FAILURES IN FORECASTING: AN ANALYSIS OF ASSESSMENT AND EXPECTATIONS 27 YEARS AFTER THE MACDONALD COMMISSION REPORT

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Abstract This paper provides an analysis of the assessments and recommendations made by the 1985 Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission). By analysing the text of its three volume report, this article comments on the degree of accuracy with which the Macdonald Commission spoke to the realities of the Canadian and international economy both then and now. Establishing that the general predictions made by the commission were not realised, this analysis takes on the task of providing an explanation of why expected gains failed to come to fruition. Two potential answers to this question are advanced. The first speaks to the notion that the commission was largely incorrect in its assessment of the contemporary and future state of the political and economic landscape in and outside of Canada. The second contends that, in spite of political realities that ostensibly necessitated the implementation of individual or otherwise limited recommendations, the policy programme recommended by the commission was not intended to be partially executed but rather adopted as a package of complimentary proposals. The findings of this paper suggest that the two preceding explanations of the failure to secure expected gains are not mutually exclusive and are reflective of the political and technical infeasibility of implementing a crucial modicum of the commission's contingency-based proposals.

INTRODUCTION

The Macdonald Commission Report on the *Economic Union and Development Prospects for Canada* is the most comprehensive document outlining the policy rationale behind continental free trade. The Mulroney administration's use of the report in its 1988 election campaign and the subsequent Canada-US free trade negotiations speaks to the influence of the commission on the politics of the 1980s and beyond. Some twenty-seven years later and in light of subsequent developments, two interrelated research questions come to mind. Was the Macdonald Commission's assessment of the Canadian and global economy that led to its recommendations accurate? Were the commission's overall recommendations faithfully pursued by government? Though the answer to both of these questions is a resounding no, the focus of this paper is on answering the former. Particularly, this paper addresses the commission's inability to accurately forecast what would become of Canada's industrial structure under free trade. Given that the rationale for bilateralism was based on the subsequently dashed expectation that Canada's secondary industries would become globally competitive, the conclusion of this article is that logic of the impetus for Canada-US integration has proven to be flawed. The first section of this discussion deals with the commission itself, its design, its members and how it went about generating an ostensible consensus over the three years of its research programme. This section includes a review of the secondary literature on the inner-workings of the Macdonald Commission that is home to predominantly polarised paradigms on issues of consensus, capture, and plurality. The second section provides a review of the commission's assessments and recommendations and is loosely broken down into two subsections: the first focusing on the commission's assessments and the second providing a review of the consequent recommendations. Discussion of the scholarship on the efficacy and accuracy of the Macdonald Commission's findings and recommendations is included throughout, culminating in the overall suggestion that many of the report's findings have been largely ignored, misinterpreted, or downplayed within the subsequent scholarship. The preceding point provides the context for this paper's findings, which contrast much of what has been written on the logic of the report with this paper's assertion regarding the cogency of the policy framework developed by the commission. While the secondary literature typically emphasises that both the process and recommendations of the commission were fragmented, the argument presented in the following discussion suggests that the commission's analysis and recommendations were rather comprehensive. The conclusion of this research is that incomplete implementation of the commission's recommendations led to what was overall an incoherent patchwork of social and economic policy into the free trade era. While the social consequences of the policy landscape of the 1990s have been the focus of considerable scholarly attention, the economic ramifications that followed from the post-1989 policy framework are, in this author's opinion, a consequence of both the misguidedness of key aspects of the commission's analysis and the unevenness with which its recommendations were pursued by governments. The analysis and findings sections of this paper are written with both of these premises in mind and reflect an effort to outline the lasting consequences of the policy trajectory that was established with the Macdonald Commission Report.

STRUCTURE, TASK AND 27 YEARS OF DEBATE

The Macdonald Commission was organised in November 1982 at the behest of Prime Minister Trudeau and reported its pre-publication recommendations to the Conservative Mulroney government in the months prior to September of 1985 (Macdonald 2005b: 10). The terms of reference charged the commission with a duty to "report upon the long-term economic potential, prospects and challenges facing the Canadian federation and its respective regions, as well as the implications that such prospects and challenges have for Canada's economic and governmental institutions and for the management of Canada's economic affairs" (Canada 1985, vol III: 562). In launching the commission's mandate, the government published the document *A Commission on Canada's future: Be a part of it* in November of

1982 asking Canadians to weigh in on some seventy five questions related to the commission's terms of reference. Though it may appear after-the-fact that much of the language of the survey resonates with the vocabulary of the free-trade globalisation movement, those responsible for the commission's agenda adamantly deny that there was any semblance of a predetermined outcome. Recalling the formulation stage of the commission, Macdonald contends that the project arose out of "one piece of unfinished of constitutional business" on the economic relationship of the provinces, contending that "mediating provincial disputes over internal trade… had been one of the items in the constitutional negotiations, but no solution satisfactory to all had been agreed upon" (Macdonald 2005a). Though the terms of reference appear to echo a discernible concern with the state of the Canadian economy, Inwood (2005), drawing on interview material with the commissioners from 1992-1994, suggests that the original impetus was not at all oriented toward rapprochement with the United States, but rather to strengthen interprovincial economic unity and reduce interprovincial barriers to trade.

Subsequent scholarship has taken issue with the assertion that free trade only emerged as an idea that gained institutional support throughout the commission's research programme. McBride (2005: 49-51, 58), for example, argues that a Canadian indigenous business elite had matured as early as 1975 and, having consolidated its power in the Business Council on National Issues (BCNI), began to tilt toward continentalism a full decade prior to the commission's report (cf. Carroll 1986; 1989).[1] McBride's argument holds up to scrutiny if one considers that the Economic Council of Canada (ECC) was openly endorsing free trade by 1975.[2] While many advocate that Canada has always and inevitably had strong

[1] The Macdonald Report was thus according to McBride "partly a blueprint for a new policy direction but was even more importantly a legitimisation device for a paradigm shift that was already underway" (McBride 2005: 50). Melon (2006) argues against Inwood's suggestion that the free trade recommendation of the commission constituted a "radical" departure from standard operating procedure, suggesting similarly to McBride that the shift toward continentalism was already underway by the early 1980s.

[2] The Economic Council of Canada, for instance, suggests that while "most Canadians would rank Canada-U.S. free trade well below such options as multilateral free trade and regional free trade...the logic of [the ECC's] economic analysis suggests that a Canada-U.S. free trade arrangement is the only other option offering economic benefits roughly

economic links with the United States, it is important to keep in mind that clearly articulated alternatives to the free trade programme enjoyed institutionalised support into the late 1980s. Howlett, Ramesh and Netherton (1997: 95), for example, note that the doctrines of the "new staples political-economic analysis" were popular among many governments throughout the 1970s, prompting regulation on foreign investment and policies designed to diversify Canadian manufacturing industry. Howlett et al. go on to note that the Science Council of Canada, "enthusiastically endorsed" the new staples model and was "particularly emphatic about the need for Canada to regain its 'technological sovereignty' so the country would not have to rely on proprietary foreign technology in core areas of the economy" (cf. Science Council of Canada 1983).[3]

There exists, therefore, two opposing perceptions of the Macdonald Commission: one advocating that the commission was largely predetermined in its outcome and one suggesting that the commission's outcome was not only uncertain, but likely to advocate against free trade. There are both critics and advocates of the commission's free trade resolution within the group stressing the uncertainty of the commission's findings, including Macdonald himself. Given that Macdonald leaked his personal views favouring free trade to the *Globe and Mail* in November 1984, commission staffer Michael Hart notes that one year prior to the commission's report it was "an open secret that the commission was struggling with the issue of Canada-US free trade and leaning toward a positive recommendation" (Hart 2002: 369). Hart is correct in his statement that the free trade dimension was not simply a last minute turn as many suggest, given that within the 1984 interim report *Challenges and Choices*, preference for more market-oriented governance in Canada is implicit (Canada 1984: 38). Both Simeon and Inwood suggest,

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commensurate with the gain that would accrue from multisided free trade" (Economic Council of Canada 1975: 116-117; cf. Wonnacott 1975).

[3] Howlett et al go on to note that "[t]o push for this objective the Science Council continued to recommend a host of interventionist measures to promote indigenous Canadian research and development efforts" however "after the mid 1980s... the Science Council watered down its proposals, perhaps because it realised that its interventionist proposals were not appreciated by a federal Conservative government committed to reducing the role of the government in the economy... very soon afterwards, it was abolished" (Howlett, Ramesh & Netherton 1997: 95).

however, that the picture is considerably more nuanced than many commentators assume, arguing that while Macdonald may have embraced free trade early on, the vast majority of the other commissioners were generally much more reserved on the idea (Simeon 1987: 169; Inwood 2005: 287). The notion that commissioners who were originally cool toward free trade were somehow convinced over the course of the research programme has given rise to a body of literature arguing that the commission was effectively hijacked by business proponents, neo-conservative ideologues, and especially neo-classical economists (Cameron & Drache 1985: xvi; Clarkson 2002: 29). Proponents of this view argue that the composition of the commission left it especially prone to capture by business interest and adherents of mainstream economic theory. While many critique the commission for being under-representative of labour, women, middle and lower classes, First Nations, and minorities (Cameron & Drache: xii), Doern and Tomlin (1992: 55) emphasise the influence of free-trade oriented economists who worked on the commission (such as John Walley, Paul and Ron Wonnacott, Richard Lipsey and Wendy Dobson). These economists, according to Doern and Tomlin, found common ground with a pro free-trade clique on the commission's research team that consisted of Gil Winham, David Laidler and Michael Hart. Arguing that "left-nationalist" academics were excluded from the commission's work, Inwood recalls an interview with the commission's director Gerry Godsoe regarding an incident at Hart House at the University of Toronto in February 1983. According to Godsoe, one of the first major issues to arise involved a dispute over whether the research programme would be one primarily coloured by nationalist or continentalist sentiment. This dispute allegedly involved Mel Watkins and Abe Rotsetin "arguing vociferously that the commission was falling into the trap of mainstream economics" (Inwood 2005: 164; cf. Rotstein 1984; cf. Cameron & Watkins 1993). Inwood concludes that "the climate at Hart House proved to be a chilly one for the left-nationalist, and as a result few were invited to work on the commission thereafter". This led, according to Inwood, to very little "cross fertilization" of ideas within the commission (Inwood 2005: 164-165).

While it may be true that there was little coordination between the different fields of research, Richard Simeon, a research coordinator on the commission, argues against the idea that the commission was "captured" to any meaningful degree. Simeon suggests rather that the market-orientation of the final report is "significantly tempered" and that the report "is far too Canadian to be a simple tract for neo-conservatism" (Simeon 1987: 168). Simeon therefore highlights the commission's advocacy of a "strong state" in managing domestic and international change against the "logic" employed by the commission in its economic analysis, which according to Simeon "rejects not only the muddle and inconsistency of the industrial policies of the sixties and seventies, but also the proposals for a more activist industrial policy, such as those advocated by the Science Council" (Simeon: 168). Whether it can be determined that the commission was destined to reject intervention in favour of free trade is difficult to sustain given that several nationalist academics were commissioned to assess, for example, the feasibility of adopting European style tripartism in Canada (cf. Banting 1986). As evidenced by the tension within the literature on the policy and program logic of the commission, there are myriad interpretations of what the commission had set out to do. While issues surrounding the unstated rationale of the Macdonald Commission remain a topic for continued debate, the following discussion attempts to establish and clarify the explicitly stated logic given by the commission in support of its recommendations.

ASSESSMENTS AND RECOMMENDATIONS

The assessments and recommendations of the commission cover manifold areas and are integrated into an overarching framework for reform. Volume one of the report summaries the commission's overall recommendations from an international angle, often employing an ideational rationale for the proposed policy programme. Volume two provides an in-depth analysis on the future of Canadian industrial policy and details the technical logic behind its recommendations. Volume three outlines the report's findings on the state of Canada's social framework and, most consequently, how proposed social reforms compliment the overall economic programme proposed by the commission. It is arguable that the piecemeal fashion with which the commission built its overall argument left it dependent on several questionable assumptions regarding disparate areas of the political economy. The report is therefore vulnerable to error given the built-in contingencies of its policy programme. The following section details the dependency of two core suppositions of the commission: namely the ways in which the industrial structure of the economy and overall social prosperity are considered concomitant. Though Canadian economic performance has often been celebrated over the preceding decades, the following discussion exemplifies the erroneousness of the commission's logic concerning the avenues through which future prosperity would be realised in Canada. The source of such error lies in misguided assumptions on the state and future of the political economy. These assumptions follow from flawed empirical concepts in certain instances but also from the "leap of faith" approach routinely taken to justify the feasibility of the commission's policy programme.

Paradigmatic Shift? The Ontological Crisis of Global Political Economy

Written somewhat beyond the heyday of government spending, the commission frames its report in relation to problems associated with government deficit, inflation and unemployment (Canada 1985, vol I: 173, 50, 163-164).[4] A neo-conservative bent is discernible given the theoretical subtleties of the commission's methodology. While the report pays lip service some traditional and uniquely Canadian approaches to political economy, the text is generally indicative of somewhat axiomatic and largely

[4] The report provides an overview of government development outlays in Canada, suggesting that spending peaked in the 1960s and had been considerably curtailed by the mid 1970s (Canada 1985, vol II: 147-148).

normative attitudes toward individual freedom, democracy, and free markets (Canada, vol I: 42).[5] Though routinely championing market modes of governance, the commissioners do not present themselves as rhetorical libertarians; on the contrary, the report champions the vestiges of the Canadian welfare state throughout, ceding to the notion early on that "markets also need states" (Canada, vol I: 43). Though the commission is careful not to portray itself as overtly critical of the Canada's economic history, the report suggests that Canada's economic path has been defined by an accelerating shift from transatlantic trade to trade with the United States. The commissioners suggest that the integrative effects of the negotiation of bilateral tariff reductions and the General Agreement on Tariffs and Trade (GATT) had rendered Canada deeply dependent on trade with the United States (Canada, vol I: 223, 228-229). Employing quantitative statistics to communicate its position on Canada's increasing economic dependence on the US, the commission contends that continuous integration is likely inevitable and that superstate "forces" are what has contributed to the failure of interventionist "Third Option" policies that had sought an inverse economic direction under the Trudeau administration (Canada, vol I: 236-239).[6]

As Keynesian economic theory came under attack in the late 1970s for its ostensible failure to adequately account for unemployment and inflation, the report devotes considerable attention to exploring emerging theory. Citing monetarist theory generally and the work of Milton Freidman specifically, the commission sets out to ground its proposals on monetary and fiscal policy in the now defunct theory of the Non-Accelerating Inflation Rate of Unemployment (NAIRU). Put simply, NAIRU rests upon the premise that the level of unemployment mirrors to some degree the level of inflation and

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[5] The commission's favour of the Chicago School of neo-conservative political economy is well pronounced in its treatment of monetary macroeconomic theory in volume II. There are some additional parallels between the political theory communicated by the commission and that of the Austrian School of political economy. Particularly, the commission's reference to the primacy of markets due to the alleged futility of the state in estimating or anticipating "knowledge requirements" resounds with the work of Friedrich Hayek (1944) and Ludwig Mises (1912).

[6] The commission cites a study drawn up by Anthony Westell (1984) that suggests that moves toward interventionist Third Option policies were partially spoiled by what were largely international pressures (Canada 1985, vol I: 299). These pressures, suggests Westell, contributed to the overall failure of the Third Option framework. The consequence, Westell argues, is that the Canadian economy moved gradually into what he terms status quo "First Option" policies.

that at a certain level of 'natural' unemployment (which varies from state to state), the rate of inflation tends to be 'non-accelerating'.[7] The report additionally subscribes to the 'no long-run trade-off' hypothesis in its treatment of inflation and unemployment, which posits that in the long-term there does not necessarily exist a compromise between the level of employment and the rate of inflation in the sense that the natural rate of unemployment (the NAIRU) can theoretically be manipulated by policy means. The commission's proposals with respect to income and adjustment assistance should be considered as part and parcel to its recommendations on monetary and fiscal policy given the following explanation for the commission's findings on unemployment and inflation.

> The level of NAIRU depends on the structure of labour markets and, possibly, on other institutional features of the economy. Factors that make for a prompt matching of supplies and demands for different types of labour, such as helpful information about job openings, high mobility of labour, and incentives that encourage people to take such jobs as are available, also make for a situation in which the unemployment rate can be quite low without leading to upward pressure on inflation: that is, they tend to result in a low NAIRU… To achieve lower rates of unemployment over the longer run is to reduce the NAIRU through policies supplementary to demand-management policies... this Report considers certain structural policies, including reform of the Unemployment Insurance system and other social safety nets that may make it possible to reduce the NAIRU (Canada 1985, vol II: 276).

While Canada has been successful in lowering the rate of inflation and cutting the deficit, achieving commendable success in employment and productivity has been elusive (O'Neil 2005: 25).[8]

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7 Insofar as the commissioners understood NAIRU, they framed it accordingly: "When unemployment stands above this rate, inflation will tend to decrease continuously. When unemployment stands below this rate, inflation will tend to increase continuously", thus highlighting the contemporary preoccupation with the rate of inflation (Canada 1985, vol II: 276).

8 On unemployment, O'Neil suggests that success "has been almost entirely cyclical… with respect to structural unemployment, we do not appear to have made much progress." (O'Neil 2005: 32). O'Neil suggests that the US is doing much better in this respect, achieving a NAIRU around 5 % compared to Canada's, which continues to hover around 7.5% (O'Neil: 33). Similarly, Reuber and Robson conclude that "in monetary matters, substantial improvements in the framework of policy have occurred in the wake of the Report. In fiscal policy, the framework remains unsettlingly undefined" (Reuber & Robson 2005: 42).

Figure 1 below is indicative of the degree of success that Canadian governments have had in their macroeconomic policies regarding employment, inflation, and the NAIRU hypothesis.

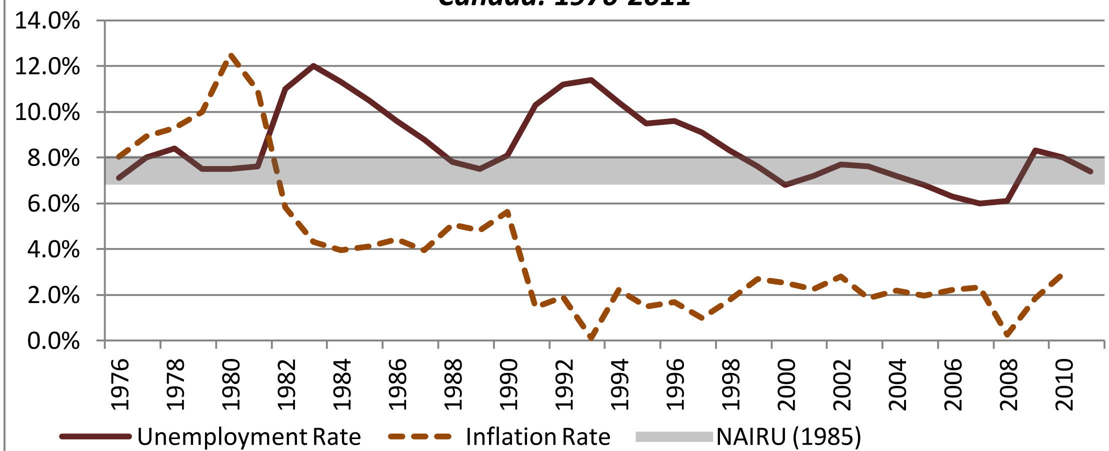


Figure 1: Unemployment and Inflation Rates (average annual %), Canada: 1976-2011

Source: Statistics Canada, Labour Force Survey estimates. CANSIM table 282-0002.
Inflation Rate Based on Consumer Price Index. Statistics Canada CANSIM table 326-0021.
NAIRU estimates established by Canada (1985, vol III: 432).

As is evident in the figure 1, there appears to have been some 'short-run' trade-off between the rate of inflation and level of unemployment around the NAIRU that was established by commissioners (between 6.5 and 8 per cent) in the early 1980s (Canada 1985, vol III: 432). As early as 1986, however, the 'natural rate' of unemployment that was non inflation-accelerating appears to have jumped considerably. By the 21st century, there seemed to be no evidence of short-run trade-off between inflation and unemployment and such little evidence of a long-run reduction in the rate of employment that theories surrounding NAIRU and the 'no long-run trade-off' principle fell out of utility. Though monetarists suggest generally that governments should focus on lowering the rate of inflation, the long-run effects that the commission argued monetary policies would have on employment and inflation have failed to materialise (as evident by no discernible drop in the 'natural' rate of unemployment). As figure 1 demonstrates, the level of unemployment that appears to control inflation remains between 6 and 8 per cent, while the rate of inflation is roughly 2% lower than the 'stable' rate of inflation between 1984 and 1988. The attention given by the commission to strong state-sponsored safeguards or a "set of adjustment measures [to] compensate Canadians disadvantaged by trade-related developments" is however a recurrent theme throughout the report that appears to provide the glue intended to hold together its proposals for sweeping reform (Canada 1985, vol I: 241; Canada 1985, vol III: 443-457). The crux of the commission's argument for such reform was not however primarily based on preoccupation with inflation or employment per se, but rather the commission's assessment on the future competitiveness of the Canadian economy.

Canada's Economic Future and the Competitiveness of Canada's Industrial Structure

The commission was nowhere more mistaken in its assessments than it was on the issue of the relationship between industrial structure and competitiveness. In terms of the commission's assessment of the competitiveness of the Canadian economy, four core assumptions are particularly salient. Regarding foreign investment— which had been a contentious topic throughout the Trudeau years and favourite among political economists and economic historians writing in the staples tradition— the commission's outlook is generally positive, concluding that domestic ownership was generally not cause for concern given that it was largely already achieved (Canada 1985, vol II: 155).[9] With respect to the structure of the economy, the commission adamantly cautions against future reliance on primary resource revenues. The report states that by 1985 Canada's readily available resources were largely depleted, exposing Canada to much stiffer competition from developing nations with more accessible stocks of timber, minerals, and fossil fuel. The commissioners additionally predict that the global prices

[9] The commission notes that "more than 50 percent of all major sectors of the economy is now owned by Canadians. Indeed, in recent years, Canadians have been net exporters of capital... in part, at least, this shift has been a result of the acquisition by Canadian companies of interests previously owned by foreigners... nevertheless, reinvestment of internally generated funds by foreign-owned corporations operating in Canada continued to be an important factor in maintaining the latter's presence in Canada" (Canada 1985, vol II: 155).

for primary staples would continue to sink, making the extraction of Canada's resource commodities less cost effective in the long run (Canada, vol II: 489). Given the preceding assumptions on the structure of the Canadian economy in the early 1980s, the commission directed the majority of its analysis to dimensions surrounding the competitiveness of the secondary sector—Canadian manufacturing.[10]

The commission devoted hundreds of pages to analysis of industrial policy in its effort to discern a method by which Canadian manufacturing could become internationally competitive. The idea that the recession of the early 1980s was particularly worrisome for Canada relative to the United States colours the language of the report generally and its discussion of industrial policy and export competitiveness particularly (Canada, vol II: 45).[11] In an effort to isolate the variable that distinguished the level of Canadian competitiveness from that of the United States, the commission contends broadly that the cold climate, small and dispersed population, and vast geographical expanse make capital formation particularly tedious in Canada, not least because massive investment in energy and infrastructure tends to crowd out investment in manufacturing (Canada, vol II: 85). The result, according to the commission, is that technology diffusion is unusually slow within Canadian value added industries and protection of inefficient firms only exacerbates disadvantages inherent to Canadian manufacturing. The commission thus theorises that by removing the protection that leads to rigidities in inefficient firms "specialisation and longer production runs, which would enable producers to spread the costs of new technologies over a larger output" would materialise (Canada, vol II: 93). The logic here is that forced rationalisation would make it more feasible for firms to adopt new technologies early on and "more costly to postpone

[10] The commission thus reiterates the importance of future employment in the secondary and tertiary sectors several times throughout the report, contending that "Canadians can expect no net gain, in the future, in resource sector employment: instead a growing proportion of Canadians will find their jobs in factories or offices" (Canada 1985, vol I: 241, 52).

[11] The commission therefore argues that Canada is especially vulnerable to the global business cycle given the idiosyncrasies of the economy and country's geographic and infrastructural characteristics (Canada, vol II: 199).

such adoptions" (Canada, vol II: 93). Regarding the validity of state-led development of new technologies, the commission is pessimistic and relies heavily on the findings of the Wright Taskforce, suggesting that government R&D schemes had become plagued by "excessively bureaucratic management" (Canada, vol II: 101). Despite some belief that the 1970s constituted a decade characterised by interventionist industrial policy, the report stresses that only manufacturing industries that were tied to resource processing benefited from policy instruments during this decade (Canada 1985, vol II: 148).[12] The commission concludes that even the tax system was "largely neutral as an industrial policy instrument within the manufacturing sector" (Canada, vol II: 147). Instead, the report highlights increased use of discretionary programs geared toward manufacturing throughout the 1970s as problematic, such as Industrial Regional Development Program (Canada, vol II: 147). The question to be answered by the commission was thus not whether Canada should stay the course in its targeted strategy, but whether Canada should adopt a framework of comprehensive targeting to begin with.

Though the 'East Asian industrial policy debate' receives occasional mention within the report, the authors largely draw from European examples in their assessment of industrial strategy. Given the emphasis put on the merits of a comparative (though selective) approach in the report, the commission's evaluation of the European Community (EC) is in depth and nuanced. In the realm of "non-market" industrial strategising, the commissioners contend that an EC division of specialisation is not working well (Canada 1985, vol I: 178). The commissioners suggest, however, that where industrial policy has been successful in Europe, it has been within and between those states with more corporatist modes of governance (Canada, vol I: 179). Despite advocating some form of labour-management relations in its consolidated recommendations (Canada 1985, vol III), the commission concludes that "Canadians are precluded from opting for tripartism, in which state, business and labour collaborate across a broad

[12] The commission contends that most direct expenditure had been curtailed by the end of the 1960s and that most mechanisms later on were regulatory (Canada 1985, vol II: 148).

range of economic policy domains… by the dispersal of power in the federal system and by the absence of centralized organizations of business and labour" (Canada, vol I: 71). Provincial jurisdiction in several economic areas therefore renders federal-level planning in the eyes of the commission as redundant and ineffective, contributing to a view that, "while federalism does not entirely undermine, it certainly dilutes, our enthusiasm for a state-led, highly interventionist, industrial strategy" (Canada, vol I: 38, 71). The commission thus summarises its findings on industrial policy as follows:

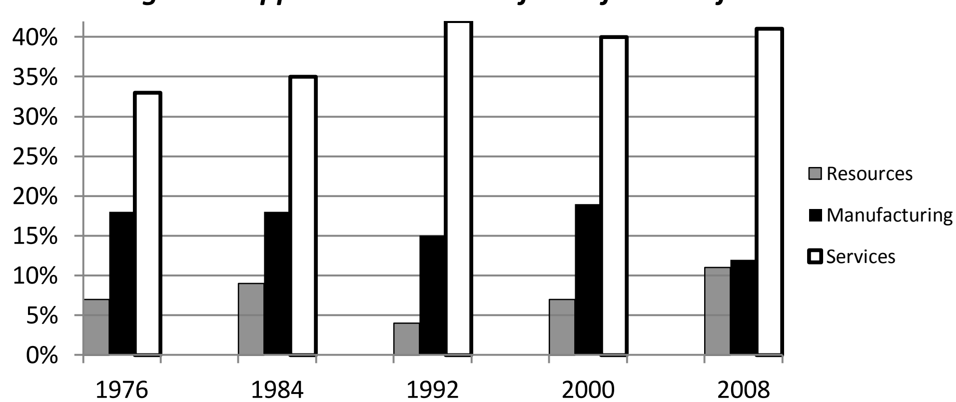
> Overzealous attempts by governments to engineer comparative advantage can prove highly disruptive to traditional concepts of 'fair' trade, for there is little doubt that a state has the potential—if willing to dedicate sufficient resources—to capture a significantly greater share of a particular market… but to the extent that a country's competitive position can be enhanced by some form of industrial strategy or targeted approach, other governments might seek to counteract such advantages by special measures of their own (Canada, vol I: 194).

The commission thus cautions against any semblance of a planned approach to industrial development and diversification in the absence of any wholesale global shift toward industrial planning and protection (Canada, vol I: 272-273). Arguing against both a "defensive strategy" put forth by Abraham Rotstein as well as the preferred industrial policy proposed by Richard Harris, the commission cites disincentive on the part of business to achieve efficiencies and innovate in a protected economy (Canada, vol I: 270; Canada 1985, vol II: 182). The commission suggests instead that "our trade dependence on the American market, which had evolved, in spite of our efforts of diversification, over recent decades has convinced this Commission that we concentrate our efforts on obtaining secure access to the American market, on which continental economic forces have made us increasingly dependent" (Canada, vol I: 71).

The commission thus provides a summation of its general recommendation for market-oriented policies and continental free trade, stating that "governments do not have monopolies of insight… we believe, however, that Canadians are less in tune with the world and their future, and more concerned with our nation's present domestic problems than circumstances warrant" (Canada 1985, vol I: 70, 75). The general attitude of the commission is thus that Canada's domestic problems ought to be solved by global solutions. This logic is somewhat based on an inclination toward theories of path dependency, in that the commission stresses that the direction of Canada's future had already been determined by previous bilateral arrangements with the United States and the multilateral GATT framework. In formulating its general recommendations, however, the commission takes issue with the efficacy of GATT, arguing that "the political will and international institutional machinery have not kept pace with… growing interdependence" and that the insufficiency of the multilateral system has led to the "growth of regionalism" (Canada, vol I: 244-245). The commission therefore takes an adversarial view of the EC, perceiving continental Europe as a preferential common market that has had disastrous consequences for Canadian exports (Canada, vol I: 245). Only the negotiation of a North American regional bloc to act as a competitive bulwark against the EC, argue the commissioners, would strategically counter European advantage and provide a guaranteed market for Canadian exports. The economic logic of free trade, as is stressed repeatedly within the report, is geared primarily toward bolstering the Canadian manufacturing sector by opening it to competitive forces and securing a market for Canada's finished products. Liberalisation, according to the commission, would allegedly overcome the branch-plant nature of the Canadian economy by opening domestic manufacturing to product specialisation and, eventually, economies of scale (Canada 1985, vol I: 273). Commenting on "technological gaps" and their influence on a wave of industrial policy that was preoccupied with technology-intensive industries in the 1980s, the commission outlines its proclivity for a crude version of Porter's cluster theory (Canada, vol I: 116-117; Porter 1990). Admitting that "nations with strength in one sector of a rapidly developing field have entrée to all its sectors, an opportunity which increases the overall fund of knowledge and techniques open to their industries and institutions", the commission reverberates strongly with Kerri Levitt's contention regarding the grim prospects for indigenous research and development in a branch-plant economy (Canada, vol I:. 347; Levitt 1970). Though the report is sympathetic to notions of "learning by doing", the commissioners contend that the role of the state ought to be curtailed when it comes to technology diffusion, stating that "governments often do not anticipate national and international political repercussions of technological advance and react only belatedly and ineffectively" (Canada, vol I: 161, 117).

The notion that Canadian manufacturing would rationalise and expand under free trade conditions is not borne out empirically. Though output growth in the manufacturing sector appeared to improve by the late nineties, figure 2 is demonstrative of very little change in the manufacturing sector's share of GDP between 1984 and 2000 and a decline of manufacturing's share of GDP into the current recession.

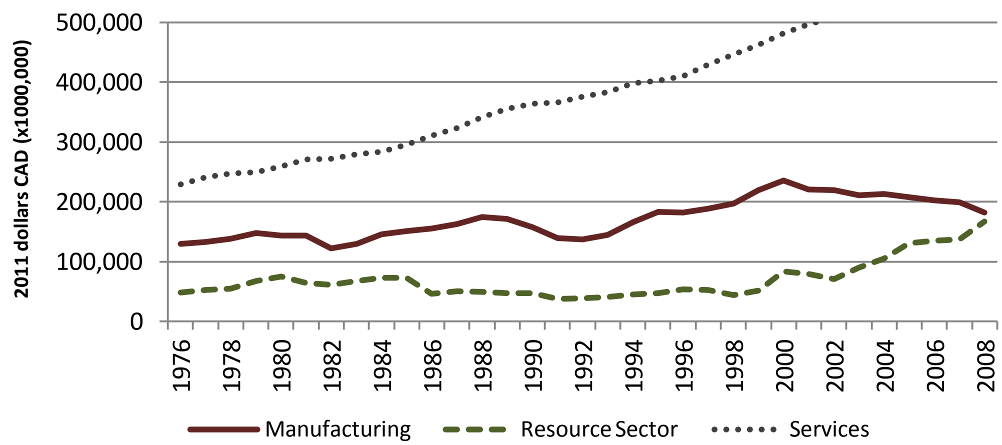
Figure 2: Approximate Share of GDP from Major Sectors



Source: author's calculations based on Statistics Canada CANSIM table 379-0023.

Though the tremendous growth in Canada's service sector is the most remarkable feature of the data, figures 2 and 3 are indicative of the dire miscalculations of the commission regarding demand for oil and gas into the 21st century. Considering the importance the commission placed on the benefits of free trade for Canadian manufacturing, the narrowing gap between the share of GDP from primary and secondary sectors is striking.[13]

Figure 3: GDP Output Per Sector 1976-2008 (inflation adjusted)



Source: author's calculations based on Statistics Canada CANSIM table 379-0023.

The reasons for such unforeseen developments in the structure of the Canadian economy may have to do with the commission's differential treatment of primary and secondary sectors in their recommendations surrounding support and intervention. While the commission advocated considerable state oversight in resource-based R&D and capital-intensive projects, the report explicitly rejected at least two comprehensive frameworks for industrial strategy (cf. Rostein 1984; Harris 1985). Subsequent state-facilitated development of Canada's unconventional resources therefore put primary industries at some advantage relative to other sectors and likely served to crowd out investment and dry up capital that would otherwise have been directed to Canadian manufacturing.[14]

[13] The data presented does not include the share of GDP derived from agriculture.

[14] This is nowhere more the case than in Alberta, where successive governments have been active in developing the non conventional oil deposits in the Athabasca region—an undertaking with returns taking over thirty years to materialise (Hester & Lawrence 2010).

Forgotten Recommendations on Canadian Industrial Policy

In spite of the commission's overall recommendation that Canada pursue a predominantly hands off industrial policy, it would be misleading to suggest that matters of industrial strategy were so easily shelved by commissioners. Though the commission was enthusiastic about the level of domestic investment in Canadian industries, the report highlights several areas of concern. On the perceived strength of the Canadian manufacturing sector, the commission suggests that the peak era for growth in secondary industries was confined to the 1960s and that by 1981 manufacturing had returned to its 1947 share of the GNP (Canada 1985, vol II: 29). The perceived decline of Canada's primary industries served to further raise the stakes involved in the smooth adjustment of Canadian manufacturing toward world class standards. The commission is therefore sensitive to issues surrounding the importance of long cycle investment and consequent industrial planning in Canada seeing that managerial competence and levels of Canadian entrepreneurship and productivity are cited by the commission as struggling relative to Canada's competitors (Canada, vol II: 112-113). Quoting a contribution to the commission, the report addresses the notion that "in some cases the low quotient of entrepreneurship is because the company is simply a 'branch plant' and lacks the skills and, more importantly, the mandate for diversification and further processing", though calls primarily for state intervention in the pursuit of innovative management in Canada, not state intervention for the national development of innovative technology as such (Canada, vol II: 113).

Acknowledging the need to create a national framework whereby industrial management could be rationalised with government assistance, the commission highlights manifold institutional challenges. Given the growth of regionalism into the 1960s and 1970s, the commission suggests that these two decades were somewhat defined by the use of provincially-owned public enterprises in the promotion of regional development (Canada, vol II: 142).[15] While the commission notes that Crown corporations serve important public policy functions and that there is no evidence to suggest that Crown corporations are any more or less efficient than private firms, the commission acknowledges that governments may wish entertain privatisation schemes nevertheless (Canada, vol II: 227).[16] While not articulated very meaningfully, the commission's argument concerning privatisation discernibly relates to the overall logic that international markets promote adaptation and rationalisation of firms that are vulnerable to their discipline. As such, the commission favours deregulation over privatisation, though advocates for specific privatisation within sectors which it felt Canada can and should be internationally competitive, such as in air transport and telecommunications (Canada, vol II: 232).[17]

While the commission champions the benefits of international competition in the case of deregulation, the report advocates for a continued role in federal investment review. On this matter, the commissioners conclude that the Foreign Investment Review Agency "has increased the sensitivity of foreign investors to Canadian social values and economic goals" in the advance of "standards of good corporate citizenship" (Canada 1985, vol II: 239). The commission, however, takes several issues with

[15] The commission notes that "of the 233 Crown corporations identified in 1983, 76 had been created after 1960, and 48 after 1970" indicating that these enterprises were employed to use provincial resources to broaden local economic bases. The commission contends further that "some provincial policies were introduced to counter federal policies that were seen to be discriminatory or ineffective" (Canada 1985, vol II: 142). Though the commission notes that provincial spending on industrial policy had been rolled back significantly by the late 1970s, Alberta and Saskatchewan continued to engage in provincial industrial strategising until the late 1980s (Smith 2001; Rasmussen 2001).

[16] The commission contends that "while government ownership of industry has increased in Canada, it is still not large either by European standards or by comparison with governments' industrial holdings in developing countries such as Brazil, Mexico, or India"; however, "if a government enterprise is no longer serving a goal of public policy, then we might legitimately ask why it should not be privatised. In part, at least, the answer is likely to depend on one's ideological view of whether government should be involved in a business enterprise except to serve a purpose of public policy. Commissioners are inclined to believe that the majority of Canadians would agree that government should not be involved except for pressing reasons of public policy…. If we put ideology aside, the primary issue is whether the privatisation of such corporations would increase their efficiency. The available evidence suggests that private ownership of such corporations will probably not result in increased efficiency in most instances. Rather, it appears that by itself, would produce little or no improvement in productivity" (Canada, vol II: 229).

[17] In this sense, the commission advocates privatisation in instances where "government enterprise may operate at a distinct and fundamental disadvantage in relation to its privately owned competitors. In these circumstances, privatisation would increase efficiency and profitability. One field might consist of high-technology, market oriented industries in which public accountability and bureaucratic rigidity are incompatible with prompt and flexible responses to changing conditions and circumstances", adding that "while privatization may not lead to more efficient operations at the firm or market level, it might result in simpler and more efficient government" (Canada, vol II: 229-230).

the FIRA process, such as the low thresholds on what proposals come up for mandatory review and a lack of transparency regarding FIRA's decisions (Canada, vol II: 240). The commission thus recommends FIRA reform to the end of establishing a "quasi-judicial administrative tribunal", the main advantage of which would be its ability to employ public hearings and to provide written reasons for government action (Canada, vol II: 240). The ultimate rationale for the reformed investment review arm—to be renamed Investment Canada—rests on creating the means for the government to collect and analyse statistics for the purpose of determining the appropriate direction of investment and the facilitation of technology transfer (Canada, vol II: 242). The logic behind such a hands-off mechanism for investment review likely lies in the commission's positive assessment on the future of Canadian ownership. Such an assessment, however, appears to have constituted a grievous error in judgement. As Jackson (2003) and Clarkson (2008) note, the post CUFTA years have been marked by lacklustre investment in Canada on the one hand and frequent instances of capital flight on the other—especially in manufacturing industries.[18]

In spite of the commission's somewhat relaxed attitudes on investment review, the report calls for accelerated levels of government oversight and coordination on "mega projects" and "key transportation decisions" given that "the complex consortia of firms involved in a large-scale resource undertaking usually ask governments to provide substantial subsidies or at least to share a significant proportion of the risks involved" (Canada 1985, vol II: 256). In transportation and communications, the commissioners conceive of a strong continuing role for Crown corporations and, despite the commission's pessimistic projections on the future of the Canadian resource economy, continues to advocate for the development of the requisite backward linkages to keep primary industries afloat

[18] Jackson (2003: 7) agues that, post NAFTA, "changes in FDI flows and stocks as between Canada and the US have been roughly balanced, though there has probably been more 'real' Canadian investment in the US than 'real' US investment in Canada".

(Canada, vol II: 256). In this respect, the commission's treatment of the resource sector is somewhat unusual if one considers the overall logic of the report. For instance, the report contends that "regardless of the method used to increase Canadian oil production, projects will have to be virtually free of taxes if they are to succeed… economic rents cannot be extracted if there are none to be had" (Canada, vol II: 491). The commission justifies its logic concerning the development of non conventional resources by stating that "even projects that yield no economic rents can be of immense benefit to the economy if, while yielding a reasonable return to the operators, they provide employment and produce oil that is competitive with world oil prices, thus reducing our reliance on imports" (Canada, vol II: 491). Similarly in contrast to the commission's views on foreign investment and ownership in other sectors, the commission suggests that there is an added case for Canadian ownership within the oil and gas industry (Canada, vol II: 501-502).[19] The commission justifies the use of government intervention in the resource sector by arguing that "research has a large pay-off, but often the benefits seem too distant to the producer of the resource to justify the expenditure… we recognise that there must be a renewed Canadian effort in fundamental research, especially in the traditional resource industries, if Canada is to match progress in competitor countries" (Canada, vol II: 533).[20]

A Mixed Framework on Intervention and Liberalisation

The industrial policy favoured by the commission is thus geared toward exposing the Canadian manufacturing sector to the discipline of international markets while simultaneously 'targeting' primary

[19] The report argues that "a secure supply of oil and gas is vital to a country's well-being, yet the international petroleum market-place has been dominated by OPEC, whose interests are often at odds with those of Canada... furthermore, it would be dangerous to leave our fate entirely in the hands of multi-national oil companies. The actions of Canadian-owned firms – especially public firms – are more likely to be consistent with expressed Canadian goals... in addition, it is a matter of national pride to have a robust domestically owned presence in this high-profile international sector... for these reasons, this Commission favours tilting both the land-tenure system for Canada Lands and the incentives system in favour of Canadian firms to the extent that that policy [sic] is compatible with our international obligations" (Canada 1985, vol II: 502).

[20] It should be noted that the commission also advocates similar intervention in the environmental sciences and in environmental management schemes, arguing that "the institutional capacity to provide scientific advice on a systematic basis is essential" (Canada, vol II: 533).

sectors so that Canada's unconventional resource reserves might outstrip more efficient international competition. Though these measures may logically serve the purpose of maintaining primary sector share of GDP in declining primary industries, they do little to alleviate unemployment due to the non labour-intensive nature of primary industries. Given the sweeping changes that the commission envisions for Canada and the commission's sensitivity to short term job losses, considerable attention is afforded to integrating a transition assistance scheme into the overall proposal for a reintegrated Canadian industrial policy. Considering that the financing of the proposed transition assistance scheme hinged upon recommended changes to the existing unemployment insurance (UI) system, the commissioners stress that "the benefits of reforms will be greatly amplified if governments treat our proposals as a single package" (Canada 1985, vol II: 521, 612). In making the case for the social assistance dimension to the proposed framework, the commissioners emphasise the following:

> The UI changes will make our economy more dynamic by encouraging the expansion of more efficient industries and avoiding the payment of inappropriate cross-subsidies to less efficient firms and sectors. These are important changes are well worth considering in themselves, but used alone they would cause substantial hardship to some Canadians. If, however, they are implemented in conjunction with a Universal Income Support Program (UISP), the combination will offer substantial compensation for any negative effects, while most of the desirable effects will be retained. If the net savings generated by our basic changes in unemployment insurance are also redirected into a Transitional Adjustment Assistance Package (TAAP)—a very important step, in this Commission's view—individuals will be even better able to cope with the economic adjustments which we foresee (Canada, vol II: 541, 612).

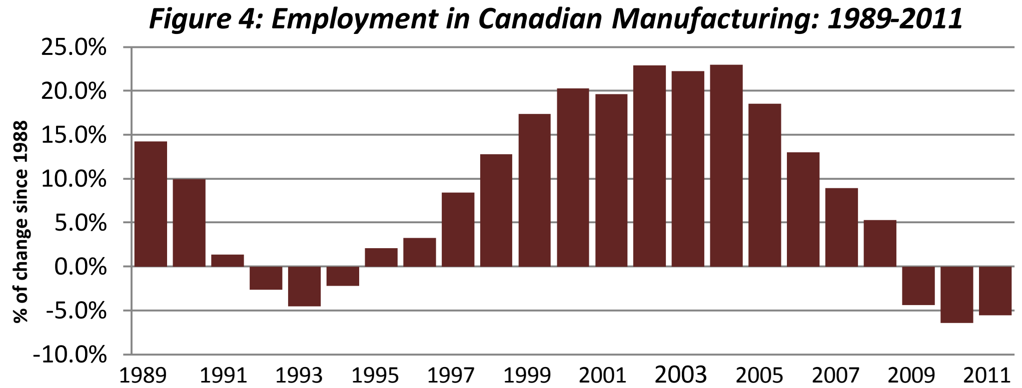
In addition to the introduction of TAAP and the UISP, the commission advocates the creation of institutions designed to move business and labour into a non-adversarial relationship. In advocating the need for Canada to adopt "Japanese style" human resource management and consultation, the report suggests that the institutional mechanism most likely to succeed in bringing about desirable changes would be a bipartite labour-management organisation called the Canadian Labour Market and Productivity Centre (Canada, vol II:709-711, 716). As is well known, none of the aforementioned programmes were subsequently implemented.

Instead of a smooth transition from an inefficient branch-plant economy toward a rationalised and prosperous manufacturing sector, Trefler recalls that by the 1993 “low water mark” manufacturing employment had declined by 5 per cent and seemed “headed for oblivion” (Trefler 2005: 111).[21] Concluding generally that free trade did not lead to improvements in plant-level productivity, Trefler argues that industry-level productivity gains primarily resulted from considerable plant closures (Trefler 2005: 117). Concerning the interplay between productivity and employment, Trefler suggests that, while exporters expanded substantially, this did not have an impact on employment due to raising productivity, thus “the US tariff cuts had no impact on employment by exporters... however, because these exporters were also expanding in the Canadian market, non exporters fired about 12 percent of their workforce... the net effect was lost jobs in the export-competing sector, not job gains” (Trefler 2005: 117-118).

Figure 4 below demonstrates the employment patterns over time in Canadian manufacturing industries using 1988 as a base year for comparison.[22]

[21] The social climate, according to Trefler became tense to the point that union leaders were gaining credibility in their claims that the country had been betrayed— a claim to which Trefler adds “as a supporter of the Agreement, I felt that I numbered among the betrayers and that my three post-graduate degrees in economics has blinded me” (Trefler 2005: 111). Trefler qualifies this statement, noting that “for industries that were subject to the deepest Canadian tariff cuts (import competing industries), employment fell by 12 percent… unfortunately, these jobs were not picked up by the industries that experienced the deepest U.S. tariff cuts (export-oriented industries)” (Trefler 2005: 113).

[22] Calculated using Statistics Canada Labour Force Survey estimates via SDA from CHASS (University of Toronto). Annual comparisons are made using the weighting variable ‘fweighta’; manufacturing industries are classified by combining ‘5 and 6’ on the ‘NAICS 18’ variable; employment figures are calculated combining ‘1’ and ‘2’ on the ‘LFSstat’ variable.



Source: author's calculations based on Statistics Canada Labour Force Survey Estimates. Adapted from Trefler (2005).

As evident by the data presented in figure 4, employment in manufacturing industries fared quite poorly into the 1990s, culminating in a peak increase from 1988 levels of about 23% between 2002 and 2005 before falling 6% below 1988 levels in 2010. The unemployment trends presented earlier in figure 1 are illustrative of the fact that, as Trefler suggests, jobs lost in non-competitive manufacturing industries were not typically picked up in other sectors in the 1990s. Though Trefler's conclusions regarding productivity growth are mixed, the idea that Canadian manufacturing would experience rationalisation and thus "strengthen and diversify" under free trade as the Macdonald Report suggests is virtually impossible to sustain (Canada 1985, vol III: 417).

Leap of Faith: the Commission's Appraisal of the Politics of Integration

Given the commission's generally negative assessment of targeted industrial strategy and its consequential proclivity for free trade, the political aspects of negotiating a free trade agreement suited to Canadian realities occupy a significant portion of the report. The commission confronts the options for integration by framing three distinct routes that Canada could take: these are a common market, a customs union, or a free trade area. Like the "big idea" framework proposed by Wendy Dobson (2002) almost twenty years later, the common market and customs union are framed as sitting at two extremes between almost complete harmonisation and North American protectionism. The commission thus advocates for the moderate option of a free trade area, justifying this preference as one that guarantees market access without restricting political or economic autonomy (Canada 1985, vol I: 303-307). The idea of an industry-specific approach is entertained by the commission, though sectoral liberalisation is deemed undesirable due to a perception that it would violate provisions made under Article XXIV of the GATT surrounding liberalisation and territorial free trade (Canada, vol I: 303-305;WTO 2012).[23] The issue of harmonising a bilateral agreement with the United States with existing GATT rules is warranted priority given a perceived US penchant for legal "harassment" over sector-exacerbated technical minutiae and retaliatory use of non-tariff barriers (NTBs) (Canada, vol I: 286, 305).

In addition to arguing that the multilateral framework was not up to date with the realities of global integration, the commission stresses that in multilateral discussions Canada is not politically influential enough to take the lead (Canada 1985, vol III: 416). Concerned over US, EC, and Japanese tendencies to make more habitual use of NTBs than Canada, the commission suggests that it is in Canada's best interest to take the initiative in negotiating a bilateral agreement that is in the general spirit of the GATT (Canada, vol III: 264).[24] Though generally convinced that the future of Canada's economy did not lie in resource industries, the commission is especially wary of US trade retaliation using NTBs against resource exports (Canada, vol III: 344). It is important to note, however, that the commission did not foresee any reversion to a hinterland-metropole continental orientation as a consequence of bilateral free trade; on the contrary, the commission assumed that considerable safeguards would be negotiated for "exhaustible resources" and that the reduction of tariff and non-tariff

[23] The strategy envisioned by the commission involves using Article XXIV as a legal framework by which the United States would presumably be bound to observe the rules of the Canada-US free trade agreement.

[24] The commission stresses its perception of the United States as increasingly wary of its displays of good faith in multilateral negotiations not being reciprocated by its trade partners, thus intensifying the need for Canada to take initial steps in order to show the United States that Canada is serious about trade liberalisation (Canada 1985, vol I: 296).

barriers would serve the primary purpose of invigorating Canada's manufacturing industries relative to the resource sector (Canada, vol III: 310-311).

To provide time for adjustment, the commission envisioned a gradual elimination of tariffs whereby Canada would be granted preferential time limits to remove its tariff barriers (Canada 1985, vol I: 310-311).[25] On this note it is essential to stress that the crux of the commission's assumptions regarding Canadian comparative advantage in manufacturing rests on the notion that a free trade agreement would involve the removal of nearly all NTBs, most notably Buy American legislation regarding government procurement (with particular reference to mass- and rapid-transit industries where Canadian manufacturers were said to have an advantage) (Canada, vol I: 316, 343).[26] The commissioners suggest that if NTBs were removed, Canadian manufacturing would achieve economies of scale and carve out competitive niches, first within North America before becoming competitive in overseas markets (Canada, vol I: 375). Domestically, the commission confronts the issue of provincial jurisdiction over areas concerning NTBs by suggesting that the provinces should be brought into line via an overarching federal arrangement intended to harmonise NTBs both federally and internationally via a Canadian "code of conduct" in matters pertaining to trade (Canada 1985, vol I: 364; Canada 1985 vol III: 391-393). The commission admits that such an arrangement would require the exercise of "executive federalism" and a great deal of federal-level "behind the scenes" bargaining between stakeholders to the "exclusion of legislatures", but argues that "trade policy has always been conducted in this manner" (Canada, vol I: 364).[27] With respect to provincial authority over matters concerning NTBs, the commission is therefore confident that a trend toward increased provincial jurisdiction in the realm of

[25] Why the United States would agree to this is not adequately explained by the commission.

[26] The commission calls for "detailed codes of national conduct for controlling government procurement, product standards and customs procedures" and assumes the treaty will be strengthened by national laws (Canada 1985, vol I: 316, 375).

[27] It is precisely this attitude that has prompted critical Canadian political economists to highlight an inherent "democratic deficit" to the negotiation of Canada's international trade agreements (McBride 2005; McBride & Whiteside 2011).

NTBs could be successfully reversed and reconstituted within a federal framework that would serve to strengthen the federal state in relation to the provinces (Canada, vol I: 364, 368).

WEIGHING THE EVIDENCE

In order to properly assess the accuracy and efficacy of the Macdonald Commission's assumptions and recommendations it is important to establish falsification criteria. The logic of the commission was essentially that by embracing free trade Canada's would:

- experience an overall reduction in the level of unemployment, while taming inflation through manipulation of the NAIRU
- improve productivity and raise the standard of living for the vast majority of Canadians
- rationalise its manufacturing sector, achieve economies of scale in specialised niches and become globally competitive
- witness a structural shift away from dependence on primary industries, culminating in a higher share of employment and GDP in secondary and tertiary industries.

While the standard of living in Canada has undoubtedly increased, the very modest ability of Canadian industries to establish competitive niches leaves much to be desired from a policy perspective. The observation that the Macdonald Commission's macroeconomic recommendations have outshone its fiscal and social policy prescriptions is odd considering that, as Laidler notes, the commission took a bolder approach to labour market and social policy issues than it did to those concerning macroeconomics (Laidler 2005: 178). On this note, it is arguable that monetary policies aimed at reducing inflation were easier to implement politically than were fiscal policies aimed at structurally lowering the natural rate of unemployment.[28] In terms of productivity and living standards, O'Neil remarks that rather than narrowing the income gap with the US, we have experienced a widening of it (O'Neil 2005: 34-35). Suggesting reasons for Canada's lacklustre performance, O'Neil contends that these failures relate to instances where the recommendations of the commission were not adopted or were incompletely implemented—especially with respect to employment insurance (O'Neil: 36-37). Riddell similarly identifies government's failure to act on the commission's institutional prescriptions, namely those regarding labour-management relations, as a major hindrance to productivity success, though acknowledges the political infeasibility of UI reform in the midst of recession (Riddell 2005: 60).[29]

On the unfulfilled promise that Canadian manufacturing would rationalise into the 21st century, there is an additional point to be made regarding the specific industries within the secondary sector. Cohen, in taking issue with the economic assumptions employed by the commission in their forecast modelling, comments particularly on the unlikelihood of certain Canadian industries rationalising to the extent that the free trade models predict due to the predominantly branch-plant nature of Canada's manufacturing sector (Cohen 1986: 31). Cohen argues that the rationalisation prediction made by the commission and their quantitative models assumes a rationality that is in discord with Canada's industrial circumstances, given that American owned Canadian subsidiaries would have no rational incentive to gear their production toward capturing US markets that are already dominated by their

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28 Laidler suggests that "much more striking in 1985 than now was the Commission's acceptance of the idea that unemployment tends to fluctuate around a long-run level — a non-accelerating inflation rate of unemployment (NAIRU) — that is not susceptible to monetary and fiscal policy, but can be affected by micro measures. Proposals to introduce the experience rating of employers into the unemployment insurance system and to remove regional differences in the program's generosity, among other modifications, were explicitly aimed at reducing the NAIRU, and accurately so in the light of much subsequent research. Political obstacles rather than economic doubts have, however, prevented meaningful reform to this day" (Laidler 2005: 178).

29 Riddell argues that "in labour-management relations, the diagnosis was lengthy and the prescriptions relatively minor" and goes on to suggest that "[l]abour-management relations subsequently became a relatively inactive area of public debate and research" perhaps due to the relative decline in the power of organised labour in Canada since the mid-1980s (Riddell 2005: 60). Riddell argues further that while the Forget, Macdonald, and Hawkes reports of the 1980s all advocated adjustment assistance, policies remotely similar to TAAP were not implemented until a decade after the Macdonald Report and even then "changes in these areas were not as sweeping as those proposed by the Commission" (Riddell: 63).

parent firms (Cohen 1986: 31). Cohen's critique of free trade assumptions appears to be well founded, given that the Harris-Cox model championed by the Macdonald Commission emphasises "welfare results" regarding wages, productivity, and employment in the manufacturing sector in both of the models employed to assess the impact of free trade on the Canadian economy.[30] Stanford (2005) similarly critiques the techniques that emerged victorious in the free-trade modelling "sweepstakes". Arguing that time has proven wrong those that championed "win-win" growth across all affected states, Stanford points out that more robust models had predicted negative or only modest impacts of liberalisation but were entirely ignored (Stanford 2005: 35-36).

The models employed by Harris and Cox arguably serve to weaken their own assertions regarding rationalisation in that "raising tariff barriers beyond the initial levels [do] not significantly diminish the efficiency of the manufacturing sector relative to initial levels" (Harris & Cox 1984: 124). Rather, according to Harris and Cox, it is the "other variables" that are "affected more significantly" that justify trade liberalisation, such as the size of the trade deficit and a drop in wages to "about 92 cents from an initial level of 95 cents" (Harris & Cox: 124). Fred Lazar (1980) cautioned against the

[30] Under unilateral free trade (UFT), five out of twenty industries are supposed by the model to increase employment, while in fourteen of the twenty manufacturing industries, output increases are more than 10 per cent (whereas in the non manufacturing sector, all output changes are less than 10 per cent) (Harris & Cox 1984). Sectorally, Harris and Cox identify only four "losers" under their multilateral free trade (MFT) model— leather, furniture and fixtures, machinery, and miscellaneous manufacturing— and champion the "incredibly large number of winners" considering that "eighteen out of twenty-nine industries experience an increase of 10 per cent or more in their value added" (Harris & Cox: 108-109). Though the extent of liberalisation that was achieved under the 1995 WTO framework is contentious, Harris and Cox advocate for gains to be expected under the UFT model despite their relative modesty to those expected under MFT. On bilateral free trade, Harris and Cox qualify their findings, suggesting that failure to secure an MFT framework alludes to fact that "protection in foreign markets is expected to be a likely occurrence" but that "under UFT, a significant portion of total employment will occur in export industries… despite such industries being vulnerable to protection in foreign markets" (Harris & Cox: 146-147). In a cautionary note, Harris and Cox stress that "government contingency policies should be prepared which will mitigate these losses and provide some even-sharing of the costs across regions and industries should protection occur". Along this vein, Harris and Cox note that "while perfect competition is perhaps an appropriate assumption for an economy like the United States, it is not self-evident that it is justified for the Canadian economy or other small open economies… [t]he important point is that there is a major gap in the analytical framework of economics dealing with the issues of trade and industrial organization…. [u]ntil this gap is filled it will be difficult to come to grips with either trade policy or discussions of industrial strategy" (Harris & Cox 1984: 7). Harris and Cox continue, suggesting that "the traditional doctrines of comparative advantage as developed in the Heckscher-Ohlin neoclassical theory of trade are quite inappropriate for the Canadian economy" (Harris & Cox: 8). Aside from using data from the 1970s, Harris and Cox admit that "the analysis is entirely static and long-run…. [t]hus, no account is taken of adjustment costs, technological change, or dynamic forms of competition thought by some observers to be particularly important in the 1980s" (Harris & Cox: 145).

negotiation of a FTA due to structural issues in the Canadian economy that both Cohen and Harris acknowledge—albeit while arriving at very different conclusions. Lazar argues that the weak structure of Canadian manufacturing and consequent political weakness in trade negotiations would serve only to exacerbate power imbalances that serve to invite strong states to "cheat" under free trade arrangements (Lazar: 81). Lazar thus predicts the dissolution of any foreseeable bilateral arrangement owing to apparently insurmountable perceptions of "unequal gains" considering that the United States would presumably have to cede substantial concessions to Canada for a bilateral treaty to be advantageous from the Canadian perspective (Lazar: 65-66). Indeed, it is arguable that the anticipated perception of unequal Canadian gains from the American point of view led commissioners (and subsequently officials sent to negotiate the FTA) to advocate a strategy of routinely tilting Canada's hand during negotiations (Ritchie 1997). Lazar therefore ultimately rejects the feasibility of a bilateral arrangement in favour of a "fair trade" arrangement predicated on "transparent" industrial strategy and government cooperation with Canadian-owned firms (Lazar: 66-69-76). The common-sense popularity of a hybrid approach between trade liberalisation and a targeted industrial strategy should not be understated, particularly considering that Harris ultimately advocated for a targeted industrial policy and sectoral free trade.

The tension inherent to the commission's unwavering choice of free trade over other popular interests exploded in the wake of the report's publication. Despite Macdonald's ex-post assertion that the 1988 electorate "made the choice" (Macdonald 2005b: 11), Inwood notes that 60% of the vote in the 1988 election was against Mulroney's Progressive Conservatives and that the majority of the submissions to the commission were "opposed to neoconservative continentalism" (Inwood 2005: 302). Even within the business community, Winham argues that the competitiveness of Canadian industry was highly doubted and that "security of access was a safer and more politically acceptable theme" and thus one that became touted by Macdonald and Peter Lougheed as they shared the burden of convincing the country of the benefits of free trade (Winham 2005: 103). In spite of considerable effort by the commission to develop a somewhat coherent free trade framework by way of an incomes policy and manipulation of the NAIRU, Doern and Tomlin note that the commission's social and labour market proposals were forgotten in the rhetoric of the free trade debate (Doern & Tomlin 1992: 56-57; Calvert 2007). Commenting on the loss of Canadian sovereignty in fragile sectors of the economy and frustration over an inability to eliminate American NTBs, Trefler argues that "we got rules that both went too far (the expropriation clause) and rules that did not go far enough (softwood lumber)" (Trefler 2005: 111).

Considering the trends toward disintegration of the Canadian economic and political union post-FTA, Cairns states that the proposed Senate reform "which would be very difficult to achieve, was the linchpin in holding the Commission's macro-institutional-constitutional proposals together", while Clarkson argues that the negotiation process was largely one of "put[ting] in place believers who would implement the program without deviating from [Mulroney's] objective: making a deal with Washington at virtually any price" (Cairns 2005: 143; Clarkson 2002: 30). The latter emphasis may have elevated enthusiasm for north-south linkages and negated recommendations for a strengthened union between the provinces and the federal state.[31] On this note, Kukucha highlights that "ironically, the proposals outlined in the Macdonald Commission suggested a greater role for the provinces than currently exists" culminating eventually in what Cameron (2006) describes as the dynamics of the "new federalism" (Kukucha 2008: 206n23; cf. Brownsey & Howlett 2001). Kukucha goes on to detail the apprehension of some provinces to have the federal government negotiate on their behalf, noting a compromise made by the federal government to allow the First Ministers to sit in on the FTA negotiations (Kukucha: 48-51). In spite of such provisions for provincial representation at the negotiations, Kukucha remarks that, as the

[31] The irony here, as Clarkson (2002: 83-84) points out, is that many provinces wanted sectorally-based trade policies and were often reluctant to support any notion of an FTA.

fast-track congressional deadline drew nearer into the last month of the negotiations, inclusion of the provinces disappeared so much so that provincial representatives were not consulted on the final text of the agreement (Kukucha: 51).

CONCLUSION

Several interrelated features of the Macdonald Commission's proposals served to undermine the economic and political efficacy of its recommendations, not least because many of its recommendations were only half-heartedly pursued or not implemented at all by governments. Ideology, to some degree, undeniably coloured the lens through which commissioners based their final assessment on the state of the Canadian and international political economy. Those assessments in turn determined which industrial strategies were deemed feasible or appropriate for Canada into the 1990s. The degree to which the FTA and NAFTA eras actually constituted experiments in free trade has, in light of subsequent events, become another issue altogether and speaks to the inaccuracy of the predictions made by the commission on how the political landscape was to unfold. While imagining a world wherein the Macdonald Commission had come to different conclusions requires counterfactuals, we are able to assess the degree to which measurable gains in employment, growth, and productivity have been realised in the free trade era. On this front, the Macdonald Commission did take a "targeted approach" to reducing the rate of inflation and level of unemployment (hence the commission's focus on the NAIRU), while increasing the productivity of Canadian firms and bringing the gap in the standard of living between Americans and Canadians to parity. On these matters the commission's recommendations were unequivocally in error. Despite Canada's ostensibly strong economic performance in the latter half of the 1990s and into the new century, it is difficult to argue that the structural characteristics that have led to such growth are what the commissioners had in mind. Though it may be that a policy structure perfectly derived from the commission's proposals would have produced an economic and social framework that is entirely different from what followed, the general conclusion of this research is that the commission is apparently guilty of entertaining just as much of an “Alice-in-Wonderland” view of politics as critics accused it of entertaining in its treatment of economics (CIEP 1985: 182).

In seeking to explain the report’s misguidedness, it is arguable that the relatively weak position of the Canadian economy that set the context for the Macdonald Report was likely a more temporary phenomenon than the commission had assumed. Though the commissioners were largely correct in their predictions about the eventual importance of bilateralism as the new global economic forum, they were undeniably overzealous in their ambitions concerning Canada’s ability to establish a position vis-à-vis the United States that was any more privileged than those held by other nations pursuing bilateral free trade. Such is evident in the commission’s emphasis on the removal of non-tariff barriers for the end of securing a market for Canadian resource exports and developing a strong and specialised Canadian manufacturing sector. Aside from being very mislead in their assumption that Canadian manufacturing was strong and resilient to begin with, the commission was incredibly foolish to champion Canada’s relatively little use of non-tariff barriers. This, along with an ill-conceived strategy of making concessions before negotiations had begun (as a means of proving that Canada was serious about free trade), served to exacerbate the weakness of Canada’s negotiating position beyond the inherent level established by Lazar and others apprehensive to bilateral free trade. The subsequent negotiation of NAFTA further flew in the face of what the Macdonald Commission architects had in mind for the North American free trade area. Instead of a strong and specialised North American manufacturing network complete with requisite economies of scale and competitive advantage in overseas markets, a continental division of labour has emerged whereby Canadian manufacturing has been severely curtailed relative to resource and service industries. What is more, the centuries long “technology gap” between

Canada and the United States that the Science Council, the Macdonald Commission, and Richard Harris had set out to close has endured to the present.

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