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The Canadian Quandary

Introduction by William Watson[1]

What a treat is in store for readers of these essays. Harry Gordon Johnson was one of the best economists of the 1950s and 1960s, not just in Canada but worldwide. Had he not died young, in 1977, only 17 days short of his 54th birthday, he might have won the Nobel Prize. And yet he was also a controversialist of the first rank. When he chose to be "unbuttoned," as he put it, he wrote with a caustic and dismissive elegance. In some passages of *The Canadian Quandary* it is as if H. L. Mencken has left Baltimore and come to Canada to take up economics.

In this collection of Johnson's Canadian writings from the Diefenbaker years, 1957 to 1963, the most frequent victims of his derision are Canadian economic nationalists, led in that era by Walter Gordon, Lester Pearson's first finance minister and author of the Gordon Royal Commission Report of 1957. For most non-economist readers it is as a contribution to the postwar debate on Canadian nationalism that this volume will mainly be of interest. Although the nationalists' views eventually came to dominate Canada's universities, economics departments sometimes excepted, and influence the Trudeau government, when they were first bruited, in the late 1950s and early 1960s, they were frequently opposed. Johnson was one of their strongest critics. The heyday of left-wing nationalism is now past, of course. Trudeau's National Energy Policy and Foreign Investment Review Agency have long since been dismantled or neutered. But even in the supposedly "globalized" world of the early 21st century questions of economic nationalism return again and again in policy debates about industrial subsidies, bank mergers, airline competition, patents, innovation, trade liberalization and many other areas of economics. It is testament to the lucidity of Johnson's mind and to the vigour and clarity of his prose that many of his opinions on the mid-20th century incarnations of such debates are still fresh, interesting and germane.

The man

Along with Kingston-born Robert Mundell, winner of the 1999 Nobel Prize for Economics, Toronto's Harry Gordon Johnson was the foremost Canadian economist of the first three postwar decades. He was also one of the most interesting characters economics has produced: a wrestler, a talented whittler, a user of snuff, a chain smoker, a heavy drinker, a workaholic before the word existed, a brash, gregarious man with strong opinions and iron discipline who yet was often ill at ease socially. His wife paints a picture of eccentricity in recalling her husband at work: "wearing a Malayan sarong, a glass of iced coffee nearby, sitting in an armchair with a clipboard—not a proper

[1] For their comments on a draft of this introduction I am very grateful to Richard Lipsey, Anthony Scott and Donald Moggridge, who is at work on a biography of Harry Johnson. They are, of course, not responsible for any errors that remain.

clipboard … but a piece of ordinary plywood—filling up a yellow legal pad with his surprisingly minuscule script" (Simpson 2001: 637). In that script Harry Johnson wrote prolifically, more than any other economist of his generation. After his death, his sometime co-author Jacob Frenkel counted "526 professional scientific articles" (Frenkel 1987: 1022) .He was also a famous traveler, lecturing, attending conferences and "visiting" (that genteel academic avocation) widely. In the year before his death, three years after suffering a serious stroke, he visited 15 countries[2]. He influenced large numbers of economists through his editorship of several leading economics journals and he himself made important contributions to a number of different sub-disciplines. Would he have won the Nobel Prize? Richard Lipsey of Simon Fraser University, a friend of Johnson's and himself one of postwar Canada's most eminent economists, argues that he "was one of the major contributors to the currently accepted body of the real[3] theory of international trade" (Lipsey 1978, S35) and that if he is not so well known today, it is because "his work has suffered the fate of so many innovators: his ideas have become so much a part and parcel of the subject that few bother any more to reference their source, indeed many no longer even know the source" (Lipsey 2001: 618). For his part, 1981 Nobelist James Tobin wrote that Harry Johnson "was the people's choice within the profession. Though [Nobel] selection committees stress quantum innovations, sooner or later they would surely have rewarded the massive incremental and synthetic advancement of knowledge that Johnson achieved" (Tobin 1978: 457). Even if Johnson's work may not finally have had the unmistakable originality that would have brought him a Nobel he was universally admired as a gifted synthesizer and filler-in of fields already established, an experimenter with and popularizer of other economists' innovations, and, with his comprehensive vision, a keen anticipator of new fields.

Harry Gordon Johnson was born May 26, 1923. His father was a journalist and editor turned part-time dairy farmer (on a 100-acre farm in Scarborough, east of Toronto). During Mitch Hepburn's day he was secretary of the provincial Liberal Party.[4] His mother was a child psychologist at the University of Toronto, and it is at the U. of T. where young Harry had the novel pre-schooling to which he attributed his unusual powers of concentration and memory (Rosenbluth 2001: 606). He took his schooling proper at St Clement's, a girl's school that accepted boys, at a 2-room school in Scarborough and at the University of Toronto Schools, entering the University proper at age 16. As he recalled three decades years later, U. of T. economics "functioned in those days with fairly small classes, and instruction mostly by informal lectures and seminars" (Johnson and Johnson 1978: 127). His classmate Gideon Rosenbluth testifies that in the third year of the honours course there were only 10 students (Rosenbluth 2001: 606). They took courses from the economist Harold Innis and the political scientist C. B.

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[2] And traveled extensively within them. Simpson lists his destinations for the year: Mexico, Washington, Stanford, Freiburg, Geneva, Rochester (N.Y.), Washington, London, Vancouver, Victoria, Cambridge, (Mass.), Chicago, Quebec, Stockholm, Bellagio, Kiel, Kingston (Ontario), Thailand, Australia, New Zealand, Vancouver, Uruguay, Atlantic City, South Carolina, Chicago, Athens (Ohio), Boulder, Tokyo, Martinique, Philadelphia, Washington, London, Delhi, Calcutta (Simpson 2001: 636).

[3] In economics the opposite of "real" is not "unreal" but "monetary" or "financial."

[4] John Kenneth Galbraith's father was also a Liberal party official and mentor of Hepburn at the time (see Parker 2005: 41-2). Regarding farming: it was Johnson's mother who stocked the farm and managed it. I am grateful to Donald Moggridge for this point.

Macpherson and although a number of professors were anti-Marxist, Rosenbluth reports that they soaked up the radicalism of the late Depression and early war years. Johnson was very competitive academically, an accomplished wrestler—he was large and throughout his life usually overweight—and, according to Rosenbluth, perpetually lacking in self-confidence.[5] Despite his radicalism, in his final year he was president of the university Liberal club.

After his B.A., Harry Johnson took his first teaching job—in September 1943 at age only 20—as a "one-man replacement for a two-man department" at Saint Francis Xavier University in Antigonish, Nova Scotia (Johnson and Johnson 1978: 85). If anyone could replace an entire department it was the intellectually omnivorous Harry Johnson. He recalls he was a "misfit" and "very lonely, being a stranger in all relevant ways" and took "refuge in prodigious reading," (*Ibid*) which was interrupted by a post-D-Day stint in the Canadian infantry that took him to Europe. Because of sinus problems he was assigned to clerical duties at Canada House in London and at war's end was stranded in England along with thousands of other Canadian servicemen by an acute shortage of trans-Atlantic shipping. The Canadian Army defused this explosive situation—there were riots at Aldershot in July 1945—by sending the most qualified strandees for further education. Thus Corporal Johnson arrived in mufti at Cambridge in the fall of 1946 and began work on a second B.A. He won a First, the highest mark in economics in his year, and "returned triumphantly" to Toronto for an M. A. year and a junior teaching position, helping with the flood of veterans (Tobin 1978: 448).

While at Cambridge he had his one and only encounter with John Maynard Keynes, legendary don, towering figure of 20th-century economics, and founder of Keynesian macroeconomics. It occurred less than three months before the great man died. On Johnson's first visit to Cambridge's famous "Political Economy Club" he drew the short straw requiring him to comment on what the evening's main speaker was to say. As fate would have it, that night the speaker was none other than Keynes, the most important economist of the century. In his memoir of Cambridge, Johnson records that Keynes "a sparkling man,… was very kind, and …picked up the point [Johnson had fastened on] and made something of it… One of the secrets of his charm was that he would go out of his way to make something flattering out of what a student had said. If the student had made an absolute ass of himself, Keynes would still find something in it which he would transform into a good point" (Johnson and Johnson 1978: 132-3). It is an assessment echoed by Jagdish Bhagwati, Johnson's own student at Cambridge and later his co-author, in his obituary of Johnson: "We took most … to Harry's warmth and generosity of spirit. He read carefully, and often improved, our efforts … Harry would reword, rephrase and make sense out of our ill-formulated remarks" (Bhagwati 1977: 223). Richard Lipsey describes several instances of Johnson's enthusiastic and pivotal encouragement of his own work when he was a student at the London School of

[5] Johnson's friend and fellow economist Anthony Scott reports that although "his good success may indeed have been due to lack of self-confidence…his manner certainly did not reveal this lack" (e-mail to author, 19 April 2005).

Economics and Johnson was at Cambridge and then Manchester (Lipsey 2001).[6] Johnson's kindness to students is stressed by all who have written about him. On the other hand, as Lipsey notes, like Keynes, "[he] did not put up with fools gladly. He could have a merciless tongue when he met what he regarded as stupidity or pomposity" (Lipsey 2001: 3).

In the fall of 1947 Johnson set off from his Toronto job for Cambridge, Massachusetts, to begin Harvard's Ph.D. programme. "I cut a lot of ice around Harvard," he later wrote, "since Cambridge [England, the Mecca of Keynesian economics] was where they all would have liked to have gone" (Johnson and Johnson 1978: 134). Anthony Scott recalls further instances of Johnson's generosity: "At Harvard all we Canadian Ph.D aspirants worked together to get through and understand and digest long assigned reading lists. Harry was part of our group—even he had not read all that stuff! He grasped each piece very quickly. Then he was willing to slow down and really make sure that the rest of us understood it…. day after day."[7] The following summer he worked his way back to England on a cattle boat to visit friends and while there received the offer of a Cambridge teaching job from non-Keynesian Professor Denis Robertson. Stunned, Johnson wrote later that he "recovered enough to say 'Yes, yes, yes, yes, yes'" (Johnson and Johnson 1978: 134). He hurried back to Harvard, married Elizabeth Scott Serson of Ottawa, a journalist, editor and former U. of T. classmate, made short work of his Ph.D. general exams (earning straight A's); and then returned to Cambridge to take up his appointment. In an intellectually fateful turn, the Faculty of Economics needed him to teach international trade and monetary economics, thus drawing him away from an early interest in the history of economic thought (Moggridge 2001: pp. 657-8; see also Dimand 2001).

During his years at Cambridge (1949-56) Johnson established himself as a leading researcher in international trade theory. What exactly does a trade theorist write about? Whether a country can gain by levying tariffs of just the right amount; what forces cause balance of payments deficits or surpluses; whether the economic effects of reparations of the sort imposed on Germany after World War I could be offset by cuts in exchange rates; how countries that export natural resources may be hurt or helped by economic growth. On all these questions and many, many others Johnson used mathematics, clear language and the "ingenious diagrams… he loved" to illustrate the economic conditions

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[6] Lipsey also writes about Johnson's skill as a wood carver: "I recall once being at an oral examination with Harry as external examiner. As was Harry's practice, he began a wood carving as the exam started. The candidate began quite well and Harry's animal was taking shape as something positively benign. But then the candidate got into some deeper water which he could not navigate well and candidate and animal changed complexion. Finally, as the candidate showed that he was unable to keep the water from sinking his intellectual boat, which he himself had holed several times, the animal turned menacing. There was no need to ask Harry's opinion after the candidate left. The failure was engraved in the face of Harry's completed animal." Lipsey also tells of a late-night drinking party in London shortly before Johnson decided to leave for Chicago: "One of my memories of that evening is of a cab refusing to pick us up at 4AM on some London street corner—I guess we seemed too disreputable for the cabby" (Lipsey 2001: 4). Johnson was a drinker for most of his life though according to his friend James Tobin he stopped cold for health reasons (after contracting jaundice shortly before his first stroke).

[7] E-mail to author, 19 April 2005.

under which one or another result would obtain (Tobin 1978:450). Economists are widely condemned for making assumptions, but in fact economist theorists perform a critical function in adumbrating which assumptions lead to which results. Harry Johnson was a master of the disciplined, logical thinking required for that job, and his forthright character helped him confront the nihilistic conclusion that in many cases nothing can be said with certainty.

Having established himself as a leading economic theorist, in 1956 Johnson left Cambridge for a chair at the University of Manchester, where, he said, he had the happiest times of his professional life. He had wearied of Cambridge's vicious politicking, petty doctrinal disputes and, in his view, quasi-religious rather than scientific approach to economics. "I began to appreciate the difference between scientific and ideological motivations for theoretical work. I began to realize that more and more Cambridge people… were perverting economics in order to defend intellectual and emotional positions taken in the 1930s" (Johnson and Johnson 1978: 150). When, 20 years later, he gave vent to his feelings about the provincialism, scholasticism and intellectual sloppiness of Cambridge's word-based economics, he did so with the slashing wit that was the usual weapon of choice in Cambridge controversies. As he put it, Cambridge economics of that era was based on the "mistaken belief that to prove capitalism to be logically impossible is sufficient to dispose of its existence… Cambridge is a very isolated place, and the message still has not reached there that, by and large, the world has enjoyed full employment and fairly successful capitalism for over a quarter of the postwar century…" (Johnson and Johnson 1978: 145). To ignore obvious fact Johnson regarded as an affront to the scientific method. That economics should remain strictly scientific in its inquiries was a belief he held to firmly all his life, even if he himself was later criticized for sometimes failing to maintain the distinction in his own work. As Bhagwati put it in his memorial to Johnson: "Harry, who was scintillatingly successful in uncovering the political biases and value judgments in other economists' writings, especially when they were on his left, seemed strangely unaware of his own" (Bhagwati 1977: 226). Too often in economics ideological predilection is detected only in others' work.

Johnson's own ideology is not so easy to place as might be supposed. In these essays, he registers loud and clear as a market-oriented critic of Canadian-nationalist economics. At Cambridge in the late 1940s and early 1950s he was clearly to the right of average, preferring the logical positivist methods of testing economic hypotheses to what he regarded as the intellectual parlour game of proof by deduction. In practical terms, as well, he was more comfortable to the right of Joan Robinson and her post-Keynesian economics, which the great Austrian-American economic historian Joseph Schumpeter, whom Johnson had studied under at Harvard, called "Marxo-Keynesian." Bhagwati reports that his Cambridge students saw him as a "mild centrist" (Bhagwati 1977: 225). Still, he got along well with his former supervisor, the Communist Maurice Dobb, and, as Rosenbluth reports, he had been radical as an undergraduate—albeit probably not more so than most undergraduates of that turbulent era. His first published work, written while at St. Francis Xavier, was a generally approving tract on the "Antigonish movement," an Atlantic Canadian experiment in Catholic cooperatism ("The old arguments for freedom

of initiative and enterprise," he had written, "no longer fit the facts" (Rosenbluth 2001: 609). When in 1959 he moved to the *laissez-faire* University of Chicago he arrived as "their Keynesian," not always an easy role to play in a department increasingly identified with monetarism, the forerunner and, after Milton Friedman's restoration of it, successor to Keynesianism. Newly arrived at Chicago, Johnson wrote that "one senses a certain pressure to conformity underlying the unanimity, a certain self-searching to make sure that the principles of free enterprise are being properly applied at all times, and a certain anxiety to be the first to attack a new idea and root out any possible heresy" (quoted in Moggridge 2001: fn. 9). Did he himself succumb to the pressure? Jagdish Bhagwati detects a clear rightward drift in Johnson's thinking following his move to Chicago and attributes it to too much butting of heads with opponents whose beliefs never budged even when the data suggested they should. But if 1970s Harry Johnson was more skeptical of government intervention in the economy than 1950s or indeed 1940s Harry Johnson had been, that merely indicates he had followed the same course as many economists of his generation. When most of the essays in *The Canadian Quandary* were written, however, the rightward tack was not yet complete—in some ways not even begun. Left-leaning readers will be surprised to learn Johnson is not at all the prototypical Chicago free-marketeer so familiar in America and Britain in the 1980s and after. Indeed, from an early 21st-century perspective, he is in many ways astonishingly left-wing. In his writing on economic nationalism, he does conform to the views expected of a Chicagoan: individuals should be free to decide for themselves which country's goods to buy, where to invest, to whom to sell their businesses, and so on. But on several other policy questions—economic planning, most notably—he exhibits the much more interventionist preferences of the first and second postwar decades. For some readers, his straying from strict Chicago orthodoxy may increase his credibility on those issues where he does espouse the classically liberal position.

In 1958 Johnson finally collected his Harvard Ph.D. His dissertation, *International Trade and Economic Growth*, was a collection of seven already-published and indeed influential papers that each, an exam committee member reflected, could have formed the core of its own thesis (Duesenberry 2001). That for almost a decade before obtaining his doctorate Johnson had been a leading researcher doing potentially Nobel-quality work in several areas of economics is evidence of the more relaxed credentialism of that era. A year later, after being passed over for a prestigious chair at the London School of Economics, Johnson made the move from Manchester to Chicago, where he made his intellectual home until his death two decades later. In addition to his Chicago appointment, from 1966 to 1974 he taught half-years at the London School of Economics. And then in the final two years of his life he also taught at the Graduate Institute for International Studies in Geneva, where he was when he suffered the stroke, his second in three years, that in May 1977 ultimately killed him. Apart from holding down two full-time jobs a quarter of the world apart, Johnson did the widespread traveling that led his friend Tobin to award him the economics profession's "all-time records for air travel for academic and scientific purposes and for hours spent in lectures, conferences, symposia, and colloquia" (Tobin 1978: 444).To some, such *wanderlust* seemed obsessive. Johnson saw it as his professional obligation to both sow and harvest learning wherever it might be found. Moreover, actually visiting the countries whose economic development he wished to

foster seemed to him a basic duty. His wife Elizabeth, herself an editor of Keynes' papers and later economics editor at the University of Chicago Press, expressed puzzlement that, by contrast, to Keynes himself "it did not seem important…, as an expert on Indian finance, to go to India to acquire information at first hand … I think he automatically assumed that as an Englishman he had nothing particularly valuable to learn by travel (Johnson and Johnson 1978: 14)." Her own Canadian husband obviously believed the opposite. That Keynes and his insular coterie ended up cosmopolitans may be surprising; that Harry Johnson did is not. And he did. Has anyone else ever served on important government commissions in three countries?[8] Nor was Johnson's belief in the virtues of free and open trade and of international migration particularly surprising. In this he carried forward a long tradition among Canadian economists interested in the international economics so important to their country's past and doubtless future development.

Johnson's apparent compulsion to publish—"Harry was an extraordinarily productive writer, and he was proud of the fact that he had published more articles in learned journals than any other economist living or dead[9]" (Lipsey 1978: S35)—had the same democratic rationale. It was partly a rebellion against the elitism he had seen at Cambridge. As Bhagwati wrote, "Harry explained to me that the Oxbridge tradition of communicating only to one another at High Table was elitist and wrong: that, if one had ideas, it was a professional obligation to put them down in print where the underprivileged, who were not born so well as to get to Oxbridge, would also have access" (Bhagwati 1977: 227). And in the early jet age, travel and publishing were complementary, for Johnson had the knack of being able to write on airplanes. As Bhagwati reports, he was "reputed to have finished two articles on one transatlantic flight; I myself saw him start and complete one … on a flight back from Geneva [to the U.S.]" (Bhagwati 1977: 226). In the late 1950s, transatlantic flights took longer than they do today. Even so…

Johnson's memoir suggests the reason he finally found a true academic home in Chicago had partly to do with Chicago's egalitarian geography. Where Cambridge's economists were spread out and divided up amongst different colleges, thus discouraging contact and exchange, "the Chicago economists lived on one floor … with a single elevator around and in which they automatically met frequently and informally" (Johnson and Johnson 1978: 87). Although he clearly thrived in Chicago's stable of future Nobel laureates—among them Robert Mundell, George Stigler, Theodore Schultz, Gary Becker, and Milton Friedman—his two decades there were not without conflict. Shortly after his arrival, Bhagwati relates, he had a quintessentially academic dispute over a footnote that his new colleague Milton Friedman considered overly aggressive toward a colleague. In a joint

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[8] The Porter Royal Commission on Banking and Finance (Canada), the President's Special Group on the Great Society (United States), and the Council for Scientific Policy (United Kingdom) (*Journal of Political Economy* 1977: 566). He was also a fellow of the Royal Society of Canada, of the British Academy and of the American Academy of Arts and Sciences (Frenkel 1987: 1025).

[9] In fact, Johnson dead out-published most people living. At his death he had ** articles in press (Frenkel 1987: **). Richard Lispey observed: "[I]t is not stretching things very far to say that an academic in many a less well-known university could progress from assistant to full professor on a lifetime bibliography that consisted solely of Harry's posthumnously published works (Lipsey 1978: S35).

paper, Bhagwati and Johnson *had* used the term "propaganda" in describing one aspect of the colleague's work and Friedman thought this unfair. Over the years, according to Bhagwati, Johnson came to regard Friedman as falling more on the ideological than scientific end of the economics spectrum. It is interesting that when in 1971, at the height of the debate between Keynesians and Monetarists, the Keynesian James Tobin used his "prerogative as President of the American Economic Association" to ask Johnson to give a distinguished lecture on the controversies between the two schools at the Association's annual meetings, Johnson's talk "predicted—on sociological, methodological, and substantive grounds—that monetarism would subside, with its valid findings absorbed into the Keynesian mainstream" (Tobin 1978: 455). He was largely right: strict monetarism's influence on monetary policy peaked in the late 1970s.

Johnson's own scientific achievement was considerable. The bibliography published after his death by the University of Chicago's profession-leading *Journal of Political Economy*, which he edited on his own from 1960 to 1966 and jointly from 1969 until his death, runs to 51 pages, including 38 pages worth of scientific articles (Longawa 1984). In addition, it lists 27 books and lecture series, 14 pamphlets, 25 edited books, 42 pieces of journalism, 19 entries under "miscellaneous," and seven and a half pages' worth of book reviews. The entries under "journalism" and "miscellaneous" include pieces in *Punch*, *Encounter*, *Granta* and the *Spectator*, as well as in less improbable venues for an economist, such as the *Times* (London, New York and *Financial*) and the *Economist*.. The subjects treated in this small forest of work range from the usual fare of budgets, exchange rates and macroeconomic perturbations to the economic future of sex, the economics of undertaking, the "private eye of Mickey Spillane," student unrest and "curiosity research" (Longawa 1984). It would not be far wrong to say that for a good part of his professional life Harry Johnson could publish at any lenth on any subject in any outlet he chose.

When a Chicago student once asked future Nobelist George Stigler about the difference between his own relatively modest stream of research output and the Niagara of Johnson's writing, Stigler supposedly replied, with characteristic acerbity, "Ah, but mine are all different" (quoted in Bhagwati 1977: 226). It is true, as is apparent in the *Canadian Quandary*, that many of Johnson's papers contain duplication. How could they not? His output for 1976 alone, the last full year of his life, was 49 items, almost one per week (Longawa 1984). His student Bhagwati defends the duplication on the grounds that Johnson "rarely, if ever, published in different places without adding new insights, however small. His mind was ceaselessly active, turning things around endlessly: there was always a new wrinkle" (Bhagwati 1977: 226). A better defence is that Johnson's contributions covered so many different areas of economics that the possibilities for duplication were in fact limited. Jacob Frenkel's appreciation includes a very long paragraph listing no fewer than 54 different fields of economics in which Johnson wrote, from the history of economic doctrines to the price of gold, from the theory of international commodity agreements to the theory of preferences and consumption, from Keynesian economics to income distribution (Frenkel 1987: 1023). The commemorative issue of the *Journal of International Economics*, of which Johnson was a founding co-editor, included separate articles from leading scholars on "Harry Johnson's contributions

to international trade theory," "Harry Johnson as a macroeconomist," "Harry G. Johnson as a development economist," and "Harry Johnson as a social scientist."

The impression given by the testimonials, perhaps understandable in that genre, is of a figure towering Keynes-like over the profession. Almost three decades later an assessment must be more restrained. Perhaps in the end someone whose greatest strengths were in synthesizing, expositing, clearing up puzzles, summarizing the state of play and suggesting ways forward may not have won the Nobel Prize. But this is hindsight. What is important for present purposes is that when he wrote the pieces he later brought together in *The Canadian Quandary*, Harry Johnson was a world-class economist at the height of his intellectual and rhetorical powers. When he chose to comment on Canadian affairs it was with the authority, always talismanic in Canada, of the native son who had made an impressive success both in the world.

The era

Nineteen fifty-seven to 1963. It was still very much a world dominated by memory of World War II. Dwight Eisenhower, hero of D-Day, was U.S. president. Charles De Gaulle, liberator of Paris, came to power in France. Mao ruled China. Among post-war newcomers, Nikita Khruschev had just consolidated his control of the Soviet Union. In India, Pandit Nehru was prime minister; in Britain, Harold Macmillan. Konrad Adenauer, the liberal reformer, led West Germany. Dag Hammerskjöld was U.N. Secretary-General. In retrospect, it was the deepest freeze of the Cold War, with the Berlin Crisis and the building of the Wall in 1961 and then the Cuban Missile Crisis of 1962. And it was by no means clear who would win the "long twilight struggle," as John F. Kennedy called it in his one and only inaugural address. The Soviet Union had launched Sputnik in 1957 and was posting impressive rates of economic growth that, even if the statistics weren't always believed, troubled many western economists. China, a land still isolated, had not yet experienced its catastrophic Cultural Revolution. Fidel Castro led a Communist revolution in Cuba. Socialism was making deep inroads in what was just coming to be known as the Third World. In Europe a new Economic Community was being formed and, to the Canadian government's consternation, Britain's attention was wandering from its former Empire, now Commonwealth. In the United States at the end of the 1950s economic growth languished and the nation seemed to drift under a sick and suddenly old Dwight Eisenhower. Even the election JFK and his young, vigourous New Frontiersmen in 1960 could not seem to get the American economy moving again. As if Sputnik were not enough, American prestige eroded further as the postwar dollar shortage turned into a dollar glut and, in what seemed a wasting disease, gold drained from Fort Knox when traders tested the American pledge to buy and sell gold bullion to all comers at a price of $35 an ounce. Intellectually it was a time of change, as well. In 1958 one of Kennedy's confidants, John Kenneth Galbraith, sold a million copies of *The Affluent Society* and kicked off a decade of debate about the usefulness of economic growth. Though Keynesian economics was in the ascendance and Keynesians such as James Tobin staffed Kennedy's Council of Economic Advisers, it would be another decade before Richard Nixon announced "we are all Keynesians now" (not long, in fact, before Friedman's monetarists took over).

In Canada, 1957-63 were the Diefenbaker years. The Gordon Commission, appointed by Liberal Prime Minister Louis St-Laurent, reported just after John Diefenbaker took office with a minority government in 1957. It set the terms of economic debate for the next 15 years by arguing that the Canadian government needed to assert itself more in assuring Canadians ran the country's economy. Lester Pearson's Liberals, banished to the political wilderness by Diefenbaker's record-breaking 1958 majority, began their rehabilitation with the famous Kingston Policy Conference of 1960 (at which Harry Johnson spoke). Meanwhile the Conservatives obligingly self-destructed. Bank of Canada Governor James Coyne (father of columnist Andrew Coyne) held to an essentially monetarist policy that limited money growth, thus raising interest rates, reducing Canada's trade deficit and discouraging government borrowing. But this also slowed economic growth and raised unemployment rates (despite a public service campaign to "Why wait for spring? Do it now"). In July 1961, with only six months left in his term, Coyne was in effect dismissed. Then, after the government signaled its intention to let the value of the Canadian dollar fall—uniquely among western currencies it was floating, and had been since 1950—the market responded with a run on the dollar and the government was forced, with the help of the International Monetary Fund, to fix the exchange rate at 92.5 cents U.S. (where it stayed until 1970, when the dollar was floated again, this time upward). The political fallout led voters to withdraw Diefenbaker's majority in 1962 and then in 1963, after the government split on whether or not to accept American Bomarc missiles, to elect a minority Liberal government. Its "Sixty Days of Decision," which had been promised in the campaign, included now-Finance Minister Walter Gordon's disastrous first budget, which included ill-considered attempts to tax foreign investments that ultimately had to be withdrawn. As the foreword to *The Canadian Quandary* makes clear, that is where Johnson came in.

The essays

The essays reprinted here were first published in 1963, just after Walter Gordon's first budget. In his academic work, Harry Johnson was best known for two things: his prodigious pace of publication and his use of very complicated diagrams, the bane of graduate students of that era. Readers of *The Canadian Quandary* are spared the diagrams: there is only one in the entire book and it is relatively simple. But they are provided ample evidence of just how prolific Johnson was. The 352 pages of this book include eight conference papers, three journal articles, three speeches, two academic reviews, one named lecture, one book chapter, one royal commission study, one academic seminar paper and one conference report. Two of the speeches (chapters 5 and 18) were prepared for delivery on successive days (Feb. 25 and 26, 1963). And yet more than 40 years on they stand up well. How many economists writing today—how many members of any discipline writing today?—could reasonably hope that what they might say to two different groups on two different subjects on adjacent days will be of interest to readers in the late 2040s?

What of the essays themselves?

After the volume's enigmatic title—exactly what the Canadian quandary is Johnson never answers directly[10]—the reader is greeted by the dedication to the memory of Stefan Stykolt, "economist and friend." The Polish-born Stykolt, who had died the year before at the age of 39, had, like Johnson, studied economics and political science at the University of Toronto, spent time at Cambridge, and received his Ph.D. in economics at Harvard (by coincidence in 1958, the same year as Johnson). From 1951 on he taught at the U. of T. and in the mid-1950s served as managing editor of *Canadian Forum*. Johnson's dedication is a coded foreshadowing of the volume's iconoclastic tone, for despite his early death Stykolt was a key figure in the re-evaluation of John A. Macdonald's National Policy of growth by protectionism. For its first 75 years this strategy had remarkably good reviews from Canadian economists but in the 1950s it was being subjected to a revisionist challenge. Stykolt was posthumous co-author, with the University of Toronto's Harry Eastman, of a dry but revolutionary statistical study, *The Tariff and Competition in Canada*, which showed that although the tariff may indeed have helped establish a Canadian manufacturing sector, it had also, by shutting that sector in behind protective walls, condemned it to an inefficient scale of operation and therefore a low level of productivity. The obvious remedy, to remove the tariff and expose Canadian industry to the rigours of free trade, was a radical notion in the protected Canadian economy of the 1950s.[11]

After this dedication, the table of contents tells us the 21 contributions that make up *The Canadian Quandary* will be presented in five parts: "Prospects, problems and planning," which deals mainly with economic nationalism and macroeconomic management and planning; "Canadian commercial policy," which is concerned with tariffs, Canada-US free trade, and the royal commission proposals that in 1965 led to the Canada-US *Auto Pact*; "Monetary policy," which treats essentially technical problems in the conduct of Canadian monetary policy; "The economics of opulence," five essays loosely related to the critique of modern capitalism presented in *The Affluent Society*, whose usage, "affluence," outlived Johnson's preferred "opulence"; and "The world context," in which Johnson examines problems of international monetary coordination in ways that foreshadow his later more technical work on the monetary theory of the balance of payments. Let us examine the five parts in turn.

Part One: Prospects, problems and planning

Johnson's Foreword precedes this first part of the book but in fact is of a piece with it. A traditional foreword would have described the book to come. Johnson's jumps into just one of his many themes with two feet, providing his reaction to the last important policy event before he went to press, namely, the ill-fated first budget of the Pearson government, presented by Walter Gordon on June 13, 1963. The Gordon budget Johnson

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[10] An attempt to explain it concludes this introduction.

[11] In an obituary of Stykolt published in the *Canadian Journal of Economics and Political Science* Johnson described an intellectual *credo* that might well have applied to himself: "Concentration on the pursuit of truth is the only self-justification, and scepticism the only form of self-defence and consolation, available to the intellectual in a country that knows itself to be a powerless pygmy in a world of giants, and fears for its survival and its identity—whether it be Poland or Canada" (Johnson 1963: 99).

characterizes as "economic idiocy" even before considering what he regards as its least wise provisions, namely, its attempts to use the tax system to encourage the Canadian ownership of manufacturing firms operating in Canada. The proposals were withdrawn in a second budget on July 8, following widespread criticism in the business community.[12] The Gordon budget would have encouraged Canadian ownership both by favouring Canadian-owned firms with investment incentives and by taxing the sale of such firms to non-Canadians. As the foreword makes thunderingly clear, Johnson thought both measures unwise and unnecessary. Unnecessary first because on a per capita basis Canadians' propensity to invest in the U.S. was substantially higher than Americans' propensity to invest in Canada and, second, because domination was declining: according to late 1950's data there was less U.S. ownership in newer enterprises. Unwise because U.S. firms operating in Canada did much good for the Canadian economy. They exported a lot, both to the U.S. and to other countries; they mainly hired Canadians; and they paid abundant income taxes (generally at the expense of the U.S. Treasury, which allowed Canadian tax liabilities to be credited against American). Barring foreign owners from taking over Canadian firms also reduced economic productivity in cases where foreigners would do a better job managing a Canadian firm. It also caused capital to be misallocated: firms would seek out investments that paid handsomely, not because of the underlying economic return, but because of the tax breaks. Finally, the most basic possible objection, it might not work: foreign owners would create a "kept class of quiescent dividend receivers" who would let them keep control of the enterprise, thus frustrating "the intent of the tax discrimination while obtaining the benefits of the proffered tax reduction." (p. xix).

1. The book's first entry, "Canada's economic prospects," published in 1958, is a review of the preliminary report of the Royal Commission on Canada's Economic Prospects, better known as the "Gordon Commission Report," after its chairman. Walter Gordon was the scion of the Toronto Gordons (founders of the Canadian accounting firm Clarkson Gordon) and the leader of the nationalist wing of the St.-Laurent/Pearson Liberals and, along with Bank of Canada Governor James Coyne, is the principal *bête noire* of this first part of *The Canadian Quandary*.

Johnson's review is of interest not only for historical reasons but also because it is a model of the review genre, reviewing what was itself a model of the report genre. To Johnson the Gordon Commission report is interesting mainly as "a reflection of trends in Canadian political opinion and the balance of pressure groups"—1950s terminology for "interest groups"—"at the end of the second Liberal era." To readers in what must now be at least the fourth Liberal era, the report's projections are quaint, as past projections inevitably do. Some came true (GDP did triple between the mid-1950s and 1980). Some did not (working hours did not fall by a fifth). The predicted shift toward trade with the United States did take place. Unemployment, alas, did not remain at three per cent and, strangely, there is no foreshadowing, at least in Johnson's review, of the dramatic

[12] Including eloquent denunciation by Eric Kierans, then head of the Montreal Stock Exchange: "The financial capitals of the world have just about had enough from Canada," which is ironic given Kierans' later role as a leading economic nationalist (quoted in Swift 1988: 80).

increase in the labour force participation of women, probably the single most important economic event of the postwar period.

The sections of the review dealing with the report's policy proposals are of interest not so much for their particulars as for the deftness with which Johnson gives so many of them the back of his hand. The report is a "transcription of opinion" (p. 7)... [T]he Commission endorses the Canadian Wheat Board with an irrelevancy and a *non sequitur* (p. 5)…The objections to [one proposal] are too many and too obvious to mention (p. 6)…[A] section on commercial policy … is a model of under-developed economic thinking" (p. 7). Recommendations anticipating the 1963 budget are nothing more than "another attempt to blackmail successful alien risk-takers into paying tribute to unenterprising but powerful local capitalists as the price for controlling the mob" (p. 9). A section on the perennial problem of skill shortages—does nothing change in Canadian policy discussions?—"fails to question the seriousness of a 'shortage' which the price system does nothing to correct" (p. 9).

Not all is error, however: one section of the report places "a healthy emphasis on paying the costs of moving people to better income opportunities rather than subsidizing indiscriminately" (p. 9). Johnson also welcomes the recommendation that university salaries and infrastructure be improved "as a bold and overdue declaration in favour of slum clearance." Strangely, or perhaps not, he fails to apply his customary skepticism to the Commission's declaration that "no other single course of action would be so likely to have such an important and fundamental effect upon the long-term economic prospects for Canada" as raising the quality of Canadian universities. As a result of substantial public investment, Canadian universities did expand dramatically in the 1960s. Econometricians and others credit the subsequent emergence of a more educated work force with playing an important role in the later growth of per capita incomes.

In the end, what may strike contemporary readers most is Johnson's emphasis on resource industries. So much of subsequent Canadian industrial policy, in rhetorical if not practical effect, has been an attempt to get out from under our resource endowment. Thus he chides the Commission for failing to provide what "Canada could conceivably contribute to the rest of the world—a consistent philosophy of economic development based on natural resources" (p. 10). In the end, however, "[i]t is disappointing to find a report which professes faith in the flexible market economy so uneven in its understanding of how the market system works, so prone to accept the existence of problems put forward by the interested parties, and so willing to cope with the problems it sees by putting someone in charge of issuing permits" (p. 10). Many contemporary economists will recognize what is evidently a genetic failing of Canadian government reports.

2. The book's second chapter, "Problems of Canadian nationalism," originally published in 1961, is probably the most succinct, uncompromising and emphatic statement available of classical liberalism's view of Canadian nationalism or, to be precise, Canadian chauvinism, for Johnson distinguishes between legitimate nationalism, "the pride that a citizen can rightfully take in the achievements of his own country, and the obligation he

should assume to strive to make that country a better place to live in" (p. 13) and chauvinism, "the perversion of nationalism into the assumption by the citizen that his country has superior accomplishments by virtue of its being his country, and that because it is his country it is *ipso facto* already the best place to live in" (p. 13-14). Johnson's attack is relentless. Underlying much Canadian nationalism is a "mean and underhanded anti-Americanism which serves many Canadians as an excuse for their failure to accomplish anything worthy of genuine national pride" (p. 11)—a comment that rings with clarity in an era in which members of parliament must be expelled from the government caucus for anti-Americanism. Canadian nationalists deny that they are anti-American, of course, but what else would they do, given Canadians' talent for "genteel hypocrisy" (p. 16). Johnson believes Canadians *are* different from Americans. Canadian traits are generally but not always admirable. At international meetings, for instance, we tend to "orate at a high moral level or to keep quiet and then grumble afterwards about not being listened to (p. 13)"—a neurosis familiar in the early 21st century, if nowadays we are more likely to both orate and grumble.

In Johnson's view, the dangers of Americanization are greatly exaggerated. If Canadians choose to consume American goods, including culture, that is not American domination but Canadians' choice. American investment in Canada brings substantial benefits. The belief that Canada inevitably will be absorbed by the United States assumes "a degree of economic determinism in politics going far beyond anything the facts of history would warrant" (p. 14). In fact, the higher standard of living that economic integration brings broadens the political choices available to Canadians—as indeed happened later in the 1960s, when, the Pearson government introduced new universal social programmes even as it pursued the *Auto Pact* and reductions in Canada-U.S. tariffs. But if Canadians did eventually wish to integrate politically with the United States, well, that would be their democratic right. At bottom, Canadians' penchant for anti-Americanism is both very American—like the Americans, we "desire to be loved in spite of [our] obnoxious behaviour" (p. 16)—and a sign of immaturity: we cannot bring ourselves to accept that we are a smaller and less significant country than the United States. It also "diverts Canadian energies into a rather unattractive mixture of bombast and self-pity" (p. 18).

Nationalist protest is not irrational, however. The protectionist economic measures proposed would benefit "particular groups of Canadians at the national expense" (p. 18). But efforts to Canadianize industry "rest on the doubtful assumption that it is the function of share-holders, directors and managers rather than of Parliament to see that business is conducted in the national interest" (p. 18).[13] Ultimately, nationalism is harmful. The economic protectionism at the heart of Canadian chauvinism would discourage the development of the "efficiency and flexibility [that are required] if a country is to compete on the world market" (p. 19), especially when Canada's competitors are entering into liberalizing trade agreements to enlarge the markets available to them. Finally, the nationalist program diverts attention from the true source of Canada's economic problems, which Johnson thought were unduly restrictive fiscal and monetary policies,

[13] Johnson presumably would have been skeptical of current arguments for "corporate social responsibility," believing as he did that governments, not corporate executives or directors, should regulate social norms.

the latter imposed by Bank of Canada Governor James Coyne (whose last name proves irresistible to Johnsonian wordplay: “on matters of economic principle Mr. Coyne has a habit of coming down tails” (p. 20)). Though the occasion that gave rise to this chapter has passed, it would be hard to find a more concise or authoritative *précis* of the anti-nationalist position.

3. The third entry in the “Prospects, problems and planning” sections is “Canada in a changing world,” a revised version of a Canadian Club speech delivered in November 1962, just after the Cuban missile crisis. In it Johnson addresses the short- and long-term policy failures of the Diefenbaker government. Unfortunately, “one of the universal characteristics of intelligent and educated public opinion—a characteristic accentuated in Canada by the national urge to be thought responsible and sound by one’s fellow citizens, and aggravated by the legacy of masochism implanted in our culture by the Scottish influence—is that it almost never faces basic problems or recognizes basic causes” (p. 26)., an observation that remains true, even if today political correctness would not allow it to be ascribed to an ethnic characteristic. In Johnson’s view, the basic causes of the slow growth and by that era’s standards high unemployment—“seven men and a boy out of every hundred workers are typically looking for work in this country” (p. 26)—that had plagued the Diefenbaker years were relatively simple in origin: in addition to slow U.S. growth, inappropriately tight monetary and fiscal policy. Contemporary Keynesians will be delighted by Johnson’s assertion that “unemployment is a problem whose cure is well understood in the present state of economic science” (p. 27) and by his opinion that the intelligent use of budget deficits “is inhibited in North America by a mythology of sound finance sedulously cultivated by conservative financial opinion” (p. 25). Partly because of the influence of Keynesians like Johnson, such opinion effectively disappeared in the 1970s and 1980s. In the 1990s, however, Canadians whom bitter experience had taught the practical difficulty of running a sensible Keynesian policy in which deficits alternated with surpluses had returned to an essentially pre-Keynesian view that public deficits were best avoided altogether. The Trudeau and Mulroney governments had had no trouble running the deficits, only the surpluses.

In Johnson’s view, the macroeconomic difficulties of the Diefenbaker years had been compounded by an unwise attempt to keep the value of the floating Canadian dollar from rising unduly. Announcement of the policy decision to work against appreciation of the currency provoked a genuine run on the dollar, “a panic decision to peg the rate” at 92.5 cents (“a level chosen by averaging the current rate [95 cents] and a politician’s guess as to the lowest rate the public would tolerate [90 cents], both rounded to the nearest nickel for ease of political calculation” (p. 25). Under the guidance of the International Monetary Fund the government then introduced an austerity programme whose goal was to stabilize the dollar but whose effect, Johnson thought, would be to prolong economic torpour. He also condemned excessive concern about inflation, which led to policies aimed at “keeping down the cost of living of the middle class at the expense of the jobs of the working class.”

The country’s long-term problem—remaining competitive with a resurgent Europe enjoying the first fruits of economic integration and with a Japan emerging from

underdevelopment—would not be solved by continuing resort to a protectionist tariff that condemned the Canadian economy to excessive reliance on a manufacturing sector that as a result of protectionism suffered a permanent productivity disadvantage with American manufacturing. In principle, Johnson favoured a Canada-U.S. free trade agreement as the best response to the European Common Market though he thought that option had been precluded by the Kennedy administration's decision to pursue multilateral tariff reduction. Prefacing his proposal with a witty analogy between trade negotiations and seduction, he argued instead that Canada should consider unilateral tariff reduction. The real gain in trade negotiations is lowering your own trade barriers, since that forces your producers to be more efficient. But, as in seduction—or at least seduction as practiced by respectable folk in the early 1960s—"the benefit to be received is treated as a loss for purposes of negotiation; and in each case the consequence of this fiction is continual frustration and frequent non-consummation (p. 30)" Though it is a lesson every generation would do well to keep in mind one wonders how well this unbuttoned writing went over in the thoroughly buttoned Toronto of 1962.

Johnson's advice against preaching, economic gadgetry and what he calls "imitative magic" as responses to economic difficulties is equally timeless. (Imitative magic refers to the common practice of recommending the transplantation of any institution that seems to have worked in other countries "to one's own country regardless of how it came to be established where it is or what makes it work" (p. 28)). Problems of unemployment, inflation and lack of competitiveness are most often macroeconomic problems caused by inappropriate interest, exchange or tax rates, rather than whatever business practices current fashion considers faulty.

4. The fourth entry in this section deals with a subject not much discussed in our own post-Soviet era that was very much in vogue in the first post-war decades, namely, economic planning. It is no longer discussed because, after Gorbachev, few people believe it works. But, pre-Gorbachev, Johnson is not so dismissive. After a brief review of the often conflicting goals of economic policy—growth, high per capita incomes, acceptable inequalities, and so on—he concludes, Mencken-like, that "the processes of democratic government…are artfully designed to conceal from the electorate both the economic nature of the choices that have to be made, and the economic implications of the choices that are in fact made." He then goes on to discuss how the self-fulfilling, "confidence trick" aspect of capitalism creates a potential justification for planning. If businessmen[14] believe there will be a demand for their product, they will undertake the investments that in fact guarantee such a demand. Planning can help out by "bark" or by "bite." Bark involves setting up prestigious committees that forecast future demand, thus encouraging businessmen to invest. Bite involves using the powers of the state to actually bring about many of the demands that will persuade businessmen to invest. But to be effective such planning requires that: the planners be very credible; the government have substantial control over large parts of the economy; and there be a general inflationary bias in the economy, so that fulfilling the plan brings businesses satisfactory profits. A second possible justification for planning is to offset the anti-growth biases imparted by other government policies. (Today economists would call this a "second-best" rationale,

[14] In Johnson's world, it will have been noted, the principal actors are always male.

after Richard Lipsey and Kelvin Lancaster's "theory of the second best.") Johnson's uncharacteristically limp conclusion? "Whether one or the other form of planning, or neither, is desirable for Canada is the question for discussion" (p. 42).

In an appendix Johnson summarizes the then-nascent econometric literature on the determinants of economic growth and concludes that the role of investment in what economists call "physical capital" is overdone. In fact, none of the variables included in the explanatory equations do very well. Economic output outpaces both the growth of the labour supply and the accumulation of capital, the principal inputs in the production of output. Most of growth, it turns out, is a residual factor, "which is a confession of our ignorance" (p. 44). Despite much more elaborate econometric efforts since, we are not much better off, though today's mainstream view is that the growth in technical knowledge thought to account for much of the residual can be embodied in equipment, so physical capital may be more important than the arithmetic would suggest.

5. This section of *The Canadian Quandary* closes with a 1963 lecture on "Economic growth and economic policy." It goes over much the same ground as the previous entry—you don't know if you have a growth problem until you are running your economy at full employment; Canadian macroeconomic policy has been out of kilter; recent econometrics suggests insufficient capital isn't the problem so tax incentives for investment are not the solution—but it is more definitive in its skepticism about economic planning, which would "attempt to circumvent the proven incompetence of government to handle the policy instruments it now possesses by establishing new governmental instruments and agencies of economic policy" (p. 49). Free markets cannot be relied on to produce the optimal rate of economic growth, Johnson argues, but the problem is, first, that businesses are inherently pessimistic about future investment prospects, a pessimism that quickly turns to self-fulfilling prophecy, and, second, that the high corporate and personal income taxes used to finance government discourage growth. Growth policies are therefore a form of second-best remedy: if it weren't for government's growth-discouraging taxes, there wouldn't be a need for off-setting pro-growth policies. The policies that recommend themselves are government investment in detailed economic forecasting, so that businesses have good information about the future—though what happens if the detailed forecasts are pessimistic Johnson does not say—and a switch from taxation of income to taxation of expenditure, a policy proposal many 21st-century economists would also endorse.

Surprisingly, from today's perspective, Johnson does not recommend subsidies for industrial investment and research. His reason? They would introduce yet another set of distortions into the market economy. In his view, the existence of the "external economies" from such R&D that would justify public support for them had not been substantiated. By contrast, the conventional view today is that R&D almost certainly does involve spillovers and may therefore warrant subsidy even if particular spillovers are impossible to identify before (or even after) the fact. On the question of economic planning, Johnson argues that public opinion isn't ready for it, business and labour probably would not cooperate, and "public regard for the professional status of the economist in Canada" is not yet great enough for economists' views to be taken seriously.

In fact, the Pearson government's introduction of the Economic Council of Canada in 1963 probably reflected growing respect for economists (which culminated with *Time* magazine putting Keynes on its cover in 1965). Whether the profession's status has risen or fallen since is a nice question but in this context moot since hardly anyone either inside or outside economics proposes detailed planning of the kind contemplated in the early 1960s.

Part Two: Canadian commercial policy

6. The second part of *The Canadian Quandary* addresses problems of Canadian commercial or, as it is more commonly referred to today, trade policy. The first entry, reflections on a conference held at Queen's University in June 1959, is an overview of the strategic situation for Canadian traders at the dawn of the 1960s. Europe, completing its recovery from the war, was becoming more competitive and, with the growth of the European Common Market, possibly more protectionist, especially in agriculture (does nothing change?) an outcome the rest of the world would have to try to discourage. The United Kingdom likely would be moving closer to Europe, which meant the Commonwealth would decline in importance as a trade area. Japan and other low-wage, underdeveloped countries were also becoming more competitive. (Canadians of a certain age will remember that Japan once had a reputation for producing cheap, low-quality goods.) It was possible the Soviet Union would threaten Canada's advantage in raw materials by dumping them onto the world market so as to de-stabilize capitalism but more likely that the communists would wear "the businessman's hat rather than the power politician's" (p. 74). Canada had a clear interest in supporting the GATT's effort to liberalize trade on a multilateral basis. On the other hand, with the world dividing up into regional free trade areas, Canada should consider closer economic ties with its traditional trading partners. The United Kingdom, with its increasing focus on Europe, was unlikely to be accommodating.[15] For the time being, the United States was focused on multilateral liberalization but might eventually be amenable to an agreement. Johnson did not believe a free-trade agreement with the U.S. would allow Canadian manufacturing to realize all the efficiencies of large-scale production that were often promised, referring to the "dubious proposition that the higher costs of Canadian industry are attributable to the limitation of production volume by the size of the market," a proposition, as we have seen, closely associated with his book's dedicatee, Stefan Stykolt. But he concludes by challenging the traditional assumption that "Canadian national independence requires the existence of more Canadian industry than would be able to survive under free trade" (p. 78) and by observing that freer trade need not lead to "American domination and loss of Canadian national identity" (p. 78).

7. The second offering in this section deals with regional free trade areas, a subject Johnson also treated in detail in his writings in economic theory. "If free trade is good for the world as a whole," runs the theoretical question, "is it good for parts of the world?" It is a question that worries the World Trade Organization today as regional trade agreements proliferate. The theoretical answer is: not necessarily, since preferential

[15] In fact, Diefenbaker had approached the U.K. government in search of a special arrangment and had been almost rudely rebuffed.

tariffs may lead countries to import goods from partner countries who are not actually the world's most efficient producers of a given good. But in this chapter Johnson is less concerned with the normative case for or against such arrangements than with what has motivated them. In Europe, the motive forces were a belief that a slower-than-expected postwar "European recovery required a greater degree of economic integration" (p. 83), as well as the desire in some European capitals, though not London, to establish a United States of Europe. Johnson's discussion of the parallel development of the British-led European Free Trade Area, whose members simply eliminated their tariffs on one another's goods without establishing a common external tariff, and the Franco-German-led European Common Market, a would-be economic union, is instructive to modern readers mainly as evidence that differences about just how deep European integration should go are long-standing. As Johnson puts it, "To the Free Trade Association countries, Europe is a region, the countries of which have enough in common to allow and justify specially close trading arrangements; to the Common Market countries, Europe is a new political concept whose foundations they are building with the customs and economic union" (p. 87).

On the more general question of the usefulness of regional free trade areas, Johnson repeats his doubts about whether access to a larger market will enable countries to reach economies of scale and he notes that the desire to liberalize regionally has to do with the belief that tariff reductions should be "undertaken only with countries whose policies are congenial and reliable, and who can be expected to be co-operative in emergencies" (p. 90). Perhaps surprisingly, as of 1961 he believed that neither Canadian nor American policymakers were yet macroeconomically sophisticated enough to respond to increases in unemployment with monetary and fiscal policies rather than by the traditional recourse of raising tariffs to protect local producers.

8. The third item in this section on trade policy, the paper "External economic policy (I)," was prepared for the famous Kingston policy conference put on by the Liberal Party of Canada in September 1960. That Johnson, a strong critic of Walter Gordon's views of economic development, was invited to debate these views by a party in which Gordon was a key player is a tribute to the conference's organizers of the conference, among them Tom Kent, Lester Pearson's principal policy adviser. In his paper, Johnson proposes that "Canadian policy should aim at some form of economic integration with the United States" (p. 95). The world was moving toward greater regionalism. Canada should continue to encourage the multilateral trade liberalization at which the GATT aimed but it should also see the advantage in closer relations with the United States, which took "over 60% of both [its] exports and imports"[16] (p. 97). Here he comes closest to an explicit statement of the Canadian quandary:

> It is precisely this growing economic integration with the United States that poses the chief dilemma of Canadian trade policy as it appears to Canadians. On the one hand, exports to the United States have been the mainspring of Canada's rapid postwar growth, and imports of manufactures, capital, technique, and enterprise from that country the factors which have permitted growth to be so rapid. On the other hand, this

[16] A number that is now ** per cent.

> mode of growth has meant both a substantial shift towards the United States as a market for exports and supplier of imports, and substantial participation of American equity capital in Canadian manufacturing and resource industries…The dilemma of policy is that any serious effort to reduce this 'dependence' would require the bearing of costs that no one in comfortable Canada seems willing to pay (p. 101).

The conflict, as Johnson sees it, is between "national sentiment and national self-interest" (p. 102). But this really does not present any sort of quandary. In his view, "this vague anxiety about the closeness of Canadian economic relations with the United States is an anachronism, a hangover from history, which ought to be outgrown rather than preserved and encouraged" (p. 102). Profitable foreign trade creates wealth that "gives both an increasing capacity for individual self-fulfillment and the resources necessary for the achievement of national objectives" (p. 102), while anxiety about American investment in Canada is based on the "doubtful assumption that Canadian businessmen always take decisions in the national interest" (p. 103). As "no one in Canada is prepared to contemplate a serious step towards national insulation from the rest of the world …[then] in concrete terms, the choice is between resisting the trend towards closer integration with the United States, and making a definite move to confirm and accelerate it" (pp. 103-4). The advantage of a Canada-U.S. free trade area is that it would leave Canada free to set its own tariff policy regarding third countries and that it would give "Canadian producers free and, what is perhaps more important, secure access to the American market" (p. 105). Nor would it seriously alter the balance between manufacturing and other activities. There are several reasons why: the U.S. tariff, which would be eliminated by a free-trade deal, encourages manufacturing on the U.S. side of the border; some Canadian manufacturers already compete in the American market; if the small size of our own market really is an impediment to the efficiency of Canadian firms, a free-trade agreement would remove it; finally, European experience suggests comparative advantage is now an attribute of products rather than entire industries: Canadian producers could therefore be expected to find product niches in which to compete.

But even if the United States could not be persuaded to join in a free-trade area, Canada should reduce its tariff unilaterally. John Young's path-breaking study for the Gordon Commission estimated that the economic cost of the tariff was a little over $1 billion, which in those halcyon pre-inflationary days equaled four-fifths of federal income taxes, one-fifth of total federal spending or just over four per cent of Canadian GDP. At the very least, tariff schedules should be rationalized: "why are washing machines more heavily protected than sewing machines, while electric shavers enter free?" (p. 111). In setting tariffs, "emphasis should be placed firmly on the question of whether the purpose served by a particular tariff rate justifies the cost it imposes on the Canadian economy" (p. 111).

In a brief appendix to the conference paper, Johnson explains his views on aid to underdeveloped countries. Although there "is very little case for such aid on strictly economic grounds" (p. 112) on moral grounds Canada should provide it "on a substantial scale" (p. 112). As a country that restricts access to its abundant natural resources "to people of white descent by a severely discriminatory [immigration] policy, and restricts indirect access to them through trade by a policy of protection of domestic industry" (p.

112), we were under an obligation to help poorer countries, especially those that, like us, depend on natural resources. Over the next few years Johnson's audience of Liberal activists and policymakers took him up on immigration reform, with the result that non-white immigration increased sharply over subsequent decades, but not on free trade with the United States. When that policy was finally proposed a quarter century later the party fought it.

9. The next entry, Chapter 9, "External economic policy (II)," is Johnson's speech to the Conference, delivered on its second day, which obviously was either written or substantially re-written following first-day speeches by Walter Gordon and Lester Pearson. It is an example of Johnson at his trenchant, pungent, unbuttoned best. What a formidable opponent he must have been in debate. He begins with his assumptions. First, policy should be discussed on its merits, not on whether it is politically popular: "I assume that if a policy appears sensible, it is not beyond the wits of a party, which prides itself on representing progress and change, to set about convincing the public that a sensible policy is the one that ought to be preferred" (p. 114). Second, "policy is to be made with the head and not with the liver," that is, with a calculation of costs and benefits and not a sounding of emotional attitudes. The danger in not "asking what you get for your money when you're discussing questions of public policy [is] …that one gets taken for a sucker by interested parties who use emotional appeals to cover their own self-interest" (p. 114). And in one of the great dismissives of Canadian colloquy he writes "I've been watching the development of Canadian opinion on the protection of secondary industry and on American investment in Canada for some years; and to anyone brought up in the great city of Toronto, like myself, but successful in escaping from that self-satisfied environment, it's very easy to see that what is at work is not so much the noble spirit of Canadian independence as the small, smug mind and large, larcenous hands of Bay Street" (pp. 114-15). Third, other countries' policies reflect their interests, not ours. And, fourth, Canada is an independent country. "This may come as news to some of you," he told the assembled Liberals; "others of you may wonder how I ever got this idea" (p. 116), but Canada "has the power to run its own affairs. And the question that faces it is not whether it has that power but what it wants to do with it" (p. 116). Interdependence with the United States is simply a fact and "there is no sense in griping about that" (p. 117).

"It may surprise you also," Johnson writes, "to find that I assume that Canada has a national identity" (p. 117) although he can't easily describe it. Modern readers accustomed to CBC exposés of American fundamentalist movements may be even more surprised to learn that this identity involves "trading Biblical quotations," as Liberal intervenors apparently had done on the first day of the conference, "which was slightly un-American" (p. 117). To a certain extent the doubt about identity that Canadians have in abundance is a problem of prosperity: "everybody …prospering and growing richer … is not a particularly dramatic way of living" (p. 117). Even Americans, in that fall's Kennedy-Nixon presidential election campaign, were questioning their national purpose.

Johnson then proceeds to a précis of his paper and to a four-fold critique of Walter Gordon's own critique of Canada-U.S. economic integration, presented the day before.

First, protecting Canadian manufacturing does nothing to reduce unemployment, which "is determined by the government's monetary and fiscal policy and not by its commercial policy" (p. 119). Second, the possibility that the gains from further economic integration might not be great was insufficient reason not to pursue them: "I've never found it very convincing to argue against something from the assertion that the advantages are not very big to the conclusion that you ought not to do it" (p. 120). Third, integration is not nearly as risky as Gordon believes, a point Johnson makes with a very effective joke. And, fourth, greater integration means, not greater dependence, but greater wealth and "nobody is as independent as the man who can afford to pick up his own cheques" (p. 120). He concludes: "The Canadian standard of living is below the American … and it seems to me a serious question for Canadian policy whether it is worthwhile reducing it so much more by a policy of protection in order to foster the growth of industries which are not competitive and cannot hold their own in a free market" (p. 122).

10. Chapter 10, "Canadian-American integration in face of a changing world economy," the fourth entry in this section on commercial policy, was presented to a conference in Windsor, two years after the Kingston conference, in November, 1962. Though Johnson's view of the merits of Canada-U.S. economic integration had not changed the political context had. The Kennedy Administration's *Trade Expansion Act* had just been passed. In exchange for policies to compensate displaced workers it authorized the President to negotiate substantial multilateral liberalization through the *General Agreement on Tariffs and Trade* (GATT). This meant the trend toward regional integration was halted temporarily and in fact what eventually became known as the "Kennedy Round" of GATT negotiations eventually brought much deeper cuts in tariffs than the rounds directly preceding it had. Nevertheless deeper Canada-U.S. integration would be "economically desirable," Johnson wrote, "quite apart from any move towards integration on a wider geographical basis" (p. 124). To arguments that have already been mentioned, he adds the fact that the tariff itself is largely responsible for "two features of Canadian-American integration that have most irritated Canadian nationalists in recent years: the American tariff by encouraging Canadian concentration on resource extraction and primary manufacturing, the Canadian tariff by encouraging the establishment of American manufacturing concerns in Canada, and fostering American acquisition of control over Canadian enterprises" (p. 126). Eliminating protection for Canadian manufacturers would not wipe them out as an economic species. Rather "the nature of the products they produced and the way they produced and marketed them would change drastically [but] the overall size of the Canadian manufacturing sector would not be greatly affected" (p. 127). Many economists would argue that this is more or less what happened when, three decades later, Canada-U.S. free trade finally was introduce, although to be sure it involved the elimination of tariffs that by then were much lower. Even so, Canadian manufacturing productivity rose by an estimated six per cent as firms lengthened production runs and produced a more specialized range of products.

To the argument that a large manufacturing sector is essential to economic development and national independence Johnson counters "Independence, to my mind, and according to both the empirical evidence and the best tradition of the English novel, comes from the enjoyment of a high income" (p. 127). Even if common national undertakings are also

important "there are far more worthy monuments to national independence than a second-rate manufacturing sector…—a decent social security system, a comprehensive public health programme, beautiful cities free of slums, a truly free and high quality educational system, a truly bilingual culture, to name but a few areas in which the annual expenditure of a small fraction of the cost of protection"—which he holds to be 4 1/2 per cent of GDP—"would work wonders" (pp. 127-8). No doubt the list will strike many readers as having a surprisingly Galbraithian or social-democratic tinge, coming from a market-oriented economist.

That a regional free-trade agreement very likely would benefit both Canada and the United States does not mean, however, that both countries could not benefit even more from multilateral free trade. The "static" analysis reason for this had been the subject of Johnson's theoretical work in economics: Regional free trade agreements provide free trade only for member countries. Non-members are discriminated against. As a result, members may end up buying goods from partners who are not the world's most efficient producers of a good. By contrast, the "dynamic" argument for free trade is that, as industrialization spreads throughout the world, countries need to be able to respond quickly to emerging comparative advantages. The trouble with the tariff, Johnson argues, borrowing a line from University of Toronto economist J. H. Dales, is that it "makes it impossible to tell which of your industries are efficient and which are not" (p. 131). In sum, tariff reduction would be desirable on its own "but if in return for them Canada could obtain reduction in the barriers to trade imposed by other nations, the economic benefits would be that much greater" (p. 132).

11. The final entry in this section on trade policy is Johnson's review of the Bladen Plan for, as he puts it, "increased protection of the Canadian automotive industry." In 1960, Vincent Bladen, economist and Dean of Arts at the University of Toronto, had been appointed Royal Commissioner by the Diefenbaker government to recommend policies to help the heavily protected but nevertheless increasingly uncompetitive Canadian automobile industry. Just how uncompetitive is indicated by the fact that much of the perceived competitive threat came from the British automobile industry, which, as events subsequently demonstrated, was itself virtually on the verge of extinction. Bladen argued that the Canadian industry suffered from an inability to achieve the economies of large-scale production and his remedy was to propose Canadian content requirements that would force greater production in Canada. In exchange for making more cars and parts in Canada auto producers would win exemption from tariffs, a technique adopted four years later in the Canada-U.S. *Auto Pact*—or at least in the Canadian interpretation of that *Pact,* American trade experts having always disputed whether content requirements were actually part of the deal. Because the GATT and the World Trade Organization (WTO) have essentially outlawed content requirements of this sort discussion of their use as an instrument of industrial development is nowadays moot. Still, Johnson's paper remains interesting not only for historical reasons but also for the example it provides of a first-class economic mind disentangling a complicated real-world policy problem. He finds fault with the Bladen Plan on several grounds. On the most basic level, he challenges the presumed need to maintain an automobile industry, arguing that the "national car [had] become in many people's eyes a sign of industrial adulthood and a fetish of national

identity" (p. 133), a point that might be kept in mind in contemporary discussions of subsidies to the aircraft industry. Johnson also doesn't like Bladen's rejection of more radical policies as being either socially irresponsible (for instance, any policy that would threaten the industry's existence) or politically intolerable (such as tariffs that were unpopularly high). "With the social irresponsibility of lower tariffs and the political intolerability of higher tariffs as his guides an economic expert can arrive anywhere, and travel more quickly for being unimpeded by his professional baggage" (p. 135).

Johnson goes on to provide several examples of the policy economist's greatest potential contribution to public debate: namely, showing how a policy's results may be the opposite of what is intended. Who benefits and who loses may in reality be greatly different from who benefits and who loses on paper. Thus the Bladen Plan would have raised the Canadian content required in order to achieve exemption from tariffs as a company's production increased, a stipulation, Johnson argues, that would have discouraged firms from reaching the productivity-enhancing economies of scale that supposedly were the purpose of the plan. Similarly, it would have *increased* the rate of protection of the Canadian industry even as it appeared to reduce the use of tariffs by lowering government revenue from forgiven tariffs on imports of foreign cars and parts (a revenue loss Bladen apparently did not take into account in his cost-benefit analysis). The reason is that strict content requirements can provide greater favouritism to local industry than even a steep tariff.[17] Unlike many of the other papers in *The Canadian Quand*ary, which are accessible to non-economists, this one will mainly be of interest to trade economists concerned with the history of policy. On the other hand, even in this essentially technical discussion, Johnson cannot resist outrageous puns and colourful rhetorical put-downs. Thus the effect of a bow to the parts sector would be to make "the Canadian auto worker … a man of parts" (p. 151), while a supposed policy concession to the Commonwealth that in fact carried conditions so restrictive as to render its use unlikely was akin to "an invitation to an acquaintance to put up at one's summer cottage any time he is in the vicinity on a week-day" (p. 139). The technical appendix to the paper is by today's standards not very technical at all—containing as it does only one equation and one graph—but anyone who has taken any economics will be surprised by how many of the subtleties of Johnson's argument he is able to illuminate by means of a reasonably simple numerical example.

Part Three: Monetary policy

12. The third part of *The Canadian Quandary* has to do with monetary policy, that is, the Bank of Canada's manipulation of the money supply and interest rates to try to encourage the economy's fruitful evolution. Johnson had been commissioned by the Royal Commission on Banking and Finance (the Porter Commission, 1961-4), which, "together with its Report and the discussions it generated, were events of major importance for the Canadian financial system and for the Bank of Canada" (Thiessen 1999). Johnson's

[17] Thus many analysts argue that the auto sector "rules of origin" of the North American Free Trade Agreement, which determine how much North American content has to be included in a car or part in order for it to qualify for tariff-free shipment among the three member countries, actually increased net protection in the industry even as the three countries' tariffs came down.

assignment was to report on the effects of monetary policy on the Canadian economy. The first paper in this section, which Johnson presented to the Department of Economics at UCLA in 1963, provides a technical account of the work he did with an econometrician colleague in the four months they allotted to the research. Econometrics was in its infancy at the time so the results are mainly of interest to historians of economic thought, but a couple of Johnson's main conclusions are provocative, especially given his relationship with his monetarist colleagues at the University of Chicago. Using the rates of inflation, unemployment and growth as indicators of when policy changes were needed, Johnson calculated that the "inside lag" of monetary policy—that is, the time taken to recognize that changes in policy direction were needed—was extremely long, in many instances so long that policy continued in the wrong direction for months, even years, at a time. This inability to recognize what policy requires has always been one of the Chicago School's main rationales for eschewing a policy of "fine-tuning" when it comes to monetary or fiscal (that is, tax and expenditure) policy. On the other hand, Johnson's simulations show that a fixed monetary rule of the sort his Chicago colleagues typically favoured—that is, expand the money supply at a steady rate of *x* per cent per year—would have done worse through the 1950s than the policies actually implemented. Given the improvements that have taken place in computational and econometric technique since then, however, that verdict should not be regarded as definitive.

The second Chicago rationale for doubt about fine-tuning is the belief, as Milton Friedman famously put it, that there are "long and variable" lags in monetary policy's bite. If you can't predict how or when a policy instrument will have its effect, it may be better not to try to use it. In fact, Johnson's results are that "the effect of monetary policy on the Canadian economy is imprecise, slow, and variable; there is a relationship present, but it is extremely hazy" (p. 187) and that "while we cannot point to any significant substantial effect of monetary policy on the Canadian economy, neither can we maintain that the influence of monetary policy in Canada is insignificant" (p. 186). His policy conclusion is that the government is confronted with three alternatives: lower its sights in macroeconomic stabilization policy; learn more about monetary policy and how it works; or use fiscal policy or possibly even direct controls of one kind or another in the place of monetary policy. Since that was written, Canadian governments have tried all three (and even more) alternatives but for the time being the first has won out: monetary policy currently aims mainly at stabilizing the rate of inflation, with less influence on other goals. This is a substantial comedown from the postwar goal of maximizing growth rates and minimizing unemployment rates but, at least on the experience of the 15 years 1990-2005, it does seem to provide the background conditions for allowing both those things to happen.

13. Johnson's second offering on monetary policy, "Alternative guiding principles for the use of monetary policy," consists of his formal submission to the Porter Commission. In it he minimizes the econometrics and focuses instead on an elaboration of the three options just described. His writing is reserved—not at all "unbuttoned"—and often assumes what might be termed "academic equivocal" voice: "it can be argued…it might be thought" and so on. On the other hand, he does not hide his opinion of Bank of Canada

policy: “the economic analysis and assumptions employed in formulating the Bank’s policy … can be shown—in fact, have frequently been shown—to be illogical, inconsistent, inadequate, or factually wrong” (p. 203) and he makes a number of other tart comments. For instance, “the need to command international confidence, imposed by the presence of a large volume of internationally mobile short-term capital, [this written in supposedly pre-globalized 1963, remember] may restrict the freedom of the monetary authority to use all the elbow-room potentially available to it, since confidence is inspired and maintained by conformity to what is regarded as orthodox financial behavior by other central banks and the owners of internationally mobile capital” (p. 195). But, apart from what can be inferred along the way, Johnson limits his own comments to less than a paragraph under “Concluding observations.” Of the three options outlined above, he expresses a preference for the third, namely, a policy that abandons attempts at short-term macroeconomic stabilization and aims instead at providing a stable monetary environment. On the other hand, he argues that if Canada maintains a fixed exchange rate, as it did until 1970, then, as Robert Mundell had recently shown, monetary policy must aim mainly at maintaining the exchange rate, so that a combination of the first and second policies—acceptance of a lower standard of performance while at the same time undertaking changes that would improve the conduct of monetary policy—has much to recommend it. Extending the Bank of Canada’s influence by giving it new powers to control bank or even private borrowing would be an error insofar as it would involve “increased dependence on the central bank’s judgment of complex economic problems, and tends to support economic concentration and monopolistic practices in the financial sector and in the economy generally” (p. 224). For their part, “controls on borrowing for stock market and real estate speculation could [not] contribute anything significant to economic stabilization” (p. 224), mainly because people could get round them quite easily: “Anyone with assets can speculate without the assistance of loans from a bank or a broker, and anyone with personal credit can obtain funds that can in fact be used for speculation,” even if it could be decided whether curbs on speculation were good.

Part Four: The economics of opulence

14. Part Four of *The Canadian Quandary* deals with a subject, “the economics of opulence,” that had been raised by John Kenneth Galbraith’s 1958 book, *The Affluent Society*. In item 14, “Towards a generalized capital accumulation approach to economic development,” Johnson argues that, rather than engage in an essentially fruitless debate between whether education or physical capital makes the larger contribution to economic growth, economists and others would do well to recognize that each is a form of investment—current benefits are sacrificed in expectation of greater future returns—and that the goal of growth policy should be to make sure all investments are made that can reasonably be expected to return more than the going rate of interest. There was some reluctance at the time—and sometimes still is—to refer to education as an investment in “human capital,” a phrase then being made popular by, among others, Johnson’s Chicago colleagues and future Nobelists, Theodore Schultz and Gary Becker. Johnson concedes that referring to education as “capital” tends to equate human beings with machines and may therefore be seen as “contrary to democratic political philosophy” (p. 231). But this is short-sighted: “To recognize that important areas of socio-economic policy involve

decisions analytically identical with decisions about investing in machines is not at all to imply that people should be regarded as no different than machines; on the contrary, refusal to recognize the investment character of a problem because people are involved may result in people receiving worse treatment than machines" (p. 231). Johnson identifies four kinds of capital: capital goods, human capital, social or collective capital, which has been much studied in recent years, and intellectual capital, also a major recent concern, especially at the WTO, where intellectual property rights were brought to the fore in the Uruguay Round agreement of 1994. Anyone who thinks a University of Chicago economist must be an unconstrained free-marketeer will be surprised to read that Johnson believes only traditional capital goods present no special problems for "economic analysis, measurement, and policy formation" (p. 233). If education has spillover benefits to persons other than those being educated, its social return may be greater than its private return. If it is provided free and there aren't any such spillovers, the reverse may be true. There is also a problem when educated people leave the country that paid for their education, a subject that leads Johnson, who did much of the early work on the brain drain, to the acid observation that "the advanced countries cream off the professional talent of the underdeveloped countries by immigration and attempt to replace it by their own experts supplied at great expense as part of development aid" (p. 233, fn.). As its name implies, social capital involves equally obvious cases where investors are neither the principal nor even the partial beneficiaries of investment, while intellectual capital—ideas—typically involve "zero marginal cost of knowledge to additional users" (p. 233) so that inventors who charge users the marginal cost of their investment, as market theory says they should, make no revenue. Despite these difficulties, the goal of growth policy should be to see that investments are made in those activities that offer the highest rates of return when all costs and benefits are taken into account. Keeping the generality of the problem in mind, Johnson argues, will avoid the usual syndrome by which "progress in economics, and especially in those parts of economics of most direct relevance to policy-making, tends to proceed in a series of alternating phases of exaggerated concentration on one aspect of a problem to the denigration of others, the ascendancy of one approach eventually evoking insistence on the importance of factors neglected in that approach" (p. 228).

15. The next entry, item 15, "The political economy of opulence," written in 1960, takes *The Affluent Society* as a jumping-off point. Johnson's pre-emptive defence of his criticism of Galbraith—he says he hopes it is not "entirely due to my inability to multiply my academic income by writing a best-selling denunciation of my profession" (p. 239)—suggests much criticism is coming.[18] In fact, it isn't. Johnson doesn't like Galbraith's tone—which is surprising since both men were masters of the tightly-wound, whip-crack put-down—nor his choice of a mass audience. But he essentially agrees with Galbraith that economics—the study of choice among unlimited uses for scarce resources—takes insufficient account of affluence, "this central fact of modern life" (p. 239). On the other

[18] It also recalls Galbraith's later put-down of patronizing criticism from Chicago's George Stigler. When Stigler wrote that it was shocking that more Americans had read *The Affluent Society* than *The Wealth of Nations* Galbraith responded with the following dart: "I may conceivably be missing the deeper cause of Professor Stigler's sorrow, which may be not that so many read Galbraith and so few Smith but that hardly anyone reads Stigler at all" (quoted in Parker 2005: 293).

hand, he believes Galbraith "goes too far in asserting that marginal production is of no real use to people, so that economics is of no real use" (p. 239). Note that this was written in 1960, when per capita incomes in the rich countries were barely half what they are in the early 21st century, a time when few social commentators argue our problems are those of affluence, at least not in this sense that marginal output has essentially no value.

As interesting as it is to be reminded that the strongly liberal Galbraith, an adviser to Adlai Stevenson and John Kennedy, wanted frivolous production on advertising-created wants to be diverted to national defence, among other public purposes, Johnson is concerned with a deeper argument. Even if wants are created, as Galbraith argued, is it really true that production satisfying these wants does no good? Apart from the most basic physiological needs, Johnson argues, "all economically relevant wants are learned," a point he reinforces with a Galbraith-like jab: "Even the presumption that one knows better than other people what is good for them, which underlies a large part of the argument of Galbraith and other critics of advertising … is acquired by education—the best education, of course" (pp. 241-2). So long as there are ways of protecting consumers against meretricious products, "the creation and satisfaction of wants by advertised production does result in social gain" (p. 242).

Still, affluence does change things. "Not tea," Alfred Marshall's typical commodity, "but T.V. is the exemplary commodity of the age of opulence" (p. 242). The goods consumers now consume are no longer mainly perishable commodities but capital equipment—T.V.'s, washing machines, automobiles—which makes of the household "an automated utility factory" (p. 245). The economic cycle that results is probably different from the old economic cycle and the increasing capital-intensity of consumption means borrowing is more common and interest rates more important "for there is no reason why a rational consumer should pay for his consumption in advance, by paying cash for capital goods, rather than concurrently, as he enjoys the services of those capital goods" (p. 244). Managing time and particularly leisure, whose enjoyment itself becomes more capital-intensive, is more important in an affluent society. And the nature of work itself changes. Workers no longer bring just brute strength to a job but rather "the knowledge and skill required to use machinery effectively" (p. 249). They are themselves the product of investment and earn a return that is more like a profit than a traditional wage. There is an encouraging implication for how the society works: "Application of Marx's general analytical method to the system of corporate industrial production suggests, not the polarization and eventual breakdown of capitalist society that he predicted, but the consolidation of a highly differentiated hierarchical society in which status is determined ultimately by educational attainment" (p. 251). It will strike many readers that this is not an inapt description of contemporary industrial society.

16. The next item, "The social policy of an opulent society," will seem very Galbraithian to the modern reader, although in evaluating Johnson's discussion of appropriate tax policy for an opulent society—which is that taxes should be higher—it must be remembered that the context is the early 1960s, when taxes were less than a quarter of Canadian GDP, rather than the early 2000s, when they are more than a third. With a Galbraithian flourish, Johnson declares his opposition to the "rugged individualism of the

directors dining room, the prestige advertisement, and the expense-account business convention" (p. 254) and goes on to argue that the central fact of an opulent society is "tremendously complex interdependence between people each of whom is specialized on a small part of the process of production, distribution and exchange" (p. 255). In such a system, individuals or, rather, families, are entrusted with "economic responsibilities that are of crucial importance to the welfare and progress of the opulent society" (p. 255), the most important being the choice of how much and what kind of education to acquire. But the family is small and lacking in the finances and knowledge to make such a long-lived investment wisely. "How much information would a professional investor want before he invested the cost of an education in a plant lasting fifty years? … How can anyone—except a college president beating the bushes for endowments—be sure that 'an education,' of any kind for any person, is a good investment?" (pp. 257-8). The family also faces the problem that in large cities, where most families now live (and more now than in Johnson's day) "efficient living… demands the collective provision of a wide variety of services and amenities—water, roads, sewage and garbage disposal, parks *et cetera*" (p. 258). Finally, the family has a narrow economic base—its labour income, typically—that can't be completely insured against unforeseen calamity, if it can be insured at all. Johnson adduces a number of principles from these observations. The first is that people ought to be provided with various kinds of assistance: "as good an elementary and secondary education as the individual can absorb…a wide variety of expert informational, welfare and counseling services …recognition that those who for one reason or another are unable to meet [the demands of complex society] ought not to be treated simply as contemptible failures, but should instead be treated as casualties of the struggle for progress" (p. 263).

Johnson's second principle is that public services need to be improved progressively. Here he waxes almost literally Galbraithian in his denunciation of private affluence and public squalor: "A community in which the schools look like factories used to look and the factories like schools ought to look, in which the decay and squalor of city centres forces people to risk their lives and blood pressures commuting miles from and to cosy homes in cheerlessly regimented suburbs, and in which the pollution of local beaches forces them to drive hundreds of miles in search of water fit for people and fish to swim in, can hardly be said to be employing its opulence wisely" (p. 264). His third principle is a reversal of the economist's "insurance principle": though families and individuals should be held responsible for short-term difficulties, longer-term difficulties, whether of unemployment or health care, which cannot easily be insured against, should be covered by the state. Finally, social policy should be run according to principles of "rational calculation, innovation and exploitation of technical progress" (p. 265) For example, universities and schools should seek out the best "material [i.e., students] for processing," not simply those whose families can afford tuition; doctors should not be allowed to keep their incomes high by restricting access to medical school or exploiting the conflict of interest inherent in the fee-for-service method of payment; regional development should be replaced by investing "very large sums in moving people out of [poor] areas and establishing them in more prosperous areas where they, or at least their children, could become full participants in the opulent society" (p. 266).

Would the social policy described cost too much in taxes? Perhaps we should rely less on taxation to finance the government and instead have it invest in and live off the returns from a "portfolio of ordinary shares and industrial bonds" (p. 267). To the argument that high taxes will create economic inefficiency Johnson has two answers: "Educated people are not driven by the fear of failure but by the challenge of accomplishment, and they work best when they have the security to concentrate on the job they are qualified to do," (pp. 267-8) so the provision of social security will actually encourage efficiency. Moreover, if society does not provide security, people "will try to provide it by whatever means they can, and usually the means they choose"—restrictive labour practices, cartels, tariffs—"reduce the efficiency, flexibility, and progressiveness of the economy" (p. 268). This obviously is a strong social democratic manifesto. Equally obviously it would be wrong to assume that 40 years later, after much practical experience with the social welfare policies such analysis helped put into place in most western countries in the 1960s and 1970s, Johnson would still hold these views.[19] Much of his analysis relies on a mainstream analysis of "market failure" that dominated the economics profession in the mid-20th century. But in the 1970s, well after these essays were written, a new "public choice" analysis examined the economic motivations and incentives of politicians and bureaucrats and elaborated the many difficulties associated with using governments to correct market failures. Johnson was sympathetic to such analysis and, like most of the profession, eventually reconsidered the likelihood of achieving "optimal" outcomes through the public sector. Indeed, in his preface to the second edition of *The Canadian Quandary*, which was published in the year of his death, he wrote:

> These essays on re-reading seem excessively optimistic, to the point of euphoria. This is largely because they ignore a possibility that has since become a real problem: that the desire to modify the principles of competiton in order to achieve a more just society will form a coalition with the interest of the government and its bureaucracy in extending the government's share of national economic resources and its power of regulation fo the citizen's activities, to create a cumulative and irreversible trend towards a fully regulated and bureaucratized society (Johnson 1977: ix).

And he went on to condemn the Trudeau government's imposition of wage and price controls in what he regarded as a desperate attempt to remedy "its own inability to control the inflationary wage demands of its own employees" (Johnson 1977: x). On the other hand, with his strong independence of mind and radical background Harry Johnson doubtless would not have swallowed public-choice criticisms whole.

17. The third entry in this Part of *The Canadian Quandary*, "Advertising in today's economy," is a comprehensive discussion of advertising, from both positive and normative perspectives. According to Johnson: the positive economics of advertising are that: it is more common in wealthier societies; it is a form of product information, provided by sellers rather than buyers because buyers are usually small and hard to organize (though Consumers Union has since done well in that regard); its growth has more to do with the advent of mass communication rather than mass production; and it is used much more for some goods than others. As for normative questions, advertising

[19] Although Galbraith largely does (see Parker 2005).

plays a key and not necessary salutary role in radio and television: “In effect, the advertisers tax the consumers of goods to subsidize the consumers of communication services, in the hope of inducing the latter to pay attention to their advertising messages, buy their goods, and contribute more in taxes than the subsidies cost the advertisers” (p. 274). Advertisers’ control over broadcasters is particularly worrisome because broadcasting is a “natural monopoly—there are only a limited number of bands available” (p. 275), which was true in the few-channel universe of the 1960s but is no longer true today. Is advertising wasteful? Yes, but “our society is rich, and from one point of view wealth is a synonym for wastefulness … If we could not afford it, advertising would not exist” (p. 279). Those who object to being taxed by advertisers can seek out unadvertised products (and in more recent decades, “no-name” products). Advertising encourages materialism? “Ours is a materialistic society, whether we like it or not, and people are interested in acquiring material things” (p. 281). Advertising may be overly focused on people’s neuroses about “bad breath, body odour, lack of sex appeal, gaucherie, lack of social poise, Freudian complexes, and all that” (p. 281-2) but “it is at least arguable that the cheap psychotherapy provided by the purchase of advertised goods is more beneficial than harmful” (p. 282). As for the Galbraithian argument that advertising-fuelled private consumption crowds out public goods, in fact “most of the trouble stems from the nature of collective goods themselves, which creates a bias towards underprovision of them” and from excessive dependence on income taxation for financing the public sector. In the end the best remedy for the various ills associated with advertising is probably “consumer research … supported by public funds, just as the government now carries on research on behalf of farmers” (p. 284). In the years that followed, many governments did establish departments of consumer affairs in part to fund research into consumer products.

18. The final entry on the economics of opulence is “Apologia for ad men,” a title that recalls David Ogilvie’s *Confessions of an Advertising Man*, also published in 1963. It covers much the same ground as the previous entry but in a more light-hearted manner, given its genesis as a speech to the Toronto chapter of the American Marketing Association. It starts with a three-page fable about an economist’s attempt to help the employees of a house of ill repute to feel better about their work. Johnson carries the argument further, however. The advance from personal selling to impersonal advertising is a “positive virtue… for the basic requirement of the evolution of a genuinely democratic and egalitarian society is the replacement of interpersonal and social relationships based on class, status, religious and ethnic differentiations by relationships in which only specific and immediate transactions are involved” (p. 290-1). Thus advertising “has been an important factor in the growth of social democracy in our society” (p. 291).

Even so, his audience of ad men should not get too puffed up: most of the arguments they themselves use to justify their activities are false (not the kind of message an invited speaker usually conveys to his audience). To wit: advertising is *not* crucial to the free enterprise system; there was free enterprise “many years before the advent of modern advertising as we know it” (p. 291). Nor is it necessary to the realization of economies of scale: many industries that operate at large scale do not advertise at all. Similarly,

advertising does not necessarily reduce prices to the consumer: the prices of non-advertised brands are often lower. Nor does it ruthlessly weed out inept competitors: many of the industries in which advertising is most prevalent are oligopolies. Finally, advertising does not create the markets needed to maintain employment: “There is no more sickening demonstration of the capacity of advertising men to fall victim to their own techniques of obfuscation than the spectacle of an advertising man standing up before an audience of housewives, placing his hand on what in a normal human being would pass for a heart, and solemnly assuring his audience that if it were not for advertising all their husbands would be on relief” (p. 292). The overall level of output and employment depends on monetary and fiscal policy, not the persuasive efforts of advertisers.

In fairness, however, many of the critics of advertising are also wrong. In particular, an opulent society is distinguished by the fact that “improved standards of material comfort are shared by the masses” so there is some ground for belief that “criticism of materialism in modern life, and of advertising for its emphasis on material things, is frequently rooted at bottom in dislike of the rising standard of living of the masses” (p. 293). It would be wrong to close this *précis* without quoting one final Johnsonism, namely, that businessmen’s “belief in free enterprise is at bottom generally an assertion of their right to exploit the consumer for their own profit” (p. 291). Hardly the kind of thinking most people would expect from a committed believer in markets!

Part Five: The world context

19. The first entry in this final part of *The Canadian Quandary* is “International liquidity—problems and plans.” It deals with the problem of how to assure the existence of sufficient liquidity—i.e., money—to conduct the world’s growing economic business. In today’s world, one of floating exchange rates, that problem does not really arise. If commerce requires more money, central banks simply print it. The problem such a world faces, of course, is that if the printing presses keep running, it can all too soon be awash in liquidity and debilitated by inflation. The world in which Harry Johnson was writing, the world of 1962, was quite different. It was entering the last decade of the Bretton Woods system of fixed exchange rates tied to gold that had been established at a 1944 conference in that New Hampshire town by, among others, John Maynard Keynes. Under the Bretton Woods system countries restrained the growth of their money supplies by holding reserves of gold and “reserve currencies,” usually U.S. dollars, equal to some fraction of their money supply. Without either an increase in the supply of gold or U.S. dollars or a reduction in the ratio of reserve backing, there was no way for the world money supply to grow. Of course, if the money supply couldn’t grow, that might choke off real economic growth. The problem was how to persuade the reserve countries (the U.S. and to a lesser extent the U.K.) to manage their currencies with worldwide interests in mind. The system also had to somehow make liquidity available to countries that ran into temporary trouble keeping their currencies pegged to neighbouring currencies, a job it assigned to the International Monetary Fund.

In the first postwar years there had been a "dollar shortage" as the war-ravaged countries of Europe scavenged for the funds with which to buy U.S. goods, which in many cases were the only goods available. Johnson's paper appeared during the transition between the dollar shortage and the dollar glut of the Vietnam War period that eventually led the United States to abandon its promise to redeem dollars for gold. In it Johnson was concerned with how to devise a system that would provide roughly the "right" amount of liquidity. Though the paper is mainly of historical and technical interest Johnson makes a number of comments that may be relevant to contemporary monetary discussions. For instance, raising the price of gold would "entail a handsome gift to the Russians and South Africans in their capacity as gold producers, and so lend support to communism and apartheid respectively" (p. 306). Those two social systems having collapsed, the comment no longer applies in its particulars but it remains true, and always will, that any plan to restore the role of gold in the international monetary system provides a windfall to gold owners and producers. As for increased central bank collaboration as a means of solving the liquidity problem, Johnson points to "the eventual failure of the efforts of Montagu Norman [head of the Bank of England] and Benjamin Strong [head of the New York Federal Reserve Bank] to manage the gold exchange standard" (p. 308) in the late 1920s. Central bank collaboration has improved since then, partly because later generations have studied the run-up to the Great Depression, but collaboration does have its limits. Johnson's own preference on such matters is for a system of floating exchange rates, the "strongest obstacle to [which] is the commitment of the leading trading countries, especially the United States, to a fixed exchange rate system, and the institutionalization of that system in the International Monetary Fund" (pp. 305-6). In this case, however, Johnson broke his rule that economists should consider all options for dealing with a problem, and examined only those that were apparently unacceptable politically. Although his discussion of the Triffin Plan, the Bernstein Plan, the Stamp Plan, the Zolotas Plan and the other now largely forgotten plans offered as solutions for that era's international liquidity problems will mainly interest specialists in the financial history of that time, it is well for the rest of us to be reminded what a crowded place the past was and how filled with plans for the resolution of problems now moot.

20. By contrast, "The overvaluation of the dollar," discusses another seemingly purely historical policy problem, namely, the "mild economic stagnation" (p. 323) that becalmed and bedeviled the United States for the final years of the Eisenhower Administration and the first two years of the Kennedy Administration. But Johnson's brutal sarcasm offers two general lessons whose usefulness endures: that misdiagnosis of economic problems can lead to all sorts of difficulty and that misalignment of a currency can lead to drastically inappropriate policy responses. It is ironic then that hindsight would probably regard Johnson's own explanation for slow American growth—a 15 to 25 per cent overvaluation of the U.S. dollar—as a misdiagnosis, since the Kennedy tax cut that he refers to as being imminent inaugurated a period of very rapid economic growth that brought the U.S. economy to full, probably even over-full[20] employment. Be that as it may, the lesson for policy-makers is invaluable: "an overvaluation of the currency whose relevance is either not appreciated or deliberately ignored offers boundless opportunities

[20] Since the end result was the inflation that brought on the stagflation of the 1970s, which suggests the economy was run too close to its capacity for too many years.

for irrelevant and frequently mischievous prescription based on erroneous diagnosis of the source of economic trouble … The choice of culprit depends on one's political philosophy, and no currency is truly overvalued unless fortified by a popular imagery of workers leaning on their shovels and businessmen resting on their backsides" (p. 329). In fact, in the most recent local case of alleged currency misalignment, in the late 1990s and early 2000s, the *under*valuation of the Canadian dollar in relation to the U.S. dollar was widely attributed to "lazy manufacturers" who could not be bothered to keep their productivity growth up to the American pace.

The policies chosen to deal with trade difficulties are constrained by international political correctness that the economist, with his ability to see through the form of things, should be able to discern: "Thus, according to the conventions of liberal internationalism, dumping of exports is immoral; but subsidization of exports by provision of export credit on special terms is not only not immoral but a requirement of fair international competition" (p. 330). The dichotomy between what is efficient and what is done is best explained by reference to "Johnson's first principle of public finance in a free enterprise economy: Government must perform inefficiently whenever and to whatever extent the convenience of private enterprise requires" (p. 331-2). Unfortunately, Johnson concludes the paper with the incorrect prediction that reluctance to see the American economic problem for what it was "will in all likelihood necessitate several more years of stagnation of the American economy and possibly involve a general recession in the non-communist world as well" (p. 336), a pronouncement published just as the U.S. economy entered what was to be one of the three biggest booms (along with those of the 1920s and 1990s) of the 20th century.

21. That unfortunate record of prediction should be kept in mind when reading the volume's final entry, "Where is the world going?," which was published in 1962. In fact, Johnson begins with a warning that "economists who attempt to predict the future …frequently fall flat on their faces" (p. 337). But in the end his predictions turn out to be reasonably prescient. The big story of the first 15 postwar years was the spread of industrialization—in Europe, in the Soviet Union and Eastern Europe and in the underdeveloped countries. The world therefore faced increasing competition among a larger number of industrially developed nations. That many of the newly competitive countries were competitive "by virtue of the initially low level of wages with which they start" (p. 339) should not have been frightening: "there is nothing unfair about low wage competition, and the underdeveloped nations can rightly complain in their turn about the vicious unfairness of competition from low-priced capital and low-priced brains which they face in world markets" (p. 339). Given the increasing capital-intensity of modern production—both human- and physical-capital intensity—the "sudden change in competitive conditions poses a difficult problem because of the heavy investment of money and people in particular lines of production" (p. 340). A likely response of the developed countries is to use "unorthodox or administrative methods of interfering in trade in order to protect national producers. We talk about the principles of free trade, but what we really have in large part is a fairly well developed system of administrative interference, by which the larger countries are able to protect their producers by devices which are difficult even to discuss in terms of any sensible system of trade, and which

they tend to use in order to avoid disruption of their own economies" (p. 341). At this point Johnson notes that he hardly has to provide examples of Americans' use of such artifices to a Canadian audience—a comment that would be equally apt four decades later as Canadians grumble about softwood lumber and Mad Cow disease. Johnson saw the problem as being particularly acute in agriculture where its customary remedy is equally familiar to modern readers: the advanced countries "subsidize the farmers and then try to dispose of the produce somewhere else, or conversely, … arrange for high prices of agricultural products in the home market at the expense of foreigners who could produce the stuff more efficiently but are prevented or restrained from selling it in the domestic market" (p. 342)—syndromes that are still so typical that finally the Doha Round of the World Trade Organization has focused on the liberalization of agriculture and agricultural trade that its predecessor the GATT during five decades of existence largely ignored.[21] In sum, it is hard to fault Johnson's analysis of the difficulties the world trading system would face as industrialization continued its spread: new areas of the world would enter the competition and disrupt the economies of existing competitors, who would cry foul and use protectionism to dull the new entrants' competitive edge. On the other hand, the new competitors have endured and the liberalization Johnson favoured has largely been achieved: industrialization did spread, trade grew rapidly over the next three decades and tariffs on industrial goods are generally low.

Johnson's analysis of the difficulties of the international monetary system was less far-seeing. The Bretton Woods system, with the IMF at its centre, was supposed to allow countries to change exchange rates that had become inappropriate. But it had fallen into the hands of central bankers and "the difficulty with central bankers is that they believe more in financial morality than in the economic functions of money" (p. 343). Accordingly, they are reluctant to allow currency devaluations and they do not provide sufficient liquidity to finance the economic growth that should be taking place, with the result that many millions of people languish in unemployment. The system should either be made to provide more liquidity or it should be abandoned entirely and replaced with a system of floating exchange rates, though "[n]either of these solutions is regarded as desirable or necessary by those in control of international monetary arrangements" (p. 344). The stop-gaps of international coordination and national price and wage controls—or "incomes policies," as they were known at the time—were inadequate to the problem.

What would the emerging international environment require in terms of domestic policy? Keynesian demand management so as to ensure sustained growth and high employment; a measure of economic planning, if only enough to make clear to potential investors that the macro-economy will grow; and what would now be called "adjustment policies" to allow workers to move to new areas and industries and managers to re-direct their firms to new products. "I realize," writes Johnson, "that this kind of thinking is all against the ideology on which we have been brought up. But it seems to me a basic requirement for making the system of laissez-faire and free competition work, when you have tremendous investments both in material and in human capital and when you have an economy which

[21] The misconception on which farm policy is founded, writes Johnson, who, recall, spent part of his youth on a dairy farm, is that "agriculture is such a desirable way of life that people ought to be bribed heavily to put up with it" (p. 342).

changes rapidly so that no-one can foresee clearly what the profit opportunities are going to be in ten, fifteen or twenty years…" (pp. 347-8).

Would the worldwide spread of wealth that such policies would produce lead to "American cultural domination"? Perhaps so, but "our world is riddled with all sorts of differences of culture and opinion which are essentially reflections of different stages of economic development rather than of deep-seated divisions among mankind" (p. 349). "You don't have to be brain-washed by the Americans… to find that a refrigerator is a useful item of household equipment" (p. 348). At the same time, the economic success of so many other parts of the world would end the signal economic importance the United States had assumed in the immediate postwar years. In particular, "the increased power of the Europeans to bear …responsibilities also implies that European ideas rather than American ideas are going to be the effective ones in the world in the future" (p. 350). From the vantage point of the early 21st century, just following a global debate about whether the European or American approach to the problem of freedom in the Middle East should be preferred, that prediction seems premature. But whether Europe's ideas are yet dominant it very clearly is no longer simply "a somewhat recalcitrant junior ally of the United States" (p. 351). Old Europe, at least.

As for the world beyond the United States and Europe, "one can see," Johnson writes, "that ever bigger changes are in store, inasmuch as the process of industrialization of non-white, non-Christian countries has only just started" (p. 352). It has since progressed considerably, especially in southeast Asia, to the extent that the shift in power Johnson foresaw seems to be taking place. "Sooner or later," he says, "there will be a problem on the world scene of a rivalry between India and China" (p. 352), a prediction that did not in fact require great prescience, India and China having been involved in serious border skirmishes in the Himalayas. More than four decades on, however, most forecasters agree with Johnson that the rivalry between China and India will be one of the big stories of the new century. In the final paragraph of this collection, Johnson allows himself to be hopeful: the emergence of new powers in other areas of the world may well cause the Cold War centred on the Atlantic to be reduced to "one of much less importance; and the successful development of other nations may, one hopes at least, eventually provide the foundation for the establishment of genuine international peace (p. 352).

The Canadian Quandary

For all its range, for the wide variety of subjects it treats, for all Johnson's wit, acerbity and erudition, there is one question *The Canadian Quandary* does not directly answer, namely, "What is the Canadian quandary?" The book makes clear that Canada is a country in which many important policy discussions—from monetary to fiscal to commercial to education policy—are confused and unresolved. But its title does not suggest Canada is a country that often finds itself in quandaries (plural). Rather, the use of the definite article suggests the country faces a single, possibly unique quandary.

The customary version of that quandary is that Canada faces an existential choice between opening its economy and losing its identity. That there is a price to pay for being

Canadian has been an article of faith among Canadian elites since the country began. “We have something special here, something we don’t want to lose. We have a way of life, a way of looking at ourselves, a way of reacting to the world,” Liberal leader John Turner told Prime Minister Brian Mulroney in their famous debate during the free trade election of 1988. Harry Johnson did not deny Canada’s distinctiveness, though he thought it sometimes overdone and not always admirable. What he did deny was the existence of a trade-off between distinctiveness and economic liberalism. Canada could open itself to imports and investment from abroad, even from the United States, and this would not imperil Canadians’ ability to retain or reinforce their distinctiveness. In fact, the wealth that a liberal economic policy would bring could be used to provide those public expenditures that in the 1950s and 1960s more and more Canadians were coming to regard as a necessary part of their Canadianness. If Johnson’s explicit endorsement of this notion is not persuasive, then perhaps his quite deliberate admixture of a classical liberal international policy with interventionist, Keynesian, even social democratic domestic policies. One of the 20th century’s most sophisticated economists and social thinkers could hardly be expected to favour logically inconsistent policies.

In fact, Johnson’s denial of a trade-off has been largely vindicated by experience. Liberal internationalism combined with varying degrees of social democracy is now essentially the way of the western world, having reached its apotheosis with Tony Blair’s Third Way. But in this regard the postwar history of Canada is most instructive of all. As Johnson was writing the essays that became *The Canadian Quandary*, Canada was beginning, simultaneously, both continental economic integration and the construction of the welfare state that in many Canadians’ eyes has defined her distinctiveness since. The late 1950s marked both the most recent low-water mark for Canadian trade as a share of GDP and the last time Canadian tax rates were lower than American (Watson 1998: 43-5). Since then we have, with first the *Defence Production Sharing Agreement*, then successive rounds of tariff cuts under the GATT, then the *Canada-U.S. Auto Pact* and finally the *Canada-U.S.* and the *North American Free Trade Agreements*, gradually increased our dependence on the United States market. But at the same time we have introduced the social policies, including comprehensive universal health care, that Canadians repeatedly tell pollsters they believe serve to define their identity. Indeed, in the first decade of the 21st century it has become conventional wisdom that Canadians and the Americans are becoming more different despite the continuing integration of their economic lives as globalization proceeds apace. Details matter, of course, and trade agreements do limit the ability of governments to pursue distinctive policies. In many ways that is their purpose. But it seems the policies that have been sacrificed so far have not been crucial to the maintenance of a separate national spirit, identity, culture or existence, whatever one might wish to call it. On the largest question, therefore, Harry Johnson seems to have been proved right. Perhaps there is no Canadian quandary, after all. His is therefore, as he wrote in the preface to the re-issue of these essays, a rational and optimistic analysis.

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