented the early signs of the "true" social rates of return of the state's industrial policies: the creation of a new Francophone bourgeoisie and, as a corollary, the legislative enforcement of French as a language of work and for conducting business.

## The Preconditions for Quebec's PFIs "Neoliberal Loyalty"

As argued in the first thesis presented in the introductory chapter, PFIs were a critical component of the province's industrial policies. But they formed less as a strategy for state-led development and more as a pragmatic response to the frailty of domestic sources of private finance and the relative lack of support from the dominant national Canadian banks. As such, Quebec's PFIs served as a *complement* to the development of domestic *private* financial institutions (the "additionality" framework noted in Chapter Two).

While mandated to pursue social rates of return, Quebec's PFIs were subordinated to a long-term profitability criterion. This was especially so following the 1970s reforms

[42] This was the stance of BC Forest Products, an SGF partner in the Saint-Félicien Donohue pulp and paper plant, which favoured an Ontario machinery supplier (*Le Nouvelliste* 1976: n.p.; Gagné 1977: n.p.).

of the SGF and the SDI from the Bourassa government, which introduced new conditionalities (as summarized in Table 5.1). As argued in a second thesis, if Quebec state financial institutions often tempered "short-term" financial pressures to support the catch-up of the productive capacity of domestic industrial capitals, the focus on securing the "long-term" competitiveness of Quebec-based firms was a constant of public financing. The inclusion of these mandates to build and protect Quebec capital into the core PFIs of Quebec industrial policy from the 1960s on, supplied the preconditions for the future "neoliberal loyalty" of Quebec's PFIs, as explored in the following chapters.

**Table 5.1 A Summary of Quebec's PFIs, 1960-83**

| Name / Type of PFI | Date Created | Mandates and Functions | Main reforms | Actual practices and changes |
|---|---|---|---|---|
| **Société générale de financement (SGF)**<br><br>"Universal" development bank | 1962 | Financing the creation and development of industrial corporations to change Quebec's economic structure; provide investment services to its clients; lender of last resort; contribute to full employment; and collect savings across Quebec population. | <u>1970s reform under PLQ:</u> 1) Finance more selectively firms in high value-added sectors; 2) participate in joint ventures with foreign corporations; 3) tie investments to a stricter long-term profitability orientation; and 4) shift from a mixed capitalization to a full public holding.<br><u>1980 reform under PQ:</u> Unprecedented financial means to finance projects in targeted sectors. | <u>1960s:</u> Dispersed and weak results; and low ability to mobilize Quebec savings.<br><u>1970s:</u> Consolidation of interventions in targeted value-added sectors. First years of net profitability. Siding with partner firms in wage moderation, mass layoffs, and union repression. |
| **Caisse de dépôt et placement du Québec (CDPQ)**<br><br>Public institutional investor managing public pension funds | 1965 | Double mandate of "economic development" and fiduciary prudential investments to capitalize retirement income. | <u>Late 1970s under the PQ government:</u> Extension of the nationalization of finance under the Caisse's management. "Activist" turn, based on taking higher equity stakes in targeted firms to trigger more investments and subcontracting by domestic firms, and promote Francophone managers. | Social rates of return considered once fiduciary rules are satisfied.<br><u>Initially:</u> Limited investments in Quebec-based firms given lack of large domestic corporations. Financing budgetary policies based on lower interest rates.<br><u>Mid-1970s:</u> Largest owner of shareholding assets in Canada. |

| | | | | |
|---|---|---|---|---|
| | | | | Represented on the board of firms to promote Francophone managers.<br>Early 1980s: Becomes a central instrument of Quebec's industrial policies. |
| **Société de développement industriel (SDI)**<br><br>Development bank | 1971 | Finance fast-growing businesses engaged in "modernizing" investments; favour M&As between smaller domestic firms; back profitable businesses who lacked access to private finance; and support exporting SMEs. | 1970s reform under PLQ: Support the greater integration between domestic and foreign companies through new conditionalities (such as provisioning of Quebec-based inputs). | Initially: Lending criteria privileging foreign MNCs that lacked linkages with Quebec firms.<br>Post-1970s reform: Stimulates greater linkages between domestic and foreign firms in targeted sectors. |
| **FSFTQ**<br><br>Union pension fund | 1982 | Provide low cost "patient capital" for SMEs. | | Mobilization of working class's available income to stimulate private investment and jobs.<br>Initially: finance under-capitalized SMEs on the edge of bankruptcy, amidst high interest rates. Will support the moderation of workers' demands that are compatible with business profitability. |

Mobilizing Quebec resources behind capitalist industrial policy goals relied on marginalizing alternatives for community-centred democratic and socio-ecological "development" (an issue raised in Chapter Four). The Quebec state protected domestic capitalist interests by establishing governance frameworks for PFIs that foreclosed a radical industrial policy meeting social needs. During the 1970s crisis, these financial institutions opposed union demands for better working and living conditions, from wage indexation to public takeover of firms (the third thesis in the introduction). Despite their "public" ownership, Quebec's PFIs were not insulated from market imperatives and were made subservient to capital accumulation in the province.

In this way, Quebec's PFIs were shaped by the roles of *capitalist* money as both means of circulation and measure of value. In supporting the circulation of capital, Quebec state financial institutions often mitigated short-term financial pressures to support the long-term investments of Quebec's NFCs. But as a measure of value, Quebec PFIs were compelled to allocate their money-capital toward firms keeping up with a stricter profitability criterion and to side with management's restructuring plans that were often at odds with the demands of workers (the tenth thesis in the introduction).

Such PFIs were part of wider industrial policies aimed to develop a "national" economy based on linkages between primary, manufacturing and the state sectors favourable to expand Francophone ownership in Quebec in the leading sectors of the world economy. Its modes of intervention were based on conditional support and direct investment by the state rather than being limited to underwriting the investments of private capital (the fourth thesis in the introduction). What varied according to the government in power were: 1) how comprehensive supply-side industrial policies emerged during the 1970s, based on better defined sectors and targeted firms; 2) the level of financial capacities and human expertise granted to economic institutions; and 3) whether concertation mechanisms were limited, extensive or marginal.

The 1970s turn in Quebec's industrial policies was marked by the attempt to leverage foreign MNCs to develop the managerial and technological capacities of Quebec corporations. This reflects how developing a stronger Quebec "national" economy was not meant to secure a market exclusively for Quebec capital, but rather aimed to nurture competitive domestic capitals whose growing domestic market shares could be used as the foundation for export-led growth and, eventually, internationalizing firms.

The social ambitions behind Quebec's industrial policy institutions were framed by their founders as a nationalist cross-class project conducive to full employment and better living standards for the Quebec nation. For both the PLQ and the PQ, this included promoting greater economic opportunities for Francophones by not only developing a new Quebec bourgeoisie but also by making French a language of work and business. Francophone ownership of capital and the presence of French as an official language in Quebec society did, indeed, expand during this period. While such national projects animated Quebec's political and economic elites, these motivations should not be confused with how capitalist market imperatives established rules pressuring agents to act in ways conducive to competitiveness independent of nationalist reasons, whether of firms or of political parties. As this was state building for *capitalist modernization and economic "catch-up"*, social ambitions were sacrificed to the goal of developing the international competitiveness of domestic Francophone capitals in key strategic sectors integral to industrial modernization. In this period, Quebec's peculiar "extra-market" institutions could not, in the end, sustain "progressive" social compromises through the practices of concertation, as institutionalist advocates of the Quebec Model contend.

In such a context, a social democratic resolution to the 1970s crisis put forward by sections of the union movement lacked party support, let alone backing from any fraction of the capitalist class. Instead, Quebec economic policies turned toward fiscal restraint and back-to-work legislation aimed at curtailing union power. This period opened the political field in Quebec for its own variation of the neoliberal regime gaining traction elsewhere, in line with Quebec capitalists' interests.

# Chapter Six

## The Neoliberal Turn of Quebec Industrial Policy and Public Finance, 1983-2000

During the 1980s-90s, corporations further centralized their control over investment while often subcontracting and offshoring input parts production and final assembly. This gave rise to new international production networks under the dominance of multinational corporations (as noted in Chapter Three). As these corporations put their suppliers around the world in competition, this created strains within past national economic linkages. The new challenge became how states could develop domestic productive capacities in high value-added manufacturing while supporting the internationalization of domestic capitals. As a result, certain countries and regions resorted to industrial policies which were turned toward developing regional clusters embedded in global value chains (as argued in Chapter Four). As part of these policies, states often rejuvenated the roles of public financial institutions to fill the gaps in domestic financial systems produced by the pursuit of high and short-term returns by private financial institutions (as discussed in Chapter Two).

Quebec's integration into neoliberal globalization would not have been possible without the economic institutions developed since the Quiet Revolution. As industrial policies selected firms in targeted sectors with potential profitability and stimulated linkages between foreign and domestic firms, the development of new Francophone-controlled businesses was favoured. These achievements provided the Quebec state and economy with critical capacities for meeting the challenges of international competitiveness.

Further "catch-up" was, however, compromised by the crisis and conflicts of the 1970s. The latter were resolved by Canada's high interest rate policy and by the PQ's fiscal austerity. The resulting recession, in addition to back-to-work legislation, rationalized the capital stock, defeated union radicalism, and induced wage moderation. These processes initiated the transition toward neoliberalism in Quebec in 1982-83. Only once this was achieved could the PQ's "supply-side" industrial policies stimulate profitable investments in targeted sectors.

The neoliberal ideological climate, however, depicted industrial policies as a misguided state exercise of picking winners and losers and encouraging "rent-seeking" behaviors. In Quebec, the re-election of the Liberals by the mid-1980s initially promised an abandonment of such policies in favor of privatizations and deregulations. In this context, the future of Quebec's industrial policy tools, such as PFIs, was far from guaranteed.

The challenges facing Quebec firms in the 1980s led governments during the 1990s to transform industrial policies to focus on bolstering the international competitiveness of Quebec-based capitals. This chapter investigates the shifts in the interactions of Quebec's PFIs with domestic capitals and the policy regime that evolved. As Quebec's PFIs enhanced their "coordination" to support the internationalization of Quebec-based capitals, they developed core national shareholding blocs insulating Québec firms from hostile takeovers. While "patient capital" provided institutional limits against predatory rentiers, Quebec PFIs were still pressed to accommodate neoliberal restructurings.

## From Marginalizing to Reviving Industrial Policy: The Bourassa Governments, 1985-94

Robert Bourassa's third Liberal mandate (1985-89) began in an ideological context of free trade, privatization and deregulation agendas challenging the legitimacy of industrial policies. Influenced by the "Anglo-American" neoliberal program and its Canadian expression with the 1982 Macdonald Royal Commission on the Economic Union,[43] the Bourassa government set up three ministries on privatization, state governance and deregulation who produced the following three reports: *De la Révolution tranquille à l'an deux mille: rapport du Comité sur la privatisation des sociétés d'État* (1986) (also known as the Fortier Report); *Rapport du Groupe de travail sur la révision des fonctions et des organisations gouvernementales* (1986) (also known as the Gobeil Report); and *Réglementer moins et mieux: rapport final du Groupe de travail sur la déréglementation* (1986) (also known as the Scowen Report). These reports respectively recommended the

[43] The MacDonald Commission was set up by the Trudeau Liberal government, and its recommendations were made to the following Mulroney Conservative government. This commission legitimated the adoption of "free trade" and welfare policy reform, marking the bipartisan Canadian consensus on the neoliberal turn.

privatization of ten state institutions (such as the SGF), a low minimum wage and more flexible labour laws (such as exceptions to the anti-scab law and regulations facilitating outsourcing), and the restructuring of a hundred governmental organizations to reduce public sector personnel (Bourque 2000: 27; Rouillard 2004: 249).

Amongst the three, the Fortier Report had the most direct impact with the "privatization" of twenty-one publicly owned assets, from temporarily nationalized businesses (such as the hotel *Manoir Richelieu*) to shareholding blocs held by the SGF in private firms judged mature or profitable enough to compete without the SGF's help. The *Régime épargne-action*, a program granting tax breaks to Quebec citizens buying stocks, was used to transfer these assets to domestic owners (Baril 1985a; 1985b). However, the Quebec state remained committed to an "open door" policy both favourable to Quebec and "foreign" capitals. As the Fortier Report argued: "…le comité précise qu'il ne faudrait pas faire du contrôle québécois un objectif absolu. Un certain degré de contrôle extérieur est normal au Québec […] dans la mesure où un mouvement inverse se manifeste, c'est-à-dire le contrôle des intérêts québécois d'entreprises de l'extérieur et d'importance comparable" (quoted in Turcotte 1986: 8).

Despite these measures, the recommendations from the reports sparked a level of popular resistance which limited their implementation (Rouillard et al. 2009: 28-29). While this prevented the dismantling of key industrial policy institutions, the Bourassa Liberals had no immediate "Plan B" economic policy. To support high value-added firms, this Bourassa government relied mainly on "horizontal" measures such as indirect fiscal credits attributed to firms across the economy as a whole rather than "vertical" measures targeting specific sectors, reflecting its rejection of past industrial policies (Bourque 2000: 113, 130).

The onset of the early 1990s Canadian recession, sparked by the increase of interest rates from 8% to 12%, led to failures of many debt-financed conglomerates (Moreau 1993: 347) and the sale of many Quebec-based assets and firms to foreign interests. This was interpreted in elite government and business circles as a sign of Quebec's persistent economic weaknesses, fearing that greater foreign control would reduce domestic linkages between firms and erode the efficacy of industrial policy and regional development (Bélanger 1994: 454-55). These concerns were behind the new cluster strategy led by the

Quebec Minister of Industry, Commerce, Science and Technology, Gérald Tremblay, under Bourassa's fourth mandate (1989-94).

As discussed in Chapter Four, a cluster refers to regional institutions bringing together subcontractors, suppliers, and large corporations that have potential linkages across different sectors, and often includes university and research institutes. These industrial hubs were to stimulate common solutions to their respective challenges (MDEIE 2005: 60). Clusters were often seen as at odds with past "statist" industrial policies which presumed that formalized knowledge about the economy could lead to "top-down" interventionist policies that would result in improved productivity and industrial upgrading. But this "old" industrial policy was now judged as inappropriate for forging economic linkages productive of constant innovation, economic change, and growth characteristic of the "new economy". In contrast, clusters were meant to enhance the learning curve of economic agents in high value-added sectors through tacit knowledge building and sharing. Such an industrial policy required to change economic behavior toward adopting a long-term outlook at odds with existing business short-termism (as minister Tremblay often argued) (Bourque 2000: 137).

The goal was to mobilize the potential of ICT for custom-made production, exported as higher priced "quality" goods in "niche" markets whose "technological rents" could form the basis for a "high road" strategy. By successfully developing high value-added competitive firms, the goal was to create 550,000 jobs (200,000 beyond "market-led" growth) and reduce unemployment to 7-8% by 2000 (Bourque 2000: 138-40, 167).

The state encouraged the adoption of "best practices" in capitalization, training, R&D, labour relations, "quality" production and export marketing, using fiscal credits, venture capital funds and partnerships with publicly funded research centers to re-orient firm behavior. As noted by Graefe (2000: 10-11), multiple clusters (such as aerospace, pharmaceuticals, information technologies, transportation equipment, and petrochemicals) were targeted. Each sectoral table elaborated a strategic plan to tackle issues of venture capital, professional training, work organization and new technological trends adapted to the challenges of their cluster.[44] Beyond overseeing policy coherence and results, the state

[44] Approximately thirty sectoral tables involved 21 ministries and agencies, and a thousand participants.

granted resources to realize these plans under the leadership of the *Ministère de l'Industrie, du Commerce, de la Science et de la Technologie* (Bourque 2000: 150-52, 164-65).

Another component of this policy was thirty "*contrats sociaux d'entreprises*" signed between 1991-94, which involved 11 different businesses (Bourque 2000: 160-63). These firm-level agreements were not negotiated to circumvent sectoral or national neo-corporatist institutions (as discussed in Chapter Four), as these were non-existent in Quebec. Rather, they were meant to circumvent the national labour law limiting collective agreements to three years at the time. The *contrats sociaux d'entreprises* were collective agreements with a duration of more than three years to favour "modernizing" investments and job security in exchange for a no-strike pledge (Noël 1994: 429). A joint committee involving state, capital and labour representatives oversaw their labour training and employment clauses. The SDI often provided loans to secure such investment projects.

*The class biases of clusters*

Business associations had supported the PQ's supply-side industrial policies (Graefe 2000: 9), but they challenged its previous progressive labour laws, far-reaching concertation mechanisms, and greater capitalized state institutions. Even if the PQ had initiated a turn toward fiscal restraint, the PLQ received more political support from business associations, since the PLQ was committed to an even deeper neoliberal policy regime.[45]

This endorsement of a more circumscribed state indicated a self-confidence of the "new" Francophone capitalist class which saw the state's extensive "interventionism", at least in their old form, as no longer necessary. The committees behind the Fortier, Scowen and Gobeil Reports were comprised of a majority of business representatives who were adopting the views of neoliberal globalization now accepted across Canada. The Quebec capitalist class's embrace of a neoliberal policy regime was not, however, a policy preference for a generalized retreat of the Quebec state. The Quebec bourgeoisie saw the need to preserve certain state enterprises such as PFIs to meet new competitive challenges. As the President of the *Conseil du patronat* (CPQ) commented: "Le fait d'avoir applaudi […] à la publication des trois rapports n'a jamais sous-tendu […] que l'on ait endossé la

[45] The Quebec business class's historical support for the PLQ was also due to the party's federalist stance.

privatisation de la Caisse de dépôt ou d'Hydro-Québec […] la SDI est aussi importante, de même que la SGF. Ces outils de l'État sont là, il s'agit simplement de les adapter aux situations qui sont changeantes" (*Consultation générale sur la libéralisation des échanges commerciaux entre le Canada et les États-Unis*, 1987).

The PLQ marginalized concertation with the labour movement as a "development" partner between 1985-89. Business associations had pressured the Bourassa government to end the PQ's way of governing by "summits" (Bourque 2000: 77). With the adoption of a cluster strategy led by Liberal minister Tremblay in the early 1990s, the Liberals became more open to concertation with labour at the firm and sectoral levels (Bourque 2000: 178).

The unions' participation in sectoral tables was motivated by the hope to gain power over work organization, training[46] and health and safety (Graefe 2000: 11-12). If businesses were less oriented to concertation than unions, they were not opposed to *non*-institutionally binding spaces where they could advocate for solutions to cope with the challenges of global competition. While business associations opposed indiscriminate subsidies, they welcomed state financial aid for R&D, exports, and professional training (Dufour 2000: 478-79). When adding its support for PFIs adapted to new conditions, the Quebec capitalist class could accommodate *certain forms* of industrial policy. Unions and business associations both recognized that Tremblay's cluster industrial policy could support the competitiveness of domestic firms based on new partnership relations favourable to Quebec capitals' profits, workers' jobs, and national living standards (Bourque 2000: 129, 136, 138; Graefe 2000: 11).

If businesses initially accepted the firm-level concertation involved in the ad hoc agreements of the *contrats sociaux d'entreprises* to circumvent a legislated three-year limit on collective agreements, this experiment ended with the PLQ's 1994 decision to abolish this labour law. This decision satisfied a business policy preference for longer-term collective agreements and left them unencumbered with the binding job security pledges negotiated in the "*contrats sociaux d'entreprises*" (Dufour 2009: 134).[47] For Bourque (2000: 164), this resulted in a lack of institutional complementarity between labour law

[46] This union stance on labour training may have been encouraged by the 1990s Quebec-Canada Labour Market Development Agreement which transferred the Labour Market Development mandate to Quebec.
[47] By 1999, 42.1% of collective agreements in Quebec were longer than three years (Rouillard 2004: 250).

and industrial policy, but for Graefe (2000: 14), this fails to recognize how this cluster strategy was part of a neoliberal policy regime based notably on a "loosening" of the Labour Code.

The participation of capitalists in the PLQ's cluster strategy was conditional on the absence of institutionally binding rules (Graefe 2000: 11). While the participation of unions was organizationally based, the participation by businesses was individually based. At odds with the historical calls of Quebec unions to emulate German co-determination or Swedish centralized neo-corporatism, the Quebec business class rejected European-style, institutionally binding institutions (Dufour 2000: 261-79). The voluntary participation of individual businesses, however, reflected how business associations had been sidelined at the sectoral tables. For minister Tremblay, these associations were too bureaucratic and inflexible to foster changes in business behavior in line with his cluster strategy (Bourque 2000: 169-70). This led to tensions between the firm-level representatives at the tables and the business associations themselves (Graefe 2000: 21).

*The "coordinated" model of Quebec finance*

Rather than being privatized, Quebec's PFIs (SGF, CDPQ, SDI) adapted to new challenges. As the domestic private financial system increasingly pursued activities in search of higher short-term profits (further discussed in Chapter Nine), these PFIs filled the gaps in the financing chain of Quebec's non-financial corporations, for activities with higher risks and indeterminate success such as R&D. Such institutions also "coordinated" their interventions to develop the financial clout to support the internationalization of Quebec-based capitals (as analyzed below).

The "anti-statist" ideological climate forming during the mid-1980s made the future of Quebec's PFIs uncertain. While the Fortier Report had recommended privatizing the SGF, the Bourassa government decided to keep the SGF public. The Bourassa government transformed the SGF from an industrial holding company shaped by a state-led sectoral strategy to an "investment bank" where the SGF would finance substantial stockholdings of individual firms (33% on average but no higher than 50% to limit public control) irrespective of their sector (Bourque 2000: 95; Brunet 2003: 21; SGF 2005: 5).

It was Tremblay's cluster strategy which decisively revived the SGF's "entrepreneurial" role of financing private Quebec capital in targeted sectors (such as petrochemicals, aluminum transformation, forestry, metallurgy, transport, and biotechnologies). In this context, the SGF began to fund promising medium-sized companies, although still continuing to finance large firms (Bourque 2000: 143-44; SGF 2005: 5).

As discussed in the previous chapter, the CDPQ's initial role in economic development was indirect as its Government of Quebec bond holdings supported infrastructure development which opened public contracts for Quebec firms. In its early years, the CDPQ's stocks were mostly limited to established Canadian firms. Only with the "activist" turn of the Caisse promoted by the PQ government did the CDPQ increasingly directly finance the expansion of Quebec-based firms.

The percentage of company shares in the CDPQ's assets moved from 11% in 1980 to 30% in 1990. By the end of the 1980s, 20% of its stockholdings took the form of "active" investments through its *Service de placements privés,* a division that continued to expand during the 1990s (Bourque 2000: 55, 96).[48] These domestic state-capital linkages contrasted with the CDPQ's more "passive" relationship to its Canadian and international investments (Carroll 2010: 135).

The CDPQ's "activist" role led to a wider informal network between the Caisse and other financial institutions like the SGF, Desjardins, Laurentian Bank, and the *Fonds de solidarité* FTQ (FSFTQ) (Bourque 2000: 58, 96). By engaging in "joint ventures", pooling funds and sharing risks, these institutions were inclined to support riskier long-term investments. These financial institutions were often represented on the board of companies in which they had substantial stakes and accessed insider information on investment projects, which, in turn, reduced their pressures for *short-term* high returns. This represented a Quebec version of the institutional characteristics of the "bank-based" financial systems (discussed in Chapter Two).

By the end of the 1980s, such linkages between Quebec's financial institutions were seen as increasingly necessary to pool sufficient financial resources to support the mergers

[48] In 1993, these "active" investments were composed of 90% of stocks from Quebec firms, with 26% financial rates of return for that year (Pelletier 2009: 203-04).

and acquisitions of Quebec capitalists in order to help them compete with corporate takeovers led by US, European and Japanese corporate groups amidst trade and financial liberalization (Pelletier 2009: 187). As Jean Campeau, the CDPQ President at the time, remarked: “Le total de l'actif des groupes financiers québécois ne représente pas le tiers de celui de la plus grande institution japonaise” (Van de Walle 1989). In 1990, the Caisse held \$30 billion in assets, equivalent to only the 47th largest financial institution in the US, while the wider Québec Inc. had estimated asset holdings of \$200 billion (Courchene 1990: 51-52).

In the context of the undervaluation of Canadian assets due to Canada’s early 1990s high interest rate policy, the “coordination” between Quebec’s public (and private) financial institutions was also seen as critical to prevent greater foreign control of the Quebec economy (Courchene 1990: 4-5, 10). These concerns were part of the Liberals’ new industrial policy, as indicated by Pierre Fortier, former PLQ Associate Finance Minister:

> It is […] clear that if we wish to retain a substantial degree of control over our commercial and industrial companies, our financial institutions will have to be involved in takeovers of these companies, either individually or jointly. Accordingly, we have to start promoting the development of industrial, commercial and financial conglomerates which, by pooling their resources, will provide Quebec with the means to act both here at home and abroad (cited in Courchene 1990: i).

Many Quebec financial institutions supported this financial policy orientation and were inclined to collaborate closely between with the government to guarantee the success of a “nationalist” industrial policy (Courchene 1990: 45).

As a result, this network of financial institutions constituted a core national shareholder structure in Quebec (Pelletier 2009: 155-56). By controlling substantial ownership stakes in a wide number of Quebec-based firms, this *limited* the financial pressures associated with the threat of hostile takeovers, a key disciplinary mechanism associated with financialization. As this granted Quebec NFCs greater managerial autonomy to pursue “risky” investments, this role favoured the state’s industrial policy goal of building up firms in “strategic” sectors (see Chapter Two).

Such solutions to secure Quebec’s international competitiveness remained market-conforming rather than legally imposed “protectionism” or other instruments for gaining advantages at the expense of Canadian capitals (Courchene 1990: 48). They represented a national economic interest to preserve and expand a strong ownership domestic base. Given their small financial clout by international standards, this avoided political opposition from the US, and more widely from dominant firms within G7 capital markets (Courchene 1990: 52).

The Caisse's support of the internationalization of Quebec-based capitals became framed as the best way to integrate its "double mandate" of accumulating financial returns and developing the Quebec economy (Rouzier 2008: 75-76). From the 1980s onwards, this led the CDPQ to support the FDI, corporate acquisitions, and exports of domestic firms (*Nouvelles CSN* 1981; CSN 2011; Dupaul 1996).[49] This favoured cross-national forward and backward linkages that secured outlets for Quebec businesses (Milette 1996; Pelletier 2009: 237). The Caisse let the private sector decide in which export markets it wanted to invest, and respected the rules of "free trade" agreements (FTAs) by not subsidizing the cost of its loans in such ventures (Lajoie 1989).

Beyond large corporations, the CDPQ also supported the early phase of emerging firms in new "high-tech" sectors to nurture future "national champions". This led the Caisse and other financial institutions to develop venture capital funds for innovative "start-ups" (Moreau 1993; Pelletier 2009: 136-37). This included supporting the internationalization of Quebec-based SMEs through initiatives like Expordev (Tison 1998: n.p.). These initiatives still respected the primacy of the Caisse's fiduciary role.

The CDPQ also became increasingly involved in international capital markets in expanding its trades on its own account (Pelletier 2009: 134-35). In 1983, the CDPQ purchased its first foreign stocks outside Canada. By the end of the 1980s, Campeau set a goal of increasing the Caisse's international portfolio from 5% to 10% of its overall assets (Dubuisson 1989b: n.p.). The FTAs consolidated this orientation.

The Caisse considerably increased its international stocks during the 1990s (Bourque 2000: 147-48). This reflected the consolidation of the CDPQ's fiduciary role as a de facto practice, notably with the arrival of Jean-Claude Scraire as the CDPQ's new President in 1995 (Pelletier 2009: 211). The selection by the CDPQ of the most profitable

[49] By 1989, the SGF also increasingly supported the internationalization of Quebec-based capitals while supporting inward FDI projects that stimulated domestic contracts (Le Cours 1989).

investment projects was indicated by the fact that 80-90% of projects submitted to the Caisse were refused (*Étude détaillée du projet de loi n° 168,* 1997).

In regard to the SDI, Bourassa's "passive" industrial policy during the second half of the 1980's replaced the SDI's previous direct aid programs targeting fast-growing and exporting firms in emergent sectors by fiscal indirect measures. Bourassa also followed three recommendations of the Gobeil Report to reform the SDI. Financial aid was increasingly allocated to large corporations rather than SMEs, regulated by special mandates overseen by the state executive (Bourque 2000: 92). This reform also subordinated the SDI to a self-financing constraint. This turned the SDI into a venture capital institution, notably through the introduction of "participatory loans". These loans did not include collaterals in the case of a company's bankruptcy, exposing the SDI to higher levels of risks than those shouldered by conventional financial institutions. The SDI therefore charged a 2% premium above market rates and an option to convert these loans into stocks. Still, it offered a three-year moratorium on payment and a ten-year delay for reimbursement, which could be extended in periods of crisis (Gagné 1989: n.p.; 1990: n.p.).

The new rules constrained the SDI to select firms with high value-added investments, corporate acquisitions or export projects judged too risky by private capital more narrowly on the basis of profitability. While 1448 businesses were supported in 1985-86, these were reduced from 902 the following year to 374 at the end of Bourassa's third mandate in 1989, as participatory loans made up 90% of SDI aid in 1988-89 (Bourque 2000: 93-94). This was also partly the result of the government's reduced contribution to the SDI by the end of the 1980s. The level of participatory loans then decreased to 60% of SDI's business aid by 1992-93 (Bourque 2000: 166).

*The "neoliberal loyalty" of Quebec PFIs*

The support provided by the CDPQ to the expansion of Québec Inc. during this period is often seen by the "Quebec Model" literature as the "golden age" of its double mandate (Hanin 2016: 62), supportive of "real" economy growth rather than inequalities generated by a "financialized" economy. While the CDPQ is often analyzed for its economic nationalism (Carroll 2010: 48, 52, 103, 135; Coleman 1996: 209-11) and regional development (Blackburn 2002: 66, 478, 481), its roles in mediating class relations remain underinvestigated.

Despite holding blocks of minority or majority ownership for a substantial amount of time and being represented on certain board of directors, the CDPQ (like other PFIs) have respected managerial prerogatives on investment decisions or work organization. As Pierre-Karl Péladeau, CEO of Quebecor, said of the CDPQ: “La Caisse, ce n'est pas des opérateurs. Ils ont une réunion par trimestre et ils ne vont pas fouiller dans les chiffres pour savoir si telle chose coûte trop cher ou pas” (quoted in Baril 2002: n.p.). This attitude was corroborated by Scraire, ex-President of the CDPQ: “l'avantage qu'on a […] c'est de pouvoir justement mettre en place une équipe de gestion puis de la laisser travailler […] s'assurer qu'on joue essentiellement le rôle d'investisseur. On n'a pas besoin d'aller opérer les manufactures” (*Étude détaillée du projet de loi n° 168*, 1997).

Behind this separation of ownership and control lies the CDPQ’s “loyalty” to the company’s management decisions. Rather than making its “voice” heard in defense of preserving (let alone improving) existing working conditions, the Caisse tended to accommodate firm-level corporate restructuring (defined as practices of “neoliberal loyalty” in Chapter Two).

As an example, in 1989, the CDPQ associated itself with Socanev, a company specialized in maritime transport held by investor Marcel Gaucher, to buy the Quebec-based Steinberg grocery chain, with the Caisse acquiring *Ivanhoé*, Steinberg’s commercial real estate division, while Socanev would take control of Steinberg’s food distribution division. While these investors invoked that this transaction would keep Steinberg’s corporate headquarters in Quebec, the *Travailleurs unis de l’alimentation et du commerce* challenged this transaction. Given that Steinberg employees remained the best paid in the sector despite recent concessions (Berger 1989: n..p.), Gaucher hoped to increase the competitiveness of its stores and reduce its costs by emulating the adoption of a franchise system by its competitors (Dubuisson 1989a: n.p,).

The Caisse neither reduced the interest rates of its loans for this transaction nor postponed its call for dividend payments thereby facilitating the restructuring (Cloutier 1990: n.p.). Despite union opposition to the transaction, the franchise system ended up being introduced (Dubuisson 1989c: n.p.). The bankruptcy of Steinberg in 1992 and the reallocation of the stores between IGA, Métro, and Provigo then forced a new round of concessions when the older collective agreements were not simply terminated, a decision approved by the CDPQ. The extension of this sector's company hours then favoured a growing proportion of part-time workers (Le Cours 2005: 4). If the CDPQ worked to preserve the domestic ownership of the sector, it was at the price of a deterioration of its working conditions.

The layoff of 500 workers in 1989 at Domtar, where the CDPQ and the SGF had majority control, also illustrated this market-conforming logic. While the core shareholding structures developed by the CDPQ for Domtar protected it from the threat of hostile takeovers by predatory institutional investors, a key disciplinary mechanism associated with financialization, this restructuring process was justified to secure the competitiveness of the company vis-à-vis larger international giants in the sector (Cloutier 1989b). Backed by the CDPQ, Campeau summarized well the spirit of the institution's "neoliberal loyalty": "…la Caisse achète des actions de compagnies, accède à leur conseil d'administration mais n'intervient pas dans la gestion de leur personnel. Tout en disant regretter que des gens soient ainsi mis en chômage, M. Campeau a fait remarquer qu'il fallait parfois réorganiser une compagnie pour ne pas mettre en danger tous ses employés" (quoted in Cloutier 1989: n.p.).

By accommodating such firm-level restructurings, the Caisse favoured the competitiveness of Quebec-based capitals, in line with the primacy of its fiduciary role as a de facto practice. As observed in the previous chapter, a "class bias" was inscribed in the Caisse's origins and been preserved in the face of attempts by radicalizing Quebec unions to democratize its administration and mandates in favor of alternative transformative objectives. But now the CDPQ's role was evolving to become increasingly responsive to the intensified competition characteristic of the neoliberal period.

The Quebec business class welcomed the Caisse's "neoliberal loyalty", which tempered their concerns about the institution's substantial interventions in the Quebec economy. Quebec-based firms having access to the Caisse's funds also viewed positively its role for increasing their financial leverage and reinforcing their market positions (Moreau 1993: 348).

The Quebec business associations also pushed for an agenda to reform some of the Caisse's practices. For example, the CPQ advocated for an increase in the CDPQ's stockholdings, including international stocks (Dufour 2000: 165-67; CPQ 1983: 1-3). This demand was satisfied by the CDPQ's 1997 reform under the PQ government (discussed below). In addition, the CPQ pushed for limiting the Caisse's stockholdings up to 10% per individual firm' voting stocks while forfeiting any board representation. These latter demands were, however, not retained by governments during this period.

**Public Money for Neoliberal Industrial Policies: The PQ Governments, 1993-2003**

Although re-elected in 1994, it took the PQ several years to design a new comprehensive industrial policy, called *Québec Objectif Emploi* (Ministère des Finances 1998), in response to growing unemployment and poverty by the end of the 1990s. This policy was in continuity with the PQ's past supply-side incentives in finance, R&D, and export promotion reliant on expanded state capacities and clusters developed initially by the Liberals. This policy combined "general" measures to create a more competitive business climate, discussed later below, and targeted sectoral measures.

To raise the rate of private investment at unprecedented levels, the PQ spent $3.2 billion on ten clusters (Graefe 2000: 16). Notably, these efforts aimed to expand the networks of exporting domestic businesses. Multimedia, pharmaceuticals, and aerospace also received additional fiscal advantages (Bélanger 2000: 184).

Sectors beyond manufacturing and resource extraction also received important support. In the context of a "knowledge economy", the highest job growth in Quebec was registered in the "motor tertiary" sectors, such as telecommunications and financial and business services (including computer services, accounting and marketing) (Ministère des Finances 1998: 15-16). This reflected the change in business organization during this period as corporate headquarters kept centralized R&D, finance and investment while often decentralizing production across global value chains (as discussed in Chapter Three).

The new policy also reformed Quebec's PFIs by expanding the role of the SGF and by creating Investissement Québec (IQ). If $4.6 billion was allocated to these economic institutions between 1993-2002, 80% of these sums were distributed by the PQ government between 1998-2002 (Brunet 2003: 5).

*Internationalizing Quebec's PFIs*

In 1996, the SGF's capitalization was doubled from $415 to $850 million so that it could more effectively play its economic development role, while continuing to select firms according to their long-term profitability potential (SGF 2005: 5). In 1998, the PQ integrated the *Société québébécoise d'exploitation minière* (SOQUEM), *Société québécoise d'initiatives agricoles* (SOQUIA), *Société québécoise d'initiatives pétrolières* (SOQUIP), and the *Société de récupération et d'exploitation forestière* (REXFOR) to the SGF.[50] This was to centralize FDI prospection more effectively as part of a wider effort to coordinate state capacities for stimulating private investments.[51] The SGF was also capitalized at unprecedented levels, from $850 million to $2.925 billion, to finance investment projects of at least $10 million in ten different sectors (SGF 2005: 5).[52] Targeted sectors included metals and minerals and high value-added input parts linked to a transport material cluster (Bourdeau 2000: n.p.).

The PQ's commitment to grant its industrial policy tools greater resources should not be confused with "protectionist" inclinations. The PQ continued the "privatization" process initiated by the Liberals by authorizing the sale of the substantial shares held by PFIs in eight companies considered "mature" (Presse canadienne 1995: n.p.). This was in line with the SGF's original mandate to exit from firms judged to be sufficiently competitive.

During this period, the CDPQ was mostly involved in mediating the expansion of Quebec-based capitals, nurturing core national shareholding blocs known as Québec Inc. In 1996, the CDPQ still held secondary blocks of shares in companies controlled by Quebec capitalists, such as Quebecor printing and Groupe Vidéotron. Its vice-president sat on the boards of three Quebec-based corporations in which the investment company held a sizeable interest. This contrasted with Canadian public institutions which had weak ties to the Canadian corporate elite (Carroll 2010: 238).

[50] The integration of SOQUEM, SOQUIA, SOQUIP and REXFOR doubled the assets under SGF management.
[51] Each dollar invested by the government promised to stimulate $5 in private investment (Ministère des Finances 1998: 134).
[52] Under the impulse of such reforms, the SGF financed 211 investments between 1998-2002; between 1995-97, the SGF had financed only 17 projects (SGF 2005: 6).

By the end of the 1990s, the CDPQ's *Service de placements privés* stagnated and relatively declined, notably following the sales of Vidéotron, Biochem, and Quebecor stocks (Bourque 2000: 147). But while the CDPQ negotiated a higher bidding price for the sale of Provigo in 1998, it intervened to block the sale of Vidéotron to Rogers, by facilitating its sale to Quebecor (see Chapter Seven). This was enabled by a 1997 CDPQ reform which allowed the institution to buy more than 30% of the shares of "private" firms, legitimated as part of an ongoing development mandate in higher tech sectors (*Étude détaillée du projet de loi n° 168* 1997).

The CDPQ's 1997 reform consolidated the role of the Caisse in supporting the internationalization of Quebec-based capitals. As Bernard Landry, the PQ Minister of Finance at the time, observed: "Toutes les grandes banques du monde accompagnent leurs constructeurs nationaux à l'extérieur […] parce que c'est […] leur devoir d'économie nationale. Les entrepreneurs qui vont avec vous sur les marchés tiers, ils ne pourraient pas y aller sans votre accompagnement" (*Étude détaillée du projet de loi n° 168* 1997).

This was encouraged by allowing the CDPQ to hold up to 70% of its assets in stocks (Durivage 1997: n.p.), including international stocks.[53] This reform gave more leeway to the Caisse for pursuing higher financial profits and better risk management. In this context, the CDPQ profited from processes of privatization and "deregulation" abroad (Cousineau 1999: n.p.; Pelletier 2009: 228-39). As new funds under CDPQ management tended to slow down, this 1997 reform also allowed the Caisse to accept trust mandates to manage funds outside Quebec, with a first experience in Hungary (Presse canadienne 2000: n.p.), followed by South Korea (Dansereau 2000: n.p.), the Middle East, North Africa, and China (Pelletier 2009: 319).

Finally, in 1998, the PQ government created IQ, which incorporated the previous SDI. Remaining predominantly in SMEs financing, IQ was a complement to SGF's equity stakes interventions in larger corporations. Similar to the "super-SGF", the goal of IQ was to facilitate greater institutional coordination based on a simplified administrative structure for attracting domestic and foreign investors. IQ was also mandated to prospect domestic investments and inward FDI. This reform consolidated orientations typical of Quebec PFIs

[53] A Canadian state reform had during the same period allowed Canadian pension funds, such as the Canada Pension Plan Investment Board, to increase their international assets from 10 to 20% (Dubuisson 1990).

– selection of projects according to their profitability potential, joint ventures with domestic and foreign firms, and temporary interventions for securing viable private accumulation (Bérubé 1998; Ministère des Finances 1998: 129-33).

*Advancing neoliberalism through concertation*

As argued in the previous chapter, the PQ attempted to solve the 1970s crisis through labour concessions legitimatized through centralized concertation mechanisms. This failed considering the growing class polarizations which led the PQ to enforce fiscal restraint through the worst back-to-work legislations to be adopted yet.

Despite these authoritarian measures, the PQ remained committed to concertation as a more desirable way of legitimating political decision-making. By the end of its second mandate in 1984, the PQ established the *Table nationale de l'emploi*, a short-lived experiment dissolved by the PLQ in 1985.

The PQ's attempt at incorporating labour and capital through centralized concertation culminated in the 1996 *Conférence sur le devenir social et économique du Québec*. In line with cuts in federal transfers, the PQ used this event to secure the legitimacy of a zero-deficit law, in exchange of commitments to revise fiscal rules, avoid cuts to social programs, reduce poverty, and stimulate employment.

Unions abided by this process in the hope of winning concessions at an employment summit the same year. While unions obtained a reduction of legal weekly hours from 44 to 40, unions recognized the flexibility and fiscal needs of businesses (Rouillard 2004: 257-58). The backing of the PQ's zero deficit policy by the unions allowed the government to cut $1.5 billion in public sector workers' wages (Petitclerc and Robert 2018: 172-74). Between 1995 and 2000, public sector personnel numbers were reduced by approximately 100,000 workers (Rouillard et al. 2009: 17). This resulted in the degradation of public services that were partially replaced by lower paid "social economy" initiatives. Representing the culmination of the "partnership ideology" amongst Quebec unions, it also, paradoxically, began the crisis of legitimacy for concertation.

In contrast to the highly mediatized consultations of the 1970s, the summit of 1996 constituted real negotiations between "partners" to determine "joint" orientations (Rouillard 2004: 258). As Chapter Four pointed out, concertation mechanisms were used in certain countries and regions to introduce neoliberal reforms, as in Quebec (Rouillard et al. 2009: 30).

Like the PLQ, the PQ embedded its industrial policy within a wider neoliberal policy regime. This was indicated by the various measures put forward by its 1998 *Québec Objectif Emploi* policy to create an economic environment favourable to business. By interpreting the greater GDP share allocated to Quebec's public sector, by comparison with other advanced capitalist states, as an uncompetitive burden for businesses, the PQ government promised a more "efficient" public sector to finance tax cuts at levels comparable to its trade partners. In addition to the existing low corporate tax rates, it promised to reduce payroll taxes and the sales tax for SME's inputs (Ministère des Finances 1998: 3, 5, 15-16, 70-72, 80-82, 88-89, 113-16, 124-26, 129, 132).

The PQ's fiscal austerity was not incompatible with its industrial policy that increased the public investments granted to various economic institutions. For example, the substantial public funds allocated to the creation of IQ came from an increased dividend paid from Hydro-Québec's higher revenues (Bérubé 1998) made on growing energy exports following H-Q's "commercialization" (Gélinas 2003: 104-06). This revealed the neoliberal relationship between the PQ's zero deficit policy, the commodification of public services like H-Q, and the channelling of more state revenues into PFIs for industrial capital.

Guaranteeing a more "efficient" public sector as critical to the competitiveness of the "higher tech" export sectors emerged as a pivotal consensus amongst Quebec's two main parties and business associations (Graefe 2005: 539). Both parties also tied their industrial policies to a wage moderation policy and a more "flexible" Labour Code to secure the competitiveness of its domestic firms and attract FDI.[54] Such policies responded positively to the interests of Quebec capitalists who, while not opposed to industrial policies per se, pressured the Quebec state to embed them within a generalized *neoliberal* environment since the 1980s (CPQ 1979a; 1979b: 4-8; Consultation générale sur la libéralisation des échanges commerciaux entre le Canada et les États-Unis 1987; Graefe 2005: 536).

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[54] During this period, a notable reform was to end the three-year limit on collective agreements, as discussed above. The flexibilization of labour markets is further discussed in the following chapter.

## Quebec and "Free Trade" with the US

The analysis of how Quebec's industrial policies were embedded in a deepening neoliberal policy regime would not be complete without analyzing how both the PQ and PLQ endorsed the integration of the Quebec economy into "free trade" agreements. The Canada-US FTA in 1989 and the North American FTA in 1994 enforced greater competitive pressures on firms operating in Quebec. In this context, domestic production, whether sold at home or as exports, became increasingly determined by international conditions of production (Piotte 1998: 174; Bryan 1995: 12-13, 173). These changes shaped the neoliberal character of Quebec's supply-side industrial policies and Quebec's PFIs greater attention to firm-level restructurings.

In Quebec, the FTAs were framed in the nationalist terms of greater market opportunities for domestic business growth and job growth and access to cheaper commodities, leading to better national standards of living. PQ nationalists also favoured these deals because they would lessen dependence on the Canadian economy and allow greater economic "autonomy" for the Quebec state (Rocher 1994: 473-74).

If certain forms of economic interventions were challenged by these FTAs (such as tariff barriers), the Quebec state embracing "free trade" did not mean a retreat of the state (Hanin and L'Italien 2012; Savard-Tremblay 2016). The PLQ and PQ's support to such commercial agreements were conditional with respect to: 1) the constitutional rules and jurisdictional powers of Quebec; 2) allowing institutional space for industrial policies; and 3) assistance programs and transition periods for sectors which would be particularly affected. In this sense, the state continued to be central in managing liberal adjustments to secure the legitimacy of FTAs, especially in relation to SMEs (Rocher 1994: 475-79). Nevertheless, these provincial state capacities then operated within the constitutionalizing of neoliberal rule (Gill 2002).

FTAs did not lead to a "disorganization" of the Quebec capitalist class, resulting from short-term opportunism, nor to an inability to articulate a coherent vision of its interests, as if this required a nationalist consensus on ownership, strategic control and sector development (Hanin and L'Italien 2012; Bélanger 1994: 455-56). These claims often confuse capitalist criteria of success (for example, profitability and domestic ownership) and social outcomes (such as inequality and unemployment levels) (Bélanger 2000: 185).

The support from Quebec business organizations for FTAs (Dufour 2000: 151-52; Gélinas 2003) was a political stance it shared with the Canadian capitalist class (McBride 2005), and it signaled a self-perceived position of strength to compete internationally (Carroll 2010: 84). Rather than lead to the integration of Quebec capitals into a transnational capitalist class, FTAs embedded the national elite network more deeply into the global circuits of capital (Carroll 2010: 84). In this context, and as capital mobility unprecedentedly increased, business associations became an even more central locus of capitalist class formation (Carroll 2010: 170). On this basis, the Quebec capitalist class was able to relate instrumentally to (limited) concertation mechanisms as a means to construct a political hegemony around its neoliberal interests (Graefe 2005: 536).

**Consolidating the Catch-Up of Quebec Capitals**

If Quebec's industrial modernization was still in transition by the end of the 1970s, the level of domestic ownership of the Quebec economy substantially increased by the end of the 1990s, although it did so unevenly across economic sectors. The stronger home base of Quebec capitals served their interest in internationalization as a whole, although remaining a small player globally in most sectors. If this period was marked by "mixed" results, a number of breakthroughs were accomplished in line with the objectives of industrial policies.

Between 1961 and 2003, the percentage of Quebec workers employed by businesses controlled by French capitalists increased by 20%. While this trend was already in progress between 1961 and 1978 (+ 0.48% annually), it accelerated between 1978-87 (+ 0.74% annually) and even more between 1987-91 (+ 0.88%). This trend then slowed down between 1991 and 2003 (+ 2% for the whole period), suggesting a stabilization around 70-75% of Francophone control of the overall Quebec domestic economy. In parallel, the employment growth outside Quebec under the control of 30 large Quebec firms increased by 1300%, from 15,000 in 1990 to 190,000 in 2003 (Vaillancourt and Vaillancourt 2003: 33-43). This indicated how inroads over the provincial economy served as a launching pad for the Quebec bourgeoisie's internationalization.

Nearly half of Quebec manufacturing workers were employed by Francophone-controlled firms in 2003, an increase of 26.1% since 1961, a level still below the inroads made in forestry, financial institutions, mining and construction. By 2003, a majority of Quebec workers were employed by Francophone-controlled businesses in nine out of 19 manufacturing sectors while in 1978, this was the case in only three sectors (wood, furniture, print and edition). The manufacturing sectors which experienced the most important breakthroughs during this period included machinery, metallic products, and transport material, while growth remained limited in key sectors such as electronic and electric products and chemical industries (Vaillancourt and Vaillancourt 2003: 34-35).

The composition of Quebec manufacturing also changed. Driven by aerospace, electronics and communications material, the high-tech manufacturing sectors' share of "industrial" shipments increased from 4.8% in 1976 to 15.3% in 1997, growing annually by 7.8%, in contrast with a 2% annual increase for the whole manufacturing sector. This was also indicated by the increase from 35% in 1976 to 48% in 1997 of the share of durable goods production within Quebec manufacturing (MIC 2000: 7). While the share of Quebec's lower tech sectors (such as beverages, food, textiles, and wood and paper) decreased from 53.2% to 43.8%, it still remained high in proportion.

Between 1976 and 1990, Quebec capitals also increased their share of large corporations (1000 employees or more) under Francophone control from 13% to 41%. The presence of Quebec Francophones within large corporations, however, remained patchy at best. Beyond construction, where 100% of large corporations were under Francophone control, only in the agro-food sector did Francophone presence move beyond the 50% threshold. In manufacturing, this percentage remained limited, only moving from 17% to 28% (Moreau 1993: 343-45).

Discussing the Francophone penetration of the largest capitalist firms in Quebec must also include its growing presence within the Canadian corporate elite. If Montreal's profile within the Canadian economy had relatively declined since the 1950s, this was paralleled with an important upswing of Francophone capitalists running Canadian-based corporations. In the second half of the 20th century, while the number of Canadian corporate elite members directing Quebec-based firms fell from 129 to 115, Francophone Canadian corporate directors jumped from 12% to 31% (Carroll 2010: 103).

The "high-tech" composition of Quebec's economy was also indicated by increasing R&D expenditures at a rate of 8.8% annually since 1986, stimulated by generous tax credits. The number of firms active in R&D doubled between 1990 and 1995.[55] Between 1986 to 1995, Quebec R&D spending as a percentage of GDP went from 1.41% to almost 2%. While this surpassed the Canadian average (1.63%), it remained below US (2.58%) and Japanese (2.78%) levels (Ministère des Finances 1998: 21).

Quebec's export share as a percentage of GDP increased from 40% in 1981 to 55% in 2001, having one of the highest export shares in the world. By comparison, Japan and the US exported just over 10% of its GDP (Bachand 2001: 82; Ministère des Finances 1998: 23). Between 1974-84, Quebec's international exports had increased by 30% annually, while interprovincial Quebec exports only grew by 3% annually (Rocher 1994: 464). FTAs locked in and accelerated a trend that was already in motion, consolidating economic relationships along a North-South axis with the US rather than East-West lines within Canada.

The composition of Quebec's manufacturing exports also changed as higher tech sectors' share more than doubled, from 10.4% in 1976 to 25.1% in 1997,[56] while their weight within Quebec manufacturing was 15.3% (MIC 2000: 19). The share of equipment goods industries' exports increased from 33% in 1984 to near 40% by 1996 while the share of intermediate goods industries decreased from 54.40% to 46.14%. While these latter sectors reduced their share within Quebec's exports, their overall output then increased, reflecting the relative integration of intermediary goods production with equipment goods exports. Even if the Quebec share of Canadian exports in equipment goods increased during this period, Ontario still held more than two-thirds of the exports in these sectors (Bourque 2000: 180-81).

This reflected a trend toward a greater diversification of Quebec's economy, which was moving from dominating consumer goods industries toward intermediate and equipment goods industries. While certain inroads had been achieved by the end of the 1970s, these were most substantial during the 1980s-90s. Nevertheless, manufacturing experienced more limited results. Notably, this was indicated by how the competitiveness

[55] However, ten firms accounted for 58% of private R&D (Graefe 2000: 12).
[56] In Canada, the share was only 9.9%. When combined with "middle-high" technology sectors (which includes the car industry), their weight in total Canadian exports was 58% while at 42.8% in Quebec in 1997.

of sub-sectors within clusters was not evenly shared (Graefe 2000: 20-21).[57] Also, Quebec capitals comprised fewer than half of the largest corporations operating in Quebec. Although Quebec's natural resource exports remained important overall, these economic transformations certainly challenged the image of the Quebec economy as the dependency of an extractive sector locked into "staples trap" (Rocher 1994: 463).

**The Contradictions of Progressive Competitiveness**

While Quebec's industrial policies contributed to the relative productive breakthroughs of Quebec manufacturing capital, they were legitimated more broadly as conducive to a "high road" growth path of high productivity gains, profits and wages. This led the institutionalist literature of the Quebec Model to classify Quebec as a non-neoliberal "coordinated market economy", characterized by a lower level of inequality compared to the US or the UK (and even English Canada).

As Graefe (2012) has rightly observed, Quebec's GINI coefficient shows a lower level of inequality only *after* social transfers have been factored in. When it is calculated *pre*-transfers, Quebec's labour market trends converge with "liberal market economies" (Nguyen 2020), most notably seen in the province's wage trends. In Canada, labour productivity increased 41.4% while real wages only increased by 9% between 1983 and 2013, a trend similar in Quebec (Rouillard and Rouillard 2015: 359-60; Rouillard and Rouillard 2021).

In part, this reflected the growth of part-time and atypical work, which increased from 16.7% in 1976 to 31.3% in 2001, concentrated mainly in the "service" sectors (Rouillard 2004: 217). Given the tendency of the latter to have low productivity gains, the profitability of such sectors crucially depended on low wages (Moody 2017), which were facilitated by Quebec's low real minimum wages (Petitclerc and Petit 2018: 125). A policy of wage moderation was integral to Quebec's industrial policies since the early 1980s.

Quebec's labour market trends also reflected the successful attacks on public sector workers, whose wages and benefits converged with the private sector following the PQ's decrees of 1982-83 (Petitclerc and Robert 2018: 137). By 1998, public sector wages were

[57] Within the electricity cluster, for example, only engineering consulting, wire-making, and production and distribution of hydro-electricity were considered competitive (out of its 17 "sub-sectors").

lagging by 4.2% when compared with those of with private sector workers and by 8.6% when compared with other unionized workers (Rouillard 2004: 255, 261). Even in the case of private, often unionized, large corporations (more than 500 employees), real wages were stagnant.

The recessions of the early 1980s and early 1990s led to unemployment rates of 14% and 11.2% respectively (Denis and Denis 1994). When this rate was lowered to 8.5% by 1999, it was on the basis of a lower labour force participation rate (62.9%) (Graefe 2005: 537-38). Employment creation was therefore below the targets set by Quebec's industrial policies. While the PLQ's cluster strategy had promised to create 550,000 "quality" jobs throughout the 1990s, such employment creation levels were never reached during the whole period of 1980-2000 (Graefe 2000: 13).

These labour market trends reflected the weakening of the Quebec working class across both public *and* private sectors. This change in the balance of class forces was indicated by the decline in strike activity in the province, a trend observed across advanced capitalist states during the same period. Labour conflicts (strikes and lockouts) were twice as less important and days of work stoppages were nine times less important in the 1990s than in the 1970s. Public sector struggles shifted from one-quarter of labour conflicts during the 1970s to 16.6% of conflicts between 1992-2001 (Rouillard 2004), a result of successive back-to-work legislations (Petitclerc and Robert 2018: 131, 189).

It is true that Quebec's unionization rates were comparatively higher than they were elsewhere in North America, reaching an historical peak of 42.6% by 1991 before declining to 37% by 2001 (Rouillard 2004: 218-19).[58] This reflected the stronghold of unionization in Quebec's large public sector, as the unionization rate in the private sector declined from 34% to 27.9% between 1985 and 2001. The evolution of power relations between labour and capital is also not limited to unionization rates, since the latter can hide actual concession bargaining.

With the emergence of "partnership" unionism in Quebec, unions supported the productivity and profitability of "their" firms as a means to preserve the jobs of workers. Rejecting class antagonisms as inherent to capitalism, this transformation was centred on

[58] Comparatively, Ontario's unionization rate was 27% while English Canada's average was 30.5% in 2002.

what unites workers and employers rather than what divides them (Rouillard 2004: 227-29; Piotte 1998: 190-91).

Quebec's "progressive competitiveness" industrial policy promised to offer job security and better pay for the largest number of the province's citizens by producing custom-made higher priced goods insulated from the global forces of standardization (as discussed in Chapter Four). But a few states from the Global South managed to effectively catch up the industrial ladder and compete both over "quality" *and* price. Thus, Quebec-based firms, like in other advanced capitalist states, were constrained to not only compete over "quality" but over labour costs. The relative "catch-up" of the Quebec economy and neoliberal market trends "are thus better viewed as twin components of a competitive strategy rather than as related by chance" (Graefe 2000: 15-16).

**Industrial Policies and PFIs for International Competitiveness**

If Quebec's PFIs were created as a response to the frailty of domestic sources of private finance (as argued earlier in this thesis), they were not limited to temporary institutions terminated once Quebec-based private financial institutions became stronger. Despite government-sponsored recommendations for their privatization during the mid-1980s, Quebec's PFIs were ultimately transformed (see Table 6.1 for a summary).

**Table 6.1 A Summary of Quebec's PFIs, 1980-2000**

| Name / Type of PFI | Date Created | Mandates and Functions | Main reforms | Actual practices and changes |
|---|---|---|---|---|
| **Société générale de financement (SGF)**<br><br>"Universal" development bank | 1962 | Financing the development of industrial corporations to change Quebec's economic structure; provide investment services to its clients; and lender of last resort. | Mid- to end of 1980s: Shift from a sectoral strategy to taking equity stakes irrespective of their sectors.<br>1990s: Tremblay's cluster strategy revived sectoral interventions.<br>Mid- to end of 1990s: Unprecedented increase in capitalization to finance a higher level of profitable investments in different sectors. Integrates SOQUEM, SOQUIA, SOQUIP, and | Mid- to end of 1980s: Begins to sell shareholding blocks in firms judged mature or sufficiently profitable. Coordination with other Quebec financial institutions.<br>1990s: Beyond large corporations, begins to finance medium-sized companies with high growth potential. Finances internationalization of Quebec firms.<br>Mid- to end of 1990s: Following the late 1990s reform, an unprecedented increase in the number of investment projects. |

| | | | | |
|---|---|---|---|---|
| | | | REXFOR to enhance coordination for prospection of domestic investments and inward FDI. | |
| **Caisse de dépôt et placement du Québec (CDPQ)**<br><br>Public institutional investor managing the public pension funds | 1965 | Double mandate of "economic development" and fiduciary prudential investments to capitalize retirement rents. | <u>1997 reform:</u> Allows the CDPQ to hold up to 70% of its assets in stocks (including international stocks) and to accept trust mandates to manage funds outside Quebec. | <u>1980s to early 1990s:</u> Increase in equity stakes in Quebec firms. Coordination with other domestic financial institutions to support FDI, M&As, and exports of domestic firms. Coordinated interventions result in national shareholding blocs limiting hostile takeovers. Supports neoliberal practices of corporate restructuring (e.g., Steinberg, Domtar).<br><u>1990s:</u> Substantial increase in international stocks.<br><u>Mid- to late 1990s:</u> Investments in Quebec firms in relative decline. More limited interventions to prevent foreign acquisitions of Quebec firms. |
| **Société de développement industriel (SDI)**<br><br>Development bank | 1971 | Finance fast-growing businesses; favour M&As between smaller domestic firms; back profitable businesses who lacked access to private finance; and support exporting SMEs. | <u>Mid-1980s reform under PLQ:</u><br>Replaced previous programs by fiscal indirect measures. Shift toward financing large corporations rather than SMEs. Introduction of a self-financing constraint.<br><u>1998:</u> Incorporated into IQ. | <u>Following mid-1980s reform</u>, Becomes a venture capital institution. More narrow selection of firms with "modernizing" investments, corporate acquisitions, or export projects. Substantial reduction in the number of firms financed. |
| **Investissement Québec (IQ)**<br><br>Development bank | 1998 | Enhanced institutional coordination. Stimulate domestic investments and inward FDI prospection. Similar to other Quebec PFIs: selection of projects based on tighter profitability, "joint ventures", and temporary interventions favourable to viable private accumulation. | | Similar to SDI, remained predominantly in SMEs financing. |

As argued in the first thesis presented in the Introduction, they played functions inadequately serviced by the "short-termism" of private finance capital. Amidst a global wave of corporate acquisitions involving growing sums of money capital, "coordinated" interventions by domestic financial institutions developed the financial clout to support the internationalization of domestic capitals. As a result, these interventions nurtured national shareholding blocs acting as institutional constraints against a market for corporate control, preventing hostile takeovers by predatory financial institutions.

Quebec PFIs were compelled by policy reforms to select projects on the basis of *stricter profitability*. If PFIs engaged in long-term financial relationships at odds with short-term capital-gains-seeking behavior, they still had to accommodate – even enforce – neoliberal firm-level restructurings (as the Steinberg and Domtar cases demonstrate). If Quebec's PFIs insulated Quebec's NFCs from predatory financial markets, they did not protect domestic capitals from the pressures of intensified competition characteristic of neoliberal globalization (my second thesis in the introduction).

The evolution of Quebec's PFIs were shaped by a shift in the province's industrial policy toward supporting regionally rooted clusters embedded in internationalized circuits of capital locked in by FTAs (my fourth thesis in the introduction). This was shown the most in the PLQ's cluster sectoral strategy in the 1990s, which adapted Quebec industrial policies to these new competitive conditions, in addition to reforms mandating PFIs (such as the PQ's 1997 CDPQ reform) to better support the internationalization of Quebec capitals.

Despite the PLQ and the PQ's policy differences over the forms of industrial policies, both parties embedded their industrial policies within fiscal austerity and a more "flexible" Labour Code. Quebec capitalists accepted state supports for research and development (R&D), export promotion, professional training, and PFIs, as long as they were limited to correcting "market failures", operating within a wider neoliberal policy regime and *non*-institutionally binding spaces of concertation (as argued in my fifth and sixth theses).

These policies and institutions contributed to the further "catch-up" of Quebec capitals in key sectors. This consolidated the "social rate of return" of greater Francophone ownership of capital and the presence of French as a language of work and business in

Quebec society. But while Quebec's industrial policies promised an expansion of well-paid "high-tech" jobs, they rather led to regressive labour market trends. The "coordination" and "long-termism" associated with these policies and PFIs should therefore not be equated with "egalitarianism" (see my seventh thesis).

The institutionalist claim that Quebec's 1980s-90s industrial policies and PFIs represented a *non*-neoliberal model of development relied on a most ideologized definition of neoliberalism, as markets displacing states. Viewed from within such lens, the "non-market" relations between firms, the government and unions at sectoral tables or at the firm level, or the "coordination" between Quebec's public financial institutions, were seen as indications of a divergent *non*-neoliberal model of development. As Bourque (2000: 139) justified: "Les marchés ne constituent alors que le test ultime de la valeur de l'action collective, et non son motif."

Alternatively, this chapter was informed by a conception of neoliberalism understood as a decisive shift of class relations favourable to capital and conducive to the revival of capital accumulation. This does not deny that forms of "coordination" both at the firm and state levels disappeared during this period. The ultimate evaluation criterion was whether or not Quebec's industrial policies, PFIs, and wider policy regime resulted in neoliberal social relations, which they did.

This did not mean that these policies and institutions could viably solve the competitive challenges facing Québec Inc. The Quebec economy was not insulated from the contradictory pressures of capitalism's booms and busts. In the context of the 2000s crises, in addition to persistent problems in productivity levels, the disagreements between the Liberals and the PQ over the forms of industrial policies and PFIs would widen. This is what the following chapter will discuss.

# Chapter Seven

## The End of the "Coordinated" Model of Quebec Capitalism?, 2000-18

In the mid-1980s, the Bourassa Liberal government commissioned a series of reports that proposed to privatize certain Quebec public financial institutions. By the early 1990s, Quebec's industrial policies were transformed rather than abandoned, as the PLQ turned to a strategy of "clusters" for high value-added sectors. Both the PLQ and PQ governments had reformed Quebec's "patient capital" institutions to serve functions inadequately provided by private financial institutions. These PFIs were granted "strategic" autonomy for "coordinated" interventions to support the internationalization of Quebec capitals and prevent hostile takeovers.

During the 2000s, new economic challenges emerged (as discussed in Chapter Four). Countries like China became new centres of accumulation by resorting to more "interventionist" industrial policies. Industrial firms in advanced capitalist states faced rising competitive pressures, resulting in increasing plant closures and a decline in manufacturing jobs. In parallel, recent technologies (notably, new logistics and robotics) created new possibilities for customizing mass production and productivity gains. In response, states advocated for different policy responses, ranging from a "market-led" economic policy to "green" industrial policies involving R&D policies, skills training, and better capitalized PFIs. Irrespective of such policy differences, states remained committed to supporting high-tech clusters embedded in internationalized circuits of capital.

In Quebec, the Jean Charest (2003-12) and Phillipe Couillard (2014-18) Liberal governments were committed to dismantling the remnants of Quebec's "entrepreneurial" state by shifting a greater level of investment risks to the private sector. By contrast, the Pauline Marois PQ minority government (2012-14) showed its attachment to more "interventionist" industrial policies, notably in the form of "activist" PFIs. Despite their diverging views on public finance and industrial policies, the PQ and PLQ did not challenge the "neoliberal loyalty" of PFIs and both parties shared a similar neoliberal policy regime to secure the international competitiveness of businesses.

**The Charest Liberals and Market-Led Industrial Policies, 2003-12**

Re-elected in 2003 under the leadership of Jean Charest, the Liberals critiqued the remnants of the Quebec "entrepreneurial" state for crowding out entrepreneurship and for determining, at times, "winners" and "losers". As Charest advocated (2000: 190): "…le type d'intervention de l'État doit changer […] Nous devons passer d'un État interventionniste, quelquefois paternaliste, à un État accompagnateur […] Nous devons favoriser la responsabilisation des individus et des collectivités locales."

Quebec's "interventionist" state was judged responsible for Quebec's productivity and R&D lags. If these problems were mitigated by a low exchange rate for the Canadian dollar during the 1990s, they became a burden under the 2000s' higher dollar exchange rate from Canada's growing oil exports. Rather than blaming a so-called "Dutch disease", the PLQ favoured a policy agenda to increase business productivity. This included reforming economic institutions to underwrite private investments, and create an environment conducive to more private risk-taking.

If the Liberals privileged a deeper neoliberal policy regime to stimulate dynamic capital accumulation, this was not at the price of forfeiting *any type* of industrial policy. The PLQ's policy document, *L'avantage québécois* (MDEIE 2005), supported industrial clusters with targeted fiscal measures such as sectoral and firm-level tax credits.

The Liberals maintained "old" concertation sectoral tables (such as aerospace, pharmaceuticals, and ICT), and developed "new" ones (such as "green" technologies and nanotechnologies). The PLQ's firm-level approach aimed to nurture more medium-sized world-class suppliers to satisfy the provisioning needs of MNCs, as large corporations reorganized their supply chains in favour of a smaller number of integrated suppliers producing diverse R&D-intensive inputs (MDEIE 2005: 60-65).

The Liberals' action plan, *Pour un secteur manufacturier gagnant* (MDEIE 2007), showed how manufacturing kept its prominence within the PLQ's industrial policies. In 2006-07 alone, manufacturing received near two-thirds of budgetary aid for businesses. Beyond tax breaks, training sessions linking cutting-edge manufacturing business with domestic firms were used to stimulate the adoption of "best practices". The PLQ also mandated the *Centre de recherche industrielle du Québec*, an R&D public institution, to focus exclusively on manufacturing sectors (such as aerospace) rather than its past indiscriminate firm-centred approach (MDEIE 2007: 14, 17, 19, 27, 35-36; 2009: 14).

Beyond consolidating Quebec's dominant exports (in aerospace, aluminum, paper, and ICT), the Charest Liberals aimed to increase the number of medium-sized exporting firms, partly through greater export promotion through more aggressive economic diplomacy of the *Ministère du Développement économique, de l'Innovation et de l'Exportation*. There was also to be increased prospecting for inward FDI, notably by assisting Quebec branches of MNCs to gain more R&D mandates from their corporate headquarters (MDEIE 2005: 31, 55).

The Liberals' R&D policy, *Un Québec innovant et prospère* (MDEIE 2006a), aimed to create an environment where the private sector would assume greater investment risks, with the goal of increasing business expenditures on R&D (BERD) from 1.63% to 2% of GDP by 2010, a level equivalent to European averages. To reach this target, the PLQ granted tax breaks for R&D intensive companies,[59] greater synergies were encouraged between businesses, universities, and the state's R&D agencies to increase commercial patents (MDEIE 2006a: 8-10, 12-16, 18, 34-37).

The 2011 Charest Liberals' *Plan Nord* promised to support $80 billion in investments in mining projects over 25 years. This accumulation strategy attempted to take advantage of the Chinese rising demand for high-priced minerals (such as gold, iron, zinc and copper), compensating for the US and Europe's slower growth following the 2007-08 financial crisis (Hurteau and Fortier 2015: 6, 8-9). For the "Quebec Model" literature, promoting greater staples exports could only fuel a "Dutch disease" negatively affecting Quebec's manufacturing exports. However, extractivism in Quebec (and across Canada) opened new opportunities for manufacturing sectors (as discussed below).

### *Capitalists welcoming the "réingénierie de l'État"*

The Charest Liberals promoted a *"réingénierie de l'État"* to encourage businesses to take on more investment risks. It represented the most ambitious neoliberal program in Quebec

[59] Such fiscal advantages were in addition to the federal state generous R&D tax credits (Smardon 2014).

to date in attempting to restructure the provincial state based on private sector rationalities, modes of governance, and cost-benefit analysis (Rouillard et al. 2009: 2-4).

One of its dimensions was to “simplify” public administration, by uniformizing rules, reducing delays of treatment, and eliminating institutional redundancy. Notably, this took the form of reducing by 40% administrative formalities imposed to businesses between 2004 and 2010 (Comité ministériel de la prospérité économique et du développement durable et al. 2004: 17; MDEIE 2005: 26). While presented as a technical exercise, this was shaped by fiscal restraint (Rouillard et al. 2009: 58-59, 74-79).

The Charest Liberals also introduced new tax breaks, such as the elimination of the capital tax for all businesses by 2011 (MDEIE 2009: 6; MDEIE 2007: 26).[60] This was part of a commitment to further reduce the fiscal “burden” of businesses. Following the counter-cyclical budgetary deficits to cushion the effects of the 2007-08 crisis, fiscal restraint was restored through increased tuition fees, a health tax, and higher electricity bills (Hurteau and Fortier 2015: 1; Pineault 2012: 37).

This deeper neoliberal policy regime extended to labour regulations. The S. 45 Labour Code reform, dealing with outsourcing, allowed employers to subcontract activities to another company no longer obliged to recognize past union certifications (Rouillard et al. 2009: 38). The Charest Liberals also introduced an attrition policy of replacing one public servant per two retirements, which reduced the public service workforce by 20% between 2004 and 2014 (Hurteau and Fortier 2015: 2; MDEIE 2009: 5).

The Liberals also eliminated various concertation mechanisms (Lévesque 2004: 11, 13-14; Rouillard et al. 2009: 41, 62, 77). In this process, they marginalized labour unions as political partners, and sidelined intra-state bureaucratic expertise (Rouillard et al. 2009: 62-88). This was compensated by closer linkages with the business milieu, such as private agencies and consultants, to conduct this “*réingénierie de l’État*” (Lévesque 2004: 19-20). The Liberals’ opposition to concertation should not be exaggerated. The PLQ saw limited, voluntary, and non-binding institutional spaces as potentially fruitful for developing political agreements favourable to economic development. As an example, the Liberals set up the *Conseil des partenaires économiques*, a concertation mechanism reuniting business representatives, union federations, and industrial research representatives to discuss

[60] The capital tax is a corporate tax on a company’s assets and financial obligations.

periodically economic policy (*Comité ministériel de la prospérité économique et du développement durable et al.* 2004: 29; MDEIE 2005: 84-85).

This more assertive neoliberal policy regime was welcomed by Quebec business associations, who had highlighted that the provinces's fiscal and labour regulations cost business billions of dollars per year (Comité ministériel de la prospérité économique et du développement durable et al. 2004: 8-9). But as in earlier periods, Quebec business interests were not opposed to *all forms* of industrial policies. For them, however, targeted support could only be effective once deeper neoliberal policies were implemented. As Simon Prévost, ex-President of the *Manufacturiers Exportateurs du Québec,* made clear:

> …avec l'évolution de la concurrence […] l'efficacité de la politique économique va […] dépendre de la capacité du gouvernement de jouer un rôle de […] facilitateur […] en favorisant une amélioration généralisée des conditions d'affaires, avec en premier lieu un allégement des fardeaux fiscal et réglementaire […] l'approche […] du gouvernement […] est encore […] trop calibrée sur des aides spécifiques ou ponctuelles […] et trop peu calibrée sur une amélioration généralisée des conditions d'affaires [… ] c'est clair qu'il y a une demande de nos membres [… ] pour travailler du côté fiscal d'abord […] sur les taxes et contributions sur la masse salariale […] il m'apparaît clair qu'on doit avoir une politique économique […] qui soit très proche d'une politique industrielle, manufacturière. […] on est un peu mal à l'aise avec un discours qui privilégierait un secteur plutôt qu'un autre. On pense que ce qu'il faut faire, c'est d'aider les entreprises à être innovantes […] si c'est du financement pour des garanties de prêt, c'est ça, si c'est un investissement en équité, ça sera ça (*Consultations particulières et auditions publiques sur le projet de loi n° 123,* 2010*)*.

This emphasis on the social wage as uncompetitive business costs reflected how the level of public or firm-level welfare was highly uneven across capitalist states. Such contributions were seen detrimental to the competitiveness of a firm when faced with competitors where those costs were lower or absent.[61] This explains why capitalist interests were aligned with a neoliberal "institutional complementarity". As expressed again by Prévost: "Si les […] dossiers du gouvernement peuvent être traités […] en silo […] sur le terrain, toutes les décisions sont en interaction et […] il faut éviter des contradictions qui rendent l'aide gouvernementale contreproductive" (*Consultations particulières et auditions publiques sur le projet de loi n° 123,* 2010).

[61] For an illustration of this logic in the car industry, see Albo et al. (2010: 83-84).

Despite the pressures brought by a higher Canadian dollar on Quebec's manufacturing sector, "industrial" capitalists did not call for a different exchange rate policy that would challenge resource exports. In contrast to labour-intensive extractive industries concentrated in the Global South, in Canada these sectors are capital-intensive, requiring sophisticated high-tech machinery, equipment, and chemicals. This created market opportunities for Quebec and Canadian industrial capital. As expressed by the *Canadian Manufacturers & Exporters Association*:

> [T]he underlying problem has been poor labour productivity, lack of diversity among customers, and lower rates of overall capital investment. While increased investment in the oil sands may have strengthened the Canadian dollar, it is by no means the root cause of the challenges faced by Canadian manufacturing. Rather than having a negative impact on Canadian industry, the oil sands are providing a customer base for manufacturers (Canadian Manufacturers and Exporters 2013: 1).

The investment-constrained circuit of capital, as pointed out in Chapter Four, has tended to decline as capitals of different scales were increasingly integrated into global circuits of capital. This shifted the policy preference of businesses, *irrespective of their sector*, away from "protectionist" measures such as a lower exchange rate that could be politically enforced and favourable to institutional compromises with workers. For the Quebec capitalist class a whole, their interests aligned with a neoliberal policy regime that could help them reduce their unit labour costs as a means to secure their international competitiveness.

*The "réingénierie" of PFIs*

During the 1990s and early 2000s, the Charest Liberals critiqued various "strategic" interventions by Quebec's PFIs to prevent the sale of Quebec-based firms to "foreign" interests (Hébert 1999).[62] Such transactions were interpreted as politicized interventions reflecting an unwarranted "protectionist" role flowing from problematic governance rules. For the Liberals, the solution was to reform PFIs according to two principles: a governance

[62] One example was the Liberals opposition to the late 1990s SGF intervention favouring the sale of Culinar to Quebec-based company Saputo rather than to the US company Interstate Bakeries. See also the Vidéotron case discussed below.

regime explicitly oriented toward profitability performance and the reduction of the public ownership share of Quebec finance capital.

This informed the CDPQ's 2004 reform which *legally* enforced the primacy of its fiduciary role. As pointed out in Chapter Five, the Caisse gave priority to its fiduciary responsibilities since its origins. The main goal of this regulatory change, then, was to end the "activist" role of the Caisse as an industrial policy instrument developed since the early 1980s (see Chapter Six).[63] Preventing the CDPQ from taking a controlling position within a large number of Quebec-based firms was seen as necessary to prevent a devaluation of Quebec firms' capitalization, which would result in reduced corporate credit ratings and profits made by domestic capitalists when selling their companies. The CDPQ's support to the province's "economic development" was considered best served by contributing to the emergence of internationally competitive Quebec firms (Rolland 2013; J.-B. Nadeau 2015; *Radio-Canada* 2020).

Ending the role of the CDPQ as an industrial policy instrument did not mean that the Liberals rejected industrial policy per se. Henri-Paul Rousseau, an ex-President of the Caisse, captured the spirit behind the fiduciary reform:

> …je n'ai aucune objection […] à ce que […] l'État […] ait des politiques qui font en sorte que […] il y a des champions nationaux […] qu'il y ait des sièges sociaux et qu'il y ait du contrôle par ceux qui l'habitent [...] Ça doit être fait et ça se fait à travers la planète, chaque pays le fait différemment […] Ça, c'est une question de politique industrielle [… ] La raison pour laquelle, à la Caisse de dépôt et placement, nous ne devons pas avoir cette mission, c'est parce qu'on en a une autre prédominante qui est que l'argent que nous avons […] il est déjà engagé […] si systématiquement la caisse commence à faire un rôle comme de quoi elle contrôle les entreprises du Québec […] La prochaine fois que quelqu'un va vouloir mettre du capital, il va y avoir un escompte sur ces compagnies-là (*Audition des représentants de la Caisse de dépôt et placement sur la question de la crise dans le secteur du papier commercial adossé à des actifs,* 2007).

What the Liberals did was to relegate industrial policy functions to the SGF, and ultimately IQ, on the condition of reforming Quebec PFIs according to their *réingénierie de l'État* principles.

[63] This Caisse's reform is also often depicted as marking the institution's financialization, an issue addressed in Chapter Nine.

Following its financial difficulties after the dot-com crisis of 1999-2000, the SGF was reformed, and its resources and assets were substantially reduced (Brunet 2003: 22; SGF 2005: 10). A self-financing constraint was introduced to force the institution to concentrate its more limited funds in a smaller amount in either larger "joint ventures" or medium-sized firms with high growth potential (SGF 2005: 7, 12, 15-21, 24, 42).

This reform aimed to reorient SGF's investments from a high concentration of assets in sectors such as petrochemicals to sectors like ICT. However, by 2011, 74% of its assets remained in petrochemical, mining, and forestry firms while its investments in ICT and health sciences had only slightly increased to 12%. The Plan Nord reinforced the SGF's large equity stakes in mining projects, with the effect of stimulating linkages to domestic firms producing mining machinery and equipment (SGF 2005: 6-9, 18; 2011: 1).

To increase its "financial performance", IQ was also subordinated to self-financing constraints (IQ 2006: 30). If IQ continued to support denser linkages between Quebec SMEs and domestic and foreign MNCs in accordance with sectoral and regional development objectives, this was regulated by a stricter profitability criterion (IQ 2008: 13).

During the Charest Liberals' years, IQ mostly financed manufacturing sectors (such as transport material and the first transformation of metals), a trend also supported by its FDI prospection concentrated in aerospace, ICT, and pharmaceuticals.[64] Beyond manufacturing, IQ increased its financing of "tertiary" sectors (such as manufacturing services and logistics). With the Plan Nord, IQ took important participations in mining projects, and in 2011-12, its efforts to attract inward FDI was predominantly in petrochemicals, coal, chemical, and mining industries (IQ 2006; 2007; 2008; 2009; 2010a; 2010b; 2011; 2012).

Historically, Quebec's PFIs played counter-cyclical roles. Following the 2007-08 crisis, the SGF and IQ were lenders of last resort in response to tightening credit markets. The SGF received an extra billion dollars from the Charest Liberals for this task (MDEIE 2009: 6). In the case of IQ, the number of interventions it made and the amount of money it invested reached a record in 2008-09. If this low-cost finance provided by Quebec PFIs

[64] Prospecting efforts to attract inward FDI were aided by five new IQ international offices opened between 2006 and 2011.

further socialized the costs of private investments, rules to subordinate such institutions to greater financial discipline were soon restored. In 2009-10, the Liberals mandated IQ to absorb 75% instead of 50% of its losses, and ended the government's counter-cyclical program the following year, forcing a tighter selection of SMEs projects (Dutrisac 2009).

In 2010-11, the Liberals integrated the SGF into an "IQ 2.0" to: 1) create a single administrative counter facilitating financial and technical support to businesses; 2) manage mandates from the government through the *Fonds de développement économique* (FDÉ);[65] and 3) realize economies of scale (IQ 2010a: 10). This public financial reorganization capped "IQ's 2.0" equity stakes in large investments (beyond $10 million) at 30% per firm and limited to 2.5% of its net assets, in the absence of state executive authorizations; this latter mandate gave legal sanction to what was already the de facto practice of these PFIs (SGF 2005: 7). This Liberal government reform preserved the role of IQ as a "patient capital" institution, in contrast with the "short-termism" still characterizing the private financial sector. As Michel Nadeau, an *Institut sur la gouvernance d'organisations privées et publiques* representative, testified:

> …on s'attend à ce qu'IQ deux participe au développement régional du Québec, participe à la création […] au maintien d'emplois existants […] il y a des objectifs, en dehors du rendement financier […] IQ deux, ce n'est pas une banque d'affaires, d'autant plus que son objectif est à moyen et long terme. Nos amis des banques d'affaires, aujourd'hui […] ont des objectifs beaucoup plus court termistes (*Consultations particulières et auditions publiques sur le projet de loi n° 123,* 2010).

*The partial privatization of Quebec venture capital*

Venture capital plays a central role in financing the early stages of new firms and R&D projects. By contrast to the US private-led venture capital market, the "Quebec Model" was initially public-led (Duhaime 2016: 187-97). In the early 1980s, Quebec's share of Canadian venture capital funds was approximately 10%. Following state interventions to close the financing gap left by the private sector, the Quebec share of venture capital funds moved up to 40%, the largest share in Canada (Lévesque 2004: 16). As a result, 70% of

[65] The FDÉ was mandated to manage counter-cyclical programs, seek out FDI, special mandates (such as the Plan Nord), specific programs, and the attribution of fiscal credits (IQ 2010a: 9).

Quebec's venture capital industry had a public character while 70% of Ontario's funds were private, of which 40% originated from "foreign" investors. In Quebec, only 10% of private funds came from investors located outside the province (Brunet 2003: 6).

This dominance of public, and other publicly subsidized "cooperative" and union funds, in Quebec's venture capital markets, was challenged in 2003 by the proposals of the government sponsored *Groupe de travail sur le rôle de l'État québécois dans le capital de risque* (known as the Brunet Report). The Brunet Report contended that the social rates of returns of the Quebec model of finance were crowding out North American private investors oriented by more narrow private rates of return:

> La présence importante du secteur public dans le marché québécois fait qu'une forte proportion des investisseurs poursuit des objectifs autres que le rendement, en ayant comme principal mandat la création d'emplois et le développement économique. Cette approche ne tient pas compte des règles usuelles du marché et rend beaucoup plus frileux et hésitants les investisseurs privés et étrangers, qui tendent tout naturellement à s'associer à des gestionnaires de fonds d'expérience ayant comme objectif le rendement (Brunet 2003: 18).

Recalling longstanding weaknesses of capital markets in Quebec, the report argued that the inability to mobilize large pools of private finance capital explained the weaknesses of Quebec's venture capital market, especially for firms in need of more than $20 million (Brunet 2003: 19). To create a "stronger" venture capital market, the report recommended that the Quebec state privilege mixed private-public funds by using each dollar of public funds to leverage two private ones. While "public" institutions would receive a modest return for their contributions, the private sector would assume greater risks, and future profits and losses as well as the governance of such funds would be in their hands (Brunet 2003: 41, 51).

These recommendations broke with Quebec's past public development bank orientation, normally based on relatively lower rates of return and a selection rate of 20% of submitted projects. In this latter approach, financial counsellors often offered investment services to "improve" a submitted project to contribute to regional development or sectoral industrial changes. By contrast, private venture capital aimed for 20% rates of return with a 5% selection rate from submitted investment plans (Lévesque 2004: 16-17).

The Charest Liberals welcomed the recommendations of the Brunet Report and adopted the following reforms: 1) the privatization of the Greater Montreal region's public venture capital fund *Innovatech*; 2) the repositioning of the CDPQ's interventions in private funds toward medium- and large-sized companies; 3) the creation of the *Fonds d'intervention économique régional* (FIER), a mixed public-private venture capital fund for projects outside urban centres; 4) the transformation of three *Innovatech* in mixed public-private funds; and 5) the increase of the maximal limit of investments the *Fonds de solidarité* FTQ (FSFTQ) could make (MDEIE 2005: 21; 31; SGF 2005: 20; MDEIE 2007: 22). IQ was also mandated to support these initiatives (MDEIE 2005: 34; IQ 2006: 23; 25).

The culmination of this process was the creation of Teralys in 2009, a partnership between the CDPQ, the FSFTQ and IQ to use "public" funds to mobilize private finance to assist "high-tech" firms in critical growth stages and prevent the sale of innovative domestic SMEs to foreign corporations. Representing the largest venture capital institution in Canada, half of Teralys' funds were invested in Quebec, 25% in the rest of Canada and 25% internationally (Duhaime 2016: 206-16; MDEIE 2009). Even after these transformations, the public share of venture capital in Quebec still remained significant and much higher than Ontario between 2003-18 (Rioux 2020).

*The continuities in the "neoliberal loyalty" of Quebec finance*

In 2000, the CDPQ bought 45% of Quebecor's shares to keep *Vidéotron* in the hands of Quebec capitalists by preventing its sale to Rogers. This CDPQ intervention was interpreted by the Charest Liberals as an "entrepreneurial" protectionist practice, at odds with the CDPQ's fiduciary role. This differed from the PQ's proposal to renew the CDPQ's "activist" role in domestic investments (as discussed below). While this reflected policy differences on whether the CDPQ should play an industrial policy role or not, both parties left untouched the "neoliberal loyalty" of the Caisse, as the following cases show.

In 2002, *Vidéotron* declared a lockout to force the sale of 650 of its technicians to a subcontractor,[66] allow the future subcontracting of up to 30% of the workforce in each of the company's divisions, increase the average work week (from 35 to 37.5 hours) without extra pay, freeze wage brackets for three years and reduce the length of paid vacations. Management invoked a fierce competitive context while the union interpreted such

[66] The subcontracted workers would have to work five extra hours and lose 31-34% in wages.

concessions as the employer's strategy for reducing its debt of more than $8 billion, fueled by the losses of its *Québecor World* newspaper division (FTQ 2002).[67] Union leadership pressured the CDPQ to intervene, *in the name of its fiduciary role* (CSN 2002). As the CDPQ's investment lost $1 billion in fictitious value following the dot-com crisis, unions associated *Vidéotron*'s corporate downsizing plan with a destruction of the company's assets that would further devalue the Caisse's investment. Rousseau's response, as the CDPQ's President at the time, reflected the institution's adherence to business competitiveness: "C'est dommage pour ceux qui n'ont pas pu en profiter durant les bonnes années mais l'entreprise doit aujourd'hui trouver le moyen d'améliorer ses performances […] [La Caisse] entend respecter tous ses engagements financiers mais elle ne mettra pas un sous de plus. Il ne faut pas s'attendre à ce qu'elle apporte la solution" (quoted in Desrosiers 2002: n.p.).

If the union managed to defeat the subcontracting of 650 technicians, it ended up accepting almost all the other concessions listed above, with an addition of 268 job cuts (Rouillard 2004: 275-80). The union's depiction of the "corporate downsizing" plan was proved wrong. In 2012, when the CDPQ reduced its shares to 24.6%, *Vidéotron* represented $1.125 billion of Quebecor's $1.403 billion in profits. Also, the CDPQ sold all its remaining shares only in 2018, 18 years after its original acquisition. This was far from the "short-termism" of finance critiqued in financialization studies. The sale of Quebecor's assets was not informed by a "denationalization" of the CDPQ, since the Caisse remained committed to finance Quebecor's next merger and acquisition (Arsenault 2018: n.p.).

Another case involving *Québecor* was the *Journal de Montréal* lock-out in 2009. Notably, the employer demanded to all the newspaper's workers a 20% cut in benefits and a 25% increase in work hours without compensation (CSN 2009). During the conflict, the local union pressured the CDPQ to force the institution to intervene, stressing the "contradiction" between its stockholdings in a company that had declared 14 lockouts in 14 years and its "socially responsible investment" charter (CSN 2010). Charles Sabia, then the Caisse's President, favoured negotiations between parties while highlighting that the CDPQ did not get involved in labour relations despite having three seats on the company's board (CSN 2010b). Once again, the formal separation of ownership and managerial

[67] *Vidéotron* claimed that its employees had working conditions that were much superior to its competitors.

control facilitated the insulation of the CDPQ and its "partner" firms from democratic accountability to workers and the broader public. This conflict at the *Journal* ended in a defeat for workers after a 764 day lockout, in no small part due to the stance of the Caisse (Denoncourt 2011).

**The "Return" of "Activist" Industrial Policy? The PQ Government, 2012-14**

In contrast to the Charest Liberals, the PQ government, returning to power in 2012 under the leadership of Pauline Marois, remained attached to "coordinated" forms of industrial policies, as indicated by its *Priorité emploi* policy documents (Gouvernement du Québec 2013a; Gouvernement du Québec 2013b). The PQ's policy orientation reflected the international "return" of industrial policies as an explicit paradigm of economic policy (as discussed in Chapter Four).

With public investments of $2 billion, the PQ's policy was in continuity with the party's historical inclinations for financing at higher levels economic institutions. This policy included reforms to increase the domestic investments of the CDPQ and a new public bank project (as discussed below). The goal was to stimulate $13 billion in private investments over ten years and create more than 150,000 jobs by 2017 (Gouvernement du Québec 2013a: II; 3).

The Liberals' efforts to increase business productivity were compromised by the globally weak economy, especially after the 2007-08 crisis. For the PQ, a more "interventionist" industrial policy could solve these problems by reviving "niche" manufacturing production based on the greater integration of ICT, robotics, and digital platforms in logistics, business organization, and industrial processes (Gouvernement du Québec 2013a: 19, 32, 40, 60, 71; 2013b: 19).

The PQ's sectoral strategy targeted aerospace, pharmaceuticals, electronics, and multimedia, in addition to new strategic sectors such as electrified transportation and "green" technologies. The PQ government also provided support to mining in Northern Quebec, but in contrast to the Liberals' *Plan Nord*, the PQ aimed to stimulate second and third transformations of natural resources. The state planned to stimulate such sectors (with the addition of data centres) through lower cost energy surpluses, tax breaks, and "patient capital" provided by IQ (Gouvernement du Québec 2013a: 14, 60, 71-75; 2013b: 6-7, 10, 15, 27-29, 32).

The reorganization of the supply chains of MNCs, however, was also putting enormous strains on Quebec suppliers, as their share of revenues derived from contracts with large corporations decreased from 36% in 2011 to 25% in 2012. To meet these new competitive challenges, the PQ aimed to increase the number of world-class, medium-sized suppliers, continuing the Liberals' efforts. The policy planned to provide targeted state support to 300 small businesses with high growth potential to strengthen the supply chain of 20 clusters, helped by selected large corporations monitoring and training such firms (Gouvernement du Québec 2013a: 71; 2013b: 6, 10).

*"Green" progressive competitiveness*

Quebec's industrial policies were increasingly oriented toward "sustainable development". If this began prior to 2012-14, the PQ's industrial policy was most explicit about its "green" orientation. Less energy-intensive commodities, produced with less pollutants, based on a better management of resources and according to "social responsibility" principles, were interpreted as *new market opportunities to rejuvenate a "high-road" export-led growth model* (as discussed in Chapter Four). If certain low- *and* high-tech production was lost to "emergent" competitors, "green" commodities were seen as new "quality" and "niche" production that could outcompete more polluting forms of mass production located abroad (Gouvernement du Québec 2013b: 4). As Élaine Zakaïb, former PQ Minister Delegate for Industrial Policy and the Quebec Economic Development Bank, argued:

> La contrepartie positive […] c'est que ces concepts [le développement durable, l'écoproduction, la traçabilité appliquée à l'entreprise manufacturière, le marché du carbone] offrent de nouvelles occasions d'affaires, des occasions d'innover, d'engendrer des gains importants de compétitivité. En fait, ça peut être une […] une niche où le Québec peut […] se tailler une place de choix" (*Consultations particulières et auditions publiques sur le projet de loi n° 36,* 2013).

Quebec was seen as well positioned to promote the "green" qualities of its production since 97% of its electricity came from hydro-electric sources. This "hydro-electric advantage", led by H-Q, was behind the PQ's objective of creating a new electrified transportation cluster (Gouvernement du Québec 2013a: 107). However, a "green" industrial modernization was seen as needed to reap these new market “opportunities”, as Quebec manufacturing lagged in this area (Gouvernement du Québec 2013b: 15, 19).

Both the PLQ and PQ stressed energy efficiency measures in their industrial policies, and provided various tailored training sessions and toolkits for helping businesses integrate sustainable development practices (MDEIE 2007: 41-42; Gouvernement du Québec 2013b: 22, 29). In addition, the PQ planned to standardize “green” certifications and implement “ecological conditionalities” across its economic programs by 2017 (Gouvernement du Québec 2013a: 23, 102-103; 2013b: 19, 22, 24-25). The PQ government also planned to use public contracts to enforce “green” standards in Quebec manufacturing while providing it with outlets (Ministère des Finances et de l’Économie du Québec 2013: 35). Rather than constrain firms through stricter environmental regulations, the preferred approach was incentives based and facilitating firms to obtain eco-certifications (Gouvernement du Québec 2013b: 24).

*One step backward, two steps forward in neoliberal policies*

The Charest Liberals’ deliberate undermining of the remnants of Quebec’s progressive social policies unleashed important union and popular mobilizations. Confronted with a six-month student strike, the Charest Liberals set up the 2012 election as a referendum on its tuition hike and wider neoliberal policy agenda.

When taking power in 2012, the PQ initially replaced the Liberals’ tuition hike by inflation-adjusted fees, in addition to reducing the PLQ’s health tax. However, the PQ’s centre-left credentials were short-lived as they rapidly backtracked from a progressive fiscal reform and returned to a zero-deficit policy, in continuity with its neoliberal past.

Therefore, the PQ continued to embed its “interventionist” industrial policies within a neoliberal policy regime. In the name of fiscal competitiveness, the PQ reduced eligible minimal investment projects (in manufacturing, wholesale, warehousing, data storage, and data analysis centres) to a ten-year tax break from $300 to $200 million and increased tax breaks for all manufacturing SMEs (Ministère des Finances et de l’Économie du Québec 2013: 27-28).

Despite its commitment to raising domestic investments with the help of the CDPQ, the PQ's trade policy remained oriented toward an export-led growth model (Ministère des Finances et de l'Économie du Québec 2013). Its stance on "free trade" evolved toward supporting FTAs in regions beyond North America (such as the Canada-European Union Comprehensive Economic and Trade Agreement) to diversify Quebec's export markets after the 2007-08 crisis (Gouvernement du Québec 2013a: 95; Ministère des Finances et de l'Économie du Québec 2013: 14, 24, 27-32).

Such trade agreements, as noted in the previous chapter, were not interpreted as antagonistic to industrial policies, but rather formed part of the government's commitment to regional industrial clusters that were embedded in global circuits of capital. This point was reiterated by the PQ's trade policy document:

> L'intégration aux chaînes de valeur mondiales est devenue incontournable dans plusieurs secteurs d'activités. La production de certains biens requiert maintenant une répartition du travail à l'échelle planétaire, faite de grands donneurs d'ordre, d'assembleurs, d'agrégateurs et de plusieurs niveaux de sous-traitants. Le gouvernement du Québec appuie les entreprises pour les aider à s'insérer dans ces chaînes de valeur mondiales (Ministère des Finances et de l'Économie du Québec 2013: 30).

*Reactivating "activist" PFIs*

The financial component of the PQ's new industrial policies included a reform to renew the "activist" role of the CDPQ and a new public bank project, with greater institutional means granted to Quebec's PFIs. Opposed to the Liberals' decision to put an end to the CDPQ's industrial policy role, the PQ promised to raise the CDPQ's domestic investments to a minimum of 25% of the value of its overall interventions,[68] with the help of a $10 billion fund to invest in strategic sectors and prevent jobs offshoring (Shields 2012: n.p.). This reform planned to restore the prominence of its *Services de placements privés* division which privileged historically the selection of Quebec-based firms (see Chapter Six).[69]

The PQ's proposal did not involve reducing the CDPQ's fiduciary role, as Michel Nadeau, an ex-CDPQ Vice-President, confrmed: "Le gouvernement n'a jamais dit qu'il

[68] In 2012, such investments had reached 22% (a 4% increase from 2008).
[69] In the early 2000s, the Caisse had laid off 14% of its personnel, with half of the job cuts in its *Placements privés* division (Pelletier 2009: 321).

souhaitait un rendement moindre […] Il a dit qu'il souhaitait davantage d'investissements au Québec. Et les investissements au Québec ont très souvent été les meilleurs placements de la Caisse. Donc ce n'est pas une menace sur le rendement […] Il ne s'agit pas de subventionner des emplois" (quoted in Shields 2012: n.p.).

Historically, the Caisse's domestic investments (relative to its international investments) did not involve lower rates of return. As Sabia, an ex-President of the Caisse, explained: "…en ce qui concerne nos investissements […] au Québec […] nous n'avons pas […] des cibles de rendements différents de nos objectifs normaux pour le reste de nos portefeuilles" (*Audition de la Caisse de dépôt et placement du Québec sur son rapport annuel 2009*, 2010). Neither did the pursuit of higher returns abolish the CDPQ's privileged relationship with the Quebec business class. As Robert Tessier, a past President of the CDPQ board of directors, said: "Bien investir est affaire d'information. Il n'y a pas un endroit au monde où la Caisse a plus d'information et de renseignements, d'occasions et de partenaires qu'au Québec. Et tous ses placements québécois sont parmi les plus payants" (quoted in Nadeau 2015: n.p.).

However, bond agencies warned that a legal change privileging the Caisse's "economic development" mandate would reduce the independence of the CDPQ and result in a downgrade of the institution's credit rating. The Liberals in opposition supported the warning made by the bond agencies and suggested using IQ for such purposes (Shields 2012). Given the PQ's minority status and the opposition this project faced, the government abandoned his reform to restore the "activist" role of the Caisse as an industrial policy instrument.

As a result, the CDPQ's international asset holdings continued to increase. If the Caisse had reduced such assets in its portfolio following the East Asian and dot-com crises, slashing its foreign offices from eleven to three (Pelletier 2009: 321), this was short-lived. The "foreign" composition of its assets increased from 40.9 % in 2011 to 54 % in 2015, concentrated mainly in the US, followed by Europe, and increasingly in "emerging economies" (Dubuc 2014: n.p.; 2016: n.p.). Within this trend, the share of Quebec investments in the CDPQ's portfolio was even further reduced to 19.6% in 2019 in contrast to 46.40% of its holdings in the mid-1990s (Laplante 2009: n.p.; Brousseau-Pouliot 2020: n.p.).

While this is often taken as a sign of the CDPQ's "denationalization" (Laplante 2009; Pelletier 2009: Chs. 11-12), this claim derives partly from a statistical mystification. Given the more limited Quebec market and number of large Quebec-based firms,[70] the relative reduction in the share of Quebec-based assets reflected in part the higher growth rate of the CDPQ's overall assets, which had accelerated since the origins of the Caisse. The CDPQ's investments in Quebec still tended to increase faster than the province's economy's growth rate. Even if the national structure of the core shareholders historically built by the CDPQ and other Quebec PFIs had lost some of their prominence, the linkages to Quebec firms still remained important (Laurin-Lamothe 2019: 173).

Following its aborted reform of the CDPQ, the PQ focused on creating the *Banque de développement économique du Québec* (BDEQ)*,* which would have fused IQ and the *Ministère des Finances et de l'Économie du Québec*'s regional branches. Seen as the financing arm of the PQ's "green" industrial policy, this new bank was to further enhance intra-state coordination to better support world-class, medium-sized firms (Gouvernement du Québec 2013b: 15). Remaining within the "additionality" framework defined in Chapter Two, the BDEQ was to intervene in high-risk activities with limited short-term profitability potential. But the BDEQ never came to fruition given the lack of support from the opposition parties, as the Liberals supported the stance of the Quebec business associations to the PQ's more "interventionist" industrial policies. The associations feared the BDEQ's discretionary power to create new divisions geared toward developing new markets rather than limiting itself to the correction of "market failures" (*Consultations particulières et auditions publiques sur le projet de loi n° 36,* 2013).

**The Couillard Liberals: Market-Conforming Policy for Domestic Control, 2014-18**

The PQ minority government was defeated in 2014 by the re-election of the Liberals under the leadership of Philippe Couillard. This marked a return to the Charest Liberals' policy paradigm of firmly using the state to underwrite the investments of businesses, create greater space for private venture capital, and strictly limit Quebec's PFIs "strategic"

[70] Despite the more minor weight of Canadian stock exchanges in the world, in 2016 the Caisse's portfolio was composed of 56% Canadian assets, of which 22% were invested in Quebec despite the province representing 0.3% of the world economy's capitalized assets (Arsenault 2016: n.p.).

interventions. In the wider economic policy, the state's primary role was to focus on fiscal austerity, debt reduction, cut payroll taxes for businesses, and extend tax breaks (Ministère des finances 2015: 3, C23-C24; Ministère des Finances 2017: 69-70). These measures were seen as the best ways to stimulate productivity-enhancing investments in line with the "Fourth Industrial Revolution", rather than relying on an actual lower Canadian dollar (IQ 2015: 14).

The Couillard's government policy *Pour une économie ouverte et prospère* aimed to attract, retain, and expand Quebec-based corporate headquarters (Ministère des Finances 2017), and was adopted in response to the recent politicization of mediatized foreign acquisitions of domestic firms. This represented a shift to a stricter market-conforming industrial policy for consolidating the domestic control of the Quebec economy, and a renewal of the break with the past "coordinated" model of Quebec economic policy.

The increasing competitiveness of new centres of accumulation made the challenge of retaining and attracting world-class primary and secondary[71] corporate headquarters a difficult one. Between 2000 and 2014, emergent economies grew from 21 to 132 of Fortune 500's largest corporations. During the same period, Canada saw its number of Fortune 500 companies reduced from 12 to 10, a trend less pronounced than in other advanced capitalist states (Ministère des Finances 2017: 11, 32-36).

For the Liberals, the "threat" of foreign control was linked to weaknesses in Quebec's financial system highlighted by the Brunet Report (as discussed above). While "traditional" funding (such as bank loans) sufficed in a company's initial phases, these sources of finance tended to dry up in subsequent stages. As Quebec hosted small-scale venture capital funds which were inappropriate for financing investments beyond $25 million (Ministère des Finances 2017: 60-61, 72), the ability of domestic capitalists to expand their companies was limited without having to sell to "foreign" interests. As the policy document, *Pour une économie ouverte et prospère,* argued: "Tout le défi est de faire en sorte que l'entrepreneur puisse avoir accès, au Québec, à des sources de financement suffisamment nombreuses et adaptées pour qu'il puisse répondre à ses besoins, sans être conduit, à un moment crucial du développement de son entreprise, à transférer la propriété

[71] Primary headquarters tend to centralize strategic decisions (such as investments and R&D) while secondary ones tend to be mandated for regional production and sales mandates.

de son entreprise à des intérêts non québécois, pour en assurer la croissance future" (Ministère des Finances 2017: 60).

Although these financial vulnerabilities particularly affected stock-listed firms with diffuse ownership, there was only *one case* of a hostile takeover amongst 244 acquisitions of Quebec firms between 2001 and 2017. "Friendly" acquisitions by foreign corporations represented a much greater challenge. Even if the Quebec state recognized that the province's capitalists were entitled by their property rights to sell their assets to the highest bidder, the drive toward self-enrichment posed challenges to a nation-building project dependent upon the expansion of domestic capitals (Ministère des Finances 2017: 57-58, 91).

As a solution, the PLQ governments pursued a policy of providing the financial means to domestic entrepreneurs to match or outcompete foreign bids on Quebec firms. To this task, PFIs were mobilized to guarantee that domestic financing across the chain of capital accumulation was available when needed (Ministère des Finances 2017: 60-61, 72-73, 84). Another solution favoured by the PLQ was to promote legal means such as multi-voting shares (see Chapter Nine), which give firms the opportunity to raise money on capital markets while preserving corporate control by domestic managers and owners (Ministère des Finances 2017: 91-92).

The PLQ's policy still sought to conform to the rules of a liberalized trade and financial order as its policy position paper made clear:

> Les initiatives retenues […] ne doivent pas constituer des obstacles aux échanges commerciaux, aux investissements ou aux transactions sur les marchés financiers. L'importance des exportations dans l'économie du Québec et le solde positif des transactions entre les entreprises québécoises et étrangères illustrent d'ailleurs les avantages que le Québec retire de son ouverture aux affaires avec le reste du monde (Ministère des Finances 2017: 64).

The Quebec state was concerned with the best ways to support the expansion of Quebec capitals without compromising their internationalization within the rules of global capitalism. State interventions that blocked a transaction in the name of preserving national corporate headquarters could lead Quebec firms to be limited in their expansion abroad by reciprocal sanctions by aggrieved states (Beauchamp et al. 2012; Courchene 1990: 8). For the Liberals, depoliticizing domestic control was seen critical to prevent "protectionist" interventions by the Quebec state negatively affecting the market value of the province's firms. As Couillard cautioned: "Il ne faut pas envoyer le signal à l'étranger qu'à chaque fois qu'une entreprise québécoise fait l'objet d'une tentative d'acquisition ou d'une acquisition, ça va déclencher une crise politique, on ne peut pas faire ça, ça va faire diminuer la valeur des entreprises québécoises" (quoted in Caron 2016: n.p.).

**Quebec "Catch-Up": Stalled but not Reversed?**

If Quebec's high-tech sectors is estimated to represent 21% of its manufacturing GDP in 2000, 41% of manufacturing was still in the low-tech sectors. Both sectors experienced a slowdown in their growth following the dot-com crisis and the pressures of a higher Canadian dollar. A notable exception was aerospace which continued to expand and reached a peak in 2014 (Deslauriers et al. 2019: 16-21).

These outcomes brought Quebec's productivity lags to the fore. Between 1983 and 2003, Quebec's real value added per hour worked was 1.37% per year on average below Canadian (1.40%) and US (1.61%) averages. While the 1990s lower Canadian dollar had compensated for such productivity differentials, this was no longer the case during most of the 2000s. Quebec's labour productivity lagged its main competitors. Compared to Quebec, Canada had 21% higher investments in ICT (measured in dollar value per worker) in 2011; in the US, which was significantly surpassing all of Canada, this level was 124% higher (MDEIE 2005: 15-16; Gouvernement du Québec 2013a: 32, 59-60; Gouvernement du Québec 2013b: 6-7, 10).

While Quebec's gross expenditures on R&D increased from near 2% to 2.73% of GDP between 1995 and 2006, BERD represented 1.63% in 2006, below the G7 average of 1.77% (MDEIE 2009: 7, 34). If businesses active in R&D more than doubled between this same period, the 50 most R&D-intensive firms, concentrated in aerospace, pharmaceuticals and ICT, were responsible for 61% of BERD (MDEIE 2006a: 34).

Quebec exports as a percentage of GDP decreased from 55% in 2001 to 46% in 2012 (Gouvernement du Québec 2013a: 91). In 2018, 11.9% of Quebec's exports were related to aerospace products and inputs, 8.2% was tied to aluminum and alloys, 4.1% to non-ferrous melted and refined metals, 3.9% to paper products, and 3.5% to motor, turbines and power transmission products. Largely due to Quebec's aerospace sector, 22% of

Quebec's exports were in high-tech sectors,[72] a level superior to Canada's share of 12%.[73] However, almost half of Quebec exports remained in the "low-middle" to "low-tech" industries (Ministère de l'Économie et de l'Innovation 2019: 40, 43-44).

Lastly, the number of corporate headquarters in Quebec declined from 582 to 568 between 2010 and 2014, a trend also registered in Ontario with its loss of 62 corporate headquarters (Ministère des Finances 2017: 9, 37). Montreal was the Canadian city which experienced the greatest loss of large corporate headquarters (with revenues of $1 billion or more) between 1990 and 2010.[74] Between 2000 and 2015, the Quebec share of the Financial Post 500 listing of the top businesses incorporated or located in Canada declined from 21.4% to 17%. This decline also reflected the Canadian westward shift of corporate power, notably the growth of extractive companies opening headquarters in Alberta (Ministère des Finances 2017: 39).

Amongst the above corporate headquarters located in Quebec, manufacturing companies represented the largest share (21.2%). Among them, 11.8% were under foreign control (measured by more than 50% of voting rights held by non-Canadians), while this share was much higher in English Canada (25.1%) (Ministère des Finances 2017: 29). This data suggests that these large firms located within Quebec were predominantly under the control of Quebec capitalists.

Between 2000 and 2014, the number of large corporations (with assets or gross revenues of at least $50 million) in Quebec grew from 2,860 to 5,057. While 26% of them were already active as large-scale firms in 2000, 74% of them reached this status for the first time (41% being previous SMEs and 59% newcomers). A similar situation was observed for very large firms (more than $1 billion in revenues). This was a key indicator of the relative dynamism of capital accumulation in Quebec (even apart from some of the head office losses) (Ministère des Finances 2017: 46-47).

Finally, trends in corporate acquisitions do not suggest greater foreign control of the Quebec economy and the rise of a new Quebec comprador bourgeoisie. Between 2001

[72] This level of high-tech exports represented a slight decrease in its share from its 1997 level of 25.1%.
[73] Canada's exports were predominantly in "middle-high" tech sectors at a 40.1% share.
[74] Between 1990 and 2010, the variations in large corporate headquarters in Canadian cities were (with gross numbers first and additions and losses in brackets): Montreal 81 (- 15); Toronto 175 (- 11); Winnipeg 14 (-4); Calgary 75 (+31); Vancouver 49 (+ 4); Total 394 (- 5) (Beauchamp et al. 2012).

and 2016, Quebec companies made 502 acquisitions of foreign assets,[75] while foreign companies bought 244 Quebec-based assets. This represented double the number of foreign assets bought by Quebec firms than the reverse, for a net value of $15.1 billion. When such transactions are limited to the acquisitions of entire companies, Quebec firms made 268 acquisitions, while foreign companies bought 197 Quebec companies, representing a negative balance of minus $24.8 billion. When excluding the 2007 acquisition of Quebec-based Alcan by Australian company Rio Tinto, Quebec M&As had a positive balance of $20.1 billion (Ministère des Finances 2017: 41-42, 55).

**The Deepening Contradictions of Progressive Competitiveness**

As discussed in the previous chapter, Quebec's "progressive competitiveness" began to reveal its contradictions as neoliberalism came to dominate economic policy. As competition, notably from new centres of accumulation, was exacerbated following the East Asian crisis of 1997, the dot-com bubble of 2000, and the financial crisis of 2007-08, labour market trends became more dismal.

The competitive pressures of the world market led to a dramatic decrease in Quebec manufacturing jobs. Between 2000 and 2010, 28.5% of manufacturing jobs were lost, with 2009 being the lowest point in manufacturing employment in 30 years (Statistiques Canada 2017). Many of those job losses were due to definitive plant closures in the low-tech sectors (Graefe 2012: 130). These layoffs were not compensated by jobs related to energy or mining but rather in "services" (Couturier and Schepper 2014: 7) and in residential construction.[76] This relative decline in manufacturing employment was a characteristic trend of all G7 economies rather than a narrow Quebec (or Canadian) phenomenon.

This does not deny that a rising Canadian dollar between 2003 and 2011 created pressures for domestic manufacturing. However, exports were cyclically determined by the booms and busts of the world capitalist economy. Manufacturing exports continued to rise between 2003 to 2005, although at a decelerating pace, despite the steep rise in the exchange rate, while they declined after the dot-com and the 2007-08 crises (MDEIE 2007:

[75] The word assets is used here to indicate that such transactions include acquisitions of divisions of a company.
[76] From 1998 to 2010, construction jobs nearly doubled (Graefe 2012).

12-13). When in 2013, exports rose in parallel to a decline in Canada's exchange rate, this led to a sluggish revival of Quebec exports, below their 2005-07 peak when the Canadian exchange rate was much higher.

If Quebec productivity increased by 34.5% between 1983 and 2017, real hourly wages increased only by 9.5% and total pay (including benefits) by 16.5%. As percentages of the national income, the labour share declined from 77.4% to 71.8% between 1981-2017 while the profit share increased from 13.3% to 17.7%. This converged with Canadian trends (Rouillard and Rouillard 2021: 7-8, 13-15).

While unionized public sector, construction, transportation and manufacturing workers received hourly wages above average, unionized workers did not experience a growth of their real wages superior to the whole working class, with the exception of construction workers. In the case of public sector workers, they saw their conditions decline vis-à-vis other unionized workers between 1988-2018. By 2018, their total pay was 20.8% behind other unionized workers and at par with unionized and non-unionized private sector workers. The real wages of workers in large corporations (500+ employees) declined by almost 10% between 1982-86, followed by wage stagnation over three decades from the 1990s (Rouillard and Rouillard 2021: 9-12, 25-26).

In 2000, the Quebec unionization rate was at 40.1%, all categories combined. While the union density of the public sector remained stable at 82% between 1997-2018, the unionization rate of the private sector declined from 28.4% to 23% between 1997 and 2017 (Rouillard and Rouillard 2021: 21).

## The Turn to Neoliberal *"Market-Led"* Industrial Policies and PFIs

As argued in the first thesis presented in the introductory chapter, both the PLQ and PQ continued during the 2000s to see PFIs as necessary for financing activities that private finance considered insufficiently profitable in the short-term. By providing "patient capital", they continued to support investments in "high value" added sectors and the internationalization of Quebec capitals.

The Charest and Couillard Liberals were committed to restructuring the Quebec state in ways, however, that would firmly underwrite private investments and encourage businesses to assume greater economic risks. As part of their project, they reformed PFIs to limit their "coordinated" interventions in a large number of Quebec-based firms to prevent devaluations of their market capitalization (see Table 7.1 for a summary). The 2004 CDPQ reform, for example, legally enforced the primacy of the Caisse's fiduciary responsibilities that ended its more "activist" roles. This relegated industrial policy mandates to other PFIs (such as IQ). Legal means, such as multi-voting shares (see Chapter Nine), were preferred market-conforming mechanisms to support the domestic ownership of large Quebec-based capitals in high value-added sectors. PFIs were also reformed to leverage private sources of venture capital. For example, the Teralys "public-private" fund was part of a Quebec state policy to reinforce Quebec's financial system by guaranteeing domestic capitalists sufficient finance capital for furthering the expansion of their company and prevent its sale to "foreign" investors.

**Table 7.1 A Summary of Quebec's PFIs, 2000-18**

| Name / Type of PFI | Date Created | Mandates and Functions | Main reforms | Actual practices and changes |
|---|---|---|---|---|
| **Société générale de financement (SGF)**<br><br>Development bank | 1962 | Financing the development of industrial corporations to change Quebec's economic structure. Provide investment services to its clients. Lender of last resort. | <u>2003-04 reform under the PLQ:</u> Introduction of a self-financing constraint and reduced resources. Mandate to shift investments from too high concentration in petrochemicals to ICT. <u>2010:</u> Integrated with IQ. | Smaller amount of "joint ventures" and investments in high growth medium-sized firms. Still concentrated investments in extractivist sectors and low increase in ICT. Counter-cyclical role during the 2007-08 crisis. |
| **Caisse de dépôt et placement du Québec (CDPQ)**<br><br>Public institutional investor managing the public pension funds | 1965 | Double mandate of "economic development" and fiduciary prudential investments to capitalize retirement rents. | <u>2004 reform under the PLQ:</u> Legal enforcement of primacy of fiduciary role. Finance private venture capital funds. <u>Under the PQ government:</u> Projected reform to raise the CDPQ's domestic investments. Reform abandoned in the face of opposition from PLQ and bond agencies. | End of past "activist" industrial policy role. Reduced controlling positions in Quebec-based firms to prevent a negative impact on their market capitalization. Consolidation of role in financing internationally competitive firms. With other PFIs, creation of Teralys, a private venture capital fund to finance the expansion of domestic "high-tech". Continued "neoliberal loyalty" (e.g., Vidéotron and Journal de |

| | | | | |
|---|---|---|---|---|
| | | | | Montréal). Rise in international asset holdings. Despite relative erosion of core shareholding national structure, continues to have substantial equity stakes in Quebec-based firms. |
| **Investissement Québec (IQ)**<br><br>Development bank | 1998 | Enhanced institutional coordination. Stimulate domestic investments and inward FDI prospection. Incorporates established rules of Quebec PFIs: selection of projects based on tighter profitability, "joint ventures" and temporary interventions favourable to viable private accumulation. | <u>2003-04 reform under the PLQ:</u> Introduction of a self-financing constraint. Mandated to finance new public-private venture capital funds.<br><u>2009-10:</u> Constrained to absorb 75% instead of 50% of losses forcing a tighter selection of SMEs projects.<br><u>2010-11:</u> Fusion of SGF and IQ to "simplify" their administrative structure, manage mandates from the government and realize economies of scale. Capped maximum business shares at 30% per firm for large investments. Became the privileged industrial policy financial instrument.<br><u>Under the PQ government:</u><br>Projected reform to create a new public development bank as the financing arm of a "green" industrial policy. Aims to enhance intra-state coordination for better supporting "entrepreneurs". Reform abandoned given the political opposition. | <u>Under the Charest Liberals</u>: Mostly financed manufacturing sectors. Increased support to "services" and "primary" sectors. Counter-cyclical role during 2007-08 crisis. Finance private venture capital funds.<br><u>Under the PQ government:</u><br>Investments reached new record levels. Substantial share of investments in manufacturing. Mandated to invest in the electric vehicles sector as part of a "green" industrial policy. Increased support to logistics. |

The Quebec state also added self-financing rules in the governance of PFIs to subordinate these institutions to greater market and financial disciplines. Despite preserving a "patient capital" orientation, PFIs were compelled to select firms more on the basis of their profitability potential. As a result, these institutions continued to accommodate and even encourage firm-level restructurings, as indicated by the supplementary CDPQ cases of "neoliberal loyalty" (in line with the second introductory thesis).

With the exception of the CDPQ, Quebec's PFIs remained shaped by wider industrial policies geared toward clusters embedded in internationalized circuits of capital. However, these policies underwent an important change under the Charest and Couillard Liberals. Conditional subsidies and public enterprises (such as PFIs) to orient investments in targeted sectors tended to be replaced by incentives-based mechanisms (such as tax credits) underwriting private investments (my fourth thesis in the introduction).

Influenced by the "return" of "interventionist" industrial policies, the PQ attempted to develop a "green" industrial policy to create new markets (notably in the transportation sector), based on reviving the "activist" role of Quebec's PFIs. In the end, its planned reforms to raise the domestic investments of the CDPQ and set up a new public bank were not adopted given its minority status and political opposition.

As argued in a fifth thesis**,** these industrial policies remained oriented toward supporting the international competitiveness of NFCs. Therefore, both the PLQ and PQ embedded their distinct industrial policies within a deeper neoliberal regime, based on fiscal austerity, "lighter" and more "flexible" regulatory and administrative environments, and a "looser" Labour Code.

Such policies and institutions, amidst crises and intensified competition, led to deepening neoliberal labour market trends. As argued in the seventh thesis in the introduction, these regressive labour market trends showed the dead end of "progressive competitiveness". This was made worse by mounting pressures of over-accumulation, which constrained the ability of Quebec's industrial policies operated to secure a dynamic rate of private investments. Profit margins based on technological rents were increasingly shortened as "emerging" states developed technological capacities combined with lower labour costs. As argued in a ninth thesis in the introduction, by reducing economic policy debates to challenges of governance and policy design, the narrow spectrum of Quebec's industrial policies were inappropriate to cope with such systemic contradictions of capitalism.

The transformations of Quebec's industrial policies and PFIs analyzed in Chapters Five to Seven, from supporting national linkages across sectors to clusters embedded in internationalized circuits of capital, were shaped by the shift from vertically integrated companies to centralized conglomerates decentralizing production processes globally. This will be illustrated by the following chapter on the Bombardier case. Analyzing how Bombardier managed, with various state supports, to sustain *industrial* accumulation practices amidst neoliberal globalization and "financialization" will show how Quebec's industrial policies were not compromised by firm-level incentives and constraints enforced by predatory forms of finance. But neither were such policies and institutions able to prevent Bombardier's crisis amidst intensified competition and growing over-accumulation during the 2000s.

# Chapter Eight

## Industry, Finance, and Industrial Policies: The Bombardier Case

There is no better symbol of Quebec's industrial "modernization" than Bombardier. Following its achievements in snowmobiles and rail transportation between the 1960s and the 1980s, Bombardier also became a global leader in the regional jet market by the early 1990s. Bombardier's manufacturing achievements were possible due to Quebec's (and Canada's) industrial policies. In addition to public contracts and the acquisition of privatized assets, Bombardier received substantial support from public financial institutions. This chapter covers how the SGF, the SDI (later IQ), and the CDPQ provided Bombardier with critical resources to develop new products, "modernize" its plants, and cope with financial difficulties amidst restructuring crises. This analysis is extended to the role of the Federal government's Export Development Canada (EDC) in Bombardier's international sales. PFIs compensated for the tendency of private financial institutions to shy away from financing very large and risky investments associated with sectors like aerospace. There is thus a need to examine the *capitalist* rationale behind these extensive state supports, as is done below, and how they are shaped by geo-economic conflicts.

This chapter includes an analysis of Bombardier's ownership structure to highlight how it insulated the company from short-term financial pressures. Bombardier's "finance" and "industry" linkages helped secure the company's managerial autonomy to plan long-term investments, in line with Quebec's industrial policies. These relationships and mechanisms could not, however, insulate Bombardier from market imperatives. Bombardier's successive rounds of corporate restructuring were accommodated by the "neoliberal loyalty" of Quebec's PFIs, as illustrated by the cases below.

This chapter answers a question unaddressed so far: were Quebec's industrial policies compromised by the "financialization" of "non-financial" corporations, understood as a shift from "real" investments to the accumulation of financial assets? Following an analysis of Bombardier's financial division Bombardier Capital (BC), the point is made below that BC was a provisional and complementary profit centre in a company whose manufacturing commodities provided the bulk of profits. This case study suggests that Bombardier's business practices maintained a synergy with Quebec's policies geared toward developing internationally competitive aerospace and transportation clusters. To further demonstrate this claim, this chapter tracks Bombardier's corporate forms and strategies over time, in relation to specific sectoral dynamics and capitalism's booms and busts. As Chapters Six and Seven pointed out, the Quebec state's economic policies were not without their problems, given crises and changing world market conditions. These material constraints shaped Bombardier's "permanent restructuring" during the 2000s. By resulting in mass layoffs, the "rise and fall" of Bombardier captures the contradictions of Quebec's national "progressive competitiveness".

**Expansion, Crisis, and Early Diversification, 1930-80**

During the 1930s and 1940s, Bombardier developed large snowmobiles as a mode of rural transportation for doctors and entrepreneurs. In 1947, Bombardier built a new plant in Valcourt (Quebec) that produced a thousand snowmobiles per year. By the end of the 1940s, the Quebec government's decision to take responsibility for snow clearing, however, eliminated the demand for these vehicles (Yarhi and Baker 2008: n.p.). After Bombardier developed the technological know-how to produce its own snowmobile tracks, and once four-stroke engines were created in the 1950s, the company started to manufacture smaller snowmobiles at its Valcourt plant. From its first 229 produced units in 1959 to its 255,000 manufactured snowmobiles in 1969, Bombardier became the largest snowmobile manufacturer in the world by the 1970-80s (*Le Bulletin de Buckingham* 1970; Clément 2009: n.p.).

By buying firms that produced snowmobiles and snowmobile components, Bombardier rapidly became a horizontally and vertically integrated firm. As examples, Bombardier bought US-based Moto-Ski in 1971 (Linteau, Durocher and Robert 1994: 450), a year after buying the Austrian company Lohnerwerke Gesellschaft M.B.H which produced the Rotax motors used in Bombardier's Ski-Doo's (*Le Bulletin de Buckingham* 1970).

In contrast with most Quebec-based firms at the time, Bombardier stands out as a firm that internationalized early. If Bombardier's plants were then limited to Quebec, more than half of Bombardier's production was already exported to the US in 1970, capturing 40% of the US snowmobile market shares (a type of "investment constrained capital" as referred to in Chapter Four). This was a more general feature of the Quebec snowmobile industry, which exported 85% of its total production, with near half shipped to the US (Alarie 1970: n.p.; Presse canadienne 1970). This was facilitated by the Auto Pact signed between the US and Canada in 1965,[77] which extended the suspension of tariffs on cars and auto parts to other transport-related commodities such as snowmobiles.

At the time, this level of continental integration informed the early hostility of Quebec business to the nascent Quebec independence movement. The Quebec Liberals expressed such anti-sovereigntist business sentiments when arguing that an independent Quebec could be excluded from the Auto Pact and expose companies like Bombardier to tariffs of up to 17% (Alarie 1970: n.p.). Charles Leblanc, Bombardier's secretary and board member, shared this position: "Il est impensable […] qu'une entreprise de l'envergure de la nôtre visualise un État indépendant du Québec […] À l'heure où les nations tentent […] par […] le « Kennedy Round », le « marché commun » d'abaisser les barrières tarifaires […] nous ne pouvons […] penser à nous isoler" (quoted in La Tribune 1968: n.p.).

In the first half of the 1970s, the snowmobile sector was marked by the entry of new competitors, and lack of exit of older and less productive firms, leading to over-accumulation of productive investments as in other manufacturing sectors. Exacerbated by rising oil prices, the profitability of the whole global snowmobile sector plunged into crisis by the mid-1970s, indicated by the declining sales and insolvency of several firms (Dallaire 1975: n.p.). This crisis extended to Bombardier with its loss of market share to US and Japanese snowmobile firms (Cloutier 1975: n.p.).

Bombardier responded to its profitability problems not only by restructuring its snowmobile division, but also by diversifying into the transportation sector (Dallaire 1975: n.p.; Cloutier 1980a: n.p.). Bombardier vertically integrated its new transport division. For example, in 1975, Bombardier bought the US firm Montreal Locomotive Works (MLW) to access its locomotive technology (Linteau, Durocher, and Robert 1994: 450).

To diversify into the wider transportation sector, Bombardier benefited from the federal Liberal government subsidies to "modernize" and expand its plants and public

[77] The Auto Pact was initially developed to rationalize North American auto plants and prevent Canada from inviting other auto companies in. Later, it was used to revive the North American auto sector in response to German and Japanese competitors.

contracts (Laberge 1974: n.p.). Bombardier won the 1974 Montreal subway contract, even if its submission costs were higher than Anglophone and Montreal-based company Canadian Vickers (Hadekel 2004: 58). This contract was favoured by the Bourassa Liberals' industrial policy in the early 1970s, which targeted more narrowly firms in "high-tech" sectors with profitability potential (as noted in Chapter Five).

Within certain controls, domestic firms were often privileged in Quebec public contracts at the time, but this was not without limits. Elected in 1976, the PQ government wanted to demonstrate its commitment to preserve an "open door" policy to foreign direct investments, to legitimate itself in the eyes of the US state and secure a good credit rating with Wall Street. This led the PQ government to grant a contract for 1200 school buses to US car company General Motors (GM) rather than to Bombardier, justifying its decision on "economic grounds" (Hadekel 2004: 65-66).

Bombardier's early diversification contributed to the further development of a Quebec-based transportation sector,[78] which was previously under the control of US and Anglo-Canadian firms. At the time, this was one of Quebec's most important manufacturing breakthroughs. As noted in Chapter Five, firms in this sector increased their sales by 29.1% between 1961 and 1974, and showed a dynamic rate of R&D investments (+231%) between 1973 and 1985.

*The early roles of public finance*

Bombardier's turn toward transportation material was facilitated by Quebec's industrial policies. In addition to public contracts, Quebec's PFIs played a central role in financing Bombardier's successful diversification. As discussed earlier, the SGF and SDI were reformed during the early 1970s to tighten their investment policy toward high value-added sectors such as transport material.

The SGF positioned itself as a lender of last resort vis-à-vis Bombardier as the company lacked liquidity amidst the 1970s crisis. This helped Bombardier buy MLW (see above), as the SGF then owned 40% of MLW's stocks. By also owning 86% of the shares

[78] This transportation cluster was also spurred by Quebec shipbuilding companies and the Canadian railways, as the corporate headquarters of the railway company Canadian National and its major maintenance shop were located in Montreal.

of Marine Industries (its largest shareholder), and 8.35% of Bombardier's stocks (its second largest shareholder), the SGF aimed to develop a consortium of transportation and heavy machinery by facilitating the merger of the two companies. Still, this transaction failed as the SGF rejected Bombardier's too low price for Marine's acquisition (Cloutier 1975: n.p.; Fournier 1979: 55-56).

The SDI also favoured Bombardier's new transportation division by helping finance the company's joint venture with Saviem (a division of French car company Renault) to produce buses for schools (Fessou 1976: n.p.). Although GM won the bulk of Quebec's public contracts in this sector, the Bombardier-Saviem partnership compensated for GM's limited capacity to meet the Quebec's state entire demand for school buses while also growing Bombardier as a hub transport conglomerate.

The CDPQ also provided financial support across the 1970s. The Caisse bought 300,000 Bombardier shares in 1972, following the company's initial public offering in 1969 (Cloutier 1975; Pelletier 2009: 61). While the CDPQ had a conservative investment policy up to its 1980s "activist" turn, the Caisse provided such financial support to Bombardier given its early "national champion" status, a rare occurrence for Quebec-based firms during the 1970s. As Bombardier was under Francophone management, the CDPQ did not pressure the company to be represented on its board at the time.

**Internationalizing Conglomerate, 1981-2000**

During the 1980s, Bombardier further diversified into the aerospace sector, a critical turning point in the sector's domestic ownership. Previously a UK and US branch plant system, Canadian aerospace increased its domestic ownership following the temporary nationalizations of the National Steel Car (Victory Aircraft) and the Canadian Vickers (Canadair). After the Second World War, they were reprivatized, and bought by Canadian-based capitalists (Emerson 2012: 11-12). The 1950s Canadian government's decision to buy its military procurements from US contractors cancelled the CF-105 Arrow project (Smardon 2014: 136-42). If domestic aerospace manufacturing capacities were developed under the 1959 Defence Products Sharing Agreement, Canada's aerospace sector was not spurred by a large military apparatus, compared to other advanced capitalist states (as pointed out in Chapter Four). However, this situation did not lead to the sector's decline, as investments were mainly channeled toward the civil aircraft industry.

During the 1970s crisis, de Havilland and Canadair were on the edge of bankruptcy. With no other buyers interested, the Canadian state temporarily nationalized them. In 1986, both companies were reprivatized, in line with other governments who saw the private sector as best placed to make "modernizing" investments (as argued in Chapter Four). While Boeing bought de Havilland, Bombardier acquired Canadair for a very low price, which it reimbursed in less than three years (Emerson 2012: 12-13; Poirier 2000: n.p.). The Canadian state included in the deal the reimbursement of Canadair's debt of more than $1 billion, in addition to R&D subsidies and military contracts (*Le Couac* 2002). The only constraint the contract imposed on Bombardier was to invest at least $500,000 in R&D to secure the future profitability of Canadair (Vastel 1986: n.p.). The Canadian state offered such favourable terms to secure the profitability of Bombardier's new aerospace division at a time when the company's financial situation was still fragile.

Bombardier's acquisition of Canadair gave the company access to strategic aerospace technological assets which were developed with $4 billion of public money, most notably the Challenger, a business plane derived from the Learjet (Poirier 2000: n.p.). This allowed Bombardier to develop regional jets. While such commodities involved huge fixed capital costs (at $20 million per seat) (Hadekel 2004: 130), accessing Canadair's assets lowered the risk for this venture.

In 1989, Bombardier acquired Shorts, a public supplier of aerospace components privatized by the Thatcher government for only $58 million. One year later, Shorts was making $51 million in net benefits, almost equivalent to its acquisition cost (*Le Couac* 2000a). Similar to the Canadian government, the UK state wrote off the $1.6 billion debt held by Shorts, which included a $200 million provision for potential losses on past contracts. Again, the contract's only condition was that Bombardier modernize the plant's machinery, and develop new products to guarantee its future profitability, which had accumulated more than $500 million in losses since 1984 (Cloutier 1989: n.p.; Poirier 2000: n.p.).

While Bombardier profited from such privatizations, these cannot be reduced to processes of predation unrelated to surplus value extraction within capitalist *production*, a one-sided process of what Harvey (2005) calls accumulation by dispossession. Bombardier restructured such assets to derive incremental innovations and build-up technological know-how critical to compete in aerospace.[79] As Laurent Beaudoin, President of Bombardier at the time, explained:

> …la première stratégie constitue à acquérir des entreprises à vil prix, qui vont consolider l'expertise […] de Bombardier dans la technologie. Mais il ne suffit pas d'acheter des canards boiteux à prix d'aubaine, encore faut-il les redresser […] [et les intégrer] à des secteurs d'activité bien identifiés et où nous pouvons leur apporter une valeur ajoutée qui les rentabilise très vite […] nous avons fait comme les Japonais. Nous avons acheté de la technologie et du savoir-faire que nous avons améliorés au point de surpasser l'original (*La Tribune* 1992: S5-S6).

The strategy paid off as Bombardier became, by the end of the 1980s, the world leader in regional jets, one of the top three business jet manufacturers, and one of the world's biggest suppliers of jet aircraft parts (Cloutier 1989: n.p.).[80] This further stimulated a thriving Quebec-based aerospace cluster. During the second half of the 1990s, Bombardier made annual benefits of more than $500 million (Poirier 2000).

As discussed in Chapter Six, while Quebec's "catch-up" was most important during this period, Francophone control of large manufacturing corporations remained more limited. Bombardier represented an important exception. The company contributed to increasing the percentage of Quebec workers employed by transport material businesses controlled by Francophone capitalists from 36.4% in 1978 to 53.2% in 2003 (+26.8%), in addition to stimulating the growth of high value added manufacturing in the province. These results were in line with the support provided by the province's industrial policies to aerospace and transport clusters.

*Bombardier's financialization?*

Were Bombardier's industrial strategies overshadowed by a "financialization" process where Bombardier accumulated financial assets at the expense of its manufacturing divisions, compromising Quebec's industrial policy goals? In 1972, Bombardier set up

[79] Vértesy (2017: 395) notes that by deriving incremental innovations from previously acquired technological assets, Bombardier saved up to a third of development costs.
[80] Notably, this aerospace cluster was also spurred by the Canadian government's location of Air Canada's corporate headquarters in Quebec and the shift of its main maintenance facilities in the province.

Bombardier Capital (BC) to offer merchant credit to Canadian and US Ski-Doo retailers facing tightening credit markets (*La Tribune* 1992: 56). This facilitated the sales of Bombardier as banks were reluctant to finance manufacturing commodities they saw as having an uncertain future value (Tremblay 1998). Such financial activities were extended later to leasing trains, subway wagons, and airplanes (Hadekel 2004: 26). This was far from representing a "financial fix" to Bombardier's "real" profitability problems, as certain critics tracing back financialization to the 1970s crisis suggest (Krippner 2012: 10-14).

However, BC was restructured during the 1990s under the impulse of its new president, Pierre Lortie, ex-*Bourse de Montréal* President. The latter designed a plan to emulate GE Capital[81] by expanding BC's activities into new and more profitable areas (Hadekel 2004: 27). BC then targeted segments of the financial industry left over by banks, including certain markets in inventory, industrial and commercial finance, mortgage finance for pre-manufactured housing, and specific consumer loans. As BC knew these small markets well, it was able to sell the commodities it held as collateral, unlike banks who had little knowledge of the technology involved in such products (Tremblay 1998: n.p.). As a result, BC substantially increased its financial assets from $900 million in 1994 to $9 billion in 2001 (Hadekel 2004: 260).

By the end of the 1990s, BC's profits were increasingly removed from financing Bombardier's own goods and manufacturing commodities more generally (Tremblay 1998; Baril 2000). One such activity by BC was securitized lending to manufactured housing producers and consumers, which represented a quarter of the US housing market, with a high concentration of racialized lower-waged workers. The fact that this manufactured housing lending resembled motor vehicle loans far more than traditional home mortgages explains why BC came to penetrate this market by building on its past experience in motor vehicle lending practices (Hadekel 2004: 27, 259; Manufactured housing).

In 1997-98, BC reached its all-time record profits of $64.1 million in pre-tax benefits. Aside from aerospace activities, which remained Bombardier's dominant profit centre, these results were near those of its transportation division ($84.6 million), and were

[81] GE Capital was General Electric's financial arm which became increasingly decoupled from its "industrial division", and captured almost half of GE's profits (Froud 2006).

much higher than the losses of its recreational branch ($-1.1 million) (Bombardier 1999: 38). The financial division then experienced a profitability decline, especially after the 2000 dot-com crisis. In 2001, BC was losing $15.4 million, while its recreational, transportation, and aerospace divisions made $86 million, $120.5 million, and $1.2 billion, respectively (Tison 2001: n.p.).

Between 1997 and 2000, BC's net revenue was respectively 7.7%, 10.2%, 5.1%, and 2.6% of Bombardier's overall net income (own calculation). If BC represented a small share of Bombardier's mass of profits, it remains that BC's securitized financial activities generated the highest rate of profit captured by the company, averaging 32% in its peak years (Tremblay 1998: n.p.).

The above analysis suggests that while Bombardier derived a growing part of its profits from its expanded financial division during the 1990s, this was not the equivalent of a *predominant* "financialized" corporate strategy. Indeed, Bombardier dismantled BC in the early 2000s, reflecting the provisional nature of its strategic focus on "financialized" activities (further discussed below). Bombardier's accumulation strategy should not be viewed as inconsistent with Quebec's industrial policies, as the company restructured and remained focused on its aerospace and rail transportation divisions.

*Competitive "subsidization"*

Beyond public contracts and privatizations facilitating technological transfers, the consolidation of Bombardier's transport division, and expansion into aerospace would not have been possible without Quebec's (and Canada's) PFIs. In the context of the tight credit markets and sharp recession of the early 1980s, the Quebec and Canadian states supported Bombardier's investment plans. In 1980, the SDI financed $3.7 million of Bombardier's $42 million investments to "modernize" its Quebec plants, in addition to the $7.5 million provided by the Federal Ministry of Regional Economic Expansion (Cloutier 1980b: n.p.).

The CDPQ also acted as lender of last resort by buying Bombardier's newly emitted stocks. Bombardier's previous emission of 1.5 million stocks in 1980 had failed since the stocks' value had declined with the recession, leading private investors away from refinancing Bombardier (Nadeau 1982: n.p.). The CDPQ also helped finance Bombardier's acquisition of Canadair (Vastel 1986: n.p.), in line with its "activist" turn of taking higher equity stakes in more Quebec firms (as discussed in Chapter Five).

Another PFI came to play a central role in securing Bombardier's international sales: Export Development Canada (EDC). EDC was one of Canada's industrial policy financing tools.[82] Formally, EDC privileged firms with immediate lower rates of return and liquidity positions, but with high growth and export potential. EDC also supported companies exporting commodities with a minimal 60% content of national production. EDC provided preferential finance based on the Canadian government's AAA bond rating. By assuming important levels of risk, EDC held higher provisions for irrecoverable debts than those put aside by private banks (Hadekel 2004: 206-17). For projects with higher levels of investments and risks, the federal government operated through Account Canada, an EDC branch receiving mandates from the government's Cabinet (Thomas 2018: 6-7).

The first major support EDC provided to Bombardier was in the securing of a $1 billion subway contract with the New York Metropolitan Transport Authority (NYMTA) in the early 1980s, launching Bombardier's reputation as a global leader in rail transportation. Prior to this deal, EDC had limited its financing to contracts of $12 to $15 million, with only five above $100 million which were exclusively in the agricultural sector (Hadekel 2004: 73-74).

The contract's negotiations occurred as states turned to monetary restraint in the early 1980s. To enforce a high interest rate policy, and prevent its circumvention by discretionary budgetary interventions, many OECD countries had agreed to impose a lending floor-rate to public finance set at 11.25%, equivalent to market-based interest rates. However, many European countries had not committed to the agreement, including France which was offering credit below this level to the NYMTA to back its domestic consortium in its bid for the subway contract. While Canada had signed the OECD agreement, the Canadian state still mandated EDC's Account Canada to lend the NYMTA 85% of the money needed at 9.5% interest rates, which matched the French state offer. This financing aid secured the contract for Bombardier (Hadekel 2004: Ibid.).

EDC also helped finance the making of the regional airplane market in the late 1980s, as regional airline companies had at the time limited liquidity and credit margins.

[82] EDC was created in 1944 originally under the name of Export Credit Insurance Corporation.

As private banks stayed away from the uncertain returns of this new market, the Canadian state offered preferential credit to airline companies, which in turn supported Bombardier's sales. Between the early 1980s and early 2000s, Bombardier received a total of $3 billion from EDC, with the addition of $1 billion for a bad debt reserve in aviation (Cyrenne 2003: n.p.).

International competition between Bombardier and its economic rivals translated in other cases of geo-economic conflicts over the terms of the public financing of industry. By the late 1990s, the Brazilian multinational Embraer was challenging Bombardier as the world leader in the 50-seat regional jet market, as the company increased its market share going up to 45%, while Bombardier held on to the remaining 55% share (Normand 1999: n.p.). As other businesses entered this market such as Dornier, a German-based subsidiary owned by US aerospace company Fairchild (Cousineau 1999: n.p.), the two leading corporations responded to such competition by developing larger regional jets (from 70 to over 100 seats). Bombardier was the first to launch the 70-seat CRJ 700, followed by plans for a 90 to 115-seat plane, the BRJ-X.

As Bombardier lost multiple contracts at the hands of Embraer, the Canadian state launched a commercial complaint at the WTO. According to Canadian government and Bombardier, the Brazilian state's ProEx program allowed Embraer to reduce the prices of its 50-seat planes by $4.5 million over a 15 year period, which represented a 15-18% rebate. While ProEx financed aircraft companies independently of their solvency, EDC's risk premium varied with the level of a business' financial situation (Normand 1999). The WTO ruled that both Brazil's ProEx and Technology Partnerships Canada (and EDC) used "illiberal" financial strategies, although the rulings were harshest on Brazil.

These trade disputes resulted in part from the differential access to global finance between countries in the Global North and South. In the late 1990s, Brazil faced high levels of inflation and a depreciating currency with its exchange rate with the US dollar falling by 35%. The decline in this currency's international value increased the price of Brazilian imports of machinery and equipment and consumer goods, and undermined the ability of Embraer to plan its investments. This situation negatively impacted Embraer's capacity to borrow from international financial markets at interest rates comparable to its competitors (Wagnière 1999: n.p.). If the Brazilian state used its ProEx program to close off such interest rate differentials so that Embraer could sell its exports at competitive prices, the WTO rejected this justification (Turcotte 2000: n.p.). As the Brazilian state did not comply with the ruling, the Canadian state retaliated by threatening to impose tariffs on Brazilian exports and used EDC to equal the ProEx program in other contract bids by Bombardier (Cousineau 2000: n.p.; Rodrigue 2002: n.p.).

**“Permanent” Restructuring, 2000-20**

During the neoliberal period, corporate headquarters of major companies increasingly centralized investment, R&D, and marketing, while outsourcing and offshoring their tangible assets and parts of their supply chains. Aerospace was one sector where final assembly involved proprietary knowledge and advanced technology, explaining why aerospace firms located their leading productive capacities within their home base, even if component processes were increasingly internationalized. In Quebec, this trend contributed to a thriving aerospace cluster during the 1980s-90s led by Bombardier.

In the early 2000s, the aerospace sector represented 7% of Quebec manufacturing sales and revenues, making it the fourth leading manufacturing industry. Aerospace companies also exported more than 80% of their production, which became Quebec’s main export during this period and a main driver of the province’s high-tech exports (Cloutier 2002: n.p.; MDEIE 2006b: 9, 16, 19).

Between 2000 and 2015, aerospace businesses hired more or less 40,000 workers (Cloutier 2002; Ministère de l’Économie, de la science et de l’innovation 2016: 9). In 2015, the industry was segmented between four large firms – Bombardier, CAE, Bell Helicopters (Textron) and Pratt and Whitney. These firms employed more than half of the industry’s workers, followed by the ten largest integrated suppliers, employing approximately an eighth of these workers, while the SME supply chain employed approximately a quarter of them (Ministère des Finances 2017: 36). Bombardier alone had linkages with nearly half of Quebec’s aerospace supply chain (Cloutier 2002: n.p.).

In 2012, Quebec hosted 43% of the Canadian aerospace employment share, 46% of its GDP share, and 68% of its R&D share. Montreal had become the third biggest aerospace cluster in the world after Toulouse and Seattle. Some 87% of Canadian aerospace sales were concentrated in 19 firms, with Bombardier alone accounting for 37% of the sector’s sales. Of these revenues, 77% came from civil use (as opposed to military), in comparison with an average of 46% for the industry globally (Emerson 2012: 13-14).

In 2010, Canada's aerospace's R&D investments as a percentage of the sector's GDP contribution (or R&D intensity) represented just about 21%, making it third in the world after the US (30%) and France (close to 32%). In 2011, it was the second most R&D-intensive sector in Canada, after "Computer and electronic product manufacturing" (at near 31%) (Emerson 2012: 32).

During the 2000s, Canada's aerospace BERD and trade balance remained strong vis-à-vis other Canadian R&D-intensive and manufacturing sectors (Smardon 2014: 128-29). As noted in Chapter Seven, while Quebec's "high-tech" manufacturing GDP peak levels were reached by 2000-01, aerospace only reached its peak levels by 2014. The latter's exports toward the US declined earlier in the early 2000s, never again reaching its 2001 peak despite a revival after 2010.

These results were in no small part related to Quebec (and Canada's) industrial policies. However, such state supports were unable to prevent Bombardier's crisis and profound corporate downsizing. In this context, Canada's aerospace industry went from third place globally in 2004 to sixth by 2018 (Unifor's Aerospace Industry Council and Unifor Research Department 2018: 1).

*Recentering on its manufacturing "core"*

The early 2000s were marked by the East Asian and dot-com crises. While these crises were detrimental to all of Bombardier's divisions, the consequences of the terrorist attacks in September 2001 directly and negatively impacted its aerospace division. This led to three consecutive years of revenue losses for the company, including more than $600 million in 2002-03 alone. Excluding BC, Bombardier's corporate debt was then three times the shareholders' equity. This led Moody's to downgrade Bombardier's stock to below investment grade (from Ba2 to Baa3, also known as "junk-bond") (Tison 2003: n.p.; Jelter 2004: n.p.). Bombardier could not ignore these financial market pressures as its credit rating was dependent upon its market capitalization (a constraint discussed in Chapter Three).

In the face of its profitability problems, Bombardier recentred its operations around its "core" transportation and aerospace divisions, which generated the most revenue. This rationalization process involved the selling of its recreational division to a new legal entity, *Bombardier Produits Récréatifs* (BRP), which remained under the control of the Beaudoin family. As discussed below, these manufacturing divisions were restructured to develop new technologically advanced commodities, most notably the CSeries jets. This restructuring process also extended to Bombardier's BC financial services division.

*"Financialized managerialism", "de-financialization" of profit sources*

The dot-com crash plunged Bombardier's financial services division into a profitability decline. As BC was involved in high-risk activities in the housing market, such as securitized lending for premanufactured and mobile houses, BC was exposed to a high level of loan defaults when that crisis hit. While Bombardier restructured its manufacturing divisions, the company's management decided to dismantle BC between 2003 and 2007 (Bombardier 2007: 125), by selling the division's assets to various financial institutions (*Le Devoir* 2005b; *Le Devoir* 2005a). Bombardier justified this decision *in the name of shareholder value* in that "the continuation of Bombardier Capital's orderly portfolio wind-down…is in line with Bombardier's objective of maximizing shareholder value" (Grant 2005: n.p.). The move was endorsed by bond agencies, notably Moody's (*Le Devoir* 2003).

Bombardier's divestment from financial services coincided, surprisingly, with the implementation of a deepening "financialized managerialism". New accounting rules were implemented to make each division and contract more responsive to the discipline of profitability, as reflected by current market trends (Hadekel 2004: 18-19). These changes were led by newly appointed Bombardier CEO Paul Tellier, and responded favourably to the interests of the company's private shareholders.

These spreading shareholder value corporate governance practices clashed with Bombardier's previous accounting norms. The latter had facilitated the loose mobility of capital between its transportation, recreational and aerospace and financial divisions. The corporate internal financing structure had been secured by multi-voting shares,[83] which allowed the Beaudoin family to raise money on stock markets to finance Bombardier's expansion while keeping control of the company (IGOPP 2019: 4). This ownership structure provided management with higher discretion for long-term planning and higher risk growth decisions, while protecting the firm from destabilizing short-term financial pressures such as hostile corporate takeovers (Hadekel 2004: 49).[84] As Yvan Allaire (2016: 1), a corporate governance thinker associated with the Quebec *Institut sur la gouvernance d'organisations privées et publiques*, highlighted: "Sans actionnaire de contrôle, sans structure à deux classes d'actions, il n'y aurait tout simplement pas d'industrie aéronautique au Canada. Il n'y aurait pas de CSeries pour faire concurrence à Boeing et à Airbus (un exploit hors du commun au Canada)."

These kinds of accounting norms can loosen profitability pressures for each circuit of capital in the *short term*. But while profits increased by more than tenfold and revenues by near eightfold between the early 1980s and the early 1990s (*La Tribune* 1992: S5), this was not always a systematic trend as net earnings were often lagging behind asset growth during this period (Hadekel 2004: 18). Financiers thus complained about the Beaudoin family's multi-voting shares every time Bombardier faced important financial difficulties in the distributional conflicts between shareholders and management (as discussed in Chapter Three) (Hadekel 2004: 48).

However, its ownership structures did not shield Bombardier from the imperatives of *long-term* profit maximization. Following the dot-com crisis and 9/11, declining profits, share depreciation, credit rating devaluation, and liquidity problems were mutually reinforcing. Such a deep-seated crisis made the relatively loosened profitability discipline of each individual division less sustainable. As this news article summarized: "Les attentats du 11 septembre 2001 ont bouleversé l'économie et créé beaucoup de remous pour la division aéronautique qui, malgré le fait qu'elle livre des avions régionaux CRJ à un rythme infernal, n'est soudainement plus en mesure de « masquer » les lacunes des autres divisions comme elle pouvait le faire auparavant" (Codère et al. 2020).

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[83] Multi-voting shares as an institutional limit to certain dimensions of shareholder value corporate governance are further discussed in Chapter Nine.

[84] The family control of Bombardier was critical since in the 1960-70s, many US corporations, such as Ford and Chrysler, attempted to buy the company (Hadekel 2004: 54).

If new accounting norms were adopted to more strictly subordinate each of Bombardier's divisions to the discipline of competitive profitability, shareholder value corporate governance was not enforced without limits. Attempts to both put an end to multi-voting shares, and to include more shareholder-nominated independent administrators on the board of directors, were opposed by the Beaudoin family (Hadekel 2004: 324-25).

The implementation of greater shareholder value corporate governance at Bombardier, even if it remained limited, occurred *at the very moment where the company was exiting financial services and consolidating its manufacturing divisions*. Such findings are at odds with the predictions of certain financialization critics who argue that, as NFCs are subjected to deeper financial pressures, this leads to an accumulation strategy centred on financial assets. The above analysis supports this alternative definition of the financialization of NFCs defended in Chapter Three, as a means to enforce greater financial discipline upon capitalist *production*. When understood in this way, financialization is no longer seen as compromising industrial policies per se. Rather, it can further explain why neoliberal economic policies have been tethered to intensified competition within the global economy, if not without their contradictions.

*The CSeries Crisis*

Bombardier's restructuring process should not be confused with conventional accounts of pure "corporate downsizing" enforced by the short-termism of finance, and leading to the stagnation of investment. Bombardier continued to be engaged throughout the 2000s in new commodity development, notably in aerospace, such as the Learjet 85, the Global 7500, and most importantly, the CSeries.

The CSeries was a response to changing market conditions as the regional jet market was migrating toward airplanes of more than 100 seats, which eroded the demand for the CRJ100, the largest previously made by Bombardier. While developing the CSeries and moving up the technological value chain entailed massive risks that could potentially jeopardize the whole company, it was also a competitive imperative since the alternative was to exit from civil aviation to the benefit of Bombardier's rivals (Codère et al. 2020).[85]

In contrast to Bombardier's past incremental innovations, the CSeries was an entirely new plane integrating the most up-to-date technologies. With the CSeries, Bombardier became the Canadian leader in R&D spending from 2012 to 2018 of all sectors (Bergeron 2014: n.p.; Canada's Top 100 Corporate R&D spenders, 2013-19 reports).[86]

If Bombardier dealt with 130 suppliers for its CRJ 700-900-1000, this was reduced to 30 for the CSeries (Emerson 2012: 24, 26). As discussed in Chapter Seven, companies like Bombardier reorganized their supply chain through the 2000s in favour of larger, more integrated suppliers that could support more diversified and risky R&D input development. Large manufacturing firms like Bombardier were tending to limit their activities to conception and design, final assembly, and commercialization of products, while leaving the remaining stages of the production process to a smaller number of larger suppliers (MDEIE 2006b: 25).

Starting in 2011, the CSeries encountered problems during the R&D stage, notably for developing the electronic infrastructure of this new "smart" airplane, resulting in extensive delays and steep cost increases. This level of risks is inherent to the manufacturing of technologically complex aerospace commodities. As costs tend to increase in the face of unplanned difficulties, firms prefer to defend past fixed capital investments by investing even more money, even if this lowers their profitability, rather than scrap their assets given the revenue losses involved (Codère et al. 2020). While the CSeries was budgeted at $3.2 billion, it would cost approximately $7 billion (*Journal de Montréal* 2020). Bombardier was forced to double its corporate debt from $4.7 billion to $9.4 billion, equivalent to half of its corporate revenues.

In addition to the aforementioned cost pressures, airline companies bargained harder with aircraft manufacturers to lower the price of planes (Emerson 2012: 26). The deregulation of the airline sector, notably in the US and the EU, had saturated the market

[85] Vértesy (2017) notes that Bombardier reacted late to Embraer's emergence as new leader in the more than 100 seat regional jet industry, impeding Bombardier's ability to remain dominant in this market. He also recognizes that the early 2000s crises put serious constraints on the capacity of Bombardier to make timely decisions under high levels of uncertainty and financial difficulties.

[86] If between 1999 and 2011, Bombardier's R&D expenditures represented approximately 1% of Bombardier's revenues, between 2012 and 2018 they grew to 7-12% of revenues.

with low-fare carrier competition (Friedenzohn 2011: 4). This pressured Bombardier to reduce the price of its CSeries planes, yet Bombardier kept its prices higher than what airlines were willing to pay under these competitive pressures, which limited its sales (Codère et al. 2020).

These cumulative pressures led to severe profitability problems which made Bombardier's level of corporate debt unsustainable, and led to a further decline in Bombardier's credit rating, from Ba2 in 2014 to Caa2 in 2020 (Moody's 2020). To reduce its debt and restore its profitability, Bombardier sold in 2016-17 the Learjet 85 and 50.01% of the CSeries to Airbus for the symbolic sum of $1, followed by the Q400 to Viking Air, and the CRJ program to Mitsubishi (Codère et al. 2020).

In 2020, after this dramatic corporate downsizing, Bombardier was still affected by more than $2 billion annual revenue loss and $9.3 billion total debt. Bombardier's response was to sell its remaining shares (33.7%) of the CSeries to Airbus and the Quebec state, leaving each owning 75% and 25% shares respectively. In turn, Bombardier Transport (BT) was sold to French multinational rail transportation company Alstom. As a result of these transactions, Bombardier was restructured as exclusively a private business jet producer, its most revenue-generating asset in an attempt to revive its profitability and further reduce its debt load (*Journal de Montréal* 2020).

*From socializing investments to lender of last resort*

The role of the state remained integral to Bombardier's restructuring in the early 2000s, new product development, and "permanent crisis" management. The Quebec state's commitments, notably to the Bombardier's CSeries, were part of wider sectoral policies backing the consolidation of Quebec's aerospace cluster (MDEIE 2006b; Ministère de l'Économie, de la science et de l'innovation 2016). Rail transportation also continued to be a key sector targeted by the PLQ and PQ's industrial policies.

As private financial institutions became driven by higher and short-term returns, the roles of Quebec's PFIs were renewed in order to socialize the costs of high-risk investments critical to the success of the Quebec state's industrial policies (as argued in Chapters Six and Seven). These PFIs were particularly critical for a sector like aerospace, which involves high levels of investment risks that private financial institutions shy away from. As the Charest Liberals policy document *Stratégie de développement de l'industrie aéronautique québécoise: l'avantage québécois* explained:

> Le développement de nouveaux produits aéronautiques nécessite des investissements considérables. En outre, le cycle du développement de produit est particulièrement long et les sommes investies ne peuvent être récupérées qu'à long terme, soit sur une période de 10 à 15 ans. Dans ce contexte, les banques et les institutions financières privées sont peu présentes dans le financement de ce type de projet. Les gouvernements sont donc appelés à prendre le relais afin de combler le vide laissé par les marchés financiers (MDEIE 2006b: 25).

IQ was heavily involved in supporting aerospace investments both under the PLQ and PQ. In terms of IQ's FDI financing, 38% went to aerospace in 2005, with the goal of stimulating linkages with domestic SMEs that could become world-class medium-sized aerospace suppliers (IQ 2006: 28-29). Between 2005-08, transport material was one of IQ's most generously financed sectors (IQ 2006; 2007; 2008).

PFIs also facilitated Bombardier's restructuring in the early 2000s. As noted above, this corporate reorganization involved the relegation of Bombardier's recreational division to the status of an independent legal entity (now called *Bombardier Produits Récréatifs*). The CDPQ financially supported the Beaudoin family bid to keep control of BRP. While the Caisse's contributed to preserve the domestic control of a Quebec-based firm, the CDPQ again backed the company's "rationalization" plan of offshoring production to Mexico and layoffs at its Quebec Valcourt plant (Pelletier 2009: 329). This further demonstrated the CDPQ's longstanding "neoliberal loyalty".

During this period, the CSeries was the Bombardier project that received the greatest state support. Bombardier lobbied the Quebec (and Canadian) states to finance a third of the CSeries' initial $2 billion investment (Cousineau 2005: n.p.), as the Quebec state remained committed to supporting the aerospace industry's large investments (MDEIE 2005: 62-64; Ministère de l'Économie, de la science et de l'innovation 2016: 16-17).[87] In line with a longstanding practice of financing new aerospace products, the Quebec state helped finance the CSeries through reimbursable loans (payable in royalties as a

[87] State financing of a third of new aerospace products was in line with the OECD Large Aircraft Sector Understanding (LASU) signed in 1992 (Vértesy 2017: 401). However, the validity of this international agreement for the regional plane market would be contested in international trade disputes (as discussed below).

percentage of sales) (MDEIE 2006b: 21; Vértesy 2017: 395). The SGF also financed these large investment projects by buying an important number of Bombardier's stocks (MDEIE 2006b: 30).

The roles of Quebec's PFIs became most visible during the oft-called "CSeries crisis", as IQ and the CDPQ became lenders of last resort. As argued in the previous chapter, the Charest and Couillard Liberals rejected the "coordinated" model of Quebec's industrial policies and state finance. However, this did not abolish the role of these institutions in "strategic" interventions for "too big to fail" firms like Bombardier. In the case of IQ, such interventions now operated through the *Fonds de développement économique* (FDÉ) created by a reform of the Charest Liberals to delineate the discretionary interventions of the government's Cabinet for investments that exceeded $10 million and 30% of a firm's shares.

In response to Bombardier's financial difficulties, the Quebec government mandated IQ in 2015 to invest $1.3 billion to acquire 49.5% of the stockholdings of the CSeries, which became a formally separate corporate entity. In contrast, the Canadian state ceased financially supporting Bombardier's CSeries as the project's costs exploded (Pirro 2019).

As also noted in the prior chapter, the CDPQ had been reformed to marginalize its role as an industrial policy instrument. However, this should not be over-exaggerated. As a lender of last resort, the CDPQ invested US$1.5 billion in BT in exchange for 30% share of its stocks and three seats on the transport division's corporate board of directors.

Both IQ's and the CDPQ's public investments did nothing to protect jobs and prevent offshoring (discussed further below). However, public financial support was not without strings attached. The deal signed between the CDPQ and Bombardier included a clause which constrained the company to reach a level of future profitability which, if not met, would require Bombardier to pay the Caisse *a higher financial return* (Vallières 2015: n.p.; CDPQ 2015). This level of financial discipline reflected a more aggressive form of the Caisse's "neoliberal loyalty". When BT was ultimately sold to Alstom, given Bombardier's persistent financial difficulties, the CDPQ cashed the higher financial return from Bombardier while at the same time becoming a major shareholder of Alstom. Alstom promised in exchange for this acquisition to develop a headquarters in North America, an

R&D centre, and new domestic investment projects, but no job security engagements were made by the company (Parent-Belzile 2020: n.p.). In line with its longstanding practices, the CDPQ did not demand protections for workers preferring to maintain its commitments to support the international competitiveness of NFCs.[88]

The interventions by PFIs continued to be shaped by geo-economic conflicts. In response to the Quebec's state financial support to Bombardier, the Brazilian and US states filed new complaints. Previously, aerospace trade disputes were regulated by the LASU (as introduced above). However, this non-binding agreement was ambiguous in its application to the regional plane market since the latter became most developed during the second half of the 1990s. Also, the difference between regional jets and large aircrafts was increasingly blurred as the CSeries, despite being a larger airplane, remained classified as a regional plane by the Canadian state, granting Bombardier access to more favourable financing terms. To solve these issues, a new ASU agreement covering the whole aerospace sector was signed in 2007 (Friedenzohn 2011). The latter attempted to establish the lowest financing terms that governments were allowed to engage in through their loans provided by their Export Credit Agencies (Emerson 2012: 40).[89] Commercial relations were also regulated by the WTO Agreement on Subsidies and Countervailing Measures. This agreement prohibited PFIs from providing advantages below those offered by the private sector (such as preferential interest rates). Equity participation was permitted as long as it conformed to "normal" practices of private investors (Vailles 2015: n.p.).

From Embraer's perspective, the latest Quebec financing of the CSeries did not conform with "normal" private practices (Larocque 2017: n.p.). In the case of Boeing's complaint at the US International Trade Commission, which sought a 292% tariff on Bombardier's CSeries exports to the US, Boeing argued that the Caisse's substantial equity investment in Bombardier Transport was a disguised subsidy to the CSeries, which allowed Bombardier to sell these airplanes at "unfair" competitive prices to Delta Air Lines (Bilodeau 2018: n.p.).[90] The CDPQ replied that its support was far from a disguised subsidy

[88] This is the last example of the Caisse's "neoliberal loyalty" discussed in this dissertation. All these firm-level cases are summarized, and their significance further analyzed, in Chapter Nine.
[89] This agreement included Canada, US, EU, Japan, New Zealand, South Korea, Brazil, Australia, Norway, and Switzerland; it excluded Russia, China, Mexico, and Ukraine (Emerson 2012: 41).
[90] This complaint was ultimately invalidated by the US International Trade Commission.

since the agreement included a market-conforming financial return, as discussed above (Larocque 2017). The "neoliberal loyalty" of the CDPQ was not only visible in the financial discipline it contributed to enforce but also, by the scale of its equity participation. It was this lender of last resort function for "strategic" firms like Bombardier that was contested by both Brazilian and US aerospace companies.

These conflicts reflected how intense economic competition under conditions of over-capacity can become a zero-sum game sparking geo-political tensions. This process was exacerbated as this period was marked by the growing entry of "emergent" competitors in aerospace beyond Brazil such as Russia, China, Ukraine, and Mexico (Emerson 2012: 19). Companies based in these countries not only produced higher tech aerospace commodities through lower labour costs, but their struggles for world market shares also involved the adoption of forms of state financial interventions, in tension with existing legal rules of global capitalism that favoured Global North countries and firms (Emerson 2012: 24).

*The "permanent" restructuring of workers*

If Bombardier kept important productive capacities in its home base in Quebec, its plants were increasingly internationalized during the neoliberal period. Bombardier's domestic suppliers, put in competition with other suppliers across the globe, were forced to restructure themselves to preserve and expand their contracts with the company (the "global circuit of capital" referred to in Chapter Four). During the 2000s, Quebec's neoliberal industrial policies geared toward supporting aerospace and transport material clusters embedded in internationalized circuits of capital revealed their detrimental effects on workers.

In these years, Bombardier's "permanent restructuring" to rationalize its plants, address the cost structure of its wages, and revive their profitability led to successive rounds of corporate downsizing involving major job losses. In the early 2000s, 3000 job cuts were announced in its aerospace division. This was followed by a restructuring of its transportation division, where more than 6500 job cuts were made (Codère et al. 2020; *La Presse* 2004).

Beyond labour downsizing, Bombardier's expansion increasingly relied on the use of speed-up and longer hours provoking a higher rate of job injuries. This led to a union revival within the company's plants, especially during the late 1990s and early 2000s (Plante 1999; Sévigny 1999; Plante 2000). Such labour struggles also extended to defending workers' benefits and job security (*Le Devoir* 2000a; *La Presse* 2000; *Le Soleil* 2003; *Le Devoir* 2003a; *La Presse* 2004). This wave of union struggles involved an unprecedented wave of strikes including: a first strike in 22 years at its Belfast plant in 2000; the first in 40 years in Montreal in 2002; the first in 30 years at La Pocatière in 2012; and a strike of over four weeks in Wichita in 2012, this last being the longest in the history of Bombardier's aerospace division (*Le Devoir* 2000b; Dufour 2002; Tison 2002; Myles 2002; Cloutier 2002; *Le monde ouvrier* 2002; Cyrenne 2003; Marowits 2012; *La Presse* 2014).

Bombardier's restructuring plans relayed competitive pressures across its supply chain. This not only led to moving jobs offshore but also resulted in a decline in the quality of jobs at home. For example, between 2015 and 2017, there was a strike of more than two-years protesting the average salary of $12 per hour at Delastek in Grand-Mère (Shawinigan), a medium-sized supplier producing input parts for aerospace companies including Bombardier. Also, Delastek had opened a plant in Querétaro (Mexico) where 100 of these workers were trained at the Grand-Mère plant during the strike (Tison 2017).

Quebec aerospace SMEs intensified their efforts to cut costs in order to reduce their prices while still preserving "quality" production. Like Delastek, other SMEs offshored some of their plants in the Global South (Sous-traitance Industrielle du Québec 2014: 12). These moves followed the steps of Bombardier, which had bought its first aerospace plant in the Global South in 2004, in response to intensified competition from Embraer and other competitors in "emergent" countries (Labrecque 2019: n.p.).

The aforementioned union revival was in response to the company's previous rounds of labour concessions to restructure Bombardier. The grievances of the workers behind the strikes referred to above were well summarized by this striking La Pocatière worker in 2012:

> Nous avons fait des concessions […] depuis plusieurs années, alors que Bombardier fait des centaines de millions de dollars en profits […] Il faut que les travailleurs aient la part de ce qui leur est dû […] Bombardier met ses différentes usines dans

> le monde en concurrence pour mettre de la pression sur les travailleurs. C'est assez. Les gens ici ne descendent pas dans la rue pour rien. La dernière grève date d'une trentaine d'années (quoted in Larouche 2012: n.p.).

In the end, this partial union militancy remained too limited to prevent the massive corporate downsizing and major job losses. Already in 2003, 20% of Bombardier's 36,000 aerospace workers were laid off. For the company as a whole, Bombardier later went from 74,000 workers in 2015 to 56,000 by the end of 2018 (Hirtzmann 2019: n.p.).

## What is Good for Bombardier is *Not* Good for Quebec Society

Bombardier both epitomizes the "success" of a competitive Francophone high-tech "national champion" *and* the crisis of this model. Bombardier's recent "permanent restructuring" was neither caused by an overvalued Canadian exchange rate from high demand for resource exports and negatively affecting Bombardier's international sales, nor a "financialized managerialism" responsive to certain shareholder value pressures. As argued in the eighth thesis presented in the introductory chapter, as a growing number of competitive states supported their aerospace and transport material companies, the higher profits firms derived from technological leadership tended to be short-lived. As firms battled over new product development, cost cutting, price competition, with the support of cheap finance and trade disputes, the risks of "commercial failures" like the CSeries increased, especially under mounting pressures of over-accumulation during the 2000s.

As summarized in Table 8.1, PFIs financed Bombardier's new commodity development, acquisitions, investments to "modernize" plants, and export sales. In times of crisis, public finance institutions as lenders of last resort were critical to Bombardier's survival. PFIs socialized Bombardier's aerospace and rail transportation investments which private finance had considered insufficiently profitable in the short-term and too risky in the long-term.

**Table 8.1 A Summary of PFIs and Bombardier, 1960-2020**

| Name / Type of PFI | Date Created | Mandates and Functions | Actual practices and changes in relation to Bombardier |
|---|---|---|---|
| **Société générale de financement (SGF)**<br><br>Development bank | 1962 | Financing the development of industrial corporations to change Quebec's economic structure; provide investment services to its clients; and lender of last resort. | 1970s: Lender of last resort vis-à-vis the company amidst the 1970s crisis. Facilitates acquisitions of firms to support Bombardier's diversification in transport material (in line with the SGF's 1970s investment policy toward "high-tech" sectors).<br>2000s: Financed large investment projects such as the CSeries. |
| **Caisse de dépôt et placement du Québec (CDPQ)**<br><br>Public institutional investor managing the public pension funds | 1965 | Double mandate of "economic development" and fiduciary prudential investments to capitalize retirement rents. | 1970s: Despite the CDPQ's initial conservative investment policy, the Caisse bought substantial Bombardier shares, given the company's early "national champion" status.<br>1980s: Acted as lender of last resort by buying Bombardier newly emitted stocks.<br>2000s: Helped the Beaudoin family keep control of *Bombardier Produits Récréatifs*. In the face of Bombardier's financial problems, the Caisse bought 30% of Bombardier Transport's stocks. In the above two cases, the Caisse facilitated Bombardier's restructuring plans, in line with the CDPQ's longstanding "neoliberal loyalty". |
| **Société de développement industriel (SDI)**<br><br>Development bank | 1971 | Finance fast-growing businesses engaged in "modernizing" investments; favour mergers and acquisitions between smaller domestic firms; back profitable businesses who lacked access to private finance; and support exporting SMEs. | 1970s: Financed a joint-venture involving both Bombardier and a "foreign" company to produce school buses favourable to Bombardier's new transportation division (in line with the SDI's investment policy toward "high-tech").<br>1980: In the context of tight credit markets, financed a portion of Bombardier's investment plan to "modernize" its Quebec plants. |

| | | | |
|---|---|---|---|
| **Investissement Québec (IQ)**<br><br>Development bank | 1998 | Enhanced institutional coordination. Stimulated domestic investments and inward FDI prospection. Adopted longstanding principles of Quebec PFIs: selection of projects based on tighter profitability, "joint ventures" and temporary interventions favourable to viable private accumulation. | <u>2000s:</u> Heavily involved in supporting domestic investments and inward FDI in aerospace and transport material. Amidst the "CSeries crisis", the government mandated IQ to buy 49.5% of the stockholdings of the corporate entity CSeries. |
| **Export and Development Canada (EDC)**<br><br>Export financing public agency | 1944 (under the name of Export Credit Insurance Corporation) | Provided preferential finance. Privileged firms with lower rates of return and liquidity but with high growth and export potential. Supported companies exporting commodities with a minimal 60% content of national production. For projects involving higher investment risks, the federal government operated through Account Canada, an EDC branch. | Central role to secure Bombardier's sales of transport and aerospace products in export markets.<br><u>Early 1980s</u>: Then largest EDC intervention to secure Bombardier a subway contract with the New York Metropolitan Transport Authority (NYMTA), by lending the NYMTA money at conditions below an OECD agreement that Canada had signed, to match another state's offer.<br><u>Late 1980s</u>: Provided preferential credit to regional airplane carriers buying Bombardier's new regional planes, as private banks considered this new market too risky.<br><u>Late 1990s:</u> In a dispute with Brazil's Embraer at the WTO, the Canadian government used EDC to equal Brazil's ProEx program in order to secure Bombardier a contract. |

Bombardier's long-term investment strategy was also supported by Bombardier's ownership structures in which the Beaudoin family controlled the firm through multi-voting shares. Such "finance" and "industry" relationships provided institutional barriers against hostile corporate takeovers. This allowed Bombardier's management to balance between money redistributed to investors and internal funds kept for technologically advanced investments, R&D, and mergers and acquisitions.

However, even with these ownership and managerial structures, and supports from PFIs, Bombardier could not exempt itself from the competitive pressures of global product markets and the imperatives of long-term profit maximization. While acting as “patient capital” institutions at odds with financialization, Quebec’s PFIs enforced levels of financial discipline that facilitated Bombardier’s restructurings, with detrimental effects on workers, as indicated by the CDPQ’s adherence to neoliberal practices vis-à-vis Bombardier in the BRP and CSeries examples discussed above (the second thesis presented in the introductory chapter).

This public financial support was shaped by geo-economic competition. In the face of a world market and multi-state system marked by persistent hierarchies, states across the world market mobilized their PFIs to increase the market shares of “their” own capitals, often overriding multilateral financial rules, especially in conditions of crises.

Bombardier’s corporate strategies did not move from “real” investments to accumulating financial assets. While Bombardier Capital expanded its financial activities during the 1990s, even in areas removed from manufacturing, BC remained a complementary profit centre in a company whose main profits derived from its aerospace and rail transportation operations. In the early 2000s, Bombardier dismantled its financial division while it consolidated its manufacturing divisions, in line with other NFCs at the time. Interestingly, Bombardier’s exit from financial services coincided with the implementation of accounting rules subordinating each of the company’s industrial divisions to profit-maximization (our eighth thesis).

Consequently, Bombardier’s business practices were in synergy with rather than compromising Quebec’s industrial policies. As the PLQ and PQ embedded such policies within a wider neoliberal policy regime (as discussed in Chapters Six and Seven), this supported the global competitiveness of Bombardier’s manufacturing commodities.

This chapter’s account of the *capitalist* rationale behind such states supports challenges conventional depictions of Bombardier as “corporate welfare bum” from the political left, or a scandalous example of states picking “winners” and encouraging “rent-seeking” behavior from the right. If these critiques delegitimize the most ideologically charged defense of capitalist “self-made entrepreneurship”, their nationalist stance lacks historical and international perspective. As discussed in Chapter Four, temporary nationalizations and re-privatizations to facilitate technological transfers, public contracts (such as in the military sector), and low-cost public finance have been industrial policy tools used by multiple states to develop nationally-based high-tech MNCs. Aerospace is one sector where this dynamic was particularly present, and not only limited to Bombardier, but also extending to its competitors (such as Embraer).[91] This reflects the tendency of capitalist states to socialize risks and costs while privatizing benefits.

Quebec (and Canada’s) state supports to Bombardier were not without contradictions. The company’s “permanent restructuring” throughout the 2000s, which led to massive layoffs, represents a microcosm of the contradictions of Quebec’s national “progressive competitiveness”. Bombardier’s corporate downsizing contributed to a wider manufacturing jobs crisis which affected not only Quebec (and Canada) but all G7 economies (as stressed in Chapter Seven). The popular claim in Quebec ruling circles that “what is good for Bombardier is good for Quebec society” has entered a crisis of legitimacy in the face of such contradictory experiences.

[91] Beyond noting the role of governments as strategic actors in the aerospace industry, Vértesy (2017: 392) highlights cases where militarist and techno-nationalist policies result in firms lacking competitiveness and thus public overspending (such as in Argentina and Indonesia).

# Chapter Nine

## The Financialization of Quebec's Economy: Limits and Realities

This thesis has argued that Quebec's PFIs were transformed during the neoliberal period to compensate for the "short-termism" of private finance. It is also helpful to assess these developments in terms of the evolution of Quebec's private financial institutions since the Quiet Revolution, the role of the Quebec state in their development, and the unintended consequences of financial regulatory changes. An historical overview of domestic private finance will illustrate why PFIs were critical to Quebec's industrial policies.

Private financial institutions such as hedge funds have been central actors in the making of shareholder value corporate governance. The "coordinated" model of Quebec finance, however, has provided institutional constraints to an uninhibited market for corporate control in the province. Multi-voting shares, a special class of shares granting ownership control to Quebec business owners, are another mechanism which has granted managerial autonomy to the province's corporations vis-à-vis predatory rentiers. These particular linkages between "finance" and "industry" were not, however, barriers to the neoliberal restructuring of firms and the facilitation role played by Quebec's PFIs in this process.

This chapter highlights how these institutional mechanisms impacted the financialization of Quebec's NFCs. This includes the *Caisse de dépôt et placement*'s involvement in derivative markets during the 2000s. Rather than being the result of the "deregulation" of Quebec finance, the Caisse's participation in, and dependence upon, derivatives trading is analyzed below in light of the wider capitalist transformations affecting the Quebec economy. Also, the evolution of Quebec's financial markets and corporate governance have not led to firm-level incentives and constraints hostile to "real", high value-added investments. As manufacturing firms like Bombardier became subordinated to greater financial discipline, this did not render Quebec's industrial policies ineffective. What follows, therefore, is an assessment of the financialization of the Quebec economy.

## The Evolution of Quebec's Financial System

As discussed in Chapter Four, postwar industrial policies were often seen as dependent upon capital controls, fixed exchange rates, and lower interest rates favourable to domestic private investment. However, the Canadian state received accommodations within the Bretton Woods system and adopted a floating exchange rate and dismantled its capital controls in the early 1950s. The federal government floated the Canadian dollar to depoliticize the exchange-rate regime as uneven regional development led to different policy preferences over monetary matters, held by different regional business blocs at the time. Capitalist interests across Canada, however, indirectly supported these monetary and financial policies since they were opposed to the level of exchange and capital controls that would be needed to enforce a Canadian fixed exchange rate over time (Helleiner 2006).[92] Despite this context, the Quebec state was still able to set up PFIs to provide long-term and low-cost funds for industry and to develop a well-defined public circuit of finance capital complementary to a private financial system (the "additionality" framework defined in Chapter Two).

Previous chapters tracked the progress of domestic ownership in key economic sectors, but the evolution of Francophone control of Quebec's private financial institutions was not addressed. The growth of Quebec-based control of finance was most impressive. By 1979, 60% of the assets of financial institutions operating in Quebec were held by domestic owners centred in the province (Moreau 1981: 107). The most spectacular growth came from the *Caisses Desjardins*, whose assets grew from $688 million to $20 billion between 1960 and 1984, making it the largest Quebec-based financial institution. Following its partnership with the SGF during the 1960s (discussed in Chapter Five), Desjardins became actively involved in financing private businesses on its own account after creating the *Société d'investissement Desjardins* in 1974 and the *Crédit industriel Desjardins* the following year.

The Quebec state encouraged the development of Desjardins as one preferred instrument to generate the money capital needed to "modernize" the province's economy,

[92] The absence of destabilizing money inflows and outflows and currency volatility following the introduction of a Canadian floating exchange rate comforted the Canadian government in adopting these policies.

rather than create other forced savings instruments from scratch (CEQ 1975: 27-29). In 1979, the Quebec state legislated the creation of the Desjardins' *Caisse centrale* to facilitate the credit union's centralized control over the management of its funds and thus encourage the fluid operation of the institution's new investment bank and industrial credit divisions (Lévesque and Petitclerc 2010: 24). The Quebec state's ability to promote the development of such "quasi-banks" was dependent on the jurisdictional powers of Canadian provinces over trust and loan companies and credit unions (Coleman 1996: 207).

The further development of Quebec's private financial sector faced important obstacles as Toronto replaced Montreal as Canada's financial centre by the 1970s. To cope with this challenge, the Quebec state opened its securities industry to foreign competition as early as 1973 (Bienefeld 1992: 36). As the province's financial sector remained small relative to Canada's largest banks, the Quebec state worried that this financial disadvantage would limit financing for the expansion of Quebec capitals. To resolve this problem, the Quebec state de-segmented its financial sector, as a means to develop larger domestic financial institutions. It is important to note that Quebec was the first province in Canada to conduct this type of financial reform (Babad and Mulroney 1993; Coleman 1996)

Prior to the Canadian "deregulation" of finance during the 1980s, the country's financial services were segmented into four pillars: commercial banking, trusts and estate management, insurance underwriting, and investment banking. However, as mutual funds and financial coops grew outside the four pillars, and trust companies expanded into mortgage lending and securities dealing by the end of the 1970s, the similarities between chartered banks, financial coops, and trust and loan companies overshadowed their differences (Coleman 1996). Such financial developments flowed from the dynamism of the postwar boom (as argued in Chapter Two), which made past regulations increasingly maladapted to support the further expansion of these financial institutions.

These economic pressures also existed in Quebec but took a distinct nationalist bent. The Quebec state came to realize that the de-segmentation of finance was necessary to create a stronger domestic financial sector suited for supporting larger Francophone-controlled businesses (Babad and Mulroney 1993: 10-11; Coleman 1996). This was originally conceived in the 1969 government commissioned *Rapport du comité d'étude sur les institutions financières* under the supervision of Jacques Parizeau (Parizeau 1969), a radical departure at the time (Coleman 1996: 214). As Babad and Mulroney (1993: 10) note, "Jacques Parizeau [….] had long believed deregulation might create large, strong francophone institutions that could wrest control of the province's economy from English hands, ultimately serving an independent Quebec."

The Quebec state reformed its financial regulatory regime by adopting new laws for insurance companies in 1985, trust and loan businesses and financial coops in 1988, and financial intermediaries in 1989. As Coleman (1996: 214-15) argues, the Quebec government implemented these reforms to promote the growth of financial services as an economic sector worthy of expansion. These legislations resulted in the desegmentation of Quebec's financial sector and thus, in fewer and larger domestic financial institutions and conglomerates. By 1988, Quebec's financial institutions held 35% of the province's business loans and 50% of deposits, compared to 6% and 36% respectively during the early 1980s (Babad and Mulroney 1993: 11).

The "Big Bang" deregulatory movements of financial institutions soon swept English Canada by the end of the 1980s (Babad and Mulroney 1993; Coleman 1996; Coleman and Porter 2003). This resulted in the desegmentation of Canada's financial sector in favour of larger financial groups (Cooke 2006: 21-23). As a result, Quebec's smaller financial institutions were again put at a competitive disadvantage. For example, Quebec's financial institutions experienced slower asset growth during the 1980s, with nearly half of business financing remaining under "foreign" control by the 1990s. Even if Quebec's financial institutions were increasingly internationalized, this was far below Canadian and international trends (Moreau 1993: 338-42).

These limits of Quebec's private financial sector shaped the resilience of the province's "coordinated" model of finance, as each individual institution remained small by international standards. In this model, the coordination between PFIs extended to "cooperative" credit unions such as Desjardins, specialized union solidarity investment funds, and private banks. For example, the CDPQ and Desjardins led a project to create a large investment bank with the *Banque Nationale du Canada* (BNC) and *La Laurentienne* in the late 1980s. The bank's goal was to engage in long-term stockholdings to finance the expansion of Quebec businesses, protect the province's NFCs from hostile takeovers, and offer counter-cyclical loans, in contrast to the short-term lending of commercial banks.

Ultimately, this project failed. The BNC and *La Laurentienne* were less enthusiastic as they shared a conception of "looser" bank-industry relationships and had a more pan-Canadian approach to their expansion (Moreau 1993: 349). These private financial institutions were increasingly involved pursuing profitable fees from overseeing mergers and acquisitions internationally. This reflected disintermediation tendencies within Quebec private finance, as the latter engaged in activities which were relatively autonomous from financing Quebec NFCs and which promised higher returns. This represented economic limits to a more extensive "coordination" between Quebec's PFIs and other domestic financial institutions.

To further support the profitability of the province's financial institutions as an end in itself, the Quebec state modified in 1994 the *Loi sur les caisses d'épargne et de crédit* to authorize Desjardins to issue debentures to finance its expansion in order to cope with new competitive pressures. This consolidated Desjardins as a de facto "quasi-bank", by further moving away from its credit union beginnings, and pursuing higher returns in the name of "shareholder value" (Posca 2019: 8-9).

Faced with transformations in global finance, the Canadian state "rationalized" in 1999 Canada's financial markets into four distinct regional platforms: the Toronto Stock Exchange (TSE) specialized in senior stocks (mature corporations), the Calgary and Vancouver Exchanges (CSE; VSE) specialized in junior stocks (SMEs), while the Montreal Exchange (ME) specialized in derivatives markets. The Landry PQ government accepted this reform on the condition that the Montreal Exchange could access the CSE's and VSE's platforms to support the financing of innovative SMEs (Coleman and Porter 2003: 251-52). The specialization of Montreal in derivative markets was sanctioned and actively promoted by subsequent Quebec and Canadian governments (MDEIE 2005: 63).

Quebec's private financial institutions increasingly turned toward activities beyond financing domestic manufacturing firms. This reflected a transformation of the relationship between Quebec finance and NFCs that went beyond the above regulatory changes. As Lapavitsas (2013) argues, as domestic firms emerge and consolidate, their internal funds tend to increase sufficiently to cover future investments and the need of NFCs for external finance tends to decrease. As a result, private finance is pressured to search for other profitable activities, such as securitized mortgage and consumer credit. During the neoliberal period, this phenomenon was observed in "coordinated" models of capitalism, such as in Germany and Japan, and it seems plausible that this extended as well to the "Quebec model" of finance. This is suggested by the previously mentioned disintermediation tendencies amongst some of Quebec's private banks.

The evolution of Quebec private finance shaped the transformations of Quebec's PFIs and their roles within industrial policies. On the one hand, the development of a stronger domestic private finance relatively reduced the dependency of Quebec capitals on the province's public circuit of finance. Henri-Paul Rousseau, the ex-CDPQ President, highlighted these economic effects on the evolving roles of the Caisse in the following testimony:

> ...la caisse […] offre du capital, mais il faut qu'il y ait une demande. Cette offre de capital de la caisse, dans les quatre dernières années, était accompagnée de […] uniquement au Québec, les fonds fiscalisés, le Fonds de solidarité, la CSN […] la SGF, Investissement Québec, la Banque de développement du Canada [...] caisses de retraite au Québec, Teachers […] OMERS, Hoops, le CPP du Canada, PSP, les fonds de Private Equity […] Onex, Bain, Blackstone […] les Desjardins, les caisses, les banques, les assureurs, les fonds communs de placement, c'est l'enfer […] Il y a du cash au Québec, O.K.? [...] Aujourd'hui, quand la province émet ou Hydro-Québec émet, ils ne nous parlent même plus, ils font ça sur le marché, à distance [… ] ils ont un marché maintenant qui est développé et ils transigent à des taux qui sont les leurs, en fonction de leur cote de crédit […] Dans le privé, voilà pas longtemps, les entreprises du Québec dépendaient de la caisse pour un investissement; aujourd'hui, il y a des sources de fonds comme ça, et elles n'ont plus besoin de la caisse (*Audition des représentants de la Caisse de dépôt et placement sur la question de la crise dans le secteur du papier commercial adossé à des actifs* 2007).

On the other hand, Quebec's PFIs continued to play critical roles in the financing of business R&D, M&As, and as lenders of last resort (as argued in Chapters Six and Seven). As Quebec private finance roamed the world searching for the assets that would deliver the highest returns, the role of PFIs as a central component of Quebec's industrial policies was renewed during the neoliberal period.

**The "Coordinated" Model of Quebec Finance**

Financial markets in equities that are favourable to corporate acquisitions, also known as markets for corporate control, have been a key disciplinary mechanism to enforce shareholder value corporate governance. These markets depend on an institutional context favouring dispersed shareholdings of NFCs, allowing predatory institutional investors to take control of corporations through hostile takeovers. Under such circumstances, these financiers can pressure firms into adopting business decisions maximizing high short-term returns for shareholders, a process often seen as detrimental to "real" investments.

In contrast, Quebec's "coordinated" model of finance led to linkages between domestic public finance and NFCs, which nurtured core national shareholder structures characteristic of corporate Quebec (and touted by the "Quebec Model"). These ownership blocs created an institutional buffer against hostile takeovers led by rentiers. By preventing destabilizing short-term financial pressures, this "patient capital" provided Quebec businesses with the managerial autonomy to plan high value-added, long-term investments.

As pointed out in Chapter Six, policymakers by the end of the 1980s saw the "coordination" between Quebec's financial institutions as necessary to pool sufficient financial resources to support the internationalization of Quebec capitals and Francophone control in strategic sectors amidst a global wave of mergers and acquisitions. At the time, the linkages between Quebec's financial institutions and NFCs were not seen by the Quebec government as shielding firms from international competitiveness and preventing them from delivering shareholder value (Courchene 1990).

In multiple cases discussed throughout previous chapters, Quebec's PFIs held substantial ownership stakes in domestic firms for relatively long periods of time. One example was the early 1980s partnership between the CDPQ and the SGF to take majority control of Domtar. These ownership blocs were not permanent, however. As noted in Chapter Six, "privatization" programs pursued by the PLQ and PQ mandated such PFIs to sell their substantial shares held in firms operating in mature industries. In addition, certain Quebec businesses who had become larger and stronger had reduced needs for external public finance (as argued above). As a result, the CDPQ's *Placements privés,* a division of the Caisse that provided technical, financial, and managerial support to Quebec capitals, reduced its interventions by the end of the 1990s.

This relative weakening of Quebec's "coordinated" model of finance did not abolish the privileged relationship of the province's PFIs with Quebec capitalists. On the contrary, the roles of these institutions were rejuvenated under the PQ Landry government by the end of the 1990s and early 2000s. As noted in Chapter Six, the CDPQ's 1997 reform allowed the Caisse, notably, to buy more than 30% of a "private" firm's shares. With this reform, the PQ government renewed the Caisse's industrial policy role of supporting financially domestic high value-added sectors.

Authorized by this 1997 reform, the CDPQ financed Quebecor in 2000 by buying 45% of its shares to facilitate the company's acquisition of *Vidéotron* and keep the latter under domestic ownership. This was another important example of the controlling interests held by the province's PFIs in "strategic" Quebec-based capitals. As the Caisse only sold all its shares in Quebecor in 2018, 18 years after its large investment in the company, this indicated the CDPQ's resilient "patient capital" orientation. At odds with the "short-termism" of private financial institutions, the Caisse provided a measure of state protection against hostile takeovers, a sensitive issue for "tech" companies like Quebecor whose market capitalization was substantially devalued after the dot-com crisis of 1999-2000 (Desrosiers 2002: n.p.)

As analyzed in Chapter Seven, the Charest Liberals challenged the "remnants" of Quebec's "entrepreneurial" state as unwarranted "protectionist" financial interventions flowing from problematic "statist" governance rules. This critique informed the Liberals' 2004 CDPQ reform, which legally enforced the primacy of its fiduciary role, often depicted as marking the institution's "financialization" (an issue discussed below). By mandating the Caisse to more strictly underwrite private investments promising high returns and use its funds to develop private venture capital, this reform marginalized the role of the CDPQ as an industrial policy instrument.

As a result, the "coordination" of Quebec's financial institutions was much more limited during the 2000s. While the national shareholding blocs these institutions developed historically were weakened, such linkages remained widespread during this period (Laurin-Lamothe 2019: 173). PFIs still financed critical stages of business expansion which were inadequately serviced by private finance capital, such as IQ's investments in innovative SMEs. Despite the end of its industrial policy role, the Caisse still supported large acquisitions by Quebec firms. Both of these PFIs continued to play the roles of lenders of last resort, as with their interventions to back Bombardier amidst the "CSeries crisis" (see Chapter Eight). Their substantial ownership stakes in a company considered “too big to fail” insulated Bombardier from further destabilizing short-term financial pressures, even if this proved insufficient to revive the company’s profitability.

*Multi-voting shares*

Institutional barriers to a market for corporate control in Quebec are not limited to the above “coordinated” model of Quebec finance. Multi-voting shares are another institutional mechanism that can secure ownership control and keep predatory institutional investors at bay. They have their own legal and financial characteristics, modes of legitimation, and consequences for corporate governance.

Multi-voting shares are a class of stocks made available to eligible shareholders of NFCs when making an initial public offering. By providing the proprietors of this class of shares with more voting rights per share than regular ones, this special type of stocks allows corporate managers to tap into stock market finance while preserving the existing ownership control of the company. Multi-voting shares explain, in part, why Canadian and Quebec corporations tend to be more extensively under family control comparatively to US or UK firms with more dispersed shareholders (Carroll 2010: 42-44), as with the Beaudoin family control of Bombardier.

Given Quebec’s and Canada’s history of US branch plants, these legal options are legitimated by a nationalist “going concern” for preserving domestically owned corporations, notably in high value-added sectors. Thus, multi-voting shares became increasingly used during the post-war period.[93] Advocates of this special class of stocks have praised them for preventing acquisitions of domestic companies by US firms encouraged by low Canadian exchange rates or crises, which would have resulted in greater foreign control (Allaire 2016: 1-2). Firms with such ownership structures are less subjected to short-term financial pressures, transitory shareholders, and hostile takeovers (Allaire 2016: 5). This is another mechanism which provides NFCs with a degree of managerial autonomy to plan long-term investments.

[93] For example, Bombardier introduced this dual class of shares when the company made its initial public offering in 1969.

These legal protections later became circumscribed by regulations incorporating elements of "shareholder value" corporate governance. In 1987, the Toronto Stock Exchange's registration rules made it compulsory to provide the same offer to all shareholders in a company acquisition bid (Allaire 2016: 3). Following the dot-com crash, reforms adopted by the Canadian state constrained NFCs to have a majority of external "independent" administrators representing diverse shareholders on the board of directors (Carroll 2010: 85-86; Laurin-Lamothe 2019: 68-69). These rules attempted to break with insider information and insider trading most associated with the "bank-based" model of finance (see Chapter Two). As Allaire (2016: 3; emphasis added) summarizes: "Ainsi encadrée, une société à deux classes d'actions jouit d'une latitude nécessaire pour soutenir un plan stratégique *à long terme* et pour réaliser des investissements audacieux créateurs de richesse et d'emplois […] des actionnaires de contrôle […] assurent, ou supervisent, la gestion de l'entreprise dans une perspective de création de valeur à *long terme*…"

The Liberals came to privilege multi-voting shares in opposition to the past "coordinated" model of Quebec finance. The former ownership structure was considered a more appropriate market-conforming legal mechanism for domestic control, while the latter was seen as detrimental to the market capitalization of Quebec firms (as discussed in Chapter Seven).

The Quebec "coordinated" model of finance and multi-voting shares have nurtured historically extensive domestic controlling interests. These long-term minority or majority ownership structures limited the financial pressures associated with the threat of hostile takeovers and the role they played as a key disciplinary mechanism associated with shareholder value corporate governance.

As a result, hostile takeovers have been less frequent in Quebec than in other jurisdictions. In comparison with the US (Henwood 1998), there were no leveraged buy-outs or much of a junk bond market in Quebec during the 1980s (Courchene 1990: 4). Nor was there widespread penetration of foreign institutional funds in the ownership structures of Quebec firms, as in the French case (Aglietta and Rebérioux 2004; Morin 2000; Morin 2017), nor corporate governance reforms which had extensively opened up the province's corporate ownership structures, as in Germany (Sablowski 2008). Even as the "coordinated" model of Quebec finance eroded during the 2000s, there was *only one case* of a hostile takeover amongst 244 acquisitions of Quebec firms between 2001 to 2017 (Ministère des Finances 2017: 91).

It is wrong to assume, therefore, that Quebec NFCs are no longer coherent actors pursuing a "long-term" accumulation strategy by being reduced to bundles of assets reshuffled in the short-term for capital gains. In the province's institutional context, corporate managers have remained committed not only to defending their past fixed capital investments, but also committing to new high-tech investments when profitable. In the case of businesses with multi-voting shares, they tend to have lower borrowing cost structures, and higher sales growth and R&D intensity. Against shareholder value *ideology*, such firms have not performed worse than other corporations (Allaire 2016: 5).

The "shareholder value" corporate governance thesis should thus be applied with caution to the Quebec context. Quebec studies of financialization have tended to highlight other mechanisms, such as stock options and the higher level of shareholder-nominated representatives on corporate boards of directors, to defend the existence of shareholder value corporate governance in the province (Laurin-Lamothe 2019). If stock options have conventionally been theorized as the "carrot" to incite managers to make corporate decisions favourable to higher short-term profits, the literature has highlighted markets for corporate control as the "stick" to discipline firms to conform to "shareholder value" norms across different institutional contexts (including in France and Germany, as noted above). The limited presence of this "stick" of shareholder value corporate governance in Quebec reduced the destabilizing short-term financial pressures associated with hostile takeovers, thus representing an institutional limit to financialization in the province.

In fact, this is precisely what institutionalists have registered in their notion of the Quebec "coordinated" model of finance. What is contested here is not the existence of financial practices divergent from the "short-termism" of finance associated with financialization. Rather, it is the associated institutionalist claim that Quebec's "patient capital" institutions were favourable to *non*-neoliberal labour market trends.

### The "Neoliberal Loyalty" of Quebec's PFIs: A Synthesis

As discussed in the introductory chapters, the "varieties of capitalism" approach has highlighted national contexts where institutional configurations of finance, in "coordinated market economies" (CMEs), insulate domestic economies from short-term financial pressures. In comparison with "Anglo-Saxon" financializations, these financial systems were associated with stakeholder forms of corporate governance favourable to redistributive institutional compromises.

Institutionalist analysis often claims that Quebec was home to a "coordinated" model of finance, at least until the 2000s. But, as argued at the outset, Quebec institutionalists do not stop there. In this vein, the "Quebec model" literature associated the province's network of "patient capital" institutions as favourable to institutional compromises reducing inequalities, to varying degrees, until the Charest Liberals forced through market-enforcing reforms.

If Quebec PFIs were at odds with the capital-gains-seeking behavior associated with shareholder value corporate governance, the planning structures of NFCs favoured by these configurations of finance were far from a "stakeholder" model of the firm. Multiple firm-level cases analyzed in previous chapters illustrated the "neoliberal loyalty" of the province's PFIs from the end of the 1980s onwards. In these numerous examples, various levels of financial discipline were enforced by Quebec's public "banks" in support of business managerial plans demanding concessions from workers. Such "patient capital" institutions did not reduce the interest rates of their loans, nor did they postpone their claims for dividend payments, nor invest more money to satisfy workers' demands during labour conflicts. In a case involving Bombardier, the Caisse even required a higher financial return if the company did not improve its profitability (see Chapter Eight). These financial practices reflected the tendency of these institutions to operate according to strict profitability criteria, as mandated by multiple reforms brought in by the Quebec government.

As an illustration, Domtar laid off hundreds of workers by the end of the 1980s, at a time when it remained under the majority control of the CDPQ and the SGF. A newspaper account captures how Domtar, in the crucial pulp and paper sector for Quebec, while insulated from hostile takeovers by Quebec's PFIs, still implemented a restructuring plan in response to intensified competition:

> Plusieurs grandes entreprises cherchent présentement à se départir de certaines activités et à se concentrer sur leur vocation principale, dans le but d'améliorer leur performance et de mieux faire face à la concurrence. Dans certains cas, ces

> compagnies veulent éloigner les chasseurs d'entreprises et leurs prises de contrôle hostiles […] Les raiders ne semblent toutefois pas menacer Domtar, contrôlée à 45 p. cent par des institutions du Québec, mais son président, James H. Smith, souligne que « bien que difficile, cette réorganisation est nécessaire si nous voulons protéger la viabilité de nos exploitations en améliorant notre compétitivité et notre efficacité ». Les ventes s'élèvent à $3 milliards mais Domtar doit affronter des géants internationaux de bien plus grande taille (Cloutier 1989: n.p.).

Two cases involving the Caisse and Quebecor also illustrated the same competitive logic operating through these institutional differences. As recalled from above, the CDPQ acquired 45% of Quebecor shares to preserve *Vidéotron* in the hands of Quebec capitalists and acted as a "patient capital" institution by holding to Quebecor's shares for an extensive period. By investing in Quebecor, the CDPQ was supporting a company which had locked-out its workers 14 times in 14 years. Two of these lockouts were used as leverage to restructure Quebecor's telecommunications division *Vidéotron* and its *Journal de Montréal* newspaper. These employers demanded from workers concessions that were justified in the name of enhancing the competitiveness of these respective companies. Although the Caisse's formal stance was to not get involved in labour relations, the level of financial discipline it enforced in both of these cases facilitated corporate restructurings.

The "neoliberal loyalty" of Quebec's PFIs is also amply illustrated in the example of Bombardier. Following the dot-com crisis of 1999-2000 and 9/11, Bombardier proceeded to a corporate "rationalization" in response to important financial distress. In this context, the CDPQ financially supported the Beaudoin family's bid to retain control of the recreational division, sold as a separate corporate entity to improve Bombardier's finances. While the Caisse intervened again to preserve "strategic" business assets under Francophone control, its financial participation backed the company's decision to offshore production in Mexico and layoff workers at its Valcourt plant.

The CDPQ also intervened as a lender of last resort amidst Bombardier's "CSeries crisis". The Caisse's acquisition of 30% of Bombardier Transport involved a clause constraining the corporation to increase its profitability, which, if not met, would require a higher financial return from the company. This level of financial discipline enforced greater pressures on Bombardier to revive the profitability of its plants, resulting in further mass layoffs and corporate downsizing.

Quebec's PFIs were "patient capital" institutions at odds with predatory rentiers associated with financialization. As such, they did *not* take control of Quebec firms through leveraged buyouts and sold their restructured divisions for a short-term capital gain. Neither did the CDPQ impose the exorbitant profitability norms associated with shareholder value corporate governance (Morin 2011; 2017), at least for their investments in Quebec.[94] While their institutional logic was at odds with "shareholder value" corporate governance per se, they accommodated corporate neoliberal restructurings to support the international competitiveness of Quebec businesses. If the province's PFIs insulated NFCs from predatory financial agents within global financial markets, *these same institutions did not shield Quebec firms and their workers from the market imperatives shaping globally integrated capitalist production*.

These firm-level findings were aligned with Quebec's neoliberal labour market trends (discussed in Chapters Six and Seven). The "varieties of capitalism" approach argues that the financial institutions and corporate governance of CMEs favoured institutional compromises reducing inequalities. Quebec's PFIs long-term relationships with domestic NFCs, however, did not lead Quebec capital to manifest a firm-level rationality favourable to *non*-neoliberal working conditions.

**The CDPQ's Financialization?**

As discussed in Chapter Seven, the Charest Liberals' "*réingénierie de l'État*" aimed to dismantle the remnants of Quebec's "entrepreneurial" state. A central dimension of this project was reforming key economic institutions to a "market-led" governance regime. The 2004 CDPQ reform, which legally enforced the primacy of its fiduciary role, was the vanguard of this process (Laurin-Lamothe 2016: 78-79).[95] As the new law regulating the

[94] While beyond the scope of this research, preliminary findings suggest that the CDPQ was involved in enforcing "shareholder value" pressures internationally. In 1989, the CDPQ took a participation in Siparex, a France-based private equity firm, to facilitate the Caisse's penetration of European markets. Siparex's shareholders (such as *Banque Nationale de Paris*, *Michelin,* and *Peugot*), in search of high profits, led the private equity firm to pursue a 25% financial rate of return. Siparex also required a priority dividend from the businesses in which it invested (Dubuisson 1989: n.p.). The Caisse also participated in leveraged buyouts in partnership with other financial institutions active in the restructuring and sale of firms for high profits, notably in Europe (Salvet 2004: n.p.) and in India (Arsenault 2016: n.p.).

[95] Reforms mandating Canadian public institutional investors to give primacy to "shareholder value" were also adopted across Canada in the late 1990s and early 2000s (Skerrett 2017: 129).

mission of the Caisse stated: “La Caisse a pour mission de recevoir des sommes en dépôt, conformément à la loi et à les gérer en recherchant le rendement optimal du capital des déposants dans le respect de leur politique de placement, tout en contribuant au développement économique du Québec”.[96] The primacy of the Caisse’s fiduciary role was, as noted previously, a de facto practice since the institution had been established. However, this legal change added to the constraints on the Caisse to pursue investments more in line with the maximization of “shareholder value”, and limiting the Caisse’s “activist” role as an industrial policy instrument.

The Caisse’s reform also included guaranteeing that two thirds of its board was composed of “independent” administrators, including the board’s chair (Laurin-Lamothe 2019: 68-69). This reform movement swept across Canada (Carroll 2010: 85), seen as an antidote to the corporate fraud (such as Enron) associated with the dot-com crash (Soederberg 2010). Compensation schemes favouring the higher financial performance of the Caisse were also introduced at the time (Laurin-Lamothe 2016).

For institutionalist analysts, this reform eroded the “coordinated” model of Quebec finance and the extra-market policy limits on a market for corporate control in Quebec; in turn, the Caisse was transformed into a force for, rather than an institutional buffer against, financialization. The Caisse transitioned, it is argued, from being a central agent in the formation of Québec Inc. to a massive trader in derivative markets, contributing to a shift in Quebec economic activity from production and trade to financial assets. In consequence, the CDPQ became aligned with the dominant practices of institutional investors in financial markets and eliminating the Caisse’s Quebec-based distinctiveness (Laplante 2009; Pelletier 2009: Chs. 11-12). This legislative change was judged responsible for the CDPQ’s involvement in Canada’s asset-backed commercial paper (ABCP) crisis in 2007-08 (Hanin 2016). The fiduciary reform of the CDPQ and the Caisse’s involvement in derivatives trading served as the basis, therefore, for a Quebec version of the “shareholder value” *ideology* and the “deregulation” of finance.

The institutionalist account (with its association with the “Quebec Model”) is problematic as it forecloses examining the deeper material constraints behind the policy changes and the Caisse’s transformations. The CDPQ’s involvement in crisis-prone

[96] *Loi sur la Caisse de dépôt et placement du Québec, 2004, c. 33, a.33.*

derivative markets are related to the evolution of financial markets within the systemic transformations of capitalism (analyzed in Chapter Two) in which the Quebec economy is embedded. In the absence of such an account, there is an exaggeration of the ideological inclinations of the party in power as the main cause behind these historical shifts. Socioeconomic outcomes become problematically interpreted, then, as the result of "bad" policy designs, missing the unintended consequences of such policy shifts as they emerge from the dynamics of contemporary capitalist development. While far from being framed in these terms, the testimony of Fernand Perreault, an ex-CDPQ President, on the Caisse's exposure to the 2007-08 crisis is an indication that so-called "speculative euphoria" should not be interpreted as having resulted from the above fiduciary reform:

> Quelques mots […] sur les amendements apportés à la loi de 2004. Ces amendements avaient pour objectif de clarifier la mission de la caisse et visaient une amélioration de sa gouvernance; ils n'ont pas d'impact notable sur les opérations et ses stratégies. Les mêmes règles de fonctionnement ont continué à s'appliquer, et les seuls ajustements, avec le temps, sont essentiellement dus à l'évolution des marchés financiers […] la caisse, sa direction, ses gestionnaires n'ont pas été pris, au cours des dernières années, d'une soudaine frénésie de rendement à tout prix, une frénésie qui aurait […] conduit […] aux résultats décevants de 2008. Nos pratiques, en termes de diversification, de levier, de gestion de risques, de rémunération variable, n'étaient ni nouvelles, ni exceptionnelles, ni inédites, ni démesurément risquées dans le contexte qui prévalait avant l'automne 2008 (*Auditions sur les résultats de la Caisse de dépôt et placement,* 2009a).

The account below, in contrast to institutionalist explanations, locates the involvement of the CDPQ in derivatives markets and its search for higher returns as rooted in the neoliberal boom and busts and in Quebec's longer-term policy regime shifts.

First, fiscal austerity led to a fall in the mass of available public bonds,[97] while their rate of return declined as interest rates were reduced from 2000 onwards.[98] This created pressures for financial institutions like the CDPQ to search for new and more profitable assets. The 1997 CDPQ reform adopted in response to these financial pressures allowed the CDPQ to hold up to 70% of its assets in stocks, which led the Caisse to substantially

[97] While the Caisse previously bought $1 billion in Quebec bonds each year, the Quebec state did not discharge new bond offerings by the late 1990s, in line with the 1996 zero deficit law discussed in Chapter Six (Dutrisac 1997: n.p.).
[98] The average rate of return on state bonds was reduced from 10 to 2% between the 1980s and the early 2000s. This reduced the Caisse's profits as bonds represented one third of its assets (Vallières 2015: n.p.).

increase its international stockholdings (as noted in Chapter Six). The 2004 CDPQ reform mandating the Caisse to prioritize maximizing returns translated, therefore, into policy an already entrenched practice.

Second, the CDPQ 1997 reform had already authorized the Caisse to buy securitized mortgages packaged and emitted by another bank. Prior to this regulatory change, the CDPQ could only securitize its own commercial mortgages (*Examen des orientations, des activités et de la gestion de la Caisse de dépôt et placement du Québec,* 1997; *Le Soleil* 1999: n.p.).[99] This led the ex-PLQ MP Monique Jérôme-Forget to say: "On peut presque dire que le père des PCAA,[100] c'est [ex-PQ Finance Minister] M. [Bernard] Landry" (*Auditions sur les résultats de la Caisse de dépôt et placement,* 2009b). However, the weight of derivative assets within the Caisse's portfolio increased substantially only after the dot-com crisis. The low interest rate policy adopted in response to this crisis fueled an unprecedented wave of mortgage securitization. These derivatives offered higher returns in a context where profitable assets had become rarer. As a result, the CDPQ increased its holdings of derivative assets from $1.1 billion to $16 billion between 2002 and 2008, representing approximately 10% of the CDPQ's assets (Rekik 2016: 160).[101]

Third, Quebec public retirement pensions had always depended on the inflation of financial assets bought and sold by the Caisse. However, the pressure for higher capital gains increased as defined benefit[102] pension outflows increased faster than the inflow of new contributions. While net outflows began in 1983 (Moreau 1993: 340), these pressures accelerated given the growing aging population and a relative decline in the natality rate (Blackburn 2002: 3).[103] In addition, increases in the number of the working poor and the stagnation of wages during the neoliberal period limited the new contributions of workers

[99] By the end of the 1990s, a securitized commercial mortgage loan offered an average 8% rate of return, while a non-securitized mortgage bond provided 5.5% (*Le Devoir* 1999: n.p.).
[100] PCAA stands for *Papier commercial adossé à des actifs*, the French equivalent of ABCP.
[101] Beyond derivatives, Charest's "public-private" partnerships in infrastructures (Rouillard et al. 2009) also provided new profitable asset classes to financial institutions. As noted in Chapter Two, the Caisse and other Canadian public institutional investors were heavily involved in such infrastructure privatizations.
[102] "Defined benefits" is a retirement insurance model where workers' contributions are tied to defined pension payments in the future. This contrasts with "defined contributions" where workers pay set contributions without knowing the level of their future pensions. In this latter model, workers bear the risks of the volatility of capitalized assets and their future pensions earnings.
[103] In 1966, there were nine "active" workers for every pensioner in Quebec, while in 1998, this ratio was reduced to five for one. Projections for 2030 predicted a further reduction to two for one (Jannard 1998: n.p.).

to pension funds (Toporowski 2014). To cope with these financial tensions, reforms increased the percentage of money inflows paid by workers and raised the retirement age (Baril 2004: n.p.).[104] This was counter-balanced by the CDPQ's investments in assets promising higher returns.

Fourth, the Caisse's drive for increased financial profits were in line with the interests of Quebec businesses (Dufour 2000: 165). For these capitalists, enforcing fiduciary rules were important to prevent the democratic administration of pension funds for purposes at odds with capital accumulation. As competition intensified globally during the neoliberal period, capitalists saw another reason to implement these governance rules. If the Caisse delivered higher financial returns, the province's companies could lower their contributions to the "social wage", in the face of competitors with no or lower welfare obligations. As Henri-Paul Rousseau, the ex-CDPQ President, explained:

> Il faut comprendre que le premier impact qu'on a sur l'économie, naturellement c'est sur nos rendements. Quand la caisse a les rendements qu'elle a eus depuis quelques années, une CSST [Commission sur la santé et la sécurité au travail] […] qui est en bonne santé financière […] et qui aurait un surplus dans ses rendements, qu'est-ce que ça va faire […] *Un jour, elle est capable de baisser les cotisations et, si vous baissez les cotisations, vous rendez les entreprises plus compétitives*. C'est bon pour l'emploi […] pour la croissance […] (*Audition des représentants de la Caisse de dépôt et placement sur la question de la crise dans le secteur du papier commercial adossé à des actifs* 2007; emphasis added).

Fifth, as legal decrees mandate the CDPQ to manage various funds, the Caisse did not compete directly with other financial institutions to attract savings to invest, at least in the *short-term*. But competitive pressures, however, are not suspended indefinitely. If the CDPQ persistently performed below the standards in the financial industry, unions, and other "principals" would pressure the state to grant such mandates to other fiduciaries in the private sector (see Henri-Paul Rousseau's testimony in the *Audition des représentants de la Caisse de dépôt et placement sur la question de la crise dans le secteur du papier commercial adossé à des actifs,* 2007).

Finally, derivatives have a deeper, integral role within capital accumulation under the context of de-commodified world money and fluctuating exchange rates (as argued in

[104] In 1996, the federal Liberal government under the leadership of Jean Chrétien implemented similar measures by notably increasing the contribution rate of workers and implementing various cuts in benefits (Mendelson 2005: iv-v).

Chapter Two). As the CDPQ became increasingly internationalized, derivatives were central to the risk management of its global portfolio of assets by reducing the uncertainty of exchange and interest rates fluctuations. Already, during the 1990s, the CDPQ had hedged 98% of its financial positions (*Étude détaillée du projet de loi n° 168 - Loi modifiant la Loi sur la Caisse de dépôt et placement du Québec,* 1997). As Claude Bergeron, a CDPQ representative, pointed out:

> …dans le contexte des marchés d'aujourd'hui […] si la caisse était privée d'utiliser des […] produits dérivés, la caisse ne respecterait pas ses obligations envers ses déposants de maximiser son rendement et de donner aux déposants la plus grande protection sur les investissements qu'elle réalise […] C'est une assurance […] dont la caisse peut bénéficier pour protéger ses investissements contre certains risques qu'elle ne veut pas prendre. C'est également une possibilité d'augmenter le placement ou d'augmenter le rendement relativement à certains produits (*Consultations particulières sur le projet de loi n° 77 - Loi sur les instruments dérivés* 2008).

The liquidity depth of derivatives markets, moreover, gave the CDPQ access to money quickly without having to sell other assets, when deciding, for example, to finance acquisitions by Quebec firms. In comparison to the low interest rates on government bonds during the 2000s, these assets had the benefit of offering a higher return. Thus, derivatives played an integral role in the CDPQ's liquidity management. As explained by Henri-Paul Rousseau:

> 33,6 milliards, ce sont nos actifs à court terme de liquidités. Pourquoi la caisse maintien des liquidités à ce niveau, 16 % du total? Pour trois raisons […] dans un marché qui est extrêmement difficile et extrêmement volatile, être liquide permet d'agir rapidement et de profiter d'occasions d'affaires. Je ne peux pas vous dire le nombre de transactions que nous avons faites au Québec et ailleurs dans le monde parce qu'on était capables de faire un chèque rapidement et qu'on n'avait pas à vendre des actifs [...] Le besoin de liquidités de nos déposants, il est tout petit, mais, nous, on a besoin de beaucoup plus de liquidités pour faire le levier sur ce qu'on a. Si on se contentait de la liquidité [...] uniquement de celle des besoins des déposants, on n'aurait que 3 milliards. Dans deux transactions immobilières, on est finis, on n'a plus d'argent, il faut vendre quelque chose d'autre […] en attendant qu'on fasse des transactions, on doit, comme tout le monde, mettre nos liquidités dans des portefeuilles liquides (*Audition des représentants de la Caisse de dépôt et placement sur la question de la crise dans le secteur du papier commercial adossé à des actifs,* 2007).

To recognize the central roles of derivatives within global capitalism, and in the Caisse's financial operations more specifically, does not deny the contradictory and destabilizing effects of these markets. As the 2007-08 crisis unfolded, the CDPQ lost close to $40 billion in financial value, equivalent to a quarter of all its assets. Canadian state interventions to reflate such securitized assets bore fruit, as the CDPQ registered a 9.6 % profit in 2012, particularly from the re-inflated value of its commercial paper assets (Rolland 2013: n.p.).

This overview of the material constraints behind the CDPQ's involvement in derivative asset trading does not claim to be an exhaustive analysis of such practices or of the ABCP crisis. For the purposes of this dissertation, this account shows how the CDPQ's involvement in derivatives trading supported the international competitiveness and internationalization of Quebec capitals, two goals central in the Caisse's history, especially from the mid-1990s onwards. The Caisse's financial practices discussed above remained compatible with, and were even supportive of, Quebec's *neoliberal* industrial policies. Finally, the CDPQ's involvement in derivative asset trading did not compromise the Caisse's roles as a lender of last resort vis-à-vis Quebec businesses, even if its role as an industrial policy instrument was substantially reduced during the Liberal governments of the 2000s.

**Rethinking the Financialization of NFCs: The Bombardier Case**

As argued in Chapter Three, institutionalist studies of the financialization of "non-financial" corporations contend that NFCs have been transformed by: 1) the dominance of shareholder value corporate governance; and 2) a shift in accumulation from production and trade to finance. These claims come full circle when claiming that the "stick" of hostile takeovers and the "carrot" of stock options resulted in "short-termist" business management favouring financial forms of accumulation at the expense of fixed capital investments. Firm-level incentives and constraints associated with this "financial" turn of NFCs are considered incompatible with the goals of channelling "real" investments into high value-added sectors. When understood in this way, financialization is seen as a significant obstacle to industrial policy.

The history of one of Quebec's most significant manufacturing companies, Bombardier, challenges this conception of the financialization of NFCs. Bombardier Capital (BC) was set up initially to offer merchant credit to Ski-Doo retailers who had trouble accessing credit during the 1970s crisis. During the 1990s, BC expanded its financial activities in areas far removed from its manufacturing operations, such as securitized lending for pre-manufactured housing. Through these activities, BC enhanced its power, if indirectly, over the disposable income of workers by enforcing the reimbursement of the securitized loans. Moreover, Bombardier appropriated fees through the operations of loan securitization by becoming involved in asset trading on financial markets. On the basis of these activities, BC appeared like a quasi-(financialized) bank, a not unimportant transformation in itself and representative of changes occurring in many other NFCs.

Indeed, Bombardier derived a growing part of its profits from such financial activities at some 10% of the company's overall net income (as noted in Chapter Eight). The expansion of BC's activities did not compensate, however, for declining profits in Bombardier's manufacturing divisions, as these industrial operations remained highly profitable during the 1990s, with the exception of its recreational products. In other words, BC's trajectory did not represent a "financial fix" to profitability problems in "real" production. Rather, BC represented a provisional and complementary profit centre within a corporation whose profits were still predominantly derived from the production and sales of its manufacturing commodities. Bombardier was far from being a company driven by the primacy of a "financialized" accumulation strategy.

Bombardier was hit by major losses in all its units following the dot-com crisis and 9/11 in the early 2000s, with its financial services exposed to a high level of loan defaults. While Bombardier restructured its manufacturing divisions in response to these financial problems, the company completely dismantled BC and abandoned all its securitized lending activities[105] – also a larger trend in NFCs divesting from financial services and focusing on core manufacturing mandates.

[105] If BC's activities were ended, Bombardier still traded in currency derivatives markets to secure the profitability of its internationalized manufacturing operations, as other multinational NFCs.

To pick up a thread from the previous chapter, Bombardier's failure to sustain its financial activities may reflect the material disadvantages NFCs can encounter relative to banks. As argued in Chapter Three, the difference between lower borrowing and higher lending rates is the material basis for bank profits. For manufacturing firms affected by profitability problems, their profits made from lending activities will decline as these companies see their credit rating drop quickly and the interest rates they are facing rise. Following the early 2000s turmoil, Bombardier saw its profitability, market capitalization, and credit rating all decline, and its financial division negatively impacted. As one financial journalist commented:

> Bombardier Capital joue en quelque sorte le rôle d'une banque au sein de Bombardier. La division emprunte à un taux déterminé, pour ensuite prêter à un taux un peu plus élevé afin de financer les achats de ses clients. L'écart entre les deux taux constitue son profit [...] Une moins bonne cote de crédit pour Bombardier Capital signifie que la firme doit payer un taux d'intérêt plus élevé lorsqu'elle emprunte, ce qui réduit ses profits (Grammond 2002: n.p.).

At this point, Bombardier became disadvantaged vis-à-vis other financial institutions. The trajectory of Bombardier's financial services was similar to what US car company Ford experienced over the same period. As the latter's manufacturing division was affected by profitability problems, Ford's credit rating was reduced, which in turn negatively affected the company's financial services division (Froud 2006: 265-77). In contrast, as noted in Chapter Three, the GE Capital arm of General Electric enjoyed great success and a high credit rating given the financial strength of GE's industrial divisions.

Interestingly, Bombardier's decision to divest from financial services *coincided* with the implementation of a deepening shareholder value corporate governance. This involved the implementation of new accounting rules making each division and contract order being fulfilled more responsive to the discipline of profitability (as argued in Chapter Eight).[106] More significantly, this "financialized managerialism" was introduced at the very moment when Bombardier re-centred its activities on its "core" transport and aerospace divisions. As these manufacturing units were subordinated to greater financial discipline,

[106] As pointed out previously, this shareholder value corporate governance was not enforced without limits at Bombardier. Attempts to put an end to multi-voting shares and to include more shareholder nominated independent administrators on the company's board were opposed by the Beaudoin family.

plants with significant over-capacity and high per unit costs were restructured, with workers often facing mass redundancies.

This history of Bombardier's internal financial operations is at odds with the predictions of institutionalist studies of financialization. These theories, as pointed out in Chapter Three, argue that when NFCs are subjected to higher financial disciplines, they tend to adopt an accumulation strategy centred on the accumulation of financial assets. In contrast to these claims, *"financialized managerialism" was implemented, paradoxically, at Bombardier at the very moment where Bombardier exited financial services and consolidated its "core" manufacturing divisions*. On the one hand, Bombardier became shaped by the "financialization" of its corporate governance structures while, on the other hand, the company underwent a "de-financialization" of its profit sources.[107] This apparent paradox is resolved when shareholder value corporate governance is understood as a disciplinary mechanism enhancing financial discipline upon capitalist *production*.

### Quebec PFIs, NFCs, and Market Imperatives

For all their transformations, Quebec's PFIs continued to play important roles across the neoliberal period. Certain functions became more limited, as Quebec's private financial sector increased its strength and as domestic larger NFCs reduced their need for external finance. The drive of private finance for maximizing returns, however, left weaknesses in Quebec's financial system. Quebec public finance evolved to close such gaps in the financing needs of businesses.

Given the financial constraints of Quebec's smaller economy, Quebec's financial institutions "coordinated" their interventions to support the internationalization of Quebec firms. As argued in the second thesis presented in the introductory chapter, these substantial participations in the ownership structures of domestic businesses led to core national shareholding blocs. In addition to multi-voting shares, such linkages between Quebec finance and NFCs acted as institutional buffers against predatory hostile takeovers and destabilizing short-term financial pressures. This provided Quebec capitalists with the managerial autonomy to engage in long-term, risky "high-tech" investments.

[107] This can be formulated another way: Bombardier's "financialized" accumulation practices were at their peak when the company's shareholder value corporate governance was more limited.

These limits to capital mobility within finance, by preventing the worst excesses of "self-regulated" money capitalists, were critical to the development of Quebec "national champions" in high value-added sectors. While the neoliberal period was characterized by multilateral liberalization and regional FTAs, it was also characterized by such "protectionist-nationalist" mechanisms. These barriers to a market for corporate control were legitimated by an economic nationalism that identifies the conditions for the reproduction of domestic - in this case Francophone - private ownership with the collective social benefits of the nation (Bryan 1995: 97).

While Quebec's PFIs operated as "patient capital" at odds with capital-gains-seeking behavior, they nevertheless accommodated neoliberal corporate restructurings (the third thesis in the Introduction). If such financial institutions provided barriers against predatory rentiers within financial markets, they have *not* limited competitive pressures emanating from a globally integrated world market in production and trade. These distinct institutional forms of finance represented central features of Quebec's *variety of neoliberalism*.

This confirms the importance of disentangling "coordination" and "long-termism" in finance from "egalitarianism" (as argued in Chapters One and Two). This issue has been under-investigated for two main reasons. First, the institutionalist literature on public banks has tended to frame the latter as an alternative to financialization and the short-termism of predatory private financial institutions. This falls into the trap of problematically deriving ready-made institutional functions from ownership forms. Secondly, the Marxist critiques of the "varieties of capitalism" approach to finance have mainly analyzed the transformation of "coordinated" financial systems into "liberal" ones. Paradoxically, this research agenda has left unchallenged the "varieties of capitalism" approach's claim that, *prior to such transformations*, the financial institutions of CMEs were conducive to more egalitarian outcomes. The firm-level cases summarized above demonstrate how PFIs, like those that have been prominent in Quebec's "modernization" and internationalization, can act as *neoliberal* "patient capital".

Bombardier's accumulation strategies, corporate governance, and financial activities offer revealing insights into debates over the financialization of NFCs. Although Bombardier was increasingly involved in financial activities on its own account, the firm's centre of gravity – and its logic of self-valorization – remained in manufacturing. Bombardier's implementation of a more extended shareholder value corporate governance, in the form of accounting rules disciplining each of the firm's divisions to competitive profitability, coincided with the company's "de-financialization" of its profit sources, as Bombardier sold its financial division's assets and consolidated its transport and aerospace operations (the eighth thesis of the introduction).

This case study supports the operational definition of the financialization of NFCs defended in Chapter Three as the financial mechanisms that: 1) enforce financial discipline upon firms and thus intensify competition within production; 2) facilitate wealth appropriation by the capitalists owning and controlling NFCs; and 3) allow NFCs to accumulate financial profits without displacing production. First, as Bombardier became regulated by accounting rules disciplining each of its divisions to market imperatives, such financial pressures forced Bombardier to raise labour exploitation across its manufacturing plants, in addition to relaying such discipline across its supply chain. Second, if multi-voting shares helped Bombardier's management better balance allocation of funds for long-term investments and redistributed profits for shareholders, this arrangement still favoured wealth appropriation by the owners of Bombardier's shares (outside of periods of crisis). Third, if Bombardier did accumulate financial profits through activities far removed from manufacturing, this was not at the expense of its "industrial" divisions.

The summarized analysis of Quebec's PFIs, multi-voting shares, and Bombardier's accumulation practices demonstrates how the limits to and extent of financialization in Quebec did *not* lead to a shift from "industrial" to financial forms of accumulation. Quebec's industrial policies were therefore not caught in an "institutional mismatch" with the actual trends of capital accumulation in the province. Rather, these policies supported the international competitiveness of domestic capitals.

While financialization has become a dominant concept in critical studies of contemporary capitalism, this research has shown the limits of its explanatory reach for understanding the roles of Quebec public finance in neoliberal restructurings (Christophers 2015). If these PFIs operated at odds with predatory institutional investors associated with financialization, such "patient capital" institutions supported management demands for union concessions, worker layoffs, un-unionized subcontracting, and offshoring. These firm-level restructurings, and their accommodation by Quebec PFIs, occurred because *capitalist competition within globally integrated production intensified during the neoliberal era*.

Financialization is also a limited explanatory concept for explaining the crisis of Quebec manufacturing during the 2000s. The relative decline in manufacturing investments, jobs, and exports during this period are plausibly related to mounting pressures of over-accumulation, exacerbated by low interest rates (as argued in Chapter Seven). These material constraints limited the ability of the Quebec state to stimulate sustained private investments that might overcome the productivity lags of Quebec firms relative to other regions of North America (see the ninth thesis in the Introduction). Capitalism's crisis tendencies, rather than financialization per se, predominantly shaped such socioeconomic trends. Many important insights about capitalist production and finance are missed if these economic issues are reduced to problems of governance. Indeed, the industrial policy debates of the 2000s between the PQ and the PLQ regarding the most suitable public-private institutional configurations to support the province's businesses mystified these systemic contradictions of the Quebec political economy.

# Chapter Ten

# Conclusion

> …lorsqu'une partie de ce capital public intervient dans l'économie, il se donne au capital privé ou le soutient pour hausser son taux de profit, renforçant ainsi le pouvoir privé au détriment d'un nécessaire développement et maintien du pouvoir public sur lequel la population pourrait un jour avoir le contrôle. C'est avec notre argent et nos épargnes que l'État libéral renforce ceux contre qui nous devons lutter quotidiennement, et de plus en plus tenacement, pour maintenir et améliorer nos conditions de travail et d'existence.
>
> *L'État, un rouage de notre exploitation, a 1971manifesto of the Fédération des travailleurs du Québec*

Quebec's public financial institutions are often invoked as exemplary historical models of "patient capital" serving the "real" economy and underpinning redistributive compromises, divergent from financialization. This claim about Quebec public finance too often fails to ask critical questions about how and with what effects market imperatives and capitalist class biases shaped these institutions. After putting these questions at the centre of the analysis of this thesis, a different history emerged (summarized in Table 10.1).

**Table 10.1 A Summary of Quebec's PFIs, 1960-2018**

| Name, Type of PFI and Date Created | Initial Mandate and Main Reforms | Actual Practices and Changes | Cases of "Neoliberal Loyalty" |
|---|---|---|---|
| **Société générale de financement (SGF)**<br><br>"Universal" development bank<br><br>Created in 1962 | <u>Initial mandate:</u> 1) Finance the development of industrial corporations to change Quebec's economy; 2) provide investment services to its clients; 3) lender of last resort; 4) contribute to full employment; and 5) collect savings across the Quebec population.<br><u>Early 1970s reform under the PLQ:</u> 1) Privilege firms in high value-added sectors; 2) participate in joint ventures with foreign corporations; 3) select firms that have strict long-term profitability potential; and 4) ends "public- | <u>1960s:</u> Dispersed interventions and limited transformative economic effects.<br><u>1970s:</u> Consolidation of interventions in high value-added sectors.<br><u>Mid- to late 1980s:</u> Began to sell shareholding blocks in firms judged mature or sufficiently profitable. Coordination with other Quebec financial institutions.<br><u>1990s:</u> Beyond large corporations, began to finance medium-sized | Failure to guarantee full employment amidst rising unemployment during the 1970s. Companies in which SGF had stakes were exempted from wage controls during the 1970s crisis. However, these companies resisted wage indexation clauses and fired thousands of workers. For example, the SGF partnership with French multinational *Compagnie générale d'électricité de France* |

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|---|---|---|---|
| | private" capitalization, becoming a fully public holding.<br>1980 reform under the PQ: Unprecedented means to finance more projects in targeted sectors.<br>Late 1980s change under the PLQ: Takes equity stakes in firms irrespective of their sectors.<br>1990s: Tremblay's cluster strategy revived sectoral interventions.<br>Late 1990s changes under the PQ: Unprecedented means to finance more projects in targeted sectors. Integrates other economic institutions to increase prospecting efforts to seek out investments.<br>2003-04 reform under the PLQ: Introduction of a self-financing constraint and cuts in resources.<br>2010: Integrated with IQ. | companies with high growth potential. Financed internationalization of Quebec firms.<br>Mid- to late 1990s: Unprecedented increase in the number of investments financed by the SGF.<br>Post- 2003-04 reform: Smaller amount of "joint ventures" and investments in high growth medium-sized firms. Counter-cyclical role during 2007-08 crisis. | was involved in union repression, firing militant union leaders, suspending employer contributions to the insurance regime, and denying union recognition. This case prefigured the "neoliberal loyalty" of Quebec's PFIs. |
| **Caisse de dépôt et placement du Québec (CDPQ)**<br><br>Public institutional investor managing public pension funds<br><br>Created in 1965 | Initial mandate: Double mandate of "economic development" and fiduciary prudential investments to capitalize retirement income.<br>Late 1970s change under the PQ government: Increased nationalized funds under the Caisse's management. "Activist" turn, based on higher equity stakes in firms in targeted sectors.<br>1997 reform under the PQ government: 1) Could hold up to 70% of its assets in stocks (including international stocks); 2) could accept trust mandates to manage funds outside Quebec; and 3) could buy securitized mortgages on the market.<br>2004 reform under the PLQ: 1) Legal enforcement of primacy of fiduciary role; 2) two thirds of the Caisse's board becomes composed of "independent" administrators; and 3) introduction of compensation schemes to favour the higher financial performance of the CDPQ. Mandated to finance private venture capital funds.<br>Under the 2012-14 PQ government: Projected reform to raise the CDPQ's domestic | Since its origins, social rates of return are considered once fiduciary rules are satisfied. Initially limited investments in Quebec-based firms, with the exceptions of existing large domestic corporations, such as Bombardier. Helped finance budgetary policies through lower interest rates.<br>By mid-1970s: Largest owner of shareholding assets in Canada. Represented on corporate boards to promote Francophone managers.<br>1980s to early 1990s: As part of new industrial policy role, increased equity stakes in Quebec firms. Coordination with other domestic financial institutions to support FDI, M&As, and exports of domestic firms, which resulted in national shareholding blocs.<br>1990s: Substantial increase in international stocks.<br>Mid- to late 1990s: Relative decline of investments in Quebec firms. The Caisse increased its stockholdings, | Steinberg: In 1989, the company was acquired by the CDPQ and Socanev, which keeps the headquarters in Quebec. Socanev introduced the franchise system to reduce the workers' pay, with the sanction of the CDPQ.<br>Domtar: Layoff of 500 workers in 1989, while the CDPQ and the SGF had majority control. While the company was protected from hostile takeovers, this restructuring was justified in the name of competitiveness.<br>Quebecor (*Vidéotron*): In 2000, bought 45% of Quebecor's shares to preserve the domestic control of *Vidéotron*. In 2002, *Vidéotron* declared a lock-out to force the sale of 650 of its technicians to a subcontractor and other concessions. The Caisse refused to invest more |

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|---|---|---|---|
| | investments, abandoned in the face of opposition from PLQ and bond agencies. | including internationally, to compensate for the reduction in Quebec bond emissions following the 1996 zero deficit policy.<br>2000s: End of past "activist" industrial policy role. Reduced controlling positions in Quebec-based firms to prevent a negative impact on their market capitalization. With other PFIs, financed the creation of Teralys, a large private venture capital fund. Increased international asset holdings. The Caisse is pushed to find more profitable assets, such as derivatives, because: 1) reduced interest rates decreased the profitability of state bonds; and 2) outflows of pension rents increased faster than new contributions, given an ageing population. The higher returns delivered by the Caisse allowed Quebec businesses to lower their contributions to the "social wage". Derivatives are central to the risk management of the Caisse's global portfolio and they play an integral role in the CDPQ's liquidity management. Lost close to $40 billion in the 2007-08 asset backed commercial paper crisis, in which the Caisse was involved. | money to satisfy workers' demands. The CDPQ sold its Quebecor shares only in 2018, at odds with "short-termism".<br>Bombardier (*Bombardier Produits Récréatifs* (BRP)): In the early 2000s, the CDPQ supported the Beaudoin family's bid of to keep control of BRP, while backing the company's "rationalization" plan of offshoring production to Mexico and layoffs at its Quebec Valcourt plant.<br>Quebecor (*Journal de Montréal*): Lock-out in 2009 where the employer demanded multiple concessions (such as a 25% wage cut). Despite the union's pressure on the CDPQ, the Caisse argued that it did not get involved in labour relations. This conflict ended in a defeat for workers.<br>Bombardier (Bombardier Transport): Despite its reduced industrial policy role during the 2000s, the CDPQ continued to make "strategic" interventions. Amidst the "CSeries crisis", made a substantial investment in Bombardier Transport, which included no conditionalities to protect jobs or prevent further offshoring, but a clause constrained Bombardier to pay the Caisse a higher financial return if the company did not increase its profitability. |
| **Société de développement industriel (SDI)** | Initial mandate: 1) Finance fast-growing businesses engaged in "modernizing" investments; 2) favour M&As between smaller | Initially, lending criteria privileged profitable foreign multinational corporations | |

| | | | |
|---|---|---|---|
| Development bank<br><br>Created in 1971 | domestic firms; 3) back profitable businesses who lacked access to private finance; and 4) support exporting SMEs.<br>Early 1970s reform under the PLQ: Supported the greater integration between domestic and foreign companies through new conditionalities (such as buying Quebec-based inputs).<br>Mid-1980s reform under the PLQ: 1) Replaced direct and sectoral programs by fiscal indirect measures; 2) shift toward financing large corporations rather than SMEs; and 3) introduction of a self-financing constraint.<br>1998: Incorporated into IQ. | that lacked linkages with Quebec firms.<br>Post-1970s reform: Stimulated greater linkages between domestic and foreign firms in targeted sectors.<br>Post- mid-1980s reform: Became venture capital institution. Made a more narrow selection of firms with "modernizing" investments, corporate acquisitions, or exports. Reduced the number of firms financed. | |
| **Investissement Québec (IQ)**<br><br>Development bank<br><br>Created in 1998 | Initial mandate: Created to enhance institutional coordination for stimulating domestic investments and prospecting efforts to attract FDI. Incorporated established rules of Quebec PFIs: selection of projects based on tighter profitability, "joint ventures", and temporary interventions favourable to viable private accumulation.<br>2003-04 reform under PLQ: Introduction of a self-financing constraint. Financed new public-private venture capital funds.<br>2010-11: Fusion of SGF and IQ for: 1) "simpler" structure and economies of scale; 2) manage mandates from the government; 3) capped maximum business shares at 30% per firm for large investments. Became the government's privileged industrial policy financial instrument.<br>Under the 2012-14 PQ government: Projected reform to create a new public development bank to finance a "green" industrial policy, abandoned given opposition. | Similar to SDI, remained predominantly in SMEs financing.<br>Under the Charest Liberals (2003-12): Mostly financed manufacturing sectors (such as aerospace and transport material). Increased support to "services" and "primary" sectors. Counter-cyclical role during 2007-08 crisis. Financed private venture capital funds.<br>Under the 2012-14 PQ government: Investments reached new record levels. Substantial share of investments in manufacturing. Mandated to invest in the electric vehicles sector as part of a "green" industrial policy. Increased support to logistics.<br>Under the Couillard Liberals (2014-18): Amidst the "CSeries crisis", the government mandated IQ to buy near half of the CSeries' stockholdings (which had become a separate corporate entity). | |

Quebec's PFIs were created to finance the economic "catch-up" of the province with the rest of North America. These institutions compensated for the weaknesses of domestic private finance and formed a public circuit of finance complementary to a private liberalized financial system. As both the global and domestic financial systems became not only stronger but also "short-termist" under financialization, these "patient capital" institutions were reformed during the 1980s-90s to support investments in high value-added sectors considered too risky for private banks. The "coordination" between Quebec's financial institutions, fostered by the Quebec state, developed the financial clout to support the internationalization of domestic businesses. This resulted in national shareholding blocs that formed institutional limits against an open market for corporate control by other capitalist interests, whether foreign capital or financial agents like hedge funds. During the 2000s, the Charest Liberals contested this "coordinated" model of finance, which was judged detrimental to the market capitalization of Quebec firms. The "*réingénérie*" of PFIs included ending the role of the CDPQ as an industrial policy instrument and reducing the public share of venture capital. If the financing needs of Quebec NFCs were increasingly satisfied by their internal funds and extensive sources of private finance, PFIs (such as IQ) remained critical to financing corporate research and development and to act as lender of last resort.

As public institutions unaccountable to private shareholders, the "patient capital" of the PFIs provided lower-cost and long-term finance suited for achieving social rates of return (such as increasing Francophone ownership control in high value-added sectors). But successive reforms since the 1970s made these PFIs' choice of firms and terms of re-financing increasingly regulated by the criterion of competitive profitability. As a result, these PFIs practiced a "neoliberal loyalty" accommodating corporate restructurings (as summarized in Table 10.1). If these PFIs operated at odds with the short-termism of predatory rentiers, they did not insulate Quebec NFCs from intensified competition in globally integrated production and trade.

To operate in such ways, capitalist class biases had to be built into the governance frameworks of Quebec's PFIs. This was not automatically secured. During the 1960-70s, unions in Quebec challenged the reduction of PFIs to technical and financial supports to private capitals, and also put forward demands for the further nationalization of finance and the democratization of PFIs. The PLQ and PQ governments instead reformed PFIs to target more narrowly high value-added sectors and only partially extended the level of finance under the Caisse's bureaucratized management. In the competitive market logic they operated in, Quebec PFIs opposed union demands for better working and living conditions during the 1970s crisis, prefiguring their future alignment with the neoliberal policy regime.

Quebec's PFIs were part of wider economic and industrial policy frameworks that evolved with transformations in international competition, corporate re-organization, and class relations. Between the 1960s and 1990s, Quebec's industrial policies moved from conditional supports and direct public investments to develop national linkages between sectors to support regional clusters embedded in internationalized circuits of capital. During the 2000s, conditional subsidies and the "coordinated" interventions of PFIs to orient investments in targeted sectors were replaced by more generalized incentives-based market mechanisms (such as tax credits) using public funds to underwrite private investments. If the PLQ and PQ governments had different views over the particular forms of industrial policies, both parties rooted their policies in a wider neoliberal policy regime, including fiscal austerity, "free trade" agreements, a more "flexible" Labour Code, lower corporate taxes, back-to-work legislations, and low minimum wages.

As the state became increasingly responsive to the province's business interests, these biases were incorporated – not just in their structural form but also in specific policy practices – into Quebec's industrial policies and PFIs. Quebec capitalists welcomed industrial policies that corrected "market failures" and supported their competitiveness. Quebec business sought to limit PFIs to functions unfulfilled by the private sector and to be guided by governance rules borrowed from the private sector. Quebec capitalists would come to push for a generalized neoliberal policy regime, as a precondition for "effective" industrial policies applied to all sectors, without excluding limited interventions for firms or sectors "too big to fail". While Quebec business consistently opposed any forms of "neo-corporatism" that might compromise managerial prerogatives, they were willing to participate in non-binding concertation to promote their policy preferences.

An important "social rate of return" of the province's modernization project was the consolidation of French as an official language in Quebec society. In addition, Quebec's industrial policies and PFIs contributed to the "catch-up" of Quebec capitals in key sectors. Francophone ownership control increased rapidly in finance, natural resource extraction, engineering, and construction, while inroads were more limited in high value-added sectors, with exceptions such as aerospace. In contrast, even if language laws improved workplace equity, long-term job security, decent wages, and labour's control over working conditions were antagonistic to Quebec's goal of developing internationally competitive domestic businesses in diversified sectors. The contradictions of Quebec's "progressive competitiveness" have been revealed by the province's neoliberal labour market trends since the early 1980s.

Bombardier is a helpful representative case of the roles and limits of Quebec's economic policies, in particular for the investigation of the following question: were the state's industrial policies caught in an institutional mismatch with the trends of corporate organization and strategies of accumulation in the province during the neoliberal period? Since the 1970s, Quebec PFIs financed Bombardier's investments, acquisitions, new commodity development, and export sales, which private banks considered insufficiently profitable in the short-term. As a lender of last resort, public financial institutions helped with the restructuring of Bombardier in times of crisis. The company also benefitted from privatizations of state assets to acquire technological innovations and public contracts. This state support was shaped by geo-economic competition. Despite benefiting from financial activities during the 1990s, Bombardier's main profits derived from its aerospace and rail transportation operations. Bombardier's exit from financial services and recentering on its "core" manufacturing divisions during the 2000s coincided with the implementation of accounting rules subordinating each of the company's industrial units to profit-maximization. Thus, Bombardier's firm-level incentives and constraints remained compatible with Quebec's industrial policies. However, as a growing number of states supported their own aerospace and transport material sectors, the higher profits companies derived from technological leadership were more short-lived. In this context, the risks of "business failures" like the CSeries commercial jets became more important.

**The Quebec Variety of Neoliberalism**

The institutionalist analysis of Quebec was not wrong in emphasizing the differences of the province's financial system compared to the North American context (notwithstanding the differences between Canadian and US banking systems). The "Quebec model" literature has tended to infer, however, a "stakeholder" corporate governance favourable to redistributive institutional compromises from the province's extensive "patient capital" PFIs. As Quebec's PFIs, industrial policies, concertation mechanisms, higher unionization rates, and social policies did not conform to the typical liberal representation of generalized atomistic contractual relations, such institutional variables were viewed as the pillars of a *non*-neoliberal "Quebec model of development", at least until the Charest Liberals' "*réingénierie de l'État*".

In contrast, when neoliberalism is conceived as a transformation of class relations favourable to capitalist class power and accumulation, neoliberal social relations can be observed within *different* institutional configurations involving varying levels of "coordination" at the firm and state levels. If the political strategies used to re-organize class relations are tributaries of different institutional resources and constraints, *divergent* political processes can still result in *converging* socioeconomic outcomes. By analyzing the class interests served by the *social forms* of the province's PFIs and industrial policies, this thesis is congruent with the conclusions of a wider literature locating Quebec's economic policies, labour market trends, and overall policy regime as a *variety of neoliberalism* (Graefe 2012; 2019; Petitclerc and Robert 2018; Rouillard and Rouillard 2021).

This analysis does not mean, however, that Quebec's institutional "particularities" relative to North America be dismissed, nor be exaggerated when placed within a wider comparative context. In the financial sphere, the level of "coordination" between Quebec's financial institutions was not seen elsewhere in North America. Given their respective public, "cooperative", and union-based ownership structures, the CDPQ, the SGF, IQ, Desjardins, and union pension funds could not be acquired through hostile takeovers by foreign financial institutions and, thus, neither could domestic NFCs under their ownership control be acquired. Québec Inc. was, in effect, based on a quasi-national shareholding bloc limiting hostile takeovers. The substantial ownership stakes PFIs had in multiple Quebec NFCs often came with proportional representation on the boards of directors of these companies. In this sense, the Quebec model of finance shared certain characteristics with European "bank-based" financial systems (as pointed out in Chapter Six).

This contrasted with the weaker linkages between Canadian public enterprises, with their more confined and functional roles to offset market failures, and English Canadian capital (Carroll 2010: 52). Canadian manufacturing and banks were also less integrated and more market-based historically compared to other European countries (Helleiner 2006). Canadian chartered banks were much less represented on the boards of NFCs, although the latter were heavily represented on the former (Carroll 2010: 71, 77).[108] In the US, the more diffused ownership structures of corporations favoured the emergence of a market for corporate control allowing extensive hostile takeovers, notably during the wave of leveraged buy-outs (LBOs) in the 1980s (as noted in Chapter Nine).

However, the level of linkages between Quebec "finance" and "industry" remained more limited than the level of interlocking directorates in Germany prior to the 2000s (Courchene 1990: 9). Quebec's PFIs also evolved in an early liberalized financial order, as Canadian capital controls were repealed in the 1950s (as noted in Chapter Nine). Quebec's financial institutions operated within a financial system based on more extensive equity markets, in contrast with the more "generalized" European bank-based financial systems where equity markets were more limited and arms-length lending relations were more prominent (Courchene 1990: Ibid.).

But the above comparative exercise is problematic if typologies of finance are taken as "fixed" when they are undergoing constant transformations through time. Following the 1980s LBOs, US states adopted various legislations empowering boards of directors to refuse "hostile" acquisition offers.[109] US corporations were using these legal means extensively by the late 1990s. At that time, US NFCs had *more* legal resources to preserve

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[108] The ownership of Canadian chartered banks, including the Bank of Montreal and the Laurentian Bank, is also constrained by federal law to be widely held (Coleman 1996).

[109] US corporations could include in their statutes: a renewal of only a third of the administrators of a corporate board of directors, making the task of controlling a company more difficult; a "poison pill" allowing a company to issue stocks at a discount price to minor shareholders to dilute the shareholding position of a financier in possession of 10% to 15% of a company's stocks and attempting a hostile takeover; and a higher threshold (between 66.7% and 85%) to be reached in a shareholders' vote on a company's acquisition.

their managerial autonomy against destabilizing short-term financial pressures compared to Quebec and Canada. During the 2000s, however, US institutional investors received the support of a majority of shareholders in corporate annual meetings to eliminate these financial mechanisms, which reduced the number of Standard & Poor 500 corporations regulated by these rules. In this context, the widespread use of multi-voting shares by Canadian and Quebec firms provided them with greater protections against hostile takeovers than for US corporations (Allaire 2019: n.p.). In Germany and in France, reforms to dilute national shareholding blocs were increasingly adopted during the 2000s, opening the ownership structures of domestic firms to foreign institutional investors (noted in Chapter Nine). Even as Quebec's "coordinated" model of finance was eroded by the Charest Liberals' reforms, interlocking directorates between Quebec's financial institutions and Quebec NFCs remained important.

Another problem encountered in static institutionalist comparisons is the tendency to infer from transient divergent levels of growth and labour productivity long-term predictions about the "superior" features of so-called "coordinated" capitalist models. Critics of US "financialization" often predicted, for example, that shareholder value corporate governance would lead to the country's economic decline (Erturk 2008: 298, 300-01, 308; Milberg and Winkler 2013: 231). However, US economic "performance" came to outpace all other CMEs throughout most of the neoliberal period (Panitch and Gindin 2005), including Quebec, which lagged substantially behind US labour productivity (as noted in Chapter Seven).

Beyond finance, observers of the Quebec case have provided qualifications of its business and union organizational models. The ties between Quebec firms were relatively denser to firms in the rest of North America. But, as discussed in Chapter Six, the Quebec capitalist class rejected institutionally binding institutions, such as German co-determination or Swedish centralized neo-corporatist relations. Quebec business associations were based on individual will and voluntarism, not constrained participation (Dufour 2000: 163). As Graefe (2005: 537) remarks: "[F]rom a European perspective [business associational relations in Quebec] remain distinctly North American." These comparative exercises still need to be updated. For example, German firms have increasingly exited the constraints of sectoral binding arrangements and their associated business associations to gain the managerial flexibility to cope with intensified competitive pressures (Streeck 2009).

Despite Quebec's higher unionization rate relative to the North American context, the province's unions were increasingly caught in concession bargaining. As strikes and rank-and-file militancy declined in Quebec since the 1980s, similar to other advanced capitalist states, the province's unions pursued a "partnership ideology" favouring more "cooperative" relations between labour, business management, and the state. This provided the Quebec government with the leeway to advance neoliberal reforms through concertation mechanisms, as with the 1996 PQ summit where a zero-deficit law was adopted (as argued in Chapter Six).

Quebec's relative institutional specificities did not represent barriers against the province's rising inequalities. As observed in Chapter Six, Quebec converged with North American "liberal market economies" in regards to market-based revenues. A posteriori, Quebec's social policies partially "corrected" these market outcomes more extensively than in LMEs, given the latter's more limited safety nets. However, the "varieties of capitalism" approach makes the more expansive claim that variations in institutional configurations lead to different modes of business rationality which, in turn, result in divergent compromises over the terms of labour employment. If that were true, we should observe *divergent market-based* levels of inequality, not *converging* market outcomes tempered more or less by *divergent* social policies.

By locating the evolution of Quebec's industrial policies, PFIs, and socioeconomic trends within different phases of capitalism, this thesis contributes to the critique of capitalism. This had been out of fashion since the 1980s, as Marxian political economy was rejected both intellectually and politically in favour of so-called "progressive" varieties of capitalism. These theoretical and normative orientations spared no corners of the world and Quebec was no exception (Graefe 2019). But as "alternative" capitalist-based models have been restructured along neoliberal lines, the return of the critique of, and the search for alternatives to, capitalism have re-emerged, most prominently after the 2007-08 crisis (Coates 2001; 2005; Baccaro and Howell 2017; Streeck 2009; 2014).

## The Limits of Public Banking under Capitalism

PFIs are formed with institutional specificities to compensate for particular failures in capitalist markets: compensating for the weaknesses or short-termism of private finance; socializing the risks of innovation; coordinating with other financial institutions; practicing "relationship banking"; and providing counter-cyclical lending. PFIs are often mandated to achieve social rates of return, such as increasing the high value-added composition of manufacturing and regional employment. As PFIs are publicly owned, and have the taxing and financial backing of the state, they can act as "patient capital" at odds with the "short-termism" of predatory rentiers. In this respect, PFIs appear removed from the constraints of market discipline.

It does not follow, however, that these financial institutional functions shield NFCs from intensifying competitive pressures emanating from the world market. In contrast to the neoliberal restructurings led by hedge funds, the strategies supported by Quebec's PFIs were plausibly less severe and rapid. But for Quebec's workers the result, in the long-run, ended up still yielding labour market precarity, stagnant real wages, occupational hazards, and joblessness.

This study contributes to a wider literature on the neoliberal roles of PFIs. McCarthy (2017) has shown how pension funds have financed NFCs involved in anti-unionization campaigns and offshoring. Skerrett (2017) has highlighted the participation of PFIs in infrastructure privatization. Marois (2021) has highlighted the roles of PFIs in financing fossil fuels and polluting industrial projects despite their "green" mandates. Public "banking", therefore, should not be considered as a ready-made "progressive" alternative to financialization to pull off the policy shelf. "Coordination" and "long-termism" in finance does not necessarily lead to "egalitarianism".

If market imperatives discipline financial institutions, these capitalist pressures are not absolutely constraining. The actual governance frameworks and practices of PFIs result from specific class conflicts at the firm or state levels. PFIs are potentially more exposed to politicization, relatively to private finance given their public form (as pointed out in Chapter Two). For business associations and parties of the political centre and right, public finance institutions need to be confined to fiduciary rules allowing for "public" interventions supportive of capital accumulation, but blocked from becoming instruments of political conflict driven by popular demands.

When business biases are built into the core mandates of PFIs, these financial institutions are shaped by the roles of *capitalist* money, as both a means of circulation and as a measure of value. In supporting the circulation of capital, these state financial institutions often mitigated short-term financial pressures to support the long-term investments of NFCs. But as a measure of value, PFIs are compelled to allocate their money capital toward competitive firms, side with management's restructuring plans, or withdraw their money and credit from companies that fail to meet average profit levels. These monetary functions of capitalist finance and competition cannot be confined to private financial institutions because, as demonstrated in the Quebec case, they are also internalized by PFIs.

The findings of this dissertation on Quebec's PFIs question the received wisdom on Quebec finance as inherently a "progressive" historical model to return to and emulate. As exit strategies from post-2007-08 stagnation, defenders of the "Quebec Model" formulated policy proposals calling for the rejuvenation of the so-called "patient capital" legacies of the province's PFIs in the form of low-cost finance favourable to long-term "real" investments and a stakeholder corporate governance.

Heterodox perspectives aligned with social democracy internationally have also explored the roles "patient capital" could play in financing socially just green industrial policies (Mazzucato 2015b; Mazzucato and McPherson 2018; Pettifor 2019). In terms of current neoliberal agendas, it is suggested that PFIs should be limited to leverage private finance to meet the financing needs of capitalist "green" policies. As Marois (2021: 4, 69) argues, this recent neoliberal "additionality" framework is becoming acceptable to private investors as it does not challenge existing power relations or class divisions. If divergent views on the roles of public finance in "green transitions" are advanced by advocates of PFIs across the political spectrum, it is clear that public finance will be a central actor in "sustainable development". Despite their relative decline during the neoliberal period, PFIs, in general and in Quebec, still bear significant economic weight, as indicated by their re-mobilization in the recent phase of industrial policies and economic crises. In the face of these trends, it is important to critically interrogate the existing claims about PFIs as "patient capital". In contrast to this thesis, studies of financialization, by overfocusing on private finance, tend to miss this strategic issue.

Challenging the use of PFIs for capitalist "green" purposes also requires interrogating notions of "corporate social responsibility" and "socially responsible investment". As pointed out in Chapter Two, "stakeholder" currents of corporate governance opposed the "shareholder value" driven regulatory changes implemented in the aftermath of the dot-com crisis. The newer "environment, social, and governance" (ESG) principles, however, tend to rely on charters based on voluntary will and participation and the self-regulation of its signatories. The "social" norms in ESG have weak substantive content on issues such as working conditions. As McCarthy (2017: 104) argues: "barriers are particularly high for the implementation of social factors into investor responsibility, especially when research shows that companies embrace anti-union and wage-depressing managerial policies precisely because they are cost saving, profitable, and bear positively on their stock value." To illustrate with an example discussed in Chapter Seven, despite the pressure unions put on the CDPQ to honor its "socially responsible investment" charter, the Caisse sided with Quebecor's management during the *Journal de Montréal* labour conflict. Jack and Suzy Welch, respectively the ex-CEO of General Electric and a business journalist, provide a sobering capitalist defense of the primacy of competitive profitability as a material precondition for "corporate social responsibility":

> [T]ough economic conditions underscore a blunt reality. A company's foremost responsibility is to do well…Winning companies create jobs, pay taxes, and strengthen the economy. Winning companies…enable social responsibility, not the other way around. And so, right now — as always — companies should be putting profitability first. It's the necessity that makes every other necessity possible (cited in DeAngelis 2009).

In accordance with this view, business associations have opposed regulatory changes allowing "progressive" financial institutions to submit proposals at shareholder meetings aiming to improve the living conditions of working-class communities by impeding on corporations' pursuit of profit maximization (as argued in Chapter Two). The CDPQ's oft-repeated claim that it did not intervene in labour relations, while supporting neoliberal restructurings in practice, reflect these underlying power relations. As Soederberg (2010) highlights, "centre-left" critiques of shareholder value corporate governance run the danger of the marketization of resistance by underestimating the legal capitalist limits to "stakeholder" financial activism and the structural inequalities inherent to global finance. More profoundly, "stakeholder capitalism" has become an ascendant ideological attempt by "enlightened" politicians and business managers, especially since the 2007-08 crisis, to restore the legitimacy of corporations as safe vehicles for the continuing pursuit of endless accumulation (Bailey 2022; Diamond 2022).

Can PFIs play alternative oppositional roles to neoliberalism and capitalism? A growing literature has pointed toward such possibilities, by highlighting the following functions public banks can play: offering lower interest rates and administrative fees relative to the private financial system; financing public goods such as education and infrastructures; funding a Green New Deal; and developing the public financial leeway to reduce the pressures of capital flight waged by business opposition to these reforms (Blakeley 2019: Ch. 7; Epstein and Ugurlu 2020: 43-46).

Marois (2021) has presented cases of public banks showing the promises of PFIs to definancialize, decarbonize, and democratize the economy. His examples of public banks are not reducible to the "additionality" framework as at least some of their activities compete with private capital on the basis of a different social logic. While the examples are often illuminating, they still fall short of providing guidance of several fundamental issues for alternatives to the neoliberal policy regime and anti-capitalist projects: 1) democratizing the economy beyond PFIs; 2) democratizing the state; and 3) the social power needed to achieve such goals.

As noted above, there are legal and political limits to use financial institutions to alter the ways in which corporations invest, organize the labour process, and adopt "sustainable" practices. In contrast to many studies of public banks (Epstein and Ugurlu 2020; Macfarlane and Mazzucato 2018), this thesis analyzes in depth the relationships of selected public banks with private corporations and their impacts on private investments, corporate governance, and industrial relations. Without such an investigation, it is difficult to assess if "alternative" PFIs have actually developed the financial capacities, new standards of value, and economic know-how to support workers' takeovers of businesses, viable cooperatives, and the redirection of investment away from market imperatives (Blackburn 2002: 497-527).

There is a need to locate particular public banks within the broader political field of their respective states. Failing to do so leads to the risk of considering PFIs in isolated institutional spaces that can be re-purposed to more radical and democratic purposes. As this study has argued, in the case of Quebec, public financial institutions were shaped by wider economic policies and policy regimes with in-built class biases, and they are situated in a hierarchy of state apparatuses which cannot be de-linked from such power relations without some degree of a political rupture (Poulantzas 2014). Without a broader democratization of the state (Albo, Langille, and Panitch 1993; Gray 2018), it is difficult to imagine how these public banks could act sustainably in the "public interest".

Finally, the type of social power needed to overcome the capitalist opposition to such economic and political transformations is left undefined by advocates of public banks, notably in Quebec debates. With respect to the political forces and conflicts that formed the history of PFIs, too often limited attention is given to the forms of power wielded by each social actor in determining actual outcomes. How to move beyond the actual weaknesses of labour and other social movements as a precondition to implement these alternative economic visions is absent from many defences of public banks. In the 1970s, radicalized Quebec unions demanded notably the inclusion of financing producer and consumer coops in the mandates of the province's PFIs, although their struggles ended in defeat. Addressing the political impasses of this experience and of others internationally is critical to draw the strategic lessons to build a popular movement today which could transform finance into a public utility (Blackburn 2002: 526; Blakeley 2019; Epstein and Ugurlu 2020: 53; Panitch and Gindin 2010).

**Financialization, Capitalism, and Class Politics**

Financialization has often been invoked to explain worker layoffs, outsourcing, and offshoring since the 1980s. The cases of the "neoliberal loyalty" of Quebec PFIs cautions against, as this thesis has argued, invoking financialization as a causal factor behind all neoliberal transformations. If PFIs limited the capital mobility of predatory financial institutions within financial markets, they did not shield NFCs and their workers from competition within globally integrated production and trade. Capitalism's market imperatives, and how competition has intensified in recent decades, were the dominant forces behind corporate restructurings accommodated by Quebec's PFIs.

When invoked as a causal factor, financialization should not be conceived as a shift from production and trade to finance, but as mechanisms intensifying financial discipline upon "real" production (as defended in Chapter Three). As illustrated in the Bombardier case, when deeper shareholder value corporate governance was implemented, this coincided with the dismantlement of Bombardier's financial division and the consolidation of its manufacturing operations. This process of financial divestment and greater industrial focus affected a larger number of NFCs following the crises of the 2000s. In response to enhanced financial discipline, NFCs tend to secure their competitiveness by raising labour exploitation. In this context, industrial policies remain possible as long as they are embedded in a wider neoliberal policy regime responsive to these deeper market disciplines.

Deepening capitalist competition, financial discipline, and shifts in class relations within production were the central factors in the neoliberal trends of Quebec's labour market. These claims lead to a different class politics than what flowed from institutionalist views on financialization. Wright (2015) has drawn on Krippner's definition of financialization, as a shift in profit-making from production and trade to financial asset trading. For him, financialization eroded "positive" class compromises, namely productivity gains that could provide material benefits both to capitalists in the form of higher profits, and to workers in the form of higher wages. As Wright (2015: 237) argues: "[In the context of the] financialization and globalization of capitalism…the value for many capitalists of a positive class compromise declines as the returns on their investments become less dependent on the social and political conditions of place." This echoes the institutionalist critique of financial liquidity presented in the first chapters of the thesis: the drive for capital gains is good for finance, but not for societies which depend on "real" investments for jobs and better living standards.

By assuming that capital in all its forms has de-territorialized to allow the liquidity of finance capital to circulate globally, this new state interventionism has pursued a politics concerned with the conditions to lock in capital accumulation in specific geographical spaces. Constraining finance to support fixed capital investments in national territories is viewed as a prerequisite for new institutional compromises. As Wright (2015: 240) further argues:

> [O]ne of the things that detaches the interests of investors from the conditions of life of ordinary people and thus makes positive class compromise less likely is the disengagement of investment from the real economy. In order to redirect finance towards the real economy, the state has to be able to impose real constraints on investment activity, and this requires at least partially impeding the global flow of capital. So long as capital can easily exit the jurisdiction of a political authority, such regulation will always be precarious.

As private finance capital is interpreted as a predatory force undermining "entrepreneurial" drives and decent jobs, institutionalists advocate for an alliance between "entrepreneurs" and workers. This cross-class power bloc is seen as the privileged collective agent to push for the "re-regulation" of finance through capital controls, lower interest rates for "industry", and "patient capital" institutions. As Pettifor (2017: Ch. 7) writes:

> I have long believed that an alliance between labour and industry is important if finance is to be effectively challenged. The interests of both would be served by subordinating finance to its proper role as servant not master of the real, productive economy…There are makers and creators out there who resent the bullying of financiers and the costs of rentier capitalism as much as any trade unionist or activist....We do not need a social revolution…We need to bring offshore capitalism back onshore.

These financial regulatory changes are often seen critical to build extra-market institutional supports for an industrial policy to tie capital to places, including regional clusters between governments, universities and companies, R&D hubs, innovative cities, and pools of highly trained skill workers (as pointed out in the first chapters).

This dissertation leads to different strategic conclusions. As a "servant of the real [capitalist] productive economy", Quebec PFIs were concerned with the long-term profitability of businesses involved in production and trade. These financial institutions accommodated neoliberal corporate restructurings in accordance with this role. If workers experienced declining living conditions in these cases, this was not the result of the "bullying of financiers and the costs of rentier capitalism", but rather intensifying competitive pressures in the world market to which Quebec PFIs were responsive.

The Beaudoin family of Bombardier, for example, includes those who are in some ways "makers and creators…who resent the bullying of financiers and the costs of rentier capitalism". These business managers adopted multi-voting shares to limit their exposure to hostile takeovers and have the latitude to plan long-term "real" investments. But Bombardier's important productive capacities, both in its Quebec home base and abroad, were still subordinated to the disciplines of international competition. As Tsoukalas (2004: 178) has argued: "[T]he internationalization of relations of production can by no means be understood to imply that economic activities take place in a trans-territorial vacuum. Exploitation must always take place somewhere: in other words, within the territories of specific societies organized as sovereign states." Bombardier's manufacturing operations, rooted in geographically dispersed *spaces of production*, were regulated by global value relations. Capitalists like the Beaudoin family are not inattentive to place. Rather, they are concerned with subordinating work*places* to the competitive requirements of market imperatives.

Quebec's neoliberal labour market trends were not the result of a shift from production and trade to finance, in the absence of an alliance between the province's "entrepreneurs" and unions against "rentiers". Rather, these regressive socioeconomic outcomes were indications of Quebec workers' inability to effectively fight against concessions within "real" production, distribution, and the public sector. The partnership ideology of Quebec unions had weakened their ability of the province's workers to act collectively and independently from employers and the state.

The above critics of financialization often fail to register these transformations in class relations by assuming that the power of workers in the workplace is especially undermined by financial forces disembedded from "real" national economies. When this perspective is adopted, reconstructing working-class power at the point of production is no longer viewed as relevant. Thus, the political priority for workers becomes implementing regulatory changes allowing governmental action to channel savings and credit into "real" investments.

Bryan and Rafferty (2006: Ch. 8) argue, in contrast, that the re-regulation of finance may not result in the desired outcomes without a deeper confrontation with capitalist class power and markets. As they point out, capital controls will not automatically convert money-capital into actual investments. Capitalists will invest in an environment where cost competitive and disciplined labour-power is sufficiently available to produce profitable commodities. In the absence of a policy regime favourable to such business conditions, stagnation, rather than sustained "real" investments, may be the result.

### The Future of Industrial Policy

By demonstrating how market imperatives and capitalist class biases have shaped Quebec's industrial policies, this dissertation highlights some of the political challenges that would face socially just green industrial policies. In contrast, heterodox economists tend to base their policy proposals on cases studies and comparative analyses of industrial policies and PFIs framed as "good" or "bad" policy designs. A clear "political vision" and a strong "political will" are seen as the key ingredients to successfully implement these policies and institutions. As Mazzucatto (2015a: 147; emphasis added) argues:

> Getting to the much-needed green revolution presents a serious problem: given the risk aversion of businesses, governments need to sustain funding for the search for radical ideas that push a green industrial revolution along. *Governments have a leading role to play*…Many of the tools to do this are already deployed around the world, but where strategy, tools and taxes are abundant, *political will is often the critical scarce resource*.
>
> *Real courage* exists in those countries that use the resources of government to give a serious 'push' to clean technologies, by committing to goals and funding levels that attempt seemingly impossible tasks […] *Courage* is also development banks stepping in where commercial banks doubt, promoting development, growth of the firm and a return on investment to taxpayers that is easier to trace.

"Bringing the State back in" breaks with the liberal mythologies behind innovative growth. This voluntarist outlook, however, is unhelpful for charting the power relations that have shaped really-existing industrial policies and PFIs. Calls to renew industrial policies as an exit strategy from stagnation and financial instability tend to underestimate the constraints of neoliberal globalization and financialization.

"New" industrial policies have become more widespread in recent years (as noted in Chapter Four). But amidst mounting pressures of over-accumulation, the ability of states to encourage private investments was limited, as seen in Quebec. Unable to solve these system-wide contradictions, existing industrial policies could still advance the market shares of "their" capitals at the expense of others, in an increasing zero-sum game resulting in greater trade imbalances (Albo 2004: 114-17). Still, without sufficiently high interest rates to rationalize the capital stock and revive industrial profit rates, a policy at odds with the protracted low interest rates since the 2007-08 crisis (Chesnais 2016: 3),[110] these *capitalist* industrial policies will continue to evolve in a fragile and turbulent terrain.

Under stagnation, relying on private investments catalyzed by the state to meet social and ecological needs is highly problematic. In this context, the case for substituting private investments with public ones becomes increasingly relevant, as argued by radical versions of the "Green New Deal" (Aronoff et al. 2019). From this perspective, the private sector is seen as unable to develop accessible energy renewables in a coherent way or eliminate fossil fuels (Sweeney and Treat 2017). A radical approach to industrial policy, based on democratic planning, can alternatively be put forward to successfully achieve an ecological transition (Ashman, Newman, and Tregenna 2020: 190). Here, industrial policies and PFIs would no longer be reduced to underwriting private investments, socializing private risks, and serving as complementary sources of finance supportive of the private sector. Alternatively, these policies and institutions would represent economic leverages to meet democratically established social and ecological priorities.

Challenging the control of capitalists over investment poses fundamental strategic questions, since the capitalist class will see these challenges as a threat to its own prerogatives as the private owners of the means of production. Without the reconstruction of working-class power, in Quebec like elsewhere, the ability to overcome business opposition as part of a long-term strategy to democratize the economy and the state will remain a dead letter (Benanav 2020: 71).

A "labour-centred" approach is fundamental to an industrial policy that goes beyond modernizing the economy and equalizing the representativeness of the capitalist classes – equally the success and limits of the "Quebec Model". As Ashman, Newman, and Tregenna (2020: 179) argue: "'Labour-centred' refers not only to the distribution of gains from development in the interest of labour, but also to the central participatory and

[110] This level of monetary restraint appears unlikely in the face of the level of indebtedness of financial institutions and NFCs, most notably in "emergent" countries. For example, a minor rise in US interest rates has previously led to massive asset re-allocations by global institutional investors from "emergent" country bonds to US bonds, exposing such economies to much financial distress (Chesnais 2016: Ch. 10).

determining role of labour in the process." This orientation to economic policy will require not only relying on unions and other social movements in Quebec, but to strengthening them by championing de-commodifying social policies, collective political rights, and public controls and ownership in and over spaces of production. This is critical for an industrial policy geared toward democratizing the economy and politics.

# Methodological Appendix

## The Philosophy of Internal Relations and Critical Realism

Research questions, selection of variables, and methodological choices for data collection and analysis need to be carefully elaborated. This cannot be done without a preceding reflection on the ontological nature of the social object to be investigated and the appropriate epistemological foundations to grasp it theoretically.

This study is rooted in the Marxian philosophy of internal relations. For this approach, any social factor "includes as aspects of what it is all those other elements with which it interacts and without which it could neither appear nor function as it does" (Ollman 2003: 116). Social phenomenons are understood as internalizing a cluster of social relations conditionning their existence and change (Ollman 2003: 25-27, 33, 68). For the critical realist philosophy of science, necessary social relations are inherent to specific social structures and confer causal mechanisms to particular objects (Sayer 1992: 106). This is at odds with the tendency in social sciences to begin with social objects treated as isolated factors, which are subsequently grasped as interacting externally and only contingently.

Conceptualizing public financial institutions (PFIs) as a form of finance capital,[111] manufacturing "joint-stock companies" linked with financial institutions through varied mechanisms of capitalist finance and corporate governance, and industrial policies utilizing PFIs as capitalist state economic interventions, presupposes the systematic market inter-dependency of capitalists and workers. Each of these institutions and policies contains "the major relations of the capitalist production process as a whole, e.g., private property, commodity production…exploitative relations…forms of labor discipline…" (Paolucci 2011: 90). Only within certain social relationships can PFIs have causal powers favourable to capitalist development. If public banks would be repurposed for democratizing the economy, they would no longer exist as a form of finance capital. This differs from deriving

[111] In this dissertation, the concept of finance capital was grounded in Harvey's "process" view, where financial institutions, including Quebec's PFIs, are analyzed in light of their specific roles in providing money as both a means of circulation and as a measure of value within the contradictory dynamics of capital accumulation (see Chapter Two).

*a priori* institutional functions from the ownership form of PFIs irrespective of their underlying social relations.

The emerging and then maturing social relations peculiar to specific institutions and historical contexts need to be conceived as internally related within a larger and dynamic capitalist totality (Paolucci 2011: 86-88). Accordingly, the evolution of Quebec's PFIs are analyzed in this dissertation in light of the systemic shifts in private finance and corporate organization within different capitalist periods. Quebec public finance is not treated as a formally separate institutional sphere but as articulated to the province's industrial policies and wider policy regimes grounded in surplus value extraction and appropriation.

The asymmetrical social relations between capital and labor are necessary internal relations involving strong patterns of interdependence within capitalism. The intensity of the class struggle, the rate of profit, and the distributional conflicts between "finance" and "industry", however, are determined by contingent processes that can bear an important weight on a society's historical trajectory (Sayer 1992: 89-91). Understanding if and how the institutional functions of PFIs are made subservient to capital's interests depends on the outcomes of class conflicts over the governance structures and frameworks of these institutions. If abstractions are critical to identify the structural properties of social relations and processes, we should avoid deploying them "as if [they] could provide concrete descriptions on its own; [they] provide a possible beginning to research but not an end" (Sayer 1992: 98).

Dialectical thinking within historical materialism is the appropriate method to grasp the changing internally related parts of a social whole pertinent to one's object of study. This intellectural process begins with how the world appears to us (the "chaotic real concrete"). Abstractions are then used to carve the social reality into concepts that capture its most relevant parts. An abstract concept brings into focus the most determining causal mechanism of an object, stripped of other particularities that can affect its specific form. This theoretical process ends with the reconstitution of the internal relations between these disaggregated parts and how they are expressed in specific contexts (the "concrete in thought") (Ollman 2003: 27, 59-60, 66). For example, if Quebec's PFIs appear as diverse and unrelated institutions, their unity is theoretically established as forms of finance capital. Their neoliberal roles were discovered by articulating the relationships between the transformations of Quebec's PFIs mandated by changing industrial policies, themselves shaped by changes in private finance and NFCs under neoliberal globalization and financialization. In this causal sequence, there is a hiearchy to the social processes of determination (Ollman 2003: 71).

Abstractions of extension refer to large enough concepts that can allow to treat different social forms as sharing an ontological identity (Ollman 2003: 77-78). The concept of finance capital has been extended to PFIs because they can share an identity with others forms of finance capital under certain common social relations. Levels of abstractions are also important to clarify at which level of generality claims are being made. Theorizing about the monetary and financial functions, the exploitative social relations, and the structural dependency of the state on dynamic capital accumulation peculiar to capitalism referred to claims valid for all places and times regulated by this "mode of production". Lower levels of abstraction were used to analyze how PFIs, private finance, NFCs, and industrial policies were operating in different phases of contemporary capitalism, and more specifically, in the Quebec context (Ollman 2003: 88). Vantage point abstractions can refer to the particular standpoints held by unequal classes given their respective material constraints. These types of abstractions were critical to analyze the different policy preferences of different class actors. In addition, vantage point abstractions can investigate a process from within a particular moment. In this dissertation, Quebec capital accumulation was analyzed both from the moments of the financing and monitoring of firms and the labour process within NFCs (Ollman 2003: 100-02).

**Methodology**

These ontological and epistemological foundations have informed this study of PFIs and industrial policies in Quebec as well as the more specific Bombardier case. Robert Yin (2003: 6-7) and Andrew Sayer (1992: 241-51) have argued that case studies are most appropriate to explain the "how" and "why" of specific historical outcomes. Yin (2003: 13) defines a case study as an "empirical inquiry that investigates a contemporary phenomenon within its real-life context". Thus, case studies are appropriate for an historical investigation of causal mechanisms and the specific conditions under which they operate. For intensive research designs used in case studies, "contexts or causal groups are rarely just background; exploration of how the context is structured and how the key agents under study fit into it – interact with it and constitute it – is vital for explanation" (Sayer 1992: 248).

PFIs and industrial policies are neither limited to Quebec nor to so-called coordinated market economies (CMEs). The choice of investigating these issues in the Quebec context, however, was made because PFIs were most extensive within the province's minority nationalist society, given its late capitalist catch-up. The significant economic weight these institutions still had in the province during the neoliberal period made it also an interesting case, in contrast to other countries and regions where PFIs had been privatized or marginalized.

*Data Collection*

As Sayer (1992: 83) argues, "Observation is neither theory-neutral nor theory-determined, but theory-laden." Theory informs research questions, what social facts to look for to answer them, and what are their significance. Research is not theory-determined since specific conditions under which causal mechanisms operate and their actual outcomes can only be discovered empirically.

This case study relied on mixed methods for gathering the qualitative and quantative data necessary to answer this dissertation's research questions. Qualitative data, collected through various primary documentary sources, was most suited for tracing the key regulatory changes of PFIs and central shifts in their institutional functions, the important transformations in industrial policies, the evolution of class policy preferences relative to PFIs and industrial policies, and corporate restructuring processes involving PFIs. Bowen (2009: 27-28) enumerates an extensive list of documents that can be used for qualitative research. In this case study, data was in large part collected from the minutes of parliamentary commissions, newspaper articles, institutional reports, and corporate annual reports. Quantitative data was selected from secondary sources to track ownership and control by Quebec Francophone capitalists in various sectors and labour market trends in the province.

Documents are not literal recordings of events. Journalists writing newspapers, policymakers and representatives of business associations and unions recorded in the minutes of parliamentary commissions, and state technocrats overseeing the writing of policy documents speak about phenomenons and policies from specific standpoints. Also, each document, taken separately, is not necessarily providing sufficient precision, accuracy, or a comprehensive account of what is being investigated. I have thus used multiple complementary documentary sources to cross-verify information or to compensate for silences and ommissions by other sources. In this sense, each document was treated as providing clues rather than definitive answers (Yin 2003: 87).

Based on the secondary literature, I reconstructed a preliminary historical overview of Quebec's industrial policies between 1960 and the end of the 1990s. Once this was established, I consulted firsthand Quebec industrial policy documents selected mainly from the 2000s period since there had been little available analysis yet written about them, such as: *Québec Objectif Emploi* (1998); *L'avantage québécois* (2005); *Putting jobs first - Quebec's industrial policy 2013-2017* (2013); and *Pour une économie ouverte et prospère* (2017). These were all accessed through the *Bibliothèques et archives Nationales du Québec's* (BaNQ) digital database.

In addition to the book, *Bombardier: la vérité sur le financement d'un empire,* and previously cited industrial policy documents, I consulted the following primary source to analyze the Quebec institutional support given to aerospace and Bombardier – *Stratégie de développement de l'industrie aéronautique québécoise* (2006) (accessed through the BaNQ digital database). Additional firsthand sources were used to analyze the Canadian state supports to aerospace, including the government commissioned report, *Beyond the Horizon: Canada's Interests and Future in Aerospace* (2012), and the Unifor union position paper, *Soaring Higher: A Sector Strategy for the Aerospace Industry* (2018).

I also drew upon multiple union and business associations' policy documents to analyze how class politics shaped Quebec's industrial policies. On the business side, I have mainly consulted documents produced by the Conseil du patronat du Québec (CPQ), given its status as the largest business association in the province. These documents included two memoirs of an ex-Conseil du patronat (CPQ) president, *Ghislain Dufour témoigne des 30 ans du CPQ* (2000) and *Pour le meilleur et pour le pire* (2009). These books were helpful to identify other important documents produced by the CPQ: the CPQ's two manifestos *Détruire le système actuel? C'est à y penser* (1972) and *Des profits oui, mais pour qui?* (1976); and selected position papers such as *Certaines actions politiques à entreprendre pour redonner confiance aux milieux des affaires du Québec* (1979) and *Notes sur "L'énoncé de politique économique" du ministre Bernard Landry, "Bâtir le Québec"* (1979). These latter documents were all consulted at the *Collection nationale* archives of the BaNQ.

On the union side, I reviewed the following Fédération des travailleurs du Québec (FTQ) position papers at the *Collection nationale*: *Le développement régional...à la dérive* (1973), *Notre place dans l'entreprise* (1973), and *Sécurité d'emploi et fermetures d'usines* (1973). In addition, I reviewed the FTQ manifesto *L'État, rouage de notre exploitation* (2012). These policy documents from both unions and business associations were important to understand the wider policy regime in which they located their views of industrial policy.

Secondary sources were used to reconstruct a preliminary historical account of the key Quebec PFIs – the CDPQ, the SGF, the SDI, and later IQ. Once this was established, I used extensively the BaNQ digital newspaper database to search for articles covering these PFIs between 1960 and 2018, by using the following keywords: "Caisse de dépôt et placement du Québec", "Société générale du financement", "Société de développement industriel", and "Investissement Québec".[112] A smaller sample was selected according to their relevance for the dissertation's research questions. These newspaper articles helped refine my historical understanding of these PFIs, but their fragmentary account encouraged me to consult firsthand the minutes of the following parliamentary commissions to analyze key reforms of Quebec's PFIs for which less factual and analytical material was available from secondary sources: the *Étude détaillée du projet de loi n° 168* (1997); the *Étude détaillée du projet de loi n° 431* (1998); the *Consultations particulières et auditions publiques sur le projet de loi n° 123* (2010); and the *Consultations particulières et auditions publiques sur le projet de loi n° 36* (2013). The following additional parliamentary commissions also provided important specifications about the CDPQ's

[112] This data collection was in part decided in the context where many other secondary sources and firsthand archives were not accessible as the BaNQ was closed during many months during the pandemic.

institutional practices in recent decades: the *Examen des orientations, des activités et de la gestion de la Caisse de dépôt et placement du Québec* (1997); the *Audition des représentants de la Caisse de dépôt et placement sur la question de la crise dans le secteur du papier commercial adossé à des actifs* (2007); the *Auditions sur les résultats de la Caisse de dépôt et placement* (2009); and the *Audition de la Caisse de dépôt et placement du Québec sur son rapport annuel 2009* (2010). All the minutes of the aforementioned parliamentary commissions were consulted online without restricted access.

The testimonies of business associations and unions at these parliamentary commissions were also critical to trace their respective policy positions on Quebec's PFIs, wider industrial policies, and the overall policy regime. To track the latter, I also used the CPQ's position paper *Point de vue sur la Caisse de dépôt et placement du Québec* (1983), consulted at the *Collection nationale*, and the online minutes of the parliamentary commission, *Consultation générale sur la libéralisation des échanges commerciaux entre le Canada et les Etats-Unis* (1987).

I also reviewed selected strategic plans and annual reports of the SGF and IQ to trace their practices for the 2000s since the literature on these institutions during this period is scarce. These included IQ's annual reports from 2005-06 to 2013-2014 and two of its strategic plans (2011-13; 2016-19). I have also relied on the SGF's 2005-09 strategic plan (2005) and its last annual report (2011). These were accessed through IQ's website, with the exception of the SGF strategic plan, which was found through the BaNQ digital database.

I have also extensively consulted newspapers to trace the institutional practices of Quebec's PFIs vis-à-vis NFCs. To select these articles, I have combined the key words "grève" and "conflit de travail" with each of the names of the analyzed PFIs. These sources were crucial to gathering information about six firm-level cases (Steinberg, Domtar, two cases from Quebecor – Vidéotron and the *Journal de Montréal*, and two cases from Bombardier – BRP and Bombardier Transport). These cases were examined to demonstrate the operational practices of these institutions during corporate restructurings and labour conflicts. These documents were essential since information about firm-level practices is often absent from the annual reports and strategic plans of PFIs. The evidence provided by mainstream newspapers was cross-verified with a survey of union newspapers based on the same keywords. This included the newspaper *Monde ouvrier* of the FTQ (available through the BaNQ digital database) and the CSN's multiple union newspapers (retrieved through the CSN's digital newspaper data base).[113] To trace the prefiguring of the future "neoliberal loyalty" of Quebec's PFIs, I relied on the CSN document, *Une vague de répression antisyndicale menace l'avenir prometteur de CEGELEC Industrie, filiale de la SGF* (1972) consulted at the *Collection nationale* archives.

Beyond the secondary literature, I used the following primary sources to document the effects of Quebec's industrial policies on the evolution of the ownership control of Francophone Quebec capitalists in diverse sectors: the *Évolution structurelle du secteur manufacturier au Québec, 1976-1997* (2000) and the *La propriété des employeurs au Québec en 2003 selon le groupe d'appartenance linguistique* (2003).

Beyond the secondary literature on Quebec's labour market trends, I also consulted this Canadian statistical source, *Industries manufacturières, statistiques principales selon la classification par industrie* (2017), to complement the empirical picture of Quebec manufacturing employment levels and jobs losses during the 2000s.

Beyond the two books written on Bombardier, I have relied on numerous annual reports (1999-2007) from the company. I have also drawn upon *Canada's Top 100 Corporate R&D Spenders* (2013-19) to track Bombardier's R&D expenses during the CSeries project. I also benefited from many newspaper articles to track Bombardier's history, including the labour conflicts affecting the company, selected through the BaNQ digital newspaper database based on the following keywords: "Bombardier"; "Bombardier" and each of Quebec's PFIs; "Bombardier; conflit de travail"; and "Bombardier; grève".

*Data Analysis*

This research has been primarily based on qualitative document analysis. The selected documents listed above were first read to extract significant quotations pertinent to this study's research questions. Second, they were classified according to the major themes

[113] Since my consultation of this database, the CSN appears to have changed its website, making this consultation no longer possible in the same way.

relevant to this research: regulatory changes of PFIs, the transformation of the institutional functions of PFIs, key shifts in industrial policies, class policy preferences vis-à-vis industrial policies and PFIs, the roles of PFIs in corporate restructurings, Bombardier's accumulation practices, and the institutional financial support received by the company. Third, I did a careful examination of each sentence and paragraph of the classified selected passages. This allowed me to decipher patterns in the data, which led to preliminary theoretical interpretations sustaining or modifying initial propositions. For example, the formation of the concept "neoliberal loyalty" was developed out of identifying a pattern in the roles of Quebec's PFIs in corporate restructurings. This differs from quantitative tendencies in document analysis based on calculating the frequency of the use of certain words or expressions to dissect an empirical pattern (Bowen 2009: 28-37; Kohlbacher 2006: n.p.).

Another pattern was found in the selected evidence when the evolution of the institutional functions of these PFIs tended to match the expressed policy preferences of the CPQ. The selected evidence for analyzing Bombardier notably revealed how the company's increasing financial activities was in fact a complementary profit-centre when contrasted with the prevailing manufacturing profits of this corporation.

Each piece of evidence was contextualized in terms of who is speaking, to which audience, for what purpose, and under what circumstances (Yin 2003: 100). An example was the assessment of the CDPQ's representatives' interventions in the aforementioned parliamentary commissions, on the role of the Caisse in derivative markets in the aftermath of the 2007-08 crisis (found in Chapter Nine). I evaluated if their rationalization of the use of derivatives, rejecting charges of irrational speculative exuberance, were ideological attempts to rationalize their actions, in order to insulate the Caisse from virulent critiques and fend off accusations that the Caisse played a role in creating the Canadian commercial paper crisis. Their testimonies were instead interpreted as indications of the actual institutional practices of the Caisse. The ideological mystification produced by their interventions was rather seen as a product of the naturalization of global capitalist markets and the "necessary" roles of derivatives within them.

When the qualitative and quantitative data permitted the development of a coherent and consistent analysis answering this study's reserach questions, I considered that the data collection and analysis was complete. This process was not linear but iterative and reflexive (Kohlbacher 2006: n.p.). The data was reviewed more than once as various theoretically insights and new connections and questions were generated through the research process.

## Case Study and Theory Development

As Sayer (1992: 144) contends, "empirical studies are theoretically-informed…[b]ut empirical research can also be theoretically informative; though guided by existing theory it can yield new theoretical claims and concepts." The formation of the concept of "neoliberal loyalty" was developed out of characterizing both Quebec's PFIs specific institutional functions and roles in accommodating neoliberal corporate restructurings. It contributes both to the theory of the neoliberal institutional functions of PFIs and to the theory of finance capital and its diverse historical forms.

Many other claims in this study were informed and exemplified theories laid out in Chapters Two to Four. A Marxian theory of money and finance developed by Harvey was extended to PFIs to provide a more profound material foundation to Marois' definition of public banks. This allowed the treatment of Quebec PFIs as a specific form of finance capital. The explanatory power of the conception of capitalism as market imperatives and "real" competition, as developed by "Political Marxists" (Wood 2002; Wood 1994) and Anwar Shaikh (2016), was critical to demonstrate the determinate pressures disciplining Quebec's PFIs and industrial policies. The Marxian theory of joint-stock capital was also important to understand how Quebec's NFCs internalized competition within its changing organizational structures. Marxian theorizations of industrial policy grounded in state theory were also critical to analyze Quebec's industrial policies. The empirical findings about Bombardier's accumulation practices and corporate governance during the neoliberal period also exemplified Marxian theories of financialization of NFCs understood as financial mechanisms disciplining "real" production. The originality of this dissertation is in mobilizing these theories to analyze the internal relationships between Quebec's PFIs and industrial policies and the systemic shifts in private finance, corporate organization, capitalist competition, and class relations during different phases of Quebec capitalist development.

To establish the internal validity of the theoretical propositions defended in this dissertation, careful attention was paid to examining the empirical evidence of the research against the thesis' main arguments, but also with institutionalist claims (often summarized as the "Quebec Model") on PFIs, industrial policies, and financialization (George and Bennett 2005: 80; Yin 2003: 36).

As argued in the conclusion, the critique of capitalism has been extended to the particular ways in which PFIs and industrial policies, in this case in Quebec, have been made and re-made subservient to capital accumulation in different historical phases. I have elaborated the strategic implications of this study's findings by counterposing them to institutionalist approaches of Quebec capitalism, to notions of PFIs as "patient capital", the inherent opposition posed between the financialization of NFCs and "real" production, and industrial policy as state interventions antagonistic to neoliberal policies.

This study is a type of "revelatory case", in the sense that it contributes to show how these questions could be investigated in other cases (Yin 2003: 42). This single case study was critical to challenge the view of institutionalists by showing how Quebec's PFIs as industrial policy instruments were integral to Quebec's variety of neoliberalism. The concept of "neoliberal loyalty" and the causal weight given to market imperatives and class politics to understand the roles of PFIs in corporate retructurings, however, are amenable to analytical generalizations beyond Quebec (Yin 2003: 31-32, 37).

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