

**SOME CRITICAL MACROECONOMIC ASPECTS OF  
DEEPENING NORTH AMERICAN ECONOMIC INTEGRATION**

by

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### **1. Introduction**

A number of economists, especially those who have been influenced by the work of Robert Mundell and his followers, view the process of economic integration, both commercial and monetary, as a natural and irreversible tendency in the world economy today. The pattern of post-Bretton Woods trade liberalization has, indeed, entailed a revamping of trade relations in favour of large international trading blocs, such as the European Union (EU) and the North American free trade zone (NAFTA). At the same time, deepening trade links have generated strong pressures within these commercial trading blocs in support of greater monetary integration and the establishment of so-called optimal currency areas, the most spectacular example being the emergence of the European Economic and Monetary Union (EMU) with the launching of the euro in 1999. However, unlike the former empires of the eighteenth and nineteenth centuries that asserted state control over world commerce by enforcing mercantilist trade restrictions to ensure massive gold inflows from both their colonies and the rest of the world, the emerging international blocs of the late twentieth and early twenty-first centuries have been founded primarily on the principle of greater trade liberalization and monetary penetration, commonly described as “dollarisation”, which have resulted in the retreat of the Keynesian interventionist state, and the abandonment of national macroeconomic stabilization policy. Late twentieth-century globalization has entailed, therefore, the reconfiguration of world markets into large trading blocs, within which mega-corporations are given free reign, and outside of which such trans-national corporations are offered the privilege to tie the hands of national authorities and enforce hegemonic

corporate control of the international flow of goods and services based on the trade liberalization *cum* structural adjustment model. As is well known, the latter has been marketed extensively over the last decade by international agencies, such as the International Monetary Fund (IMF) and World Bank, to those countries in the developing world and the so-called emerging markets who had succumbed to the pressures arising from economic non-alignment and peripheral growth.

The forces of globalization and greater integration have, indeed, sustained large economic blocs, as well as an enhanced volume of world trade and related commercial activities. However, contrary to Mundellian deterministic logic, there is nothing inevitable about this pattern of geo-political alignment in favour of wider trading/monetary blocs. Under pressures from business and financial interests, this international reconfiguration of commercial trading has resulted primarily from a conscious attempt on the part of governments to promote the growth of exports via the removal of obstacles to international trade and the application of strong doses of macroeconomic austerity, even if this has been done at the expense of lower domestic growth. Consequently, those same forces of globalization that were unleashed with the breakdown of the Bretton Woods system in the early 1970s have imparted a deflationary/recessionary bias in the contemporary world economy. Except for the United States and some of the countries of the European Union that are at the top end of the trading chain, the current international economy is now merely a constellation of export-dependent national economies facing economic stagnation domestically, mass unemployment and unsustainable household debt, and a growing disparity of income and wealth both within and among these countries internationally. As pointed out by a recent

report (see Pettifor 2003), instead of a global tide of rising living standards that would supposedly lift all boats, above all the legacy of globalization has been overhanging debt, deflation and greater despair for the vast majority of the world's population, as countries have been drawn more and more into a competitive race to the bottom.

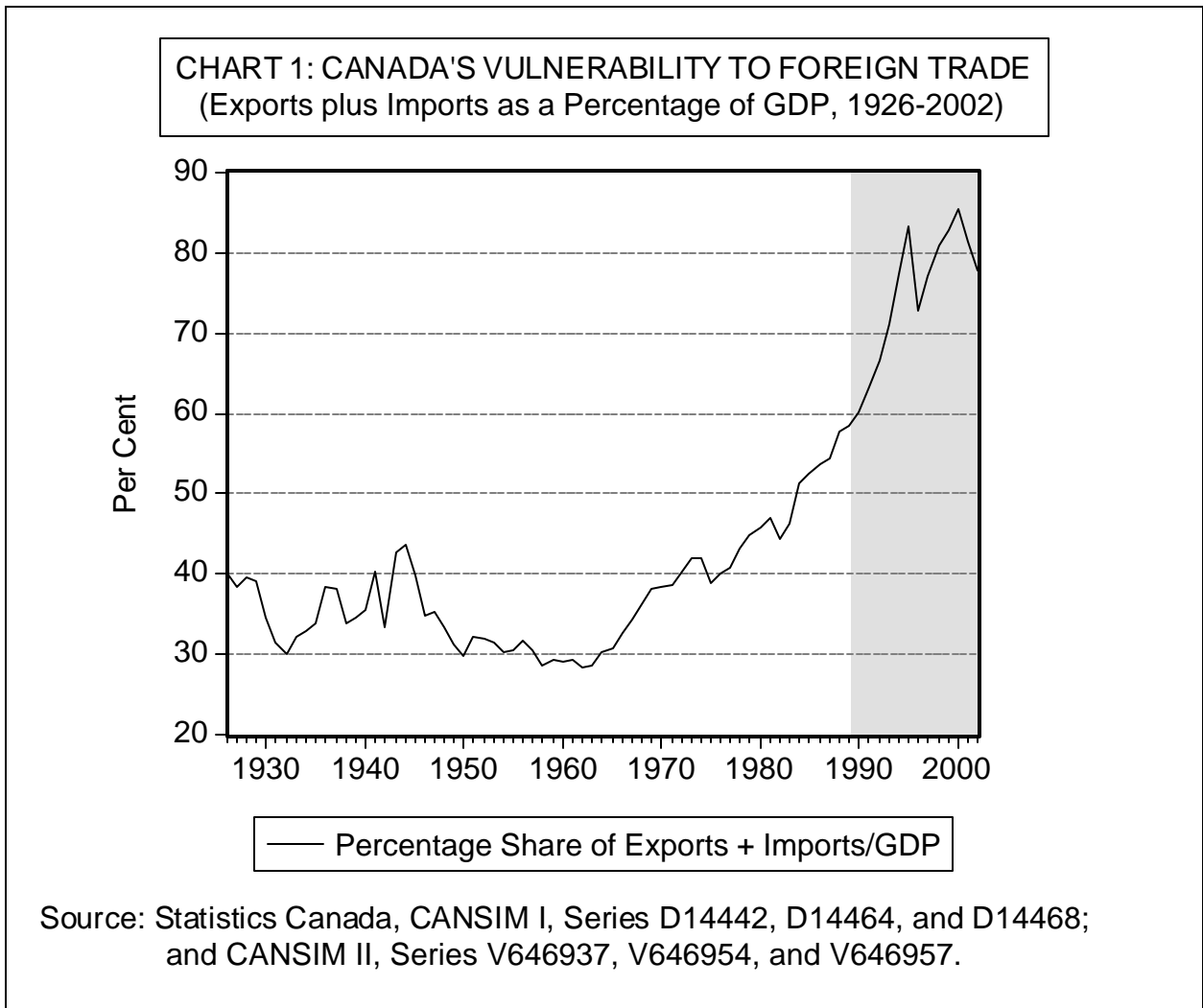
The object of this paper is to situate Canada within the context of the post-Bretton Woods system and evaluate the macroeconomic aspects of this deepening integration, especially since the adoption of the Canada-U.S. free trade agreement (FTA) in 1989 and NAFTA in 1994. Deepening commercial integration has, indeed, meant greater growth in internationally traded goods production in Canada. However, much like in a textbook zero-sum game, this has occurred largely at the expense of the domestic economy by unleashing forces, which compromise internal macroeconomic viability in the long run and which has made the Canadian economy more crisis-prone and vulnerable to international shocks. The first portion of the paper looks, therefore, at the Canadian record of commercial integration by highlighting the spectacular shift of resources away from production for domestic demand in favour of exports. This is followed by an analysis of the changing role of monetary and fiscal policy in sustaining this process of trade liberalization and export growth. Finally, the paper seeks to explain in this context the pressures for greater monetary integration.

## **2. North American Commercial Integration: Some Stylized Facts**

As studied historically by such eminent Canadian political economists as H.A. Innis, because of its colonial past, its relative openness and reliance on foreign trade as an important source of growth, the Canadian economy has always found itself in a center-periphery relation that made Canada's macroeconomic performance highly susceptible to

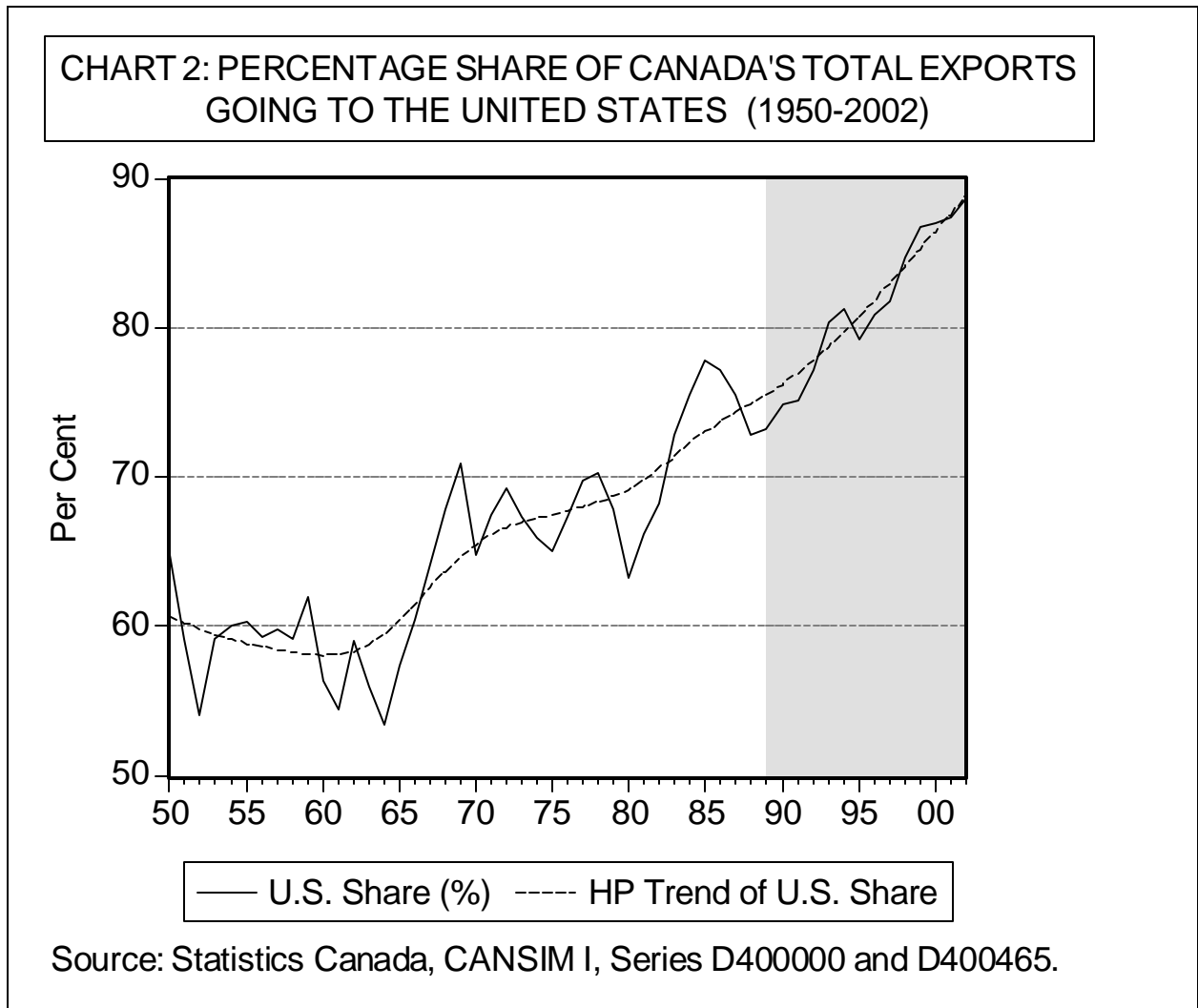
the whims of the international economy. Starting with a colonial dependence on European markets for its primary products, whether France or Great Britain during the eighteenth and nineteenth centuries, Canada has strengthened its trade principally with the United States over the last century. Despite the different structural characteristics of the two economies, this Canada-U.S. linkage has long been recognized, for instance, as the principal reason for the highly correlated business cycles between the two countries (see Bryce 1939, and White 1967: Chapter 6).

Undoubtedly, foreign trade has been an important source of income to Canadians during times when there was high growth in the world economy. However, it is well known that foreign trade has also been a source of problems during periods of economic retrenchment internationally, such as during the 1930s, thereby making the Canadian economy highly vulnerable to external shocks. One such measure of vulnerability, which is sometimes used to highlight a country's exposure to international fluctuations, is the sum of exports and imports as a proportion of GDP. Given its size, Canada's exposure to the rest of the world has always been high, especially when compared to other industrialized countries. However, as shown in Chart 1 below, this index of exposure had actually declined during the early postwar "golden age", as expansionary Keynesian policies were adopted in order to support domestic demand. On the other hand, Canada's vulnerability rose by leaps and bounds during the post-Bretton Woods "leaden age" of increasing trade liberalization and implementation of domestic policies of economic austerity. From a mere 30 per cent during the 1960s, at the beginning of the new millennium the index has reached as high as 85 per cent of GDP!



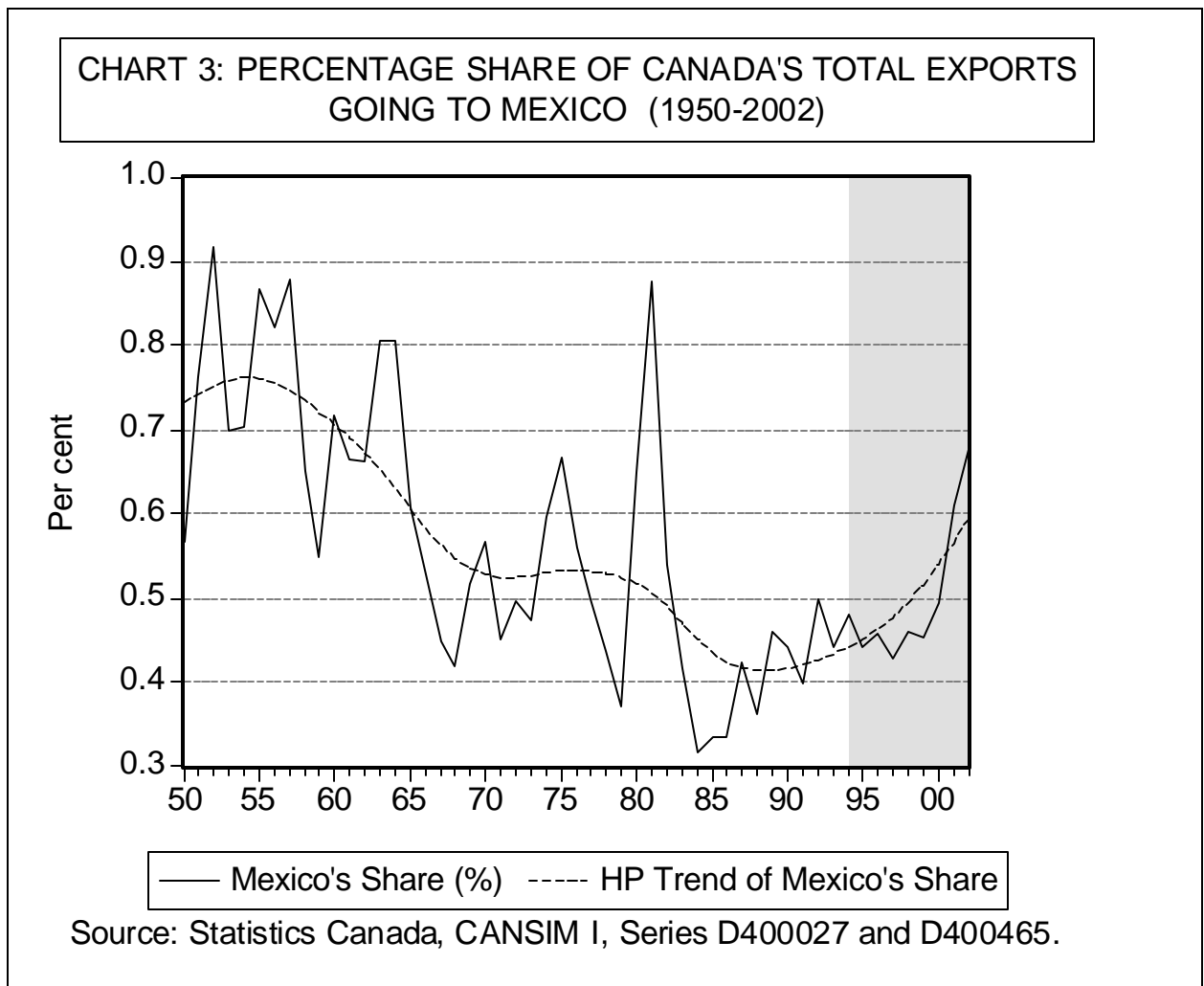
There is little doubt that Canada's vulnerability to foreign shocks has now attained unprecedented historical levels. However, such an aggregate measure hides a more ominous pattern relating to Canada's increasing dependence on trade with its neighbour to the south. As can be seen in Chart 2 below, the growth in Canada's exports has been unidirectional. Having replaced Britain during the previous century as principal importer of Canadian products, by the 1950s and 1960s the United States became the

destination of approximately 60 per cent of Canada's total exports. This level rose significantly during the era of increasing trade liberalization of the 1970s and 1980s, only to rise ever more sharply and reach historical peaks during the post-1989 free trade era with almost 90 per cent of total exports destined for the United States.



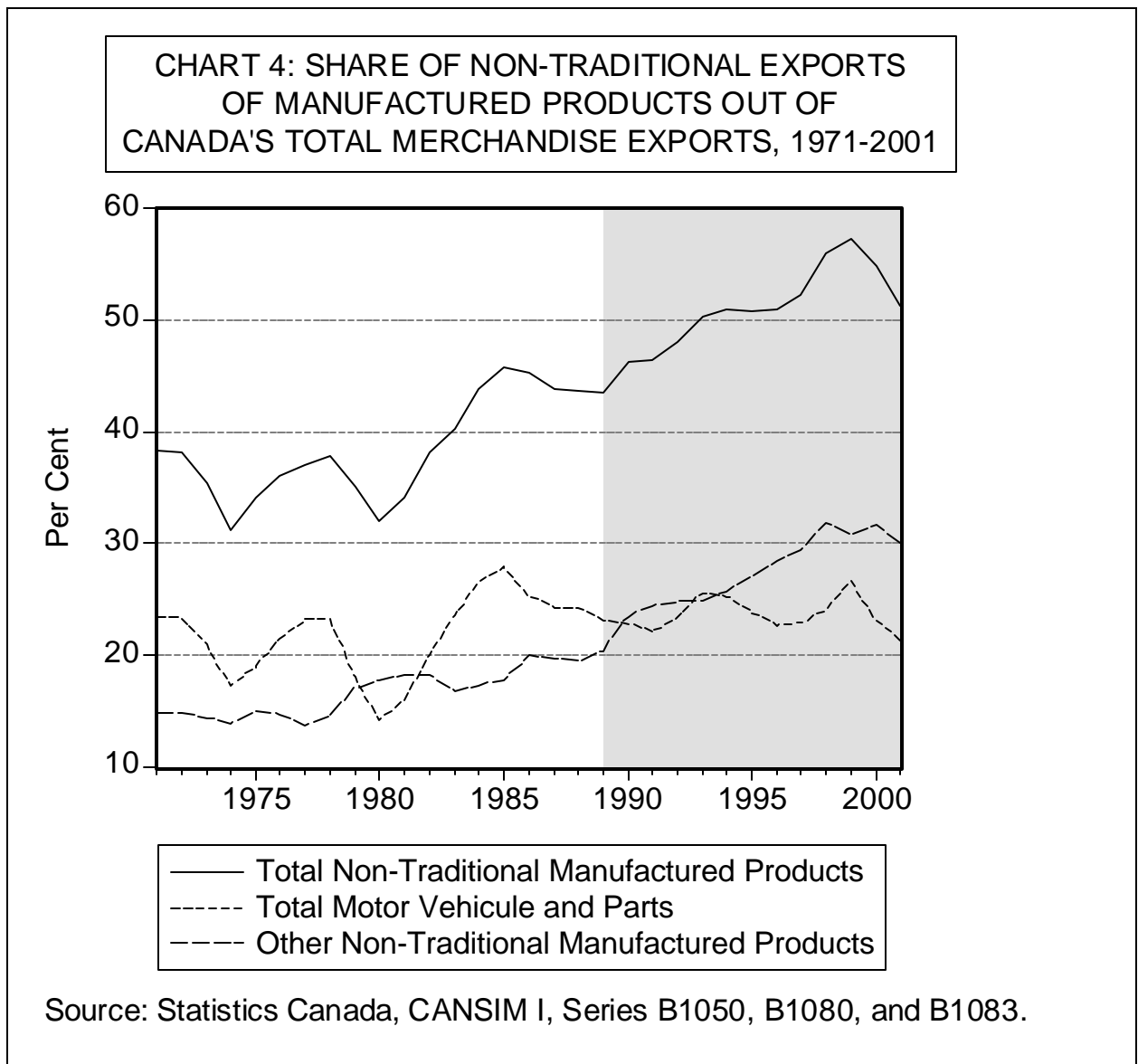
Not surprisingly, even with the inclusion of Mexico under NAFTA in 1994, this made little dent on the upward movement in the U.S. share of Canada's exports of goods and services. Mexico's share remains quite insignificant with less than one per cent of Canada's total exports being absorbed by this NAFTA partner. Indeed, as can be inferred

from Chart 3, under NAFTA Mexico's share of Canadian exports has not even returned to the higher levels that it had attained during the golden age of growth of the early postwar years! Hence, in essence, what greater trade liberalization has really meant to the Canadian economy is massive economic integration with the U.S. that has been unprecedented in scope. At no time since its de-colonization from Great Britain in the mid-nineteenth century has Canada been so dependent on *one* foreign market for its major source of external demand as it does today with the United States.



However, unlike the nineteenth century dependence on the export of primary products, one important by-product of the post-1970s trend towards greater trade

liberalization has been the rise in exports of manufactured products, especially the type of manufacturing products that have not traditionally constituted a significant component of Canada's exports. Indeed, instead of being "hewers of wood and drawers of water" with the traditional reliance on the export of primary products, we have witnessed a significant increase during the post-Bretton Woods era of the share of non-traditional exports of manufactured goods.



In Chart 4 above, we display the share of non-traditional manufactured products,

such as motor vehicle and auto parts, as well as other manufactured goods, such as electronic, industrial and agricultural machinery and equipment, as a share of total merchandise exports since 1971. As is well known, historically Canada's trade with the rest of the world had rested to a large extent on the ability to sell primary products and partly manufactured goods. However, during the post-1970 period, this changed somewhat. The share of non-traditional products, especially equipment goods, jumped from slightly over one-third to over half of our total commodity exports. At the same time, as the data series depicted in Chart 4 demonstrate, much of this rise was connected with the growth of industrial output that would not have been directly affected by, say, the Canada-U.S. Auto Pact, as was the case with motor vehicles and parts. Therefore, under greater trade liberalization, one notices an interesting tendency, that was perhaps least expected, in terms of increasing value added in our export sector.

At first glance, one would conclude that, while the Canadian economy has become more vulnerable to outside shocks, principally those affecting the American economy, this growing exposure has also been accompanied by greater secondary transformation in the export industries, thereby entailing a higher employment multiplier arising from changes in export demand. Some advocates of greater integration may view this relation between trade liberalization and greater value added as an important positive outcome of freer trade in North America. However, while one does discern such a positive trend, one should hardly celebrate. Firstly, a higher employment multiplier from export demand simply means that we shall be witnessing greater volatility in total employment to any given fluctuation of Canada's exports. Hence, when U.S. economic growth is high, we might be seeing stronger effects on labour market demand; but when it

is low, employment might fluctuate downward even more violently than during earlier decades. Secondly, under the financial pressures of “structural adjustment”, just about every newly-industrialized/developing economy in the world today is seeking export-led growth that would be spearheaded by the manufacturing sector. One has just to observe the strategy of our post-1994 NAFTA partner further to the south. To keep such manufacturing jobs within this constraining institutional set-up, Canada will have to continue to compete with such countries as Mexico and China on the basis of lower unit labour cost. Hence, as it is analyzed in the following section, Canada’s international competitiveness has been and might continue to be maintained, but only by capping the growth of domestic incomes, thereby justifying a permanent lid on domestic growth not related to the export sector.

### **3. Macroeconomic Policies: The Record**

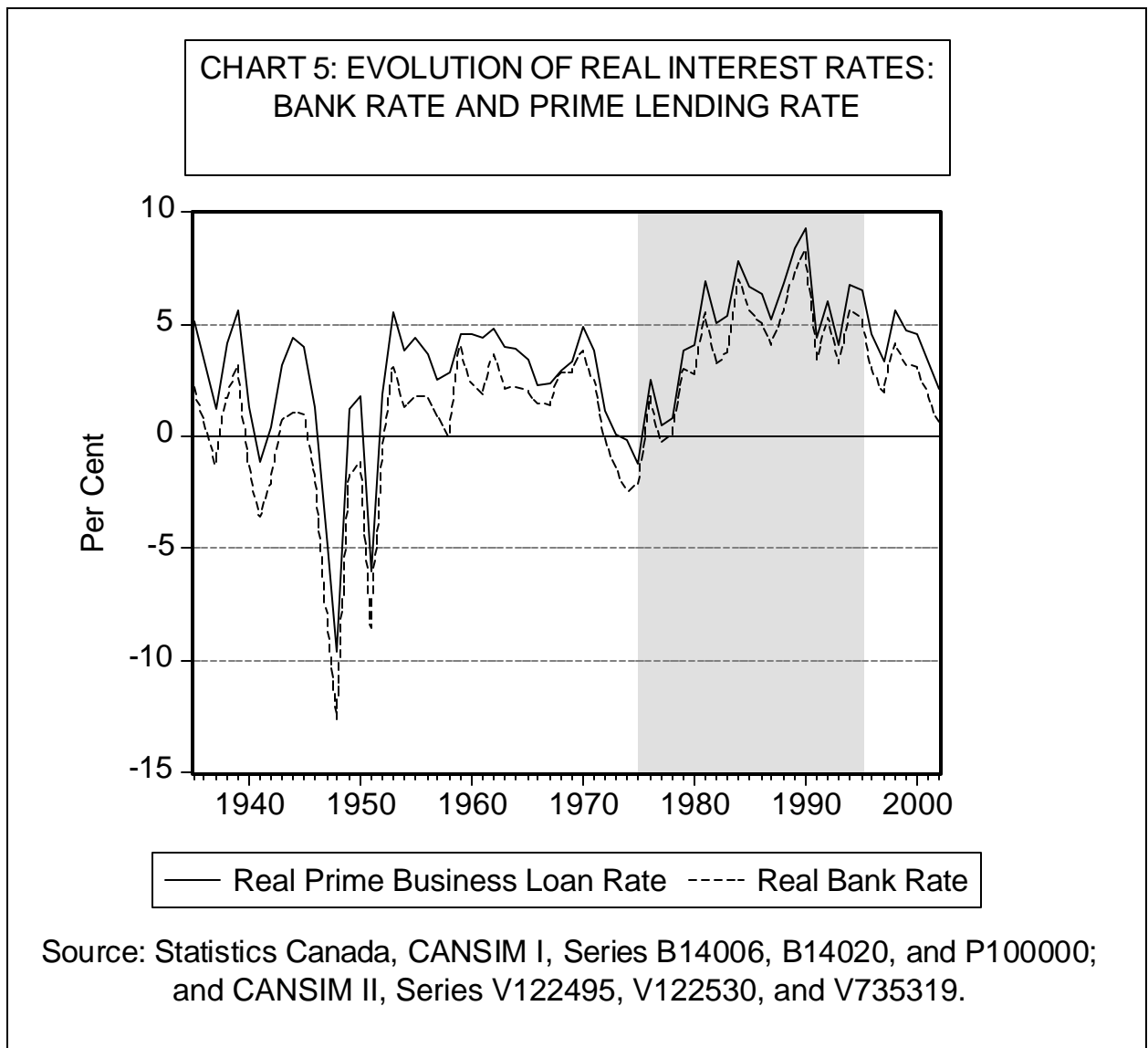
As it has been argued in the previous section, the post-Bretton Woods era of greater trade liberalization has been associated with a sharp and massive exposure to foreign trade that historically remains unprecedented, at least since colonial times. Much of this strategy, especially since the Macdonald Report in 1985, has been a conscious one on the part of our political leaders to deepen economic integration institutionally via the FTA and NAFTA. However, we wish to argue that the success of this strategy of greater continental integration was made possible primarily by the macroeconomic policies that were put in place since the 1970s. For this reason, we shall first review the deflationary role that monetary policy played during the years prior to and immediately following the FTA and then look at the supportive role of fiscal policy in maintaining these recessionary pressures presently.

### **3.1 An Era of High Real Interest Rates and Monetary Austerity**

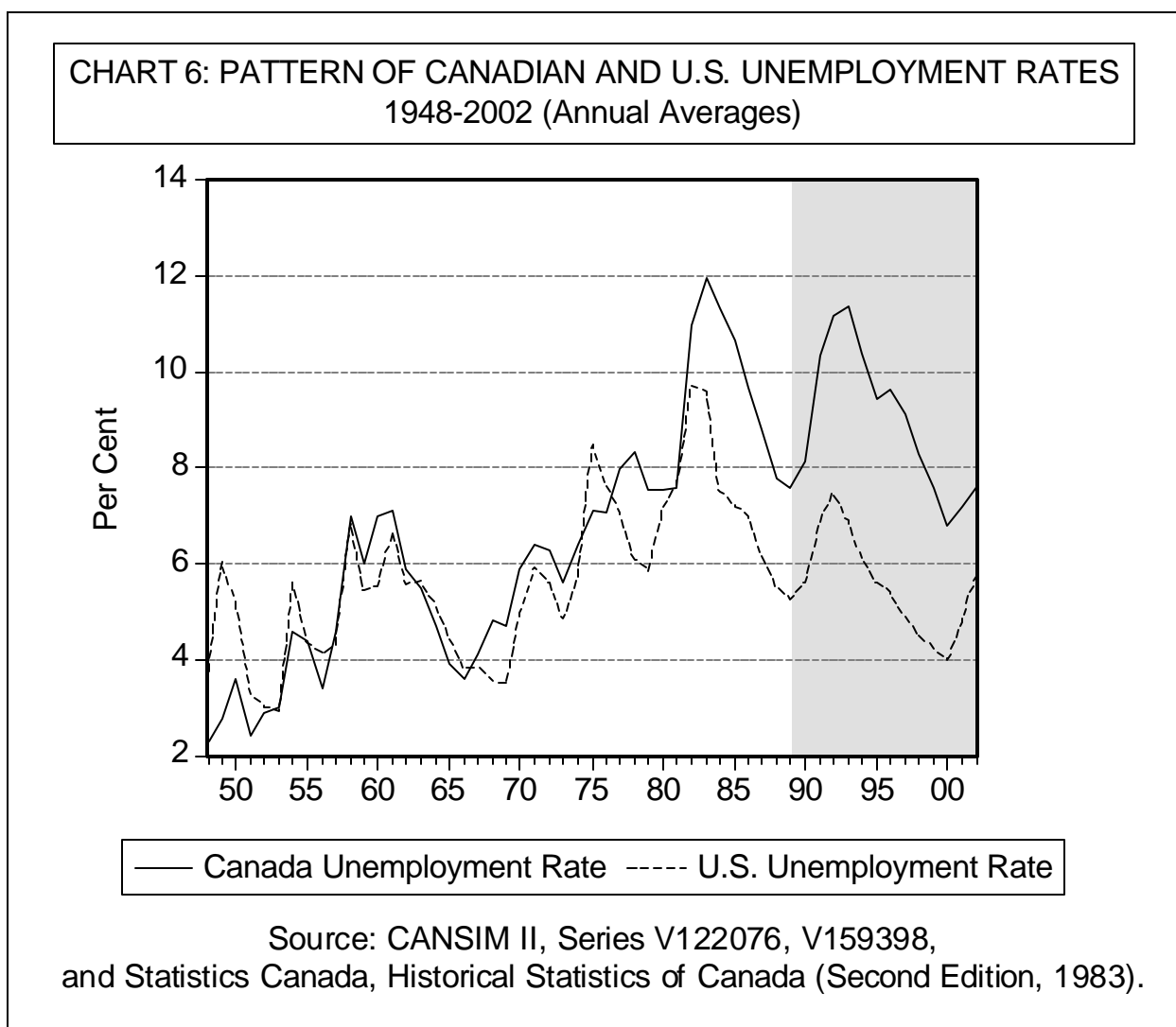
Canadian monetary policy has played a central role in the post-Bretton Woods competitiveness strategy of promoting trade at the expense of domestic growth and one could argue that this policy did effectively lay the foundations to what was to follow during the free trade era. Soon after the first oil price shock in 1973, and then further reinforced by the second wave of oil price increases in 1979, sufficient pressure from both industry (because of growing wage demands) and finance (because of declining real interest rates) moved government opinion in the direction of fighting inflation, regardless of the consequences on output and employment.

On the mistaken belief that the cause of the double-digit inflation of the 1970s and early 1980s was the accommodative policy of the Bank of Canada, numerous commentators at the time urged Canada's monetary authorities to abandon so-called misguided Keynesian policies and to adopt a monetarist strategy of high interest rates and monetary austerity, which it did officially, beginning in 1975 when it began to target the growth of M1 (see, among others, Courchene 1976). This monetarist strategy, which was then further articulated during the late 1980s by Governor John Crow, rested on a questionable principle that the single focus of monetary policy ought to be price stability and that a persistent policy of "zero inflation" would ultimately bring about a high growth of Canada's standard of living and aggregate productivity. Even though the theoretical and empirical underpinnings for such an orthodox hypothesis were highly questionable or non-existent (*cf.* Seccareccia and Lavoie, 1996), this did not prevent the Bank of Canada from prescribing massive doses of monetary austerity in the form of high real interest

rates. As is evident from Chart 5, never since the 1930s had the Canadian economy been treated to such harmful doses. Real interest rates, as measured by the nominal rate (either the prime lending rate or the central bank administered bank rate) less the rate of change in the Consumer Price Index, began to rise sharply during the late 1970s as Canada's central bank adopted the monetarist policy framework (see shaded area), remained targeted at historically high levels throughout the 1980s, and peaked in the early 1990s under the governorship of John Crow at the Bank of Canada (Seccareccia 1998).



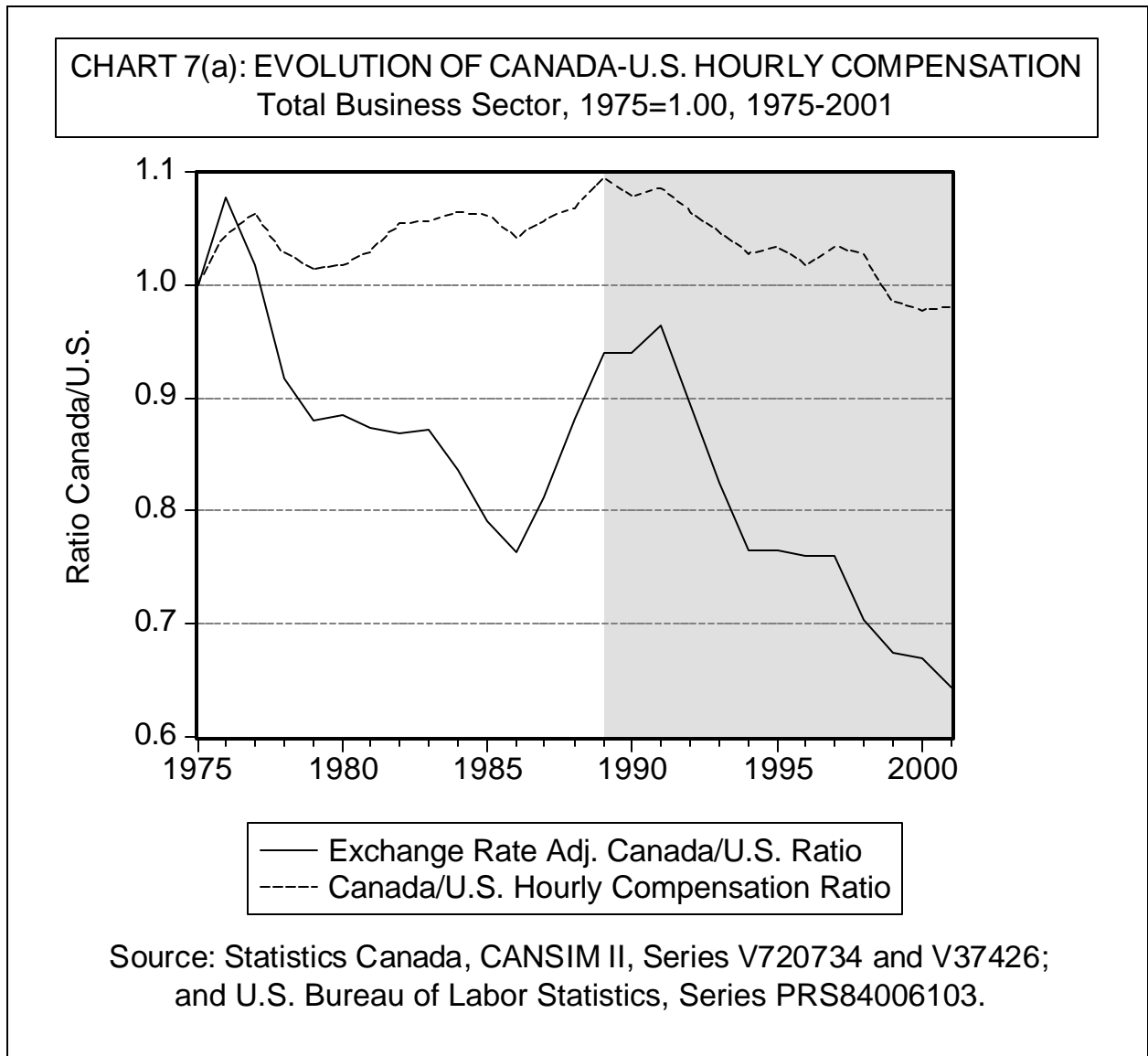
did bring about a significant disinflation, but only at the cost of two deep recessions in Canada (during 1981-82 and 1990-91) and long-term mass unemployment — a scenario that had not been observed since the 1930s. Indeed, as displayed in Chart 6 below, for the first time during the post-W.W.II period did Canada-U.S. unemployment rates bifurcate substantially with a significant positive gap that persisted for over two decades (also see Seccareccia and Parguez, 1998).



The perversity of such a disguised incomes policy of high real interest rates in support of interest income earners would have been obvious to anyone and would certainly have been politically unacceptable if it were not for the expected positive effects that a zero inflation environment apparently would bring in terms of greater international competitiveness. Hence, the objective of monetarist austerity was supposedly to increase Canada's competitiveness by increasing aggregate labour productivity (which, of course, never materialized in a low growth economy, see Seccareccia and Lavoie, 1996). However, as Stanford (1999, p. 178) points out, Canada's competitiveness did improve, but it was mostly by bringing down relative labour cost in relation to those of Canada's prime export market, the United States.

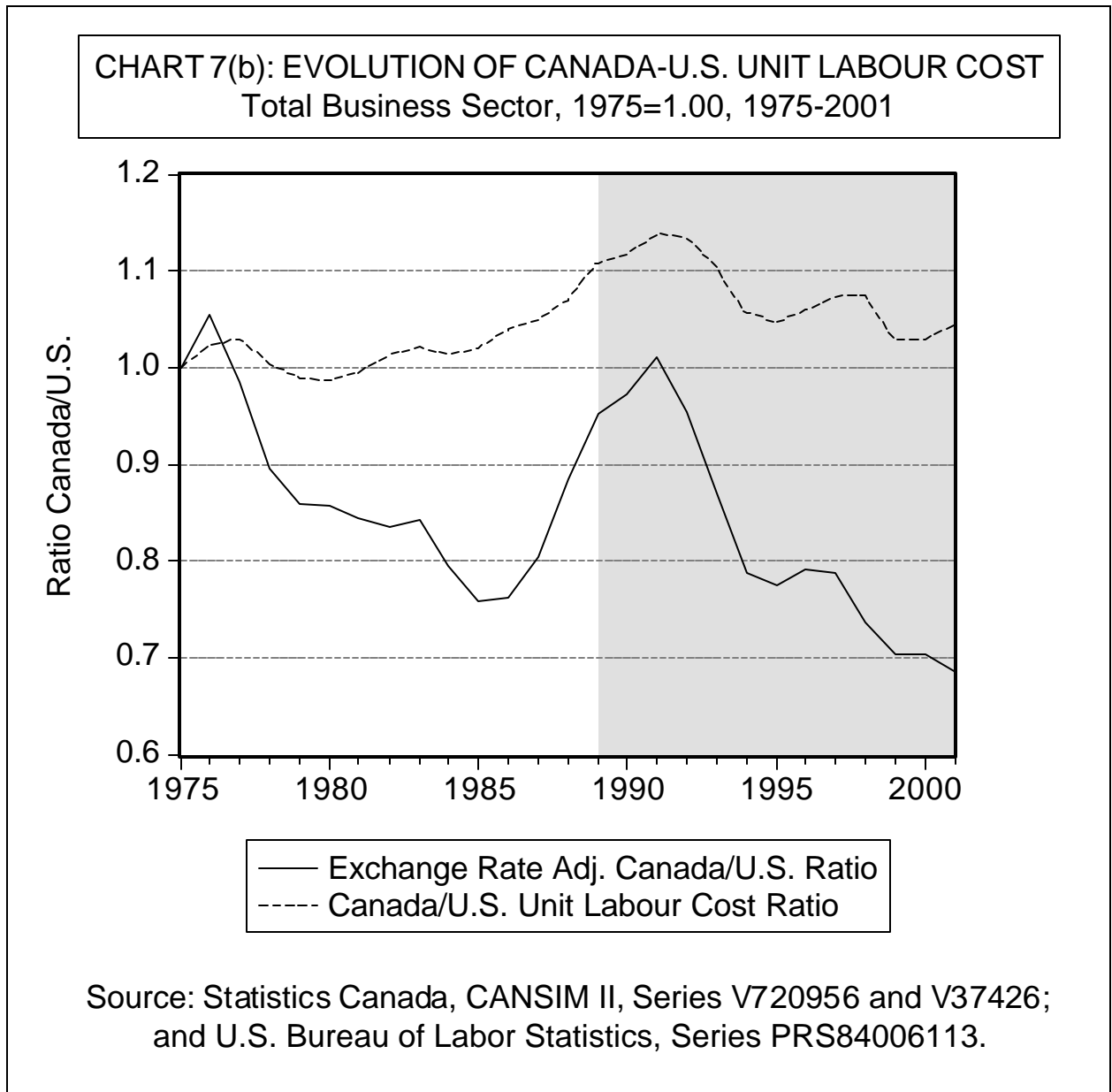
To reveal the magnitude of the impact, particularly of the heavy doses of high real interest rates that had been imposed by John Crow beginning in the late 1980s, there are two charts below that highlight the labour cost effects of restrictive monetary policy in Canada. Chart 7(a) describes the evolution of the ratio of total hourly compensation of the business sector as whole between Canada and the U.S. by postulating a ratio of 1.00 as starting point in 1975. The top dotted line describes the evolution of that index between 1975 and 2001 on the basis of the actual nominal changes calculated in terms of their respective national currencies, while the second heavy line describes the evolution of the index when the Canadian hourly compensation rate was calculated on the basis of a common currency, the U.S. dollar. Hence, it can be seen that between 1975 and the late 1980s, when John Crow implemented his zero-inflation policy, most of Canada's labour cost competitiveness advantage was realized primarily via exchange rate adjustment. On the other hand, for the post-FTA period, this competitiveness advantage for Canadian

industry arose as a result of a combination of falling exchange rate and declining nominal relative hourly compensation rates in Canada vis-à-vis the U.S.



Interestingly, when adjusting for the fact that aggregate productivity rates grew somewhat more quickly during most of the 1980s and 1990s in the U.S., we still find essentially the same historical pattern, albeit slightly mitigated. As shown in Chart 7(b), Canada's competitiveness position deteriorated somewhat, when one considers the evolution of relative unit labour cost between the two countries during the 1980s (see the

top dotted line of the chart), and it then improved during the last decade, largely because of lower wage growth in Canada. However, as before, when adjusting for exchange rate adjustment, Canadian unit labour costs witness a spectacular fall when calculated in U.S. dollars, especially during the 1990s.



Hence, at the time when John Crow took the helm at the Bank of Canada, a mere two years before the implementation of the FTA in 1989, Canada went full force with its

international competitiveness strategy of becoming a low inflation zone which, when coupled with a declining foreign exchange rate, led to a dramatic growth of the export sector, despite the ailing domestic economy that resulted from his zero-inflation policy. Indeed, as was shown in Chart 2 above, the post-1987 period was associated with an unprecedented growth of exports to the United States. When measured by the jobs being created in the export sector, especially since the late 1980s, the competitiveness strategy was indeed successful. However, the shock therapy of the zero inflation strategy, which largely guaranteed its success, paralyzed domestic growth.

However, because of the unpredictability of the high real interest rate shock treatment, particularly by 1994 when the Canadian economy actually faced a serious downward price spiral for the first time in almost half a century (see Chart 8 below) and because prices changes were now well below the Bank of Canada target range of one-to-three per cent of the “core” inflation rate, by the mid-1990s the Canadian monetary authorities did begin to moderate their stance in terms of lower real interest rates, with an increasing reliance on fiscal policy to quell the growth of the domestic aggregate demand, wages and prices. As can be seen from the Chart 8, the policy of monetary austerity did attain its objective of low inflation, as the inflation rate scaled downwards from its peak rate of the 1970s, together with lower relative unit labour costs, even if this meant persistently high long-term unemployment rates not seen since the Great Depression.

### **3.2 The Deflationary Nature of Fiscal Austerity**

Contrary to the popular view marketed by the Mulroney government that it was the wasteful social programmes put in place during the Trudeau era that caused the explosive public deficits and debt of the 1980s and early 1990s, the true cause of the

growing fiscal imbalance that began in earnest during the late 1970s was the high interest rate policy of the Bank of Canada. With its policy of fighting inflation by raising real interest rates, the effect was to slow down government revenues as unemployment rose and to increase directly public spending because of the rising interest charges on the public debt of all levels of government. The obvious consequence of the compounding effect of these two factors was an explosive public debt (see McCracken, 1998).

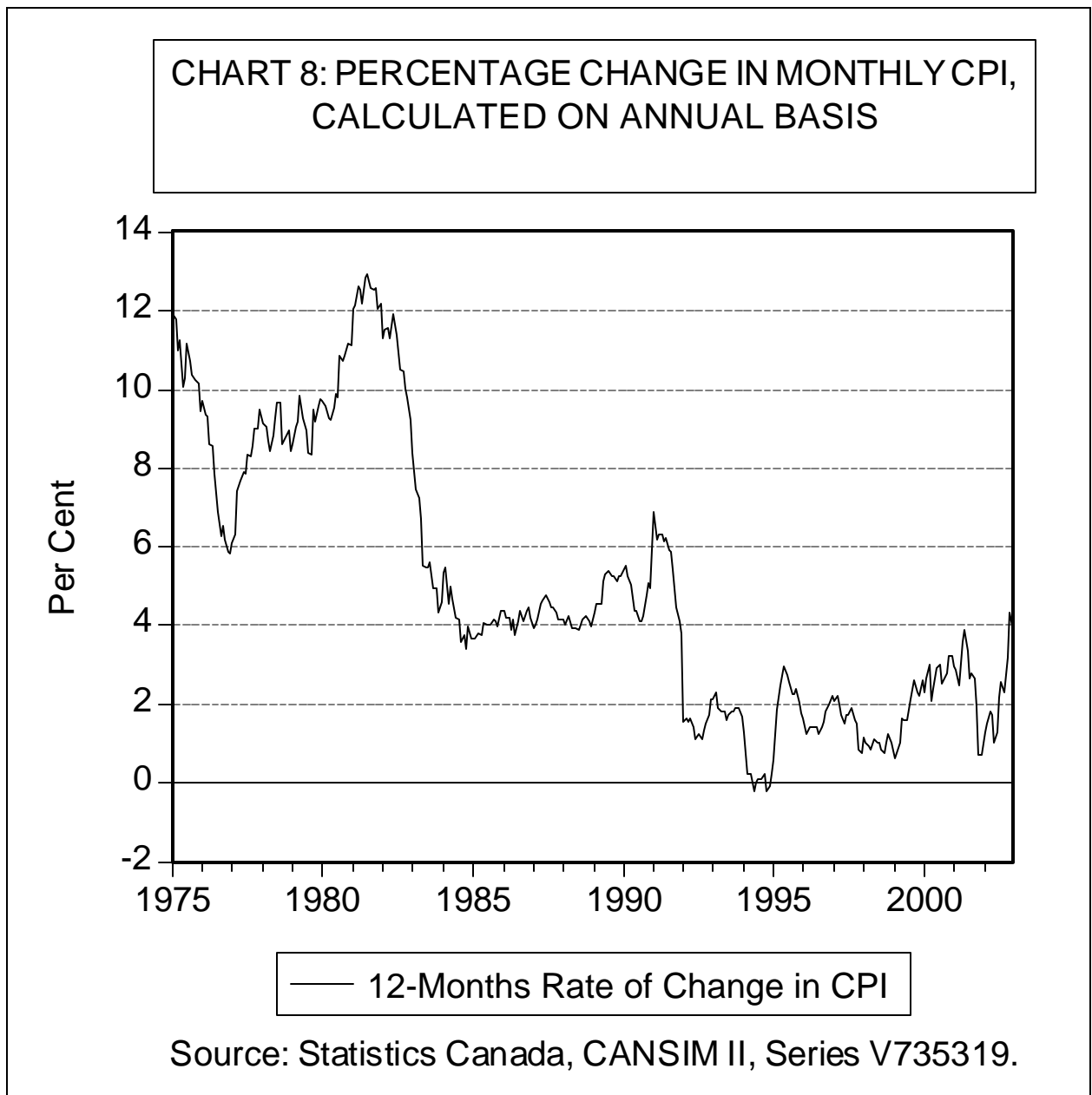
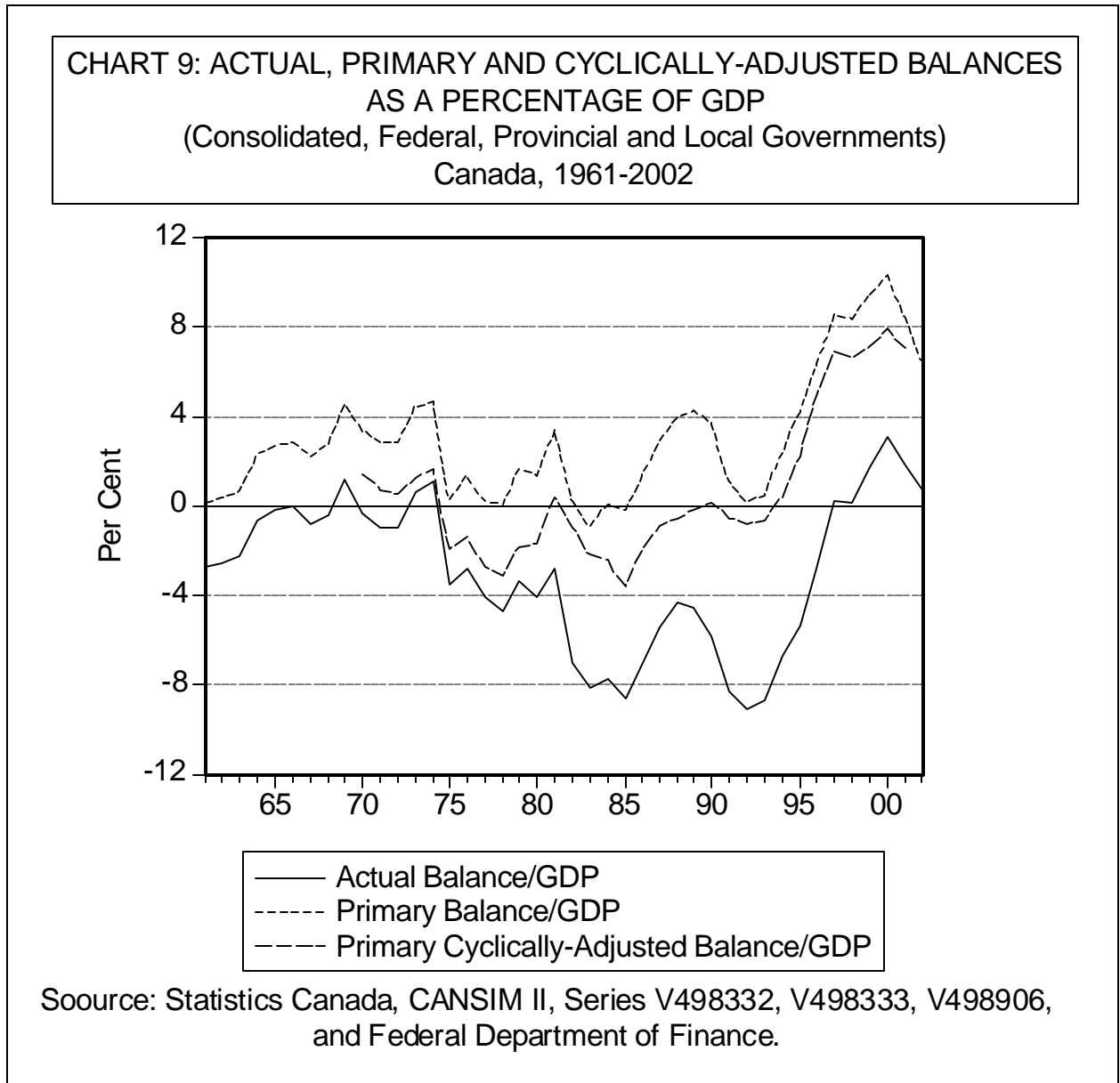


Chart 9 presents the evolution of the actual, the primary and the cyclically adjusted (or structural) budget balances of all levels of government as a percentage of GDP calculated on a national accounting basis. It is apparent from the chart that actual deficits began to explode when real interests had started to rise in the mid-1970s, even though primary balances continued to remain in surplus territory, with the exception of the early 1980s recession. Faced with these growing actual deficits, and under pressure from both business and finance to pursue a policy of “sound finance”, governments reacted by raising taxes and/or cutting programme spending, or, in some cases, by literally selling off public assets (commonly referred to as “privatization”). Hence, except for the few years following the recession of 1981-82, where some form of discretionary spending was still pursued, as Chart 9 shows, after the mid-1980s both Conservative and Liberal governments in Ottawa began to target structural primary surpluses. Indeed, by the late 1980s, the Conservatives had achieved significant primary surpluses, only to be frustrated by John Crow’s high real interest rate policy that pushed the Canadian economy into a serious recession in 1990-1991.

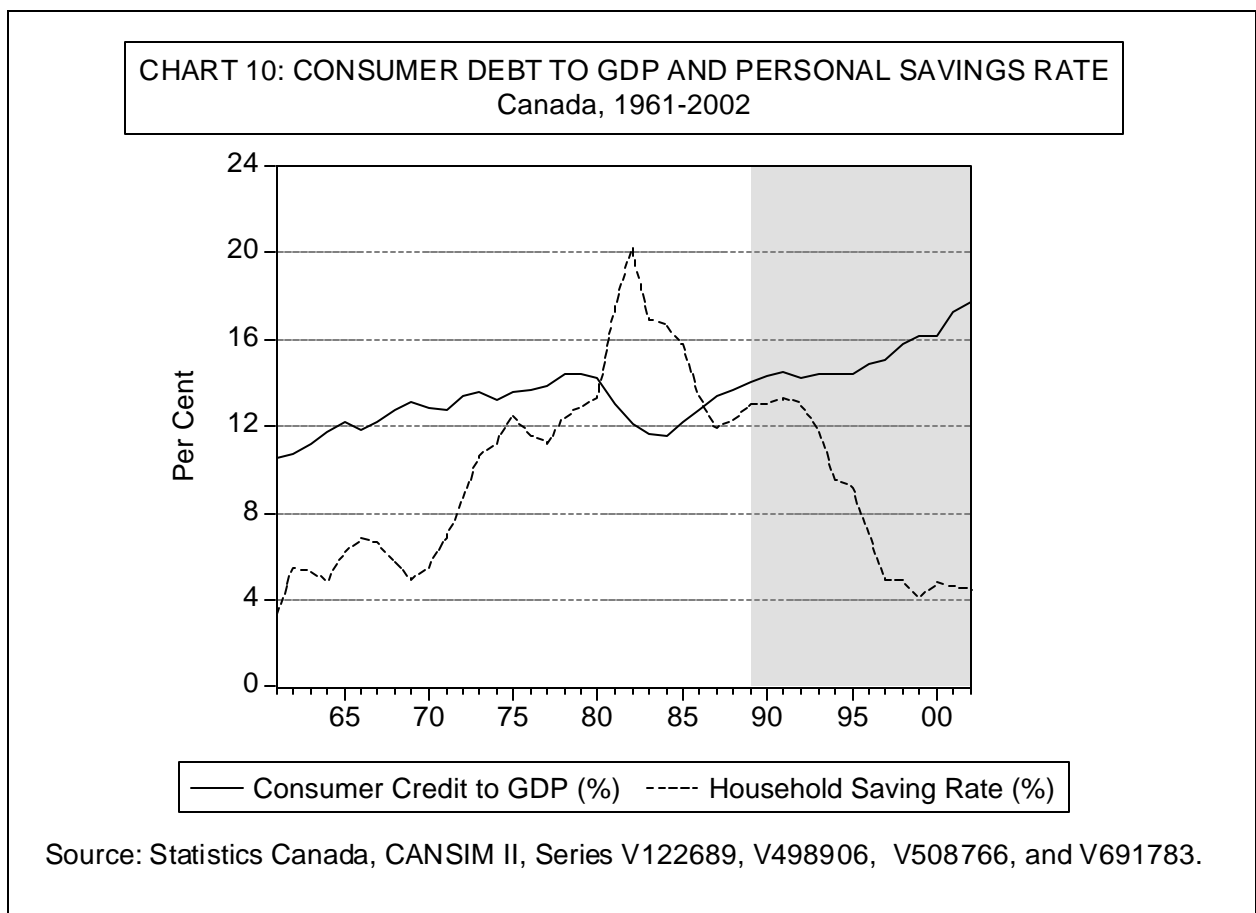
It was, however, under the Chrétien government that the targeting of both primary and actual surpluses reached its peak. After 1994, the Liberals learned that they could stimulate the economy somewhat by means of lower interest rates while still keeping a considerable lid on inflation and growth of domestic output by adopting very restrictive fiscal policy (*i.e.*, high structural primary surpluses). Hence, instead of relying on the less predictable effects of restrictive monetary policy, during the last decade it has been primarily through very tight fiscal stance of all levels of governments that labour market slack has been maintained. Instead of promoting growth and high employment, budget

surpluses have served as enormous vacuums that have been pulling money out of the economy at incredible rates, certainly at rates superior to our neighbours to the south and to practically every other G7 country.



The strategy of deflation through fiscal austerity, accompanied by a loose monetary policy, did succeed in achieving record trade surpluses with the U.S. during the

late 1990s. However, there are signs that this macroeconomic strategy may not longer be viable. Firstly, the recession in the United States since 2001 has slowed down somewhat U.S. imports, thereby presaging problems with Canada's export-led strategy when the crucial U.S. engine is no longer working on its four cylinders. Secondly, because of the relatively slow growth in the United States, there are growing upward pressures on the Canadian dollar, which can quickly erode Canada's competitive advantage.



Thirdly, as shown in Chart 10, the huge rise in public surpluses has been mirrored by a tremendous expansion in household consumer debt and a decline in the personal savings rate — a bifurcation in the two series that cannot be found in the pre-1980 era, when the two variables generally moved in tandem with the rise in real personal

disposable income (see Seccareccia, 2002b). The fragility of Canada's growth, which much like during the Clinton expansion in the United States was based on growing household indebtedness, could quickly give way to recession in Canada as it did in the United States, unless saved somehow by expanding export demand.

Given the likelihood of a prolonged or "double dip" recession in the United States (see Arestis and Karakitsos, 2003) with the prospect of a rising Canadian dollar, and given the fears of a regime change in Canada, resulting from, say, a disastrous recession, where a new federal government might revert to "interventionist" Keynesian policies once again, one finds renewed pressures in some policy circles for greater continental monetary integration. After all, we are told, Canada and the United States have become so closely integrated commercially since the adoption of the FTA and NAFTA, as was discussed in section 2 above, why not go a step further and adopt a common currency that would reduce transactions costs and free producers and consumers in both countries from exchange rate risk?

#### **4. Greater North American Monetary Integration?**

A certain number of economists and policy analysts in Canada, such as Courchene and Harris (1999) and Grubel (1999), who support the logic of deeper continental integration, view monetary union as the next stage of a long-term process whose final political denouement is often left unclear for North America. The Europeans who, over the last fifty years, have gone through a similar process of monetary integration with the establishment of the EMU, at least, have been quite unambiguous in stating that monetary integration is just one more step on the long road that will ultimately lead to political unification of the European continent (see Parguez,

Seccareccia and Gnos, 2003). Although supporters of the process of North American monetary integration have never made clear what should be the final *political* outcome for the North American continent, the possible *economic* outcomes of such an institutional revamping of the North American continent are usually stated upfront.

Firstly, following the work of researchers such as Rose (2000), we are told that monetary integration would both consolidate and enhance cross-border trade, thereby transforming the two countries combined into an optimum currency area. If, therefore, without monetary integration, Canadians have already reached close to 90 per cent of their trade with the United States, such a percentage share could only go up further under greater monetary integration! While there may be benefits from greater trade, surely, putting still more of one's eggs in a single export basket could make an economy highly vulnerable to what happens to its trading partner? Hence, while eliminating exchange rate risk, greater monetary integration would certainly increase the economic risk of being too narrowly tied to the economic destiny of a single trading partner.

Secondly, and still more disconcerting, for those of us who believe that there is a positive macroeconomic role for national governments in achieving greater welfare for its citizens, monetary union is seen by those Mundellian economists who support larger monetary blocs as a way to tie the hands of the nation-state by taking away both their monetary and fiscal policy instruments. For instance, in dollarized regimes, say, in Latin America, as well as in those countries that have adopted new common currency, such as the euro, there is not only an obvious loss of important instruments of monetary policy, but they also have lost effective control of fiscal policy, either *de facto*, as in a dollarized regime, or *de jure* as under the Maastricht Treaty and the Growth and Stability Pact in

Europe. The result of this, of course, is that a country becomes even more susceptible to the vagaries of the international economy, since it can no longer engage in macroeconomic stabilization policies.

Thirdly, as it has been discussed elsewhere (see Bougrine and Seccareccia, 2004), much like under the gold standard, monetary integration (whether it be a hard fix, currency boards, dollarization or the like) imparts a deflationary bias domestically. This is so not only because it prevents governments from engaging in Keynesian policies to stabilize domestic incomes, but also because whenever, say, an economy is afflicted by a negative export demand shock, it could seek to absorb somewhat the impact by letting the value of its currency fluctuate downwards so as to mitigate its negative effect on domestic incomes. Without such a shock absorbing effect, the full impact of the shock would be transmitted directly to the domestic economy, much like under the gold standard. Hence, once again, by eliminating exchange rate risk, one merely transforms the latter into a more serious country risk.

If these negative deflationary effects are of significance and ultimately make us more vulnerable to international fluctuations, one must wonder why then move in the direction of greater monetary integration. The reason we are told is that there are many benefits to greater monetary integration that would more than offset these negative implications. However, as it has been shown elsewhere (see Seccareccia, 2002a), when one seriously analyzes these supposed benefits, in terms of lower transactions costs, greater productivity growth and lower long-term interest rates, they turn out to be as fictitious and vacuous as the supposed benefits of zero inflation, so strongly defended by a former Governor of the Bank of Canada over a decade ago.

## 5. Conclusion

In this paper we have described how during the post-Bretton Woods era of trade liberalization, and especially over the last fifteen years of “free trade”, Canada has plunged further along the path of deep commercial integration. The inordinate growth of the share of the export sector was brought about not only by removal of some institutional barriers to trade, as was done under the FTA and NAFTA, but perhaps more importantly, this export growth arose because of the creation of a macroeconomic environment that produced a lower exchange rate, depressed wages and prices and restrained domestic growth. While this strategy worked in generating export growth, primarily to the United States, there are signs that, to continue along that route of greater integration, this will necessitate a further institutional change in favour of greater monetary integration. However, as it was argued, such a jump along the path of monetary union would have implications, especially for the role of the state, which few Canadians would deem particularly desirable, without first embracing a political union.

Why then, one could legitimately ask, is there such support for export-led growth *en outrance* among so many of our political leaders, as well as other groups, including most employer associations and even some trade unions in Canada? The answer is essentially ideological. It is premised on the principle that jobs are scarce in a capitalist economy and that the role of government should be limited to promoting the growth of private sector jobs. If the private sector is incapable of providing such jobs, we should look to foreign trade as the mechanism for further job creation, even if this would mean having to deflate the domestic economy so as to create such jobs in the export industries.

What if instead we stood on its head this reasoning and started from the premise

that jobs are *not*, in fact, scarce because ultimately they *can* be created by the state to achieve effective full employment, say, along Keynesian lines (see, for instance, Wray 1998)? It follows from this that exports can no longer be considered as a strategic source of scarce jobs. Much as in pre-capitalistic societies historically, a country would now want to export only because its citizens would wish to import goods that they cannot themselves produce. In this case, the prime motive for exports is the need to import scarce commodities and *not* the need to “import” scarce jobs for which a country would be willing to deflate domestic incomes, via a competitive race to the bottom. In a framework in which the public sector plays the stabilizing role of creating jobs whenever the private sector is incapable of providing them, foreign trade no longer can be attributed the crucial job-creating role that those partial to greater commercial integration continue to characterize. Perhaps, much like Keynes (1933) suggested in his support of greater national self-sufficiency, it is only by breaking away from this ideological straitjacket regarding the negative role of government in creating jobs that current discourse and present trends in search of an elusive deeper integration can be reversed.

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