What role should the state play in the capitalist economy? In most industrial countries since 1945 the state has gone beyond regulation and redistribution to substitute itself for private-sector actors and directly assume the functions of investor, trader, and producer. No longer are state-owned enterprises limited to providing subsidized services or salvaging jobs. Certainly in Canada by the 1970s both federal and provincial governments owned commercial enterprises that produced goods and services for sale in national and international markets—from asbestos to aircraft to satellite communications.

The role of the state as investor and producer in competitive and profitable sectors of the economy—which we call state capitalism—clearly raises fundamental questions about modern capitalism and about the public enterprise as an instrument of policy. Why should the state in capitalist society, rather than merely ensure the conditions for private investment, itself seek to accumulate capital? If public enterprises are encouraged to compete in international markets and managers are given the autonomy they need to do so, can governments continue to exercise policy direction? Now that the conditions favoring state capitalism, an expanding world economy and acceptance of deficit spending, have radically altered with recession and fiscal restraint, what are the alternatives to public enterprises? To explore these questions we reconsider European experience, underscoring the shared features of state capitalism, and then focus on Canada, which has long accepted public enterprises and is highly vulnerable to changes in the world economy.

We argue that the reorientation of state enterprises and state investments toward competitive and profitable industries responded to an underlying shift in the conditions for economic growth—a shift often
called the internationalization of capital—as production, financing, and competition increasingly took place on a global scale. Governments sought to capture the investment required by the national or regional economy to create the jobs and revenues that governments needed for political survival. Whether by targeting equity investments or by allowing public enterprises to diversify through subsidiaries, the state enterprise sector underwent a trend to commercialization in the 1970s as part of a broader industrial realignment. The norms governing public enterprises shifted accordingly, to emphasize “business logic,” that is, to give primary attention to financial results.

In a series of case studies of Canadian commercial enterprises, we look at government efforts to achieve these neomercantilist ends. State ownership, we find, cannot be equated with state power (if we understand power as the ability to control outcomes). Both the relative autonomy required by managers of commercial enterprises and the impingement of market factors beyond the control of any one company or government temper the state’s ability to use the public enterprise as an instrument of policy.

In the 1980s, chastened by the need for fiscal restraint, governments in Canada and in Western Europe, whether neoconservative or social democratic, have come to favor more flexible forms of state intervention—particularly mixed enterprises and joint ventures. New political coalitions not only challenge the assumptions of Keynesian political economy but promote the privatization of public enterprises. The rhetoric of privatization is now widespread, but we conclude that with the exception of Britain, we are witnessing not some wholesale dismantling of the public enterprise sector. Rather, we are seeing a streamlining of state capitalism. Governments sell off selected corporations and turn to the stock market to finance others. Yet they retain their discretionary use of investment, and they do so by making state intervention more acceptable, appealing to private-sector norms, invoking market discipline, and proclaiming their businesslike approach to the management of the state sector.

This book is the result of a long collaboration that commenced with a debate about whether Saskatchewan’s decision to take over part of that province’s potash industry could be explained by ideology or by practical politics and continued in joint investigation of other instances of direct state intervention in competitive industries. We have benefited greatly from discussions of all or parts of the manuscript with Duncan Cameron, who encouraged the project from the outset, Lynn Mytelka, Bruce Doern, Allan Tupper, Glen Williams, Stephen Brooks, David Bell, and Peter Hall. Peter Katzenstein and Roger Haydon of Cornell University
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Unless otherwise indicated, all figures are expressed in current Canadian dollars.

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State Capitalism