

The bold economic move you haven't heard of



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On June 17, 1930, the United States Congress passed into law the Smoot-Hawley Tariff Act. The act imposed huge increases in tariffs on thousands of imported goods, leading to a catastrophic decline in trade—not

only in the United States but, as other countries responded in kind, worldwide. What began as a nasty recession deepened into the Great Depression.

That much is well-known. Not so well-known is that Canada beat them to it. In May of that year, with an election looming, the government of Mackenzie King jacked up tariffs on goods representing almost one-third of American exports to Canada. That was just the start. That summer the Conservatives under R.B. Bennett were elected on a promise to deploy high tariffs as a kind of economic dynamite, the better to “blast” our way into foreign markets—our own Smoot-Hawley, and just about as helpful.

It is a relief, then, to see that history is not about to repeat itself. To the contrary: in the shadow of the credit crisis, the government of Canada has just announced the boldest economic stroke in a generation, one that, if it succeeds in its largest ambitions, would do more to revive the world economy than any single measure you could name.

You would think, then, that you might have heard something by now about this ambitious plan—perhaps, say, in the recent election. Yet chances are this is the first you will have read about the coming launch of talks on a Canada-Europe free trade agreement. That’s a statement about how ideas-averse our political culture has become, amongst Conservatives in particular: even as they were taking flak for running an empty, policy-free campaign, they were sitting on the biggest idea of them all—a sweeping proposal for “deep economic integration” with the world’s largest and richest market, embracing not

only the free movement of goods and services, but also capital and maybe even labour.

That the opposition likewise declined to make it an issue, however, may also be a statement about how uncontroversial free trade has become in Canada. How uncontroversial is that? The *Toronto Star* is in favour. Twenty years ago, this country nearly had a nervous breakdown over whether to engage in a free trade agreement with the United States, with the *Star* leading the opposition. And today? It’s “an idea whose time may have finally come,” the paper yawns.

Such is the consensus in its favour, I probably needn’t rehearse the basic case for free trade: the lower prices and broader selection it affords consumers; the greater efficiency

of trade relationships. That is, it will produce, not trade creation, but trade *diversion*.

In practice, these fears have proved overblown. The Canada-U.S. deal did not divert much trade from other countries, for the same reason that a Canada-EU deal will not divert much trade from the U.S.: geography. And so far as either is the case, they cancel each other out. So nostalgists who see in this a revival of Trudeau-era dreams of a “Third Option” can forget about it. It’s not going to happen.

What’s more likely, and what the skeptics overlook, is the competitive dynamic such bilateral deals typically unleash—one free-trade deal leading to another, and another, in a kind of free-trade domino effect. That’s what hap-

pened with the Canada-U.S. agreement. Almost immediately Mexico applied to join, fearing that otherwise Canadian and U.S. exporters would gain a competitive edge over their Mexican rivals in each other’s markets.

Something similar, one suspects, is behind the Europeans’ newfound enthusiasm for a deal with Canada, after years of rebuffing our advances: as bait to hook the Americans. After all, should Canada and the EU strike a deal on their



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it forces upon producers; the economies of scale it makes possible, along with the opportunities for more efficient allocation of capital and labour across national borders. Federal government studies project Canada-EU trade would expand under such an arrangement by as much as a third, raising output by 0.8 per cent of GDP within five years. That may not sound like much, until you realize that represents, not a one-time gain, but a permanent, compounding increase in national income, year after year after year. (Why, it’s such a good idea we might even try it between the provinces.)

Oddly, the biggest skeptics about these sorts of bilateral agreements tend to be found among economists. The case for free trade, they point out, is based on the increase in trade it produces: on trade *creation*. But if a country lowers its trade barriers selectively, to one country or group of countries but not to others, the danger is that some or all of the trade that results will simply displace pre-

own, Canada would steal a march on the United States as a place to invest. By locating in Canada, a firm could export tariff-free to both the U.S. and Europe: 800 million of the richest consumers on Earth.

A Canada-EU deal, then, could be the spur to a larger transatlantic deal, combining NAFTA and the EU in a single massive trade bloc. And then? Would not China and India then have to come to the table in earnest? Canada could claim with some justice to have been the catalyst for the next great wave of world trade liberalization, a timely antidote to the forces of economic contraction.

And if the dominoes don’t fall? Then we would merely have positioned ourselves at the crossroads of international trade, the only developed country with guaranteed access to the world’s two richest markets. I tell you this is big, big, big. M

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