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EMBEDDED LIBERALISM AND CANADA:
STATE REORGANIZATION IN THE
INTERNATIONAL POLITICAL ECONOMY

by

ERNIE KEENES, B.A. HONS, M.A.

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfillment of
the requirements for the degree of
Doctor of Philosophy
Department of POLITICAL SCIENCE

Carleton University

Ottawa, Ontario

8 March, 1991

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Ernest Keenes, B.A.(Hons), M.A.

in partial fulfilment of the requirements
for the degree of Doctor of Philosophy

Chair, Department of Political Science

Thesis Supervisor

Carleton University
April 15, 1991

ABSTRACT

The purpose of this dissertation is to explain the reorganization of Canada's foreign economic policy bureaucracy in 1982. The reorganization will be examined in the context of an analysis of the Canadian state's institutions and processes for the management of foreign economic policy in the post-World War II period. The analysis adopts an "outside-in" approach. The work's thesis is that the establishment and reorganization of the Canadian state's institutions and processes for foreign economic policy were shaped by the hegemonic discourse of embedded liberalism inscribed in the General Agreement on Tariffs and Trade and the International Monetary Fund. When embedded liberalism and the regimes in which it was inscribed lost their hegemonic momentum, some officials in the Canadian state began to consider ways to reorganize the state to adapt to the new conditions in the international political economy. The decade of the 1970s witnessed many efforts at reorganization, efforts which were not to be fully realized until 1982. The dissertation concludes that institutional and procedural reforms were implemented, but the more normative and purposive aspects which the reorganization were intended to support, were left behind.

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Finally, I dedicate this work to my parents, who stood by me during the years of study, research, and writing.

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CHAPTER ONE: INTRODUCTION

The Statement of the Problem

This dissertation has three goals. Moving from the specific to the most general, these purposes are, first, to provide a new explanation for the persistent attempts to reorganize the instruments, institutions, and processes of Canadian foreign economic policy making in the 1970s and early 1980s. The second is to enhance our understanding of the state. The third is to examine the nature of the relationship between the state and the international system, or the international political economy. These three goals are usually expressed as lying within the relatively specialized domains of Administrative Studies, Comparative Politics, and International Relations respectively. However, I will demonstrate that by building bridges among these elements of the discipline of Political Science we can enhance our understanding of some central questions of politics. In the dissertation these goals will be pursued through a discussion of the Canadian state's management of international trade and monetary issues in the period following World War II, focussing on the reorganization efforts of the 1970s and 1980s. The purpose will be to show

the manner in which changes in the regime norms, principles, and rules of international political economy influenced the reorganization of the Canadian state's institutions of management of foreign economic policy.

We cannot arrive at a satisfactory account of state action in a liberal, capitalist political economy, in the absence of a satisfactory account of what it means to be capitalist. In the post-World War II era capitalism has, perhaps more self-consciously than before, been articulated at the global level. This was self-conscious because capitalists had had some direct experience of what it might mean not to be capitalist. I refer not so much to the explicitly anti-capitalist revolution which created the Soviet Union, but rather to the revived mercantilism of inter-war, beggar-thy-neighbour anarchy in international trade, commercial, and monetary policies. During this period of international economic warfare and the Depression, laissez-faire capitalism, which had reached its zenith under British hegemony in the latter half of the nineteenth century, came under critical scrutiny by its friends, and outright attack by its opponents. States experimented with ways of intervening in the economy at home to complement or replace the power of private property and the market, and created protected zones, raised tariffs, and manipulated currency values, in attempts to enhance exports without increasing imports. As I will discuss further in

this chapter, international economic anarchy broke out because, following World War I, Britain was neither willing nor able to restore liberalism under its own hegemony, and the United States, while economically able to take up the burdens of hegemony, was not politically prepared to emerge from its tradition of isolationism in order to do so. Following World War II, under the aegis of ascending American hegemony, the rules of cooperative international economic interdependence were rewritten and institutionalized in, among others, the International Trade Organization/General Agreement on Tariffs and Trade, and the International Monetary Fund.

I shall argue that this postwar reconstruction of capitalism entailed a reordering of the parameters of the Canadian state's relationship with the domestic political economy, as well as in its relations with other states and with international capitalism. It is with this concern - the parameters and purposes of state action - that the instruments, institutions, and processes of the state, derive their significance. I will show in the following pages that the debates and struggles in the Canadian state over the most appropriate organization of foreign (economic) policy bureaucracies were - sometimes consciously, sometimes not, but nevertheless in a "real" way [1] - about the scope and parameters of legitimate state action in the political economy, both domestic and foreign. Indeed, I will argue

that debates over institutional reorganization represented a sort of "proxy war" for more fundamental political values, such as the relative autonomy of the state from political and economic interests, in a country in which political partisanship is more often waged over practical and functional criteria than ideologies and fundamental norms and principles.

I will show that this proxy war can be illustrated through the use of Claus Offe's concepts of the bureaucratic allocative and purposive rational forms of state organization, and that those who sought reorganization aimed to achieve something like a more purposively rational state. More specifically, I will provide support for the contention by Atkinson and Coleman (noted below) that trade policy served as a substitute for industrial policy as an adaptation to changing international conditions. Trade policy served as such a substitute because it operated "at the border", and was therefore legitimate within international standards. Moreover, it implied a state more closely characterized as bureaucratic allocative than purposive rational.

The argument is strengthened by the fact that Canada was not the only country to experience chronic intra-state wrangling over the appropriate arrangement of its foreign economic policy bureaucracies. Canada, Norway, Sweden, Denmark, Belgium, and the Netherlands, along with virtually

every other Western country, have all studied and reorganized their foreign policy bureaucracies [2]. As Robert Boardman has pointed out:

There have been similar kinds of exercises in the United States, Britain, the Federal Republic of Germany, Australia, and elsewhere. The refrains are often strikingly similar as we move from country to country. What are foreign ministries for? Are they outmoded? How can their staffs be made more responsive to business communities? What about the division of labour between foreign ministries and the many other government departments which fish in foreign seas? [3].

Implicit in my argument, therefore, is the contention that the common concern with the appropriate organization of foreign economic policy bureaucracies in many Western countries was part of a broader, systemic or structural, crisis of the state in post-war international political economy. This dissertation examines the international roots of the crisis, and offers a conceptual framework which "problematizes" the state itself, something which International Relations has not done satisfactorily in the past.

Because I adopt an "outside-in" approach - arguing that change at the level of the international system causes

adaptation in state structures - a comparative study of a number of such cases could be said to be the most appropriate research strategy. Indeed, it will be one of the conclusions of this thesis that such further work ought to be carried out. However, here I engage in the detailed examination of a single case, that of Canada. The virtue in this approach is that it will be easier to trace with greater care the historical and theoretical relationship between change in the international political economy, and its effects in the Canadian state.

This thesis is, therefore, neither wholly "micro" nor wholly "macro" in approach. It is not solely focussed on the minutiae of institutional and decision-making factors, although ultimately these are the empirical, dependent variables under study, and much time will be spent examining them. Nor does this study purport to draw theoretical or normative conclusions about such "macro" subjects as a general theory of international relations or of foreign policy, or of the capitalist state and political economy. The study is bracketed in such a way as to foreclose such general conclusions. It is bracketed first by not conceptualizing "the" international political economy (IPE). While such categories as the international division of labour and private capital appear in the analysis, theoretical weight is accorded only to a section or subset of the IPE, the institutions of regulation and legitimation

of the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF). In a similar fashion, state-societal relations appear, especially in later chapters dealing with the 1970s, when interest groups, and provincial governments, became more visible in commercial policy making. Clearly, the state cannot be satisfactorily analyzed abstracted from its relations with society and the economy. Nevertheless, practical limitations require a focus on a particular theoretical subset of the many important relationships subsumed in the international and domestic political economies. Therefore, this work links macro to micro in the sense of linking changes in the international political economy to change in the state, but change at the state level of analysis theorized as the institutions and processes of state action. Again, however, it will be shown that debate over the appropriate arrangement of the institutions or "machinery" of government is implicit in the debate over the role of the state in the political economy.

Research Questions

The research questions towards which this work is directed include: why did the government of Canada reorganize the state's foreign (economic) policy bureaucracies in 1982? Why did that reorganization take the form of integrating certain trade and commercial policy

instruments and authority into the Department of External Affairs (DEA) from the ministries of Finance and Industry, Trade, and Commerce (ITC)? Why have there been persistent attempts to reorganize the foreign policy institutions and processes from at least the late 1960s, and throughout the 1970s? Why did the extent of capability and authority sought by External expand from coordination to planning to central agency status? Why did Finance and ITC oppose the government and DEA in these efforts to reorganize these key elements of the state? These are some of the key research questions posed from within a theoretical framework drawn from public administration and bureaucratic politics.

Another more general analytical question concerns the role of the state in the domestic and the international political economy. For example, to the extent to which Canada is not exceptional in its concerns about its foreign (economic) policy bureaucracies, the question is posed as to why, in so many states, the institutions of foreign economic policy became an issue or a problem. In some general or generic sense, the answer is to be found within the concept of adaptation, a concept which implies a functional explanation of the relationship of state action, including institutional reorganization, to change in the international political economy. Indeed, as I will show, functionalist accounts are prominent in the literature. Nevertheless, since one of the purposes towards which this thesis is aimed

is the relationship of the state to its environment, the functionalist orientation of others' work will be an object of critical appraisal. As the discussion in the following section, and in chapter two, make clear, the functionalist account is contrasted with institutionalist and cognitive theorizations of state action. Thus the important issue of theoretical framework, which I discuss in the following section, comes to the fore.

Theoretical Framework

I noted above that the research and theoretical questions raised in this work are often dealt with variously by Administrative Studies, Comparative Politics, and International Relations. There are, therefore, established theoretical frameworks which address the research and analytical issues I raise. For example, some have explained change in the administrative apparatus of the state through appeal to theories about the personality and idiosyncratic preferences of governmental leaders [4]. Others have been concerned to explain change as an effort to rationalize the administrative division of labour, to eliminate duplication of authority and responsibility. This approach represents the classical administrative appeal to the norms of the Weberian ideal type of administrative rationality [5]. A related approach is to explain institutional change as being

the result of bureaucratic politics, efforts by some within the state to expand their authority and competence [6]. All three of these approaches are intra-state explanations of institutional and administrative change. Yet other analysts suggest that changes in the administrative apparatus of the state can be traced to state-societal factors, such as class conflict [7], or interest group competition [8]. Finally, the growth of international interdependence has been pointed to as a source of incoherence, irrationality, and bureaucratic politics within the state, and consequent efforts to reorganize. Dependency theory and world systems theory have been drawn upon to establish the class basis of state structure and authority [9].

The purpose of this thesis is not to supplant and absorb these approaches into a new general theory of international relations. The purpose is rather to demonstrate that personality, administrative, and bureaucratic theories need to be complemented by a theory in which the state is inserted into the inter-state system. Approaches such as dependency, world systems theory, and interdependence, have earlier made progress in this regard. However, dependency and Wallersteinian approaches have not been designed to examine the institutional and administrative issues of the state which this work addresses. Later in this chapter I will examine some approaches to the Canadian state which are influenced by dependency theory and Wallerstein to assess

their contribution to analysis of the Canadian state. Interdependence pays rather more attention to administrative, institutional, and procedural consequences of international system change. But the "state" context slips out of focus. The theoretical framework to be elaborated in some detail in the following chapter shows how international, state, and institutional factors can be combined.

The State

It is important to set out systematically the conceptualization of the state which comes into play in this work. That will be the purpose of this section of the chapter. I will follow this with a discussion of how international relations contributes to the institutional and procedural aspects of state action.

A political economy account of the state begins with the analytical distinction between the state and civil society, which is the private sphere of the family, private property, culture, and interest groups and associations. While it has been fashionable from time to time to disparage the continued viability of the state as a useful concept (as I will discuss further below), the state can at a necessary minimum be distinguished from civil society through its claim to a monopoly of the legitimate resort to violence or coercion

over a group of people within some delineated territorial boundary; or, less apocalyptically, the seat of collective binding authority. Finally, civil society and the state are distinguished from international relations, or the international political economy (which itself can be articulated as containing state and "societal" or private realms). A significant role of social science or social theory is to understand the nature of relations within and among these three fundamental building blocks of political economy analysis.

Early accounts of Comparative Politics accorded the state little authority or autonomy. It had little autonomy because in classical configurative analysis the state was seen as a part of the cultural fabric of a nation; it was unique, and therefore non-comparable. It had very little capacity also because the early institutionalists merely described the legal, institutional and procedural characteristics of legislation and division of power. The state was not seen to "do" anything other than translate the wishes of the people into laws. The focus shifted when behaviouralists, systems theorists, and structural-functionalists came to dominate political science after the war. The focus of attention moved to the causal roots of political action, which were held to reside in society [10]. Political action was seen to derive from the interests and preferences of individuals, which were aggregated and articulated in political society.

For Marxists this meant classes, and for behaviouralists this meant parties and interest groups. For the former the state was an instrument in the hands of the ruling class, for the latter institutions provided an arena or locus of group competition and a means for implementing or carrying out the authoritative allocation of value which emerged from group competition. In both cases, however, the state continued to have little independent analytical importance.

For Marxists such an instrumental theory of the state came under critical scrutiny because the state could sometimes be seen to do things apparently against the wishes of the ruling class. For example, states accumulated and invested capital in sectors of the economy in which capitalists themselves might wish to be active, in order to regulate markets. States also provided programs, such as unemployment insurance, which undermined the market's discipline of labour. Findings of the behaviouralist approach, too, suggested that the image of the state as a neutral factor, or an empty black box, could not long be sustained. The "discovery" of bureaucratic politics established a powerful basis for directing analytical attention away from the social, economic, and organizational bases of group competition to the interests and organization of actors within the state [11]. The behaviour of persons within an institutional context was found to matter. The reflexive interaction of personality,

cognitive style, rationality, role, and regime or institutional context created a powerful explanatory framework in public policy analysis.

Therefore, by the 1970s there appeared a succession of studies in Comparative Politics in which either state/institutional or society-centered factors were seen to be dominant. Analysts began to theorize about the contingent relationship between state and society in explaining policy outcomes. Among the most influential of these was the weak state/strong state taxonomy [12]. Weak states are those which tend to be thinly insulated from a sharply-cleaved, centralized, and well-organized class or institutional/group environment in civil society. A weak state will be permeated by societal voices, driven by private interests and preferences. The political agenda will be that of social groups, and the state will be unable to "speak with one voice", to conceive of and pursue its own interests and agenda, or to articulate a "national interest". It will fail to develop the capacity to appropriate fungible political resources (such as taxes or symbols) from society and the economy to carry out such endogenously-generated goals as it may be able to conceptualize. Such a comparatively weak state will not be a simple mirror, or echo of societal voices, but its independent impact on policy outcomes will be limited to that of refraction - bending the light which originates in

society, or altering the pitch of sounds which emerge from the babble of civil society.

A comparatively strong state will nurture its institutional or discursive insulation from civil society. The policy-relevant preferences or interests of bureaucrats or state managers will derive not from their childhood experiences, education, or professional socialization, but from the histories and experiences passed on from one generation of state managers to another, from the institutions and the institutional memory of the state itself. Institutional complexity and reorganization create hidden sites which make the state autonomous from groups and classes; so much the better if political power in civil society is dispersed, disorganized, and decentralized. Such a state will find it comparatively easy to extract resources from the economy for deployment toward state-identified and defined political projects, and to persuade private political actors that state-derived interests and preferences ought to be their own. The strong state may be able to take what is in its own "corporate" interest, and present it as the "national" interest.

As is so often the case with taxonomic exercises, the power, elegance and parsimony of the strong/weak state approach provided a useful heuristic framework for comparative research. However, the research inspired by the strong/weak framework revealed subtleties and anomalies

which not only undermined its power, elegance and parsimony, but raised questions about the virtues of the taxonomy itself. First, and perhaps most important, the taxonomy failed to differentiate issue areas or conditions in which the state might be more or less strong or weak. Second, and related to this, the framework was faulty in emphasizing the explanation of consistency, rather than policy change. For example, Katzenstein argued that policy networks and state strength derive from long-term historical processes such as the level of violence attending passage from feudalism to capitalism, and of late or early industrialization. In order to explain policy change the analyst had to move outside the model, to introduce exogenous factors, such as change in the international system. This made explanation of anomalies - a weak state such as the United States taking action characteristic of a strong state - difficult to explain. Thus questions would be raised about whether such a state was indeed strong or weak, casting doubt on the viability of the overall taxonomy itself.

In order to explain anomalies and change, analysts have had to introduce new factors, ones not mired in deep historical structures. Some have argued that "states" learn, that is, that the persons who act on the part of states adjust their interests and preferences, so that state interests and preferences may change in response to a changing environment [13]. A variant on this is to argue

that the institutional environment places constraints on the ability of state personnel to learn, to receive and interpret new information, discourses, or ideologies [14]. Neo-Marxists argue that the state is a site for class struggle, and that change in the state and in public policy is a reflection of the changing balance of class forces in the political economy [15]. Cairns has argued that whatever analytical or ontological distinctiveness one might have once attributed to state and civil society has eroded, and that complexity and technology have combined to embed state and society so intimately as to make them analytically nearly indistinguishable [16].

The approach which I adopt here accepts many of these claims by neo-Weberians, or neo-institutionalists. This is so because I recognize the necessity to acknowledge the distinctiveness and specialized role of the state in the national territorial space, and in the context of international competition, be it military or economic. The state's monopoly on collective binding authority and the legitimate resort to violence and coercion make it analytically irreducible. The framework used here is Weberian also to the extent to which the rationalization of the institutional basis of state action is at the forefront of the analysis. In particular, it is important to underline that my argument is about how the process of debate over institutional rationalization implicates the issue of state

role and authority in the political economy.

At the same time, however, I accept some important elements of the neo-Marxist approach. While some neo-institutionalists seem to argue that the state is simply an institutional context, or intervening variable, affecting the ability of state personnel to learn about changes in civil society or the international system, I accept the neo-Marxist contention that functional forms of causal argumentation about state-societal relations are viable. That is, I accept that debates about the rationalization of state institutions are about more than just the efficiency of decision-making, the bureaucratic perks of some departments, peoples' idiosyncracies, or simply state power. Rather, debates about the rationalization of state institutions are about the legitimate boundaries of state power in encroaching on the presumed rights of private economic power, the disposal of capital, and therefore of class power. I agree, therefore, with Mahon, that institutional hegemony within the state is indicative of a systematic mobilization of bias within the political economy as a whole, even though these theoretical categories are non-observables, and therefore suspect to the more empiricist of the institutionalists. The categories of weak and strong state are, therefore, viable categories, which can be made more immediately contingent, or less dependent on deep structural, historical processes, by theories of

class or group-based conflict and of institutional innovation.

One means of linking these two approaches, the neo-Weberian and the neo-Marxist, is to argue, as I do, that the reorganization of foreign policy bureaucracies was about more than just administrative efficiency, or adjustment of state-societal coalitions. I argue that state organization involved a sort of "proxy war", a debate about the legitimate parameters of state action in the evolving capitalist political economy. As we will see in chapter five, state re-organization entailed debates over industrial strategy in Canada, and the extent to which the state may encroach upon private property in the national interest of international competition. In order to pursue this link theoretically I draw on concepts developed by Claus Offe to make the analysis more precise by giving the institution/learning nexus more specific political content [17]. Offe developed the concepts bureaucratic allocative and purposive rational states. The former is the more familiar Weberian ideal type of state in which the instruments or machinery of government are arranged so as to conform to the clear separation of public and private, politics and economics, characteristic of liberal capitalism. The latter, the purposive rational state, is a form of state power in which the state, during periods of capitalist accumulation crisis, substitutes for the failed collective rationality of

markets. Offe argues that the instruments and processes of government are different in the purposive rational state, when compared with the bureaucratic allocative state. Therefore, as a number of neo-institutionalists have usefully pointed out, institutional frameworks and ideological conflicts about the power and purpose of state action are interdependent.

Atkinson and Coleman [18] argue along this line in their discussion of the industrial policy of the Canadian state. They show that the institutional framework of Canadian state and society, what they call the weak state tradition in Canada and the firm-centred economy, made Canadian industrial policy reactive rather than anticipatory. That is, there were structural limits, institutionalized in the state and civil society, which prevented the development of a purposive rational state in Canada, one which was capable of the autonomy to develop an anticipatory, rather than a merely reactive, stance with respect to the political economy. Indeed, consistent with what I will argue in the dissertation, Atkinson and Coleman argue that reactive trade policy was a substitute for anticipatory industrial policy.

Here I will argue that the reorganization of Canada's foreign economic policy bureaucracies, especially between 1977 and 1982, was part of an effort by some within the state in the Prime Minister's Office and the Department of External Affairs to become more "purposively rational," or

anticipatory, in linking trade policy to industrial policy. They were opposed by the departments of Finance and Industry, Trade, and Commerce, in part because making DEA a central agency with authority and responsibility in domestic policy areas such as industrial policy would alter the legitimate power and purpose of the Canadian state within the domestic political economy. But since bureaucrats are constrained in the extent to which they can argue about political, or "value" questions, they had to argue about the instruments and machinery of government as a proxy for more fundamental debates. Therefore, reorganization was debated along more simple lines such as personalities, administrative rationality, and bureaucratic politics.

In making this argument I agree with those institutionalists such as Weir and Skocpol, that there is an interdependent relationship between "learning" or ideological change, and institutional innovation. At the same time I argue that the institutional/cognitive relationship within the state cannot be abstracted from broader, structural issues related to class, state power, and private property in capitalist political economy. As I will discuss further below, rather than speak about "learning" one ought rather to conceptualize the process in terms of hegemony. Indeed, it may be seen as a result of the successful constitution of hegemony that arguments about fundamental issues are displaced in favour of debates about

instruments and machinery of government. In this thesis, hegemony is a concept related to the international dimension of political economy.

As I noted above, issues related to state and society are more profoundly global than before. In his interesting account of the evolving relationship between state and civil society in Canada, Cairns briefly alludes to this.

Individual states and people respond to evolving international definitions of what it means to be a state. For any particular state these definitions are largely given, and they limit the extent of national variations in state-society relations. The Canadian example, accordingly, is a case study of the impact on one country of global forces to which we have added idiosyncratic variations derived from the particulars of our situation [19].

Cairns says little about the particulars of what he admits is a major influence of international relations on the development of the Canadian state. In the following section I will examine in greater detail the ways in which the reorganization of international economic and inter-state relations were hegemonic in the making and shaping of the state.

International Relations

It has long been widely recognized that the international context of state action affects state policy and state-societal relations. It has been less easy to say more precisely, either theoretically or empirically, when, how, under what conditions, and in what measure (in comparison with factors from other levels of analysis) international system/structure/society factors constrain, induce, or create effects at the other levels of analysis [20].

Epistemological and normative concerns have inhibited the search for "outside-in" effects. On the epistemological side, the injunction against reductionism raised in Singer's classic article on the so-called "levels-of-analysis problem" had a powerful impact in establishing "scientific" criteria for establishing the ontological and theoretical separation of International Relations from Comparative Politics. Normatively, the policy concern with order and stability in the post-war bipolar context focussed attention on systemic questions [21].

The outbreak of economic crisis and the rise of political economy questions and approaches in International Relations in the 1970s did much to open the agenda to issues foreclosed by earlier traditions of theorizing, including the effects of the international political economy on state policy. Among those most concerned to develop an

appreciation of the manner in which international factors affect domestic politics has been Peter Gourevitch. In a well-known exchange with Peter Katzenstein, Gourevitch sought to demonstrate that state-societal relations and coalitional politics are as much determined by contending approaches to international relations as they were by Katzenstein's claim that "policy networks" were the result of such internal factors as the timing and character of feudal decline, industrialization and the pattern of state-building. Gourevitch argued that Katzenstein's domestic factors themselves could be conditioned by war and international economic factors, both of which were simply derivative of state-level variables [22].

However, in subsequent analysis using his approach, Gourevitch undermines the importance of system-level factors. In short, the problem is that in attempting to steer clear of reductionism (Waltz's injunction not to explain systemic phenomena by psychological and domestic level factors), and functionalist determinism (explaining psychological and domestic level phenomena by the coercive-like impact of the international system, such as in dependency theory), Gourevitch argues that the effects of international factors can only be observed through the action of persons or groups. "The international economy affects national policies by acting upon domestic actors," he says, and continues:

This book is about the impact of international crises upon domestic policy. To unravel that impact we must, according to the reasoning just formulated, examine the responses of domestic actors. Effects from the international economic system I therefore include in the first of the types of argument examined above, that of societal actors [23].

For Gourevitch the international system's causal impact becomes apparent only during episodic, crisis-induced change in policy and coalition choice; in other words, through the behaviour of individuals. This paradigm of individual choice re-opens questions of reductionism by raising the problematic of rationality, and the cognitive, institutional, hermeneutic, and discursive critiques of rationality and choice-based theory.

A similar interesting example is the work of Hawes [24]. Hawes argues that hegemonic ascendancy puts in place a stable and predictable world order in which follower states of various kinds find the freedom to innovate (or to free-ride), whereas it is the erosion and loosening of hegemony, which brings in its wake instability and unpredictability, which act as constraints on states' freedom [25]. It is not so much the substantive claims of Hawes which I raise here, but the nature of the state-systemic relationship he

theorizes.

At the risk of unduly aggrandizing my terminology, I would argue that Hawes, like Gourevitch, remains committed to a mechanical or positional ontology of agent-structure relations. That is, the state and the structure of which the state is a unit, remain at ontologically separate levels of analysis. The state retains the privileged position as a choosing agent, while the international political economy is a structural constraint on choice. Hawes makes the interesting point that structure is 'turned on' as a primary independent causal variable during conjunctures of rising hegemony, to be 'turned off' during a period of hegemonic crisis, ceding causal primacy to domestic variables.

However, what I seek to raise in this work are questions about the adequacy of such a theoretical framework, and to suggest that a more satisfactory theorization is one in which agent-structure relations are more reflexive [26]. That is, I pursue a theoretical agenda the aim of which is to capture the IPE not as a mechanical or positional source of crisis and constraint, but one which is "turned on" all the time. In such a model rising hegemony shapes the state, as does declining hegemony. Such an approach more approximates a generative and transformational model, one labelled, based on the work of Anthony Giddens, as structurationist. As Wendt explains the distinction, the purpose is to avoid the problem of reductionism and to

examine alternatives to methodological individualism in the social sciences.

Social theories that reduce system structures to the properties of individuals usually construe the explanatory role of structures as one of constraining the choices of pre-existing agents, while those that conceptualize system structures as irreducible entities underlying agents typically understand structures as generating or explaining agents themselves [27].

The present work can only be suggestive of such a theoretical agenda, because, as I have noted, it focuses attention on, or brackets, a subset of the series of relationships entailed in a more general theory. As Wendt and Duvall note, however, "structuration theorists themselves have stressed the need for bracketing different aspects of the agent-structure relationship for purposes of actual theoretical and empirical research" [28].

In the following chapter I set out in some detail the works of key theorists in International Relations who have worked from within the traditional levels-of-analysis approach of which Gourevitch and Hawes are representative. In that chapter I will examine the works of Waltz, Gilpin, and Keohane, focussing on the extent to which we deduce

consequences for state structure and organization from an "outside-in" point of view. I argue that the works of Waltz and Gilpin lead to a unified rational actor from Darwinian and utilitarian forms of functionalist analysis respectively. With the work of Keohane, however, we move toward a more cognitive, decision-making form of functionalist analysis. The result of this analysis is that the state slips out of focus, and is therefore not theorized satisfactorily. Realists such as Waltz and Gilpin have a normative theory of the state as a unified rational actor, one which is best suited to the rigors of anarchy and international competition. Keohane takes a normative stance as well, since his purpose is to enhance the conditions for cooperation, but he is more analytical in examining cognition, perception, and information processing in decision-making. But the jump from Waltz and Gilpin to Keohane leaves a gap in which the state itself, its institutions, organization, and processes, and relations to civil society and the international system, is not itself problematized. It is in this respect that International Relations theory has not adequately addressed the question of the state. In the following chapter I suggest how this can be rectified by moving out of the mainstream literature and focussing on the work of Richard Ashley, Robert Cox, and Claus Offe. The contrasts and dialogue (or lack of dialogues)

among these authors forms the basis for an analysis of Canada's long term obsession with the reorganization of foreign policy bureaucracy.

Methodology and Steps in the Argument

The best research strategy for making a persuasive argument about the overall "outside-in" problematic addressed in this work, the theoretical frameworks engaged to critically assess the problematic, and the specific hypotheses drawn from these theoretical frameworks, would be a comparative, most-similar-systems study. Such an approach would be justified because I am seeking to observe patterns of variation or consistency in the structural adjustment of states in response to a common environmental (regime or international system) change. By bracketing the outside-in variables and holding constant state-societal variables, one would expect to be able, in historical analysis, to conclude that similar effects derive from systemic change.

However, it has proven impossible to gather data from a selection of similar states. Therefore, the research strategy is to look in as much detail as possible at a single case. The data on which this research is based includes unstructured, open-ended interviews with approximately 30 persons involved in the policy-making,

management, and implementation of Canadian trade, commercial and international monetary policy between 1962 and 1982, and from a reading of documents from the departments of Finance, External Affairs, and Industry, Trade and Commerce, in the same areas, from the mid-1940s to 1982. Some documents were available at the Public Archives of Canada, and are therefore open and cited. Some of the documents were made available by the departments of Finance and External Affairs on an informal access basis, and they remain closed and are not cited. In return for such informal access I have agreed to permit the departments involved to review relevant portions of this work, in order for them to verify that confidences have not been breached.

The methodology used in this study can best be described as interpretive. By this I do not mean that the method is self-consciously hermeneutic. Neither is it strictly empiricist, most particularly because the data - which is, in effect, intra-state discourse on political economy - is not couched explicitly within any theory or discourse. Rather, I try to make the persuasive case that the internal debates on policy, organization, and process which were going on within the state can be shown to make sense within the conceptual framework outlined in this dissertation. Equally, I hope to make the persuasive case that the theoretical framework allows us to make greater sense of, or give more profound meaning, to state action in the areas

concerned.

Because the data are not embedded in the discourse of political economy, an empiricial link is required between the conceptual framework and the data. The interpretation of the data begins with an analysis using concepts drawn from literature on international regimes. That is, I use concepts drawn from the norms, principles, and decision rules of the contending sovereignty and interdependence discourses which formed the compromise of embedded liberalism. For example, with respect to international monetary relations, when Canada supports adjustment to disequilibria, it supports interdependence principles, and when it supports financing it supports sovereignty. With respect to commercial and trade policy, when Canada supports reciprocity or safeguards in the GATT codes, it supports sovereignty, and when it supports non-discrimination or liberalization, it supports interdependence [29]. When Canada supports the norms, principles and decision rules of interdependence, it can be concluded on the basis of the theoretical framework introduced here, and elaborated in the next chapter, that this affirms the bureaucratic allocative form of the state. When Canada supports the sovereignty discourse, there is the affirmation of a preference for greater autonomy and a purposive rational state. The more definitive move towards purposive rationality comes during the period of the late

1970s and early 1980s when External Affairs seeks central agency status in support of anticipatory industrial policy and other "neo-mercantilist" policies which are clearly outside the post-war embedded liberal compromise.

In carrying out the study the following chapters will appear: the next chapter will set out in greater detail the theoretical framework; chapters three through five report the data and analysis on the management and institutions of Canadian trade, commercial and monetary policy in the years from the war until 1962, from 1962 to 1968, and from 1968 to 1982; the conclusion discusses the findings in the context of the Canadian state and the prospects for "outside-in" theories of state-IPE relations.

Contribution to the Literature

In the first paragraph of this chapter I suggested that the work has three goals: to understand better why there was what Colin Campbell has described as the Canadian fascination with bureaucratic reorganization, coordination, and central agencies [30]; to understand better the state; and to understand better the nature of the relationship between the state and its international environment. I believe these three goals can be achieved together. As I have discussed, most approaches to explaining reorganization have approached the problem with idiosyncratic, public

administration, bureaucratic politics, or state-societal approaches. In this work I show, first, that the fascination with the institutions and machinery of government were, at least in part, a substitute for the more fundamental debate on capitalist political economy and the role of the state in planning and directing economic activity. The brokerage nature of political parties and the party system, the federalist structure of the constitution, and the pragmatic rather than the programmatic character of Canadian political culture are predominant in debates about Canadian politics, often at the expense of more fundamental ideological debates. Thus, bureaucratic reorganization in a sense substituted for debate on policy direction, such as that related to industrial policy noted above, and debate on bureaucratic reorganization, both within the state and among analysts, has not been able to easily escape the dominance of the familiar political discourse.

It is one of the claims of this thesis, therefore, to show that debates on institutional reorganization were, in effect, also about the relative autonomy of the state and market in the Canadian political economy, and that this debate was affected by the manner in which international regimes such as the GATT and the IMF contribute to structuring intra-state debates on what is a legitimate state structure and pattern of state-societal relations. Debates about institutional reorganization were proxies for

more fundamental political economy questions. Were the persons involved in these debates aware of the larger issues which I claim were entailed in these debates? As the chapters to come show, for the most part they were not, although by the late 1970s and early 1980s, the larger issue of the "state" had become more apparent [31]. Therefore, by better explaining institutional reorganization, I argue that we also better understand the relationship of the state in liberal capitalist political economy in Canada. To the extent that Canada was not unique in the debates it engaged on the appropriate organization of the state for foreign economic policy, the issues raised by this thesis have a bearing on other political economies. Finally, this work contributes to the literature in political science by showing how Comparative Politics and International Relations can be fruitfully combined. That is, I show that we can better understand institutional reorganization, the state, and capitalist political economy, by thinking about change in the international political economy. The international system is more than just a periodic source of crisis, disruption and constraint. The distribution of power, superpower hegemony, and the institutionalization and legitimization of class power, affect each other in generative and transformational ways. This work does not set out a fully articulated theory of such generative and transformational conditioning. But I argue that it presents

evidence which offers support to metatheoretical critiques of existing paradigms, critiques which suggest a more fundamental relationship between state and international system than has thus far been theorized.

REFERENCES

- [1] I will discuss below in this chapter some of the epistemological assumptions and premises entailed in developing a theory which purports to argue that change in the international political economy "causes" change in state institutions, without being able to "show" a clear empirical cause-and-effect relationship. Such an explanation entails a scientific realist (not to be confused with Realist theory of International Relations) epistemology, which contends with empiricism.
- [2] For a compendium see, Zara Steiner (1982).
- [3] Robert Boardman (1985), p. 59.
- [4] Peter Aucoin (1986), Harald von Riekhoff (1978).
- [5] Gordon Osbaldeston (1982).
- [6] Graham Allison (1971), Kim Richard Nossal (1979), Gerald Wright (1985).
- [7] Rianne Mahon (1984).
- [8] Peter Katzenstein (1977).
- [9] Edward L. Morse (1976), Maurice East (1981), Immanuel Wallerstein (1974).
- [10] For a comparison of the legal-institutional and comparative approaches, see, inter alia, Roy C. Macridis, (1955).
- [11] The seminal work here is Graham Allison (1971).
- [12] On strong and weak states see: Stephen D. Krasner (1978), Peter J. Katzenstein (1978), Eric A. Nordlinger (1981); Theda Skocpol (1985).
- [13] Joseph Nye (1988), Ernst Haas (1980).
- [14] Margaret Weir and Theda Skocpol (1985), Peter Hall (1986).
- [15] Rianne Mahon (1984), Melissa Clarke-Jones (1987).
- [16] Allan Cairns (1985).
- [17] Claus Offe (1975).

[18] Michael M. Atkinson and William D. Coleman (1989).

[19] Cairns (1985), p. 78.

[20] The key debate is between Katzenstein (1977) and Peter Gourevitch (1978). On the related question of arriving at a "general theory" of foreign policy in which the relative "potency" of independent variables can be established and ranked, see, inter alia, James N. Rosenau (1966), Maurice East et al (1978), Charles Kegley (1980), and Charles Hermann et al (1987).

[21] J. David Singer (1961).

[22] Katzenstein (1977), Gourevitch (1978).

[23] Peter Gourevitch (1986), p. 65; also p. 235-6.

[24] Michael K. Hawes (1990).

[25] Hawes (1990), p. 199.

[26] On the agent-structure question in International Relations see Alexander Wendt (1987), and David Dessler (1989).

[27] Wendt (1987), p. 340; Anthony Giddens (1984).

[28] Alexander Wendt and Raymond Duvall (1989), p. 68.

[29] The derivation and explanation of these terms, and the explaining of the interpretation are provided in chapters two and three.

[30] Colin Campbell (1983), ch. 4.

[31] It is interesting to note that during interviews with many of those involved in policy making in the areas discussed here in the 1960s, 1970s and 1980s, that many would initially express scepticism about the issues and relationships which I claim to be at work, but upon further reflection, they said that indeed, there may be something to it. Those who had retired from government service, with time to reflect, were always more prepared to accept the validity of the "thesis" advanced in this work.

CHAPTER TWO: INTERNATIONAL POLITICAL ECONOMY AND THE STATE

INTRODUCTION

The purpose of this chapter is to establish the conceptual framework which will guide the data gathering and analysis to be reported in the following chapters. The approaches described in this chapter are not intended as tightly argued, incommensurable models. The intent of this chapter is not, therefore, to set the basis for the refutation or confirmation of models or approaches introduced here through the case study to follow. Rather, the intent is to explore the two approaches to international political economy to examine their potential theoretical fruitfulness with respect to the question of "outside-in" explanation, as previewed in the previous chapter. In this chapter the focus (though not exclusively) will be on two authors, Robert Keohane and Robert Cox. This will comprise the first two sections of the chapter. The third section of the chapter will look in greater detail at contending approaches to the state, in particular the Canadian state.

In the chapter I will argue that hegemonic stability theory can be shown to have an "outside-in" dimension. This element of the theory comes despite the fact that it is intended mainly as a systemic theory, one concerned with

order and stability among states, rather than from system to state. I demonstrate this through a close examination of the work of some of the main authors in the field, including Kenneth Waltz, Robert Gilpin, John Ruggie, and Robert Keohane. Keohane's work, the most detailed and subtly argued of the group, remains, however, oriented around variables affecting bargaining, rationality, and cooperation among states, thus exploring mainly the effects of regimes on cognition and decision-making. He recognizes the importance of the institutional context of the state as having some effect on these matters, but does not pursue this state dimension. Nonetheless, I will show that Keohane's approach restates the concern with unified rational action, not at the level of the state, but through the actions of officials acting on behalf of the state.

The state, and its institutional and organizational manifestation, are of immediate concern to neo-Marxists and other critical analysts of international political economy, such as Richard Ashley and Robert Cox. Cox especially has shown that international political, economic, and class power are inscribed in the structure of the state. While neo-realist and neo-Marxist approaches such as those of Keohane and Cox are certainly not identical, neither are they entirely incommensurable. I argue here that there is sufficient complementarity to at least initiate a fruitful dialogue.

With regard to state theory, I argue that Offe's concepts of the bureaucratic allocative and purposive rational states serve well as a focus for discussions of state strength and autonomy. I argue, through a review of authors such as Rianne Mahon, Melissa Clarke-Jones, Jeanne Laux and Maureen Molot, Philip Resnick, and Michael Atkinson and William Coleman, that class conflict, interest group competition, and, to some extent regional politics, have been fought out within the Canadian state on the terrain of bureaucratic and organizational questions about the scope and legitimacy of state rationality and intervention captured in Offe's concepts.

The case study which the dissertation reports concerns reorganization of foreign (economic) policy bureaucracies as a proxy battle over the role of the state in trade, monetary, and industrial policy. I show that international political economy had a crucial role to play in these battles because international regimes such as the GATT and the IMF institutionalized and legitimized a balance between sovereignty, unity, rationality, intervention and purposiveness on the one hand, and interdependence, bureaucratic allocation, constrained rationality, and the limited state on the other. In this respect, the "surface appearances" of bureaucratic politics, administrative coherence, personality, and state-societal relations were affected by a hegemonic compromise negotiated and institutionalized after

the war, and by the evolution of that compromise through the 1960s and 1970s. I will argue in agreement with Atkinson and Coleman that neither the Gerschenkronian "strong state" argument, nor arguments about the "weak state", satisfactorily explains the reorganization of 1982. I will argue that the intent of those who sought reorganization was to find ways to strengthen the state by making External Affairs a central agency, but that this intent was frustrated with the important assistance of the embedded norms, principles and decision rules of embedded liberalism inherited from the post-war experience.

HEGEMONIC STABILITY THEORY (HST)

HST is based on Charles Kindleberger's observation in his book *THE WORLD IN DEPRESSION* that the reason that an open international trading system failed to appear in the inter-war period was that the U.K. was unable, and the U.S. unwilling, to take the lead in establishing one. The result was that the international political economy lapsed into fragmentation, protectionism, and other predatory, beggar-thy-neighbour policies [1].

According to HST the kind of anarchy which prevailed in the inter-war period can be turned to cooperation through the presence of strong regimes which are interposed between

and among the sovereign and self-interested powers. These regimes consist of "sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given [issue] area of international relations" [2]. Principles, writes Krasner, are a coherent set of theoretical statements about how the world works [3]; norms are standards of behaviour in terms of rights and obligations; and rules are specific prescriptions or proscriptions on behaviour.

There are two broad approaches within regime theory (representing its realist and liberal "wings") concerning regime formation and change, and why hegemony and regimes serve to repair the problems which were observed in the inter-war period. In what Krasner calls the modified structural approach regimes are formed in situations which are not purely conflictual, or where individual state decision-making would result in sub-optimal outcomes. Therefore, regimes come into being as a result of egoistic self-interest, that is, to alter the pay-off structures of other actors, or, in the service of the common interest such as in the provision of public goods. For example, economic regimes such as the GATT and the IMF seek to provide public goods such as neutral rules of liberal production and economic exchange, while at the same time, in bargaining over these rules, states seek specific benefits which will promote employment and growth in their own

political economies, at the expense of others [4].

On the other hand, Krasner says, regimes may come into being as the result of patterned behaviour over a relatively long time. In this, the so-called (liberal) Grotian approach to regime formation, patterns of behaviour, learning, and the expectations which arise therefrom, become institutionalized as a regime and come to have normative significance [5]. Contrary to the arguments of the structuralists, Krasner says the liberals consider, for example, that the economists' purely competitive market is a regime embedded in a social environment. In this Grotian perspective, Krasner argues, there is something of an ontological shift as well. He argues that elites, or persons, rather than states, begin to take on greater significance as actors. In contrast to the modified structuralist argument, in which regimes are generated by the power and self-interest of hegemons, the Grotians argue that regimes also arise to institutionalize the linkage between specific norms and principles with more diffuse ideologies, such as the link which Weber made between the Protestant ethic and capitalism, or the link which Ruggie makes between Lockean liberalism and the regimes of the GATT and the IMF.

The cause of regime change is controversial amongst different schools of regime theorists (see below). But generally regime change derives from a fundamental

alteration in the distribution of power (the realist or structuralist view), or, from learning or attitudinal change (the liberal view). A revision in rules or decision procedures merely constitutes movement within a regime, or, as Ruggie says, "norm-governed change" [6].

One way of resolving the dispute between the structuralists and Grotians within the neo-realist camp has been to argue that the structuralists have a better claim on explaining why regimes are established (the role of the hegemon), while the Grotians seem better placed to explain change within the regime. Indeed this is the dynamic described in the review of the literature below. The focus of this analysis is the drawing out of the implications for state theory of these developments of systemic or structural theory, in order to show why a more explicit focus on the state is necessary. In dealing with Kenneth Waltz, Robert Gilpin, John Ruggie, and Robert Keohane, I move from a non-modified Structuralist, to a Modified Structuralist, and then to two increasingly Grotian positions. The conclusion will be that neither the structuralists nor the Grotians has a satisfactory account of the state.

Kenneth Waltz

Kenneth Waltz is among those least happy with so-called Grotian amendments to the Realist theory core. Waltz's central purpose is to refine a powerful, elegant,

parsimonious, and non-reductionist, theory of international relations [7]. His approach is anti-reductionist in that he seeks to explain the behaviour of states without recourse to theories of human nature, psychological theories of personality or cognition, of political economy, or the contending virtues of different forms of the state [8].

Instead Waltz seeks to explain state behaviour solely as a result of the structural or systemic properties of groups or systems of states. These are: the principle of order (anarchic or hierarchic), the functional specialization or division of labour among the interacting units (in anarchy this criterion drops out because the units - states - perform similar functions), and the distribution of power (for example, bipolar or multipolar) among them [9].

Waltz denies that differential power capabilities go hand-in-hand with a division of labour in the structure. He argues that anarchy enforces a trend toward isomorphism, or homogeneity, among states which make up the structure and also, therefore, a decline in relations of interdependence among the units [10]. "Anarchy entails relations of coordination among a system's units, and that implies their sameness," he says [11]. So, for Waltz, power differentials in conditions of anarchy produce states which are more similar than different: unified rational actors. But this result is not clearly examined because the state is a "second-level" phenomenon, and not of immediate concern.

Waltz is reluctant to accept a characterization of his position as structuralist because he wishes to downplay the causal properties of structure, and, therefore, its ontological status [12]. The structure, or system, cannot be "observed", it is, therefore, not an agent, but its existence is simply expressed in the form of a theory [13], and in the effects which are produced. These effects - in this case sovereign states performing largely similar functions - are produced by the structure of power selecting traits or behaviour for success or failure through competition. Therefore, for Waltz, it is not a question of institutions or regimes which affect behaviour, but the distribution of power.

In terms of Krasner's categories described above, Waltz is an un-modified structuralist because he refuses to alter the Realist theory core of power distribution with institutional, economic, or cultural factors. Nevertheless, as I have shown, deductions can be drawn from this mechanistic, or what Waltz calls his "positional" picture of structure, for the development of states. That is, they become more alike. As for the details of this likeness, Waltz has nothing to say, for he is concerned only with system-level variables, and for him, intra-state and state-societal factors are at "lower" levels of analysis. However, one can deduce from Waltz's theory that states ought to facilitate rationality as a prerequisite of prudence and

survival in a fundamentally dangerous anarchical environment. Therefore, Waltz's argument can be seen to have normative consequences for state institutions.

Robert Gilpin

Robert Gilpin is perhaps the principal exponent of those whom Krasner identifies as modified structuralists. While for Waltz the international structure creates constraints and opportunities which select out traits for success or failure (rather like Darwinian natural selection), for Gilpin, regimes, institutional intermediations among states, perform a quasi-governmental function, backed by the power and authority of the hegemon.

What, then, is the role of the state for Gilpin? He sets out a quite straightforward utilitarian liberal analysis of the political economy. It is the role of the state to foster and protect private property rights and a competitive market economy, to eliminate political, social, and cultural constraints on rational, possessive individualism. Unlike most liberals, however, Gilpin puts a competitive, mercantilist spin on his his reading of Smith by arguing that it is "the congruence between the prevailing conditions in a given historical epoch and the personality types fostered by a society that largely determine the success or failure of a society in the power struggle among states" [14]. That is, whereas liberals hope for liberal capitalism to

transcend power struggles [15], Gilpin, as with other Realists, sees liberal political economy as the conduct of geo-politics by other means. States dismantled mercantilism and established and protected property rights as a consequence of their interest in efficient social organization, and accumulation of wealth and power [16].

Gilpin presents a similar argument for domestic political economy as for international political economy. It has been the purpose of hegemonic powers to supply public goods such as security and the protection of property rights for the system as a whole, in return for revenue and compliance. Hegemons do so both because of self-interest and the common interest. "While bringing benefits to themselves, however, the policies of the hegemonic powers were also beneficial to those other states that desired to and could take advantage of the international political and economic status quo" [17].

This last statement is an important one, for it marks a theoretical step beyond Waltz's mechanical, Darwinist, or functionalist explanation of the impact of structure on states. Gilpin's more utilitarian approach highlights the problematic of foreign policy bureaucracies raised in the previous chapter. That is, non-hegemonic states will choose to alter their bureaucratic or institutional structure, and alter the background discourse of norms and principles in which the state is embedded, because change in the economic,

political, or discursive elements of the global political economy makes it useful, or in their national interest, to do so. Reorganization is therefore a utilitarian adaptation. Foreign policy, trade, and economic bureaus can be expected to be on the front line of this change. As Gilpin stated, "a stable world economy requires that mechanisms exist that permit national management of the economy consistent with the norms and requirements of a liberal international economy" [18].

Gilpin's work does not go any further by elaborating on the link between regimes built by hegemons and state structure. His analysis allows us to introduce modifications to the basic power structure model in the form of regimes or international organizations which legitimize the rulership of hegemons. However, this modification to the basic force model is not well fleshed out, and the deductive consequences for state structure are not made clear. I will discuss below how the work of Robert Cox is useful in engaging a class-based critique of the national-interest grounding of Gilpin's analysis. But before that I will remain within the neo-realist debate. John Ruggie's analysis of the historical variation of liberal capitalism's modification of power politics can move us further in the desired direction. As I will demonstrate in the next section, Ruggie shows that historical variations in the structure of the international system, the character of

structural hegemony, has a crucial influence on the pattern of state-societal relations and domestic political economy.

John Gerard Ruggie

The contribution which Ruggie makes to analysis of international political economy and the state is his development of the concept of embedded liberalism. It is generated out of a critique of Waltz's analysis of the international system. In this section of the chapter I will briefly look at Ruggie's critique of Waltz and his development of the concept of embedded liberalism.

According to Waltz's criteria of system (or structure) definition, the present international system began in 1648 with the Treaty of Westphalia, and remains unchanged in its essentials to the present day. It is incumbent on his critics, therefore, to contest the fruitfulness of his criteria for system definition. This Ruggie does by focusing on the implications for power politics of the growth of liberal industrial capitalism, especially developments with respect to private property and property rights, and what he calls, drawing explicitly on Durkheim, "dynamic density". Like the complex interdependence and transnational theorists reviewed in the previous chapter, Ruggie refers mainly to economic activity, "the quantity, velocity, and diversity of transactions that go on within society" [19]. But unlike Waltz, who argues that these have

nothing to do with theories about power politics, and unlike theories of complex interdependence, which say that dynamic density has an exogenous and destructive impact on power politics, Ruggie has a rather more dialectical approach [20].

With respect to property and property rights Ruggie argues that Locke and Vattel, in their respective domestic and international spheres, worked out a resolution to the crisis created by the transition from feudalism to capitalism. Feudalism was a social, political and economic system of multiple and overlapping rights and responsibilities among lords and the king, and between the nobility and their vassals. It was an anarchy which was given order and unity through religious universalism. The Thirty Years War sorted out the contending claims of the landed aristocracy, the bourgeoisie of the city states, the kings, and the religious authorities, largely in favour of the kings and the bourgeoisie. The Treaty of Westphalia institutionalized this victory in the recognition of nation-states as the principal political form. The past 300 years have been a historical process of transcending non-exclusive authority and property rights, replacing them by exclusive sovereignty and property. This process, with the creation of the post-colonial, territorial nation-states, has finally covered virtually the whole globe.

Locke provided an analysis of the resolution to the

crisis of legitimacy which ensued from the transition from feudalism to capitalism by arguing that it was the purpose of civil society to "provide a framework within which to protect natural rights to property, and to portray the state as the agent of property holders in securing these rights against the state of nature" [21]. Vattel, in his treatise on international law, established the notion that the community of states is the protector of the property holders' states [22]. A state's sovereign rights are given scope and legitimacy, not only in Lockean political economy, but also by Vattel's discussion of international law. The contributions of Locke and Vattel are, therefore, interdependent [23]. However, the international system is not a true community because, as we saw with Gilpin above, the most efficient liberalism is a power resource in a competitive world. Therefore, for Ruggie, the hegemon's form of state-societal relations has an element of primacy in determining the scope of international, and, hence, domestic law [24]. Finally, therefore, contrary to Waltz, the "hegemonic form of state-societal relations, or lack thereof, constitutes an attribute of the system" [25].

From this analysis Ruggie compares and contrasts the liberal hegemonies of Great Britain and the United States. While some have disputed the extent of liberalization achieved under Great Britain's hegemony [26], it can hardly be gainsaid that the third quarter of the 19th century was

the high point of liberal international economic relations. This Ruggie labels the period of the hegemony of "orthodox" or "laissez-faire" liberalism. Drawing on Polanyi's *THE GREAT TRANSFORMATION*, Ruggie argues that British supremacy entailed the global expansion of a laissez-faire doctrine of self-regulating markets, the gold standard, balance-of-power, and the (minimalist, or laissez-faire) liberal state [27].

British-based free trade hegemony succumbed quickly to the rapid catch-up industrialization of the continental economies, especially that of mercantilist Germany under Bismarck and List. The First World War exhausted the British economy making it unable to shoulder the costs of re-establishing a liberal world economy following the war. In the strongest liberal political economy, that of the United States, foreign policy was still dominated by isolationists in Congress who were able to veto eastern, banking, big capital interests, and those in the White House who were pressing to exercise the leadership which Britain was unable to provide [28]. As a result the inter-war period was an international political economy formed by the Depression of the 1930s, and trade and monetary policies aimed at promoting competitive, rather than cooperative and inter-dependent, national welfare and economic development, being what Block [29] calls "national capitalism". This period of the conduct of warfare by other means contributed to the

outbreak of World War II through the inability of the League of Nations to deal with war debts and reparations.

Despite the problems which, from the liberal perspective, plagued the inter-war period, it constituted, in Polanyi's terms, a great transformation. The great transformation entailed a social reaction against liberal, market-driven norms, from both the left and right. The contradiction of the era, Polanyi argued, was that the aspirations for a restoration of a liberal international political economy were based on domestic social norms which rejected liberalism [30].

The reconstruction of the post-World War II international political economy, for which Ruggie has coined the term "embedded liberalism," was meant to avoid this contradiction. Embedded liberalism, promoted and legitimized by the United States, was meant to maximize the openness of international production and exchange, without jeopardizing the domestic social bases of legitimacy by disrupting national welfare programs developed in the inter-war period. "This was the essence of the embedded liberalism compromise: unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the gold standard and free trade its multilateralism would be predicated upon domestic interventionism" [31].

At the same time, however, the embedded liberal economic regime was a hegemonic compromise. It was a compromise in

which were found the social, economic, and political contradictions of the historical period of its genesis. But it was also a compromise in which were institutionalized commitments to develop in a fashion consistent with the myths and ideals, if not the practices, of the hegemonic power of the time, the United States. That is, embedded liberalism was a world order in which there was a sort of dialectical synthesis of its classical ancestor, laissez-faire liberalism, and the "ignominious" anarchy of the inter-war international political economy [32]. In this view order was expressed as a hegemonic synthesis of power and purpose. "In sum, to say anything sensible about the content of international economic order and about the regimes that serve them, it is necessary to look at how power and legitimate social purpose become fused to project political authority into the international system" [33].

Against Marxists Ruggie argues that international regimes such as the IMF and the GATT are not simply "epiphenomenal adjuncts that may be invoked to legitimate" a given form of transnationalization of capitalism [34]. Nor, unlike classical liberals, does he argue that such trade and capital flows are responsive only to comparative advantage and technological change. Regimes are, rather, relatively and comparatively autonomous intermediations among states, markets, and firms. "That is to say, international economic regimes provide a permissive environment for the specific

kinds of international transaction flows that actors take to be complementary to the particular fusion of power and purpose that is embodied within these regimes" [35]. The hegemony which these regimes institutionalize is therefore based on a given range of values and interests, but, in order to be legitimate these specific interests and values need to be incorporated into a universalist discourse of world order.

In summary, what Ruggie contributes to our concern with state-system inter-relations is the undermining of the persistent tendency in International Relations, a tendency most strongly represented by Waltz, to keep levels of analysis (individual, state, system) sealed off from one another. Ruggie shows that the myths and ideals about the proper relationship between state and society which are articulated by the world's dominant power become hegemonic; that is, they come to inform the norms, principles, and decision rules of the international organizations, or regimes, which states consent to be ruled by, and hence give order to the world polity. Ruggie's work has further shown, with the elaboration of the concept of embedded liberalism, how such regimes in the post-war period contributed to disciplining of the state-societal arrangements of their members. To draw on a useful caricature suggested by Gilpin, the hegemonic compromise of embedded liberalism - Smith abroad and Keynes at home - was to develop progressively in

the direction of Smith abroad and Smith at home.

However, despite these real contributions in Ruggie's work, for him the state remains a unified actor. We need to retain his basic conceptual framework, but also to develop the notion of the state as a differentiated institutional complex. The work of Keohane, to which I now turn, allows us to see more clearly how regimes shape intra-state processes and institutional change. This is accomplished by a change in perspective, from one which focuses on why hegemons supply regimes, to one of why other states demand them.

Robert Keohane

In his book *AFTER HEGEMONY* Keohane argues that the parsimonious power structure approach to regimes and hegemonic stability theory is not fully satisfactory. That is, while the U.S. suffered a decline in its relative power capabilities from the 1950s to the 1970s, he could not observe the decline in U.S. hegemony exercised through the GATT, IMF, and international oil regimes, predicted from the theory. The parsimonious model of HST, as expressed by Gilpin, for example, required amendment.

Keohane pursues the amendment of HST by redirecting the focus of attention from the supply of regime-based stability and cooperation by the hegemon, to asking the question of why there is demand for international regimes [36].

The reason why states demand regimes is to reduce the

uncertainty and risk which are inherent in the fundamentally anarchical international system, with the purpose of fostering cooperation. Risk and uncertainty are minimized by reducing transaction costs, limiting the possible scope of strategies, and by supplying information on a symmetrical basis. Regimes facilitate the transmission of high quality information and increase the stability and predictability of the global environment of all states by enhancing behavioural reliability. In effect, regimes are "contractual" relationships such as treaties, charters, or agreements entered into by states in response to market failure, the inability of states to achieve Pareto-optimality in the anarchical state of nature [37].

Regimes reduce barriers to agreements among states by, first, establishing a clear legal framework of rights and liabilities; second, by reducing the cost of information; and, third, by reducing transaction costs. "We only expect regimes to develop where the costs of making ad hoc agreements on particular substantive matters are higher than the sum of the costs of making such agreements within a regime framework and the costs of establishing that framework" [38]. Furthermore, regimes will be sought in particularly complex policy areas where compromises or cooperation require linkage across issue areas. That is, in the language of game theory, regimes facilitate the making of side payments [39]. On the other hand, regimes are

promoted by states which reckon that they can shift costs to others, to permit free-riding [40].

What Keohane is arguing, therefore, is that the decline in American hegemony, which gathered momentum through the late 1960s and 1970s, was not accompanied by massive regime decay and conflict because states (that is, the officials, bureaucrats, and technocrats who inhabit states) learned to appreciate the benefits of stability, predictability, and high quality information which the regimes provided. Indeed, while the ability of the hegemon to reproduce regime-based order declined, demand at least remained constant, or even increased. "Since the level of post-war regimes was exceptionally high," he writes, "with intricate and extensive networks of communication among working level officials, we should expect the lag between the decline of American hegemony and the disruption of international regimes to be quite long and the inertia of the existing regimes relatively great [41]."

Here we begin to see some of the useful insights gained from crossing levels of analysis. First, theoretical developments about regimes as a source of order and stability at the level of the international system can be seen to have effects, not at the level of the "state", but, through the persons who act in the name of the state. Second, theories about the needs of these persons for cognitive consistency are able to reflect back on why it is that the regime level

characteristics of order and stability are reproduced.

However, while this approach is useful in explaining the maintenance and reproduction of order, it is less useful in understanding the change which has taken place in the post-war hegemonic system. We understand why states adhere to the norms, principles, and rules of regimes, but we know less about the sources of defection, instability and decay of the regimes. States may freeride, causing a gradual erosion of the regime's authority, or they may defect from the system altogether. As Keohane argues, this leads us to ask questions about not only deference to regime-based order, but also about defection and legitimacy.

Concern for the incentives facing the hegemon should also alert us to the frequently neglected incentives facing other countries in the system. What calculus do they confront in considering whether to challenge or defer to the would-be leader? Thinking about the calculations of secondary powers raises the question of deference. Theories of hegemony should seek not only to analyze dominant powers' decisions to engage in rule-making and rule enforcement, but also, to explore why secondary states defer to the leadership of the hegemon. That is, they need to account for the legitimacy of hegemonic regimes and for the co-existence of cooperation [42].

In other words, the analysis above can be recast to suggest that regimes reduce the transaction costs of legitimate behaviour and increase the costs of illegitimate behaviour. What this means is that, given the essentially liberal nature of hegemony, legitimate behaviour includes openness or transparency of state processes and institutions, and the protection of private property rights; illegitimate behaviour includes closure or defection and state encroachments on private property. "Notice," Keohane writes, "that through a functional logic, a systemic analysis has implications for the performance of different governmental structures at the level of actor. The value of high quality information in making agreements does not force governments to become more open, but it gives advantages to those that do [43]." It is this giving of advantages which Waltz identifies when he argues that the international system as structure does not cause state action, but selects certain state behaviour for reward or punishment. My argument, to be pursued in greater detail below, is that this state behaviour includes establishing the structure of the state itself. Indeed, Keohane's analysis shows how the structure and evolution of the international regime environment can influence the establishment and attempts to reorganize state-societal or clientelistic sorts of relationships, what Katzenstein [44] calls policy networks.

Linkages and side payments among issues grouped in the same regime thus become easier, since the necessary internal trade-offs will tend to take place within rather than across bureaus; but linkages among issues falling into different regimes will remain difficult, or even become more so (since the natural linkages on those issues will be with issues in the same regime). Insofar as issues are dealt with separately from one another on the international level, it is often hard, in simply bureaucratic terms, to arrange for them to be considered together [45].

Waltz may be correct in noting that his purely structural theory retains the virtue of parsimony. But by releasing the restrictions on crossing levels of analysis, we permit ourselves greater insight into the processes of the reproduction of order and the sources of change, as well as the effect of systemic or structural change on the units which comprise the structure, that is, the state. We can see that state action includes the very form of the state itself. As Keohane observes:

This line of argument suggests that governments that successfully maintain "closure", protecting the autonomy of their decision-making process from outside

penetration, will have more difficulties participating in international regimes than more open, apparently disorganized governments. "Closed" governments will be viewed with more skepticism by potential partners, who will anticipate more serious problems of bounded rationality in relations with those closed governments than toward their more open counter-parts. Similarly, among given governments, politicization of issues and increases in the power of political appointees are likely to reduce the quality of information and will therefore tend to reduce cooperation [46].

This discussion of Keohane's work demonstrates that it is possible to deduce from Hegemonic Stability Theory expectations about the institutions, organization, and processes of the state. However, this issue is not the foremost concern of Keohane and other HST theorists. The two main concerns of HST theorists are systemic order, and stability, (the main concern of those identified as structuralists or modified structuralists) and with the effects of HST and regimes on cognition, rationality, decision-making and cooperation (the main concern of those labelled Grotians). Mediation by the state and its institutions and processes between the system and the decision-maker are recognized as important, but are not part of the conceptual framework [47]. Nevertheless, Keohane's

work reveals an interesting contradiction arising from the contending realist and liberal strands in his approach, a contradiction which I think undermined the intended historical dynamic towards increasing Smitheanism. The contradiction is this: a central purpose of regimes was to reconstitute states as unified, effective, and rational actors. Realists argued this normatively, as we have seen; Keohane argued it analytically and functionally from the perspective of micro-economic theory, cognition, and decision-making. However, the liberal norms and principles which these states were meant to implement undermined the unified, rational, and effective state with their appeals to such factors as transparency, bureaucratic division of labour, permeable borders, and the primacy of private property and the market. The embedded liberal compromise was, as we shall see, also normative, and unstable.

Summary

In this section of the chapter I have shown that one can deduce from regime theory, that is, systemic level or structural theory about institutional intermediation among states, effects on intra-state and state-societal relations. Through a close inspection of the work of Waltz, Gilpin, Ruggie and Keohane I have shown not only that the structure of inter-state institutions sets parameters which restrain change, but that in so providing incentives and rewards for

some and "punishment" for others, the inter-state structure has normative or prescriptive consequences for state-societal relations. Given the embedded liberal character of the regimes established after World War II, the regimes have rewarded openness, transparency, and the progressive liberalization of state-societal relations. These rewards and inducements include economic growth through liberalization and interdependence subsidized by the power and capabilities of the hegemon, the United States. But, liberalization and interdependence also involve costs, including reduced state ability to direct and control the pace, direction, and content of economic activity within its territory.

Rational state action thus comes in part to consist of the calculation of the difference between the costs and benefits of openness and closure. As I will show below, this debate includes the issue of the scope of legitimate state action, and therefore the organization, processes, and instruments of the state. Indeed, I will later develop the argument that the role of the state became, in effect, one of the key issues in the debate on political economy. The debate over the legitimate scope of state action became a proxy for more fundamental issues of social justice, the protection of private property, and class power. In other words, political action and analysis have come to centre on the state itself. The principal battleground on which these

debates were engaged was that involving broader state-societal relations and political economy. But bureaucrats and state managers have also come to have a major stake in politics, and this stake has become a source of claims about the relative autonomy of the state from the economy and civil society.

Analysts in the field of International Relations, however, have not addressed the relevance and fruitfulness of the state in the basic conceptual framework. The state, as I have shown above, tends to be normatively asserted as a unified rational actor [48], or is analytically reduced to bureaucratic politics or individual psychological and cognitive decision-making. In both cases, the state and state-societal relations drop out, hopefully to be pursued by specialists in Comparative Politics. One thing to which I hope this work contributes is enhancing the recognition that this artificial separation of importantly-related concerns in Comparative Politics and International Relations is not fruitful. In the following section I examine work, mostly that of Robert Cox, in International Relations in which the relationship between the international political economy and the state, its institutions, organization, and parameters, is at the centre of analysis.

INTERNATIONAL POLITICAL ECONOMY AND THE STATE

The purpose of this section of the chapter is to present an approach to International Relations which makes the state an important part of its conceptual framework. This approach problematizes the state, rather than allowing it to slip out of focus, as I have noted in the section above. The state is problematized in the sense that its relationship with its external and domestic environments, its relative autonomy and capabilities, its procedural and institutional characteristics, become the issues for analysis and explanation.

The approach introduced here is not fundamentally at odds with the approach presented above, especially in the works of Ruggie and Keohane. The commonalities are great enough that, despite the neo-Marxist concepts, especially the reference to class analysis, the insights are not utterly incomparable. The purpose of this section of the chapter is to introduce the works of Claus Offe and Robert Cox as a means of bringing the state more firmly into focus. It will be shown that Offe (although not explicitly a theorist whose work is thought to pertain to International Relations) and Cox are useful because together they allow us to pay particular attention to the linkage between international political economy, regimes, the state and class relations.

In the section above I discussed the compromise of

sovereignty and interdependence, Smith and Keynes, which was at the heart of embedded liberalism. But I was critical of the tradition of analysis which has emerged from this framework because it fails to explore the implications for the state within this compromise. Richard Ashley has nicely exposed what is obscured. He does this by articulating sovereignty and interdependence as vertical and horizontal axes which require balancing.

On the one hand, the lateral image cannot be totally subordinated to the vertical because (1) scientific and technical progress and the development of human freedom is seen to depend upon the unfettered flow of communications and peoples, (2) capital accumulation in an integrated world economy is understood to depend upon the transnational mobility of non-state actors and the resources they control amidst worldwide market structures, and (3) progress and stability in any one territory is dependent upon global ecological factors that are insusceptible to piecemeal management and control. ...

On the other hand, the vertical image cannot be entirely subordinated to the lateral because the territorial state, with its organizational resources and privileged claim to the means of violence, is

taken to be necessary to the protection of property rights, the maintenance of order, and the provision of the social conditions in which freedom can be sustained and production can flourish within territorial bounds. [49]

Ashley effectively evokes the tensions between sovereignty and interdependence, but in doing so he also highlights the fact that in modern times, one can not have one without the other. Embedded liberalism was a renewed effort to renegotiate an equilibrium between the two. Ashley echoes the concern raised in this dissertation, that the stability of the balancing act between vertical and lateral, sovereignty and interdependence, hinges on the organization and processes of the state and capital accumulation.

Especially in late capitalist societies, sustained economic growth has come to depend upon the growing administrative rationality of the state - including especially its administration of the economy - and the legitimation of the state, in turn has come to depend upon its capacity to sustain capital accumulation within its territory [50].

This combination of Weberian and Marxist concerns for capital accumulation and the administrative rationality of

the state has been a prominent feature of the work of Claus Offe. In the following section I introduce his conceptual distinction between the purposive rational and bureaucratic allocative states. This will be followed by a discussion of the work of Robert Cox, who offers a perspective on the class and international bases of the distinction between these two forms of the state.

Claus Offe

Offe's argument links the institutional and procedural aspects of state action to problems of capital accumulation and state legitimacy. Market anarchy in capitalism periodically results in shortfalls of capital accumulation, on which investment and innovation depend [51]. In order that the capitalist mode of production be maintained and reproduced through such crises, the state is pressed to intervene to restore the conditions of accumulation.

The contradiction which remains at the core of liberal capitalist political economy is that, while accumulation is held to be the right and responsibility of the owners and controllers of private property, the state is called upon to step across the boundary of the rights of private property in order to, in effect, save the system from itself. The state is expected to maintain the conditions of private accumulation while at the same time being excluded from authority to order or control production (outside of

wartime).

Offe underlines the contradiction which is revealed here, and the question which is raised. "How is it possible that at the same time, the state gains power, applies this power in a way conducive to and maintaining the conditions of accumulation, without thereby subverting its own existence as a capitalist state by adopting policies that would transcend the reciprocity relationship between state and accumulation?" [52]. The solution to this contradiction comes in the concept of legitimation. The state must "convey the image of an organization ... that pursues the common and general interest of society as a whole, allows equal access to power, and is responsive to justified demands" [53]. In short, the state conceals its own existence as a specifically capitalist state.

This all works well enough in non-crisis periods in which the conditions of accumulation can be sustained through what Offe calls the politics of allocation, in which bureaucracy and administration are sufficient. "Allocation is a mode of activity of the capitalist state that creates and maintains the conditions of accumulation in a purely authoritative way ... whether the authority is based on the constitution, on a system of legal norms, or on consideration of political majorities and political affiliations" [54]. The bureaucratic mode of state action legitimates its support of capitalist accumulation, since it rests on the

normatively neutral rule of law.

In international political economy, regimes such as the GATT and the International Monetary Fund embed norms of Smithian and Lockean liberalism, and act as an authoritative legal constitution for the bureaucratic allocative form of the state. In particular, liberal regimes constrained the "geo-political" dimension of state-led accumulation by limiting the state's legitimate scope to foster accumulation in a given national-territorial space. These constraints included sanctions on typical policy instruments such as taxes, tariffs, subsidies, state procurement, and other administrative and regulative instruments, all of which are legitimate, or temporarily sanctioned cheats, in the embedded liberal international system. The regimes legitimize and sanction only limited sovereignist encroachments on Smithian and Lockean political economy, in the form of welfare, not accumulative, policies.

However, the legitimating neutrality of the state is threatened when continued accumulation requires that the state engage in productive activity itself. "Productive state activities, in addition to allocative ones, emerge, since the state is the only organization in capitalist society that could provide such inputs that are required in order to sustain accumulation and production" [55].

The decision rules of purposively rational state action, such as the state's ownership and control of the means of

production, the ownership of credit granting institutions such as banks, and other policies which have come to be included under the label of neo-mercantilism, challenge the liberal parameters of the sanctity of private property, and contravene the intended international hegemonic dynamic towards "Smith abroad, Smith at home." The allocative state is, therefore, ill-equipped to fulfill the role of collective capitalist when the market system fails to deliver the goods.

The variety of needs, interest, demands, crises, etc., that appear in the environment of state activity are of a [too] contradictory nature, especially under conditions of advanced forms of competition ... to allow the derivation of operational goals. Conversely, the state in its specifically capitalist form is unable to impose on its environment its own definition of a set of goals that it then could pursue according to instrumental rationality [56].

Offe is, therefore, skeptical of the capacity of the capitalist state to fulfill its legitimation function. The result of its institutional shortcomings is a crisis of crisis management [57].

What becomes clearer from this analysis, linking Offe with the earlier work of Keohane and Ruggie, is that the

post-war settlement, the establishment of the regimes which were to govern the international political economy, were a necessary element in the reorganization of capitalism. In the period from the unification of Germany based on statist and mercantilist principles through the anarchy of economic warfare in the inter-war period, liberal international capitalism, and the scope and limitations on capitalist state action, came under severe threat. Under the tutelage of American hegemony international capitalism was re-organized on the basis of the norms, principles, and decision rules of what Ruggie has called embedded liberalism. It was particularly important to rearticulate the limits of legitimate state action on the post-war period because capitalism was being put on a new footing in Western Europe, and Communists had acquired stature and legitimacy because of their important role in anti-Fascist resistance during the war. The redefinition of the state was also important because the post-war period was to witness rapid decolonization in the Third World, and the creation of new nation-states, for which parameters of legitimacy and authority were also desirable. Embedded liberalism provided the structural framework of purpose linked to power into which the bureaucratic allocative state was easily integrated. Indeed, embedded liberalism established what in effect were the international constitutional principles for the legitimation of the bureaucratic allocative state. The

bureaucratic allocative state became one of the goals of embedded liberalism, and became the institutional context of the openness and transparency of which Keohane wrote. However, with the slow disintegration of American hegemony and a crisis of capitalism in the late 1960s and early 1970s, the structural articulation of power and purpose was fundamentally weakened. A crisis in the purpose of the state was one important result.

Robert W. Cox

The work of Robert Cox provides a vivid illustration of the points I have been sketching abstractly through the work Ashley and Offe. Cox's argument is that embedded liberalism, the era of the Pax Americana and American hegemony, entailed a transition from what he calls the welfare-nationalist state of the inter-war period, to the neo-liberal state. That is, in the inter-war period the equilibrium between what Ashley called the lateral and the vertical states, and what Offe calls the bureaucratic allocative and purposive rational states, tipped in favour of the vertical - toward independence and purposive rationality. Embedded liberalism was to re-establish the balance and begin the process of restoring the hegemony of Smith and the liberal state.

The primary function of the neoliberal state -

adjustment of the national economy to world economy trends - involved a restructuring of the hierarchy of agencies within government. The welfare-nationalist state brought into prominence agencies concerned with national economic planning and associated corporative arrangements: planning bureaus, ministries of industry and labour, all with links into client groups of the nationalist economy. The neo-liberal state gives priority to those central agencies of government that act as links between the world economy and the national economy: finance ministries and treasuries and foreign trade and investment agencies, functioning in close coordination with the offices of presidents and prime ministers. The earlier structures of national corporatism are not displaced; they are just subordinated, becoming instruments of policies transmitted through the world-economy-linked central agencies. [58]

The international regimes such as the GATT and the IMF link the non-hegemonic states to the hegemonic power of the United States centered in the Presidency, the State Department, and the Treasury, and to capital oriented toward world markets, rather than local or national capital.

This part of the U.S. government is at the system's

core, together ... with interstate institutions such as the IMF and the World Bank symbiotically related to expansive capital, and with collaborator governments (or at any rate parts of them linked to the system) in the system's periphery. It is less than the state in the sense that non-imperial, or even anti-imperial, forces may be present in other parts of both core and periphery states. The unity of the state, posited by neorealism, is fragmented in this image, and the struggle for and against the imperial system may go on within the state structures at both core and periphery as well as among social forces ranged in support and opposition to the system [59].

The glue which holds this system together is hegemony: power, ideology, consent, and bargaining. As Cox argues, "It was a power structure in which the components sought to maintain consensus through bargaining and one in which the bargaining units were bureaucratic fragments of states. The power behind the negotiation was tacitly taken into account by the parties", it became part of the common sense of international relations [60]. The compromise of embedded liberalism put in place the structure of norms, principles, and rules, along with the material benefits of economic growth, which permitted the hegemonic core of the states to "purchase" and legitimize their autonomy. This international

dimension is important to the autonomy and capability of the state managers which we will examine in the following chapters. These are an important aspect of the side-payments, and inducements to compliance, which Waltz and Keohane have written about, but which are made more comprehensible by Cox's approach. In particular, we saw that Keohane argues that regimes facilitate cooperation by providing the stable and predictable structure within which state managers can negotiate cross-issue linkage of issues, or more prosaically, log-rolling or backscratching. What Cox's conceptual framework makes clearer is the dependence of this behaviour on the socialization of what counts for "common sense", including bargaining mode of relations itself.

This hegemonic class-oriented approach I have found more persuasive than Keohane's approach based in cognitive psychology and game theory. It provides a set of concepts which link reorganization of systemic power and order specifically to reorganization within the state. This reorganization within the state involved redirecting power towards institutions oriented toward the bureaucratic allocative form of state action, and away from the state conceived of as purposively rational. Consequent upon this reorganization was directing greater power toward private capital oriented toward the new world market. In this light, bureaucratic politics and administrative rationality are

seen to be about fundamental questions of state-societal relations, as well as international relations, rather than just pathologies of institutional tinkering and personal ambition. Cox discusses many of the issues raised by Keohane and others, in particular inter-state bargaining and hegemony, but Cox's conceptual framework, which better represents the meaning of Gramsci's term "hegemony" than that which is contained in the interpretation of Keohane, allows the analyst to better understand the political dynamics at work underneath the superficial aspects of cognition and bureaucratic politics.

THE STATE AND CANADIAN POLITICAL ECONOMY

The discussion above on International Relations and the state, and on the compromise of sovereignty and interdependence within embedded liberalism, provides an additional dimension to debates within Comparative Politics on strong and weak states. As the discussion of Ashley and Cox showed, the embedded liberal state provided a degree of strength sufficient to secure the order and stability which capitalists desired for accumulation, investment and trade. But interdependence helped constrain the state so as not to pre-empt the privileges and rights of private property and capital. In this section of the chapter I look more closely

at debates about state strength and autonomy, and the role of institutions in this context. The point of this discussion is not to determine deductively whether or not the Canadian state was strong or weak. It is to set the context for seeing that debates over the reorganization of the Canadian state in the 1970s and early 1980s were about how autonomous and capable the Canadian state ought to be in the light of changing international conditions. I will also examine the role of the institutional framework established in the post-war period of embedded liberalism in shaping that debate, and, perhaps, determining its outcome. After all, norms, principles, and decision rules are not just about "regimes", they are also about political economy, and therefore they affect the manner in which state managers "learn" about the change which had been taking place in the post-war period. This is why and how the approaches discussed here are commensurable. Institutions embed values which mediate, guide, and refract debate about fundamental political questions.

State Strength, Capacity, and Autonomy

In the previous chapter I noted that during the 1970s the state, its role in the political economy, its institutional and procedural aspects, and relations with civil society, came to the forefront of attention in Comparative Politics. The state was seen to be an important determinant of policy

outcomes. One of the central approaches to the state at the time was the weak state/strong state taxonomy. In this section I will look more closely at what constitutes state strength or weakness, how more recent work has improved the basic taxonomy, and how the Canadian state has been debated in the context of this taxonomy.

State strength is variable dependent upon its autonomy from civil society, and the capabilities which it is able to accumulate and deploy [61]. A state is strong to the extent to which its officials translate their preferences into public policy in the absence of divergent state-societal preferences; can bring societal preferences to conform with the preferences of state officials; or when state officials can implement their preferences against the divergent preferences of societal interests [62]. Therefore, state strength or weakness depends upon the formation and organization of preferences among persons in the state and society. A state is strong to the degree to which state officials' preferences are principally derived not from their familial, educational, or professional socialization, but from traditions, values, interests and institutions which are endogenous to the state itself. A relatively weak state will emerge when confronted with a well-organized, centralized, institutional framework in civil society. The state will be permeated by societal voices and mobilized by private interests and preferences. The political agenda will

be determined by private interest groups, and the state will be unable to "speak with one voice" in articulating a "national interest". A weak state is unable to develop the administrative instruments to extract resources from society or the economy and deploy them for public purposes. A comparatively strong state will be able to insulate itself from civil society, either institutionally or discursively. The state will be stronger to the extent to which civil society itself is sharply cleaved, dispersed, and poorly organized. A strong state is capable of conceiving its own public policy agenda, accumulating the fiscal and symbolic resources to sustain and legitimize that agenda, and the administrative resources to implement the agenda.

Those who have developed and refined the strong/weak state framework therefore focus on autonomy, capability, preference formation and institutions [63]. A strong state develops the instruments and ideas which permit state managers, officials, or personnel to remain autonomous from classes and interest groups rooted in civil society. An important means by which this autonomy is achieved is institutional. The fundamental argument is that organization "does more than transmit the preferences of particular groups; it combines and ultimately alters them" [64]. In Peter Hall's view, institutional refraction of interest, preference formation, and, ultimately, rationality, involve the organization (the centralization and the coalitional

attachments) of capital, labour, and the state, along with the organizational impact of the integration of the country in the international economic system, and the electoral linkage of the state to civil society [65]. As Hall goes on to argue,

the point of much of the analysis ... has been to show that organizational relations can alter the basic logic of political rationality for many actors, by altering their relationship to other actors. Not only does organization alter the power of a social group, it can also affect the interpretation they put on their own interests, and thus the direction of their influence. In this case, the ideas or perceptions of the relevant actors are not an exogenous variable but a component of their rational action as it is situationally determined [66].

In this respect, then, the institutional context of state action is important as more than simply a neutral or objective filter affecting the rationality and cognition of state managers and officials. Institutions embed the results of past political struggles. This was implied above in the discussion of embedded liberalism in the international political economy. Regimes such as the GATT and the International Monetary Fund embedded value compromises which

emerged from international political struggles with their roots in the rise and decline of British hegemony, the German mercantilist challenge, and the inter-war anarchy. These compromises had clear consequences for the structure and process of the state. Sovereignty was associated with the institutions and processes of what Offe has labelled the purposive rational state; interdependence those characteristic of the bureaucratic allocative state. The post-war historical dynamic was to evolve in the direction of interdependence and the bureaucratic allocative state. As I will show in the case study to follow, this hegemony had an important influence on the debates within the Canadian state over responses to the changing international political economy in the 1970s and early 1980s. Before doing so, however, I will examine contending approaches to the Canadian state.

The Canadian state

In this section of the chapter I will briefly examine three approaches to the Canadian state which highlight the issues of state strength and organizational context. One group of authors argues that the Canadian state has endeavoured, to some extent successfully, to increase its autonomy and capacity. Another group argues that class power in civil society has constrained autonomy- and capacity-

enhancing efforts by state-managers. A third argument is that neither the state nor civil society is particularly well organized for the pursuit of a coherent political project. Therefore, Canada has pursued a reactive rather than an anticipatory industrial policy.

The Weak State Argument

The argument of those I label the "weak state" [67] theorists portrays Canadian participation in a world economy which is, in effect, continental in scope, supplying staples and other raw materials to the United States. In the more particularly staples version of this approach,

state actions followed from their functional role in facilitating the staples trade. ... The state was limited by the character of the staple, structurally bounded by the rigidities of overhead costs and external demand vulnerability on the liquidity side [68].

Thus constrained externally, the state focussed on adaptive behaviour domestically, such as in defensive expansionism, infrastructure development in railways, canals, and the welfare state. In this approach to the historical development of the Canadian state and political economy, it is not so much class power that constrained state autonomy,

but the natural limits of material resources and export opportunities.

In a somewhat similar fashion dependency theorists saw the state losing its autonomy and sense of purpose to the international division of labour and class power.

By making the place of staples in the world system the logical starting point of analysis, the new political economy dissented from Marxism's stress on domestic relations between classes. Yet it also displaced the classical staples thesis - that interaction between technique, the character of the staple, and external exchange determined social structures. Instead, the extent and form of metropolitan penetration of peripheral economies became the primary causal factor, with dependency varying with the degree of integration into the international economy [69].

The dependency theorists were sceptical that the state, constrained by economy and class, would or could, adopt ambitious welfare state or "National Policy" initiatives [70].

More specifically, tariffs, from this perspective, were not the essential state instrument in a mercantilist/nationalist, nation-building strategy. Quite to the contrary, "they encouraged American branch plants to

move to Canada and thus discouraged nascent industrial entrepreneurs" [71]. Later, industrial strategy initiatives, while perhaps designed to increase value to exports, were defeated by the mercantile/financial fractions of the capitalist class, and their allies in the state, who sought to preserve the weak state, the continental division of labour, and the hegemonic class project [72]. Indeed, the reorganization of the Department of External Affairs in 1982, with which this dissertation is centrally concerned, is interpreted as bolstering this argument. "The move reaffirmed an emphasis on continentalism and on import substitution at the expense of nationalist industrial development that would reduce dependence on export of staples" [73]. Clarke-Jones argues that bureaucratic reorganization "appears to quash a long-standing, though ineffectual, nationalist tendency that had lent a schizophrenic quality to trade and commerce efforts," [74] a tendency nurtured in the left wing of the Liberal Party, in the academic left and hold-overs from the Waffle era of the NDP, and in the Science Council of Canada.

In summary then, this approach, while keeping the state at the forefront of the analysis, argues that the state is a weak one, penetrated and weakened by class, ideological, and economic factors, dominated by the continental mercantile/industrial class alliance, the continental division of labour, and a decidedly junior partnership in

state-to-state relations with the United States. The state's ability to conceive and execute autonomy- and capacity-enhancing strategies is constrained by the natural resources with which the land is endowed, the international division of labour within which those resources are valorized, the class forces that benefit from exploiting these resources and marketing them, and the political and institutional structures such as the National Policy which implemented and legitimized this mode of production. Finally, this structural weakness is perpetuated; the state has been reorganized to pre-empt the articulation of a purposive rational form of state action which would enhance state strength and forge a new class-state coalition unfriendly to multinational capital and the hegemonic staples fraction.

A more subtle approach is that of Rianne Mahon. She argues that until the mid 1960s the Canadian state, led by the Department of Finance, was able to translate liberalization from the world economy to the Canadian political economy.

In general, this relatively liberal policy framework worked fairly well during the fifties and sixties. Yet the move to across-the-board tariff cuts which started during the Kennedy Round signalled the emergence of a conflict between the staples fraction, concerned to accelerate the pace of trade

liberalization, and import-substituting capitals in the manufacturing sector [75].

How would the Canadian state manage this conflict arising from the changing international division of labour? Mahon argues that the adaptive restructuring strategy served to balance the interests of the class fractions in conflict, and in this way politically manage the reproduction of capitalist rule. A global Keynesian strategy implied a hegemonic state to lead in its establishment, and would undermine the national basis of capitalist power, she argues, while a protectionist strategy would have tilted the balance of class conflict in the direction of labour [76].

Mahon argues that policy and institutional adaptation through the 1960s and 1970s maintained an equilibrium of ruling class forces. The creation of the Department of Industry in 1963 improved the representation of import-substituting capital within the state, while that of the Department of Industry, Trade and Commerce in 1969 "was seen as an important means for ensuring that industry support programs would be premised on the need to adjust to an increasingly competitive international environment" [77]. In the 1970s the Department of Finance faced competition from the Privy Council Office and the Ministry of State for Economic Development in the provision of economic policy advice. "These developments reflect the Canadian state's

understanding that it must develop new kinds of policy instruments if it is to produce the kind of compromises capable of maintaining the staples fraction's hegemony in the context of growing international competition," Mahon concludes [78].

Mahon's argument is similar to that of Clarke-Jones because Mahon shows that the Canadian state adapted to changing international and domestic developments in political economy, not to enhance autonomy and capacity vis a vis class forces, but in order to ensure continued stability among the ruling class fractions, and to maintain their overall ruling position. Whereas Clarke-Jones's analysis concludes that the state is more an instrument in the hands of capital's hegemonic fraction, the strength of Mahon's work has been to show how abstract Poulantzian structuralism can be utilized in empirical analysis in accounting for the appearance of greater state relative autonomy, while reproducing the rule of capital.

The works of authors to be discussed next see the state as becoming more autonomous and capable vis a vis capital and civil society, such that state power is more "sui generis".

The Strong State Argument

The grouping of authors that I collect under the label of the "strong state argument" do not necessarily reject the

weak state argument presented above as an accurate depiction of the history of the Canadian state. They tend to argue, however, that there has been more change than continuity, and that the 1960s and 1970s were important years of change. For example, Laux and Molot argue that "Policy decisions [such as the National Policy of 1867] facilitated this rush of American capital into Canadian resource staples" [79], very much consistent with the staples-dependency argument. However, Laux and Molot go on to argue that, by the 1960s change in the international division of labour forced the state to become more autonomous and purposive. "Direct control over production through the state-owned enterprise looked like an attractive policy instrument" [80]. In doing so, they argue, the state "has moved beyond the circumscribed role that liberal ideology assigns to it" [81], contradicting the prediction of Offe about the structural limits of liberal state action with respect to accumulation and legitimacy [82]. Privatisation, they conclude, does not constitute a withdrawal back within the parameters of legitimate state action "status quo ante", but is a rationalization of a new set of parameters of liberal political economy and the state. "The state will remain a producer and investor in enterprises that compete in the marketplace, but the scope and forms of state capitalism will vary" [83].

A similar argument has been made by Resnick. He argues

that approximately until the 1960s Canada had a weak state, consistent with the country's status as a semi-peripheral political economy, mixing core-like industry, labour and state characteristics along with peripheral characteristics such as staples exports, low wages, and authoritarian politics. By the 1960s, however, Resnick argues, Canada had, again as a result of changes in the international political economy, begun a move toward the core, such that, in joining the G-7 in the 1970s, it had attained a status he identifies as the "perimeter of the core". He describes in some detail the evidence which he claims demonstrates the qualitative nature of these changes, and he focuses on the consequences for the state, making it stronger.

To be engaged in fostering economic accumulation within one's own borders through cheaper electricity or railway developments, to be able to administer one's own territory or population effectively and with a modicum of bureaucratic rationality, to be furthering a country's integration into international circuits of trade and capital on terms that lead to long term growth and development - these do not bespeak the weak state structures of the periphery. I do not want to overstate the case ... [but] in close association with a capitalist class it helped foster, it was an effective agent of industrialization (branch plant and

indigenous), of agricultural settlement of the country, of the opening up of the resource sector, of our increasing integration into the capitalist world economy via its two leading powers, the U.K. and the U.S. [84].

The arguments of Laux and Molot, and of Resnick, therefore, are that state capitalism, mega projects, and other elements of the Third National Policy, are a Gerschenkronian, state-led example of late-follower development, to break out of the staples trap into a more diversified international economy [85]. The issue seems to boil down to a judgement about whether changing economic conditions, such as in the international division of labour and Canada's increasing industrialization "forces" (structurally-functionally) the state to make sure it does not get dangerously autonomous. On the other hand are arguments that international developments force the state to become stronger by providing inducements or opportunities for state managers to enhance their autonomy from private capital and civil society and to enhance their ability to extract resources from society and the economy in order to implement a notion of the national interest which cannot be reduced to class or private interests.

An Institutional Approach

The approach of Atkinson and Coleman is something of a combination of strong and weak approaches to the Canadian state. Their overall argument about the inability of the Canadian state to articulate and implement industrial strategy echoes the "weak state" argument discussed above. At the same time, however, they allow that the state can from time to time initiate policies consistent with the image of a centralized and coherent strong state, such as in the National Energy Policy. However, they go on to explain that such outbursts are difficult to sustain and legitimize in the long-term absence of strong state traditions. Thus, Atkinson and Coleman do not share the view of those such as Laux and Molot and of Resnick that the state is becoming better organized and coherent, more like a purposive rational state, in response to a competitive and disorderly international environment. But neither do they fully support the argument of those such as Mahon and Clarke-Jones that there is a systematic mobilization of class bias to the state. They argue that the state has been constrained in efforts to become more interventionist and purposeful, but not so much because of capitalist class pressure, but because of institutional incoherence which is merely a historical legacy, not a class project.

The argument which Atkinson and Coleman explore is that

both the Canadian state and the interest group environment for industrial policy are badly disorganized [86]. In the private economy, they argue that capital is organized principally on the basis of the firm, and that Canada, unlike many other European countries, has no peak association for intermediation between private capital and the state. Instead, the business sector has a number of associations, such as the Business Council on National Issues, the Canadian Manufacturers' Association, the Canadian Federation of Independent Business, and the Chamber of Commerce, which intercede on behalf of separate fractions of capital. Atkinson and Coleman argue that the rule of capital has been successfully maintained against interventionist industrial policy more as a result of the even more disorganized condition of labour and agriculture. In addition, they argue that capital has succeeded because of the domination in the party system of two bourgeois parties, which have been able to convey the preferences of capital through Parliament and the Cabinet [87].

Within the state, disorganization and the absence of a bureaucratic tradition, culture, or attitude oriented towards an anticipatory rather than a reactive industrial policy derives from federalism and the British weak state traditions.

Like Britain, the state in Canada developed

around the institution of Parliament, and as such it was permeated from the outset by society's representatives Second, it is the combined institutional legacy of the Westminster model of Parliamentary government and federalism that fosters a weak state tradition and discourages anticipatory policy making [88].

A key consequence of this institutional and cultural legacy, Atkinson and Coleman go on to argue, is that corporatist or concertational state-societal policy networks, which European states have used to pursue anticipatory industrial policy, have not been formed in Canada.

Atkinson and Coleman conclude that one of the consequences of the comparatively disorganized state and civil society in Canada was that trade policy displaced industrial policy as a possible response to changing international conditions.

In the face of the economic problems of the 1980s, state officials in Canada were inclined to rely on the trade policy solution because there was no other ideologically palatable choice on offer in the face of increasing United States protectionism. ... The long-established firm-centered industry culture, the lack of state

influence over investment, and the mix of macro-political institutions rendered trade policy the "logical" option for dealing with difficult economic circumstances [89].

This is a conclusion consistent with the argument which I will make in the coming chapters on the organization and management of Canadian foreign economic policy. I will argue that it was not only domestic conditions which served to hobble the conceptual and institutional environment for anticipatory policy making, but that influences deriving from the international environment served to create and maintain the policy making environment which Atkinson and Coleman describe.

Summary

This section of the chapter has examined three varieties of theorizing about the Canadian state. One approach argues that the Canadian state has, historically, not been autonomous from the political economy of staples production and export and the class structure which has been characteristic of that mode of production. The arguments of Mahon and of Clarke-Jones are that this weak state has been reproduced through the politics of a better-organized ruling class. Others, such as Resnick, and Laux and Molot, maintain that, if such a weak state may have been characteristic of

the early history of Canadian politics, the Canadian state has been able to fashion and adapt Keynesian, accumulative, and planning actions in the post-war era especially which suggest a Gerschenkronian, late-follower form of national development in response to changing international conditions. Atkinson and Coleman argue that neither the state, nor the capitalist class, is particularly well-organized to pursue a form of politics which could be characterized as purposively rational.

CONCLUSION

The purpose of this chapter has been to demonstrate that factors deriving from the international political economy can have an important influence on state reorganization. This international influence is not simply the result of events or crises such as war or economic crisis. Rather, the form of order and organization among states for the conduct of international economic relations, has an ongoing effect, not only within the state, but also, as it turns out, on state-societal relations.

The survey of neo-realist hegemonic stability theory demonstrated that, even though the system-state inter-relation is not of central concern, that one can deduce from the conceptual framework an impact from system (or structure) to state. But because HST theorists are mostly

concerned about cooperation among states, they focus on the cognitive impairments on bargaining and decision-making. The institutional context of cognition and perception is recognized, but not followed-up. Indeed, we have seen that isomorphism, the production of unified rational actors, is a condition of inter-state coordination and cooperation.

The work of Offe and Cox, from within a neo-Marxist framework, offers important insights about the impact of the state and institutional factors, and how the international context of state action contributes to the making of the state's particular organizational and procedural characteristics. It was shown how the international political economy in the post-war order has been oriented around producing a balance between strong and weak states, between sovereignty and interdependence, between the purposive rational state and the bureaucratic allocative state. It was also shown from this perspective that the isomorphic development of unified rational actors is less important than the hegemonic production of "common sense" oriented toward a political economy of embedded liberalism, the assurance of coordination, cooperation, and deference. There has been little stability in the compromise between sovereignty, the unified rational actor, and purposive rationality, and that of interdependence, division of powers, and bureaucratic allocative state.

I also demonstrated that literature on the Canadian

political economy has debated the autonomy and capacity of the Canadian state. Some argue that capital is better organized and can assure the continued weakness of the state, while some have argued that the state has been able to take advantage of changing international conditions to organize and increase its capability and autonomy. A third argument has been that neither the state nor society in Canada is well-organized, therefore Canadian industrial policy has been poorly adapted to changing international conditions.

The argument that I will pursue in the following chapters is that the reorganization of the Canadian foreign economic policy bureaucracies, especially the reorganization of January 1982, can be understood best in this analytical context. It was most fundamentally a debate about the autonomy and capacity of the Canadian state, through a debate about institutional arrangement. Those who sought to reorganize sought a more purposive rational state, while those who opposed reorganization did so on the basis of the post-war hegemonic tradition of embedded liberalism and the bureaucratic allocative state. I will show that the regime structure of the GATT and the IMF provided an important source structuring the parameters of that debate. In the period from World War II until about 1968 a consensus existed among the core ministries of the state - Finance, External Affairs, Trade and Commerce, and the Bank of

Canada - on key questions linking Canada to the world economy, and on the organization and management of those relations. Organizations such as the GATT and the IMF provided, an important institutional context linking these elements of the state to the rest of the world, the maintenance of the intra-state consensus, and insulation of the state from domestic Canadian interests and organizations. However, as American hegemony declined and the Americans pursued increasingly self-interested policies, the GATT-IMF centered consensus began to break down within the Canadian state [90]. In the next chapter I will explain more fully the methodology showing how the data on Canadian policies concerning trade and monetary issues can be analyzed to reveal preferences about state organization and political economy. The purpose of this chapter has, once again, not been to set out a pair of models against which to test the case study below. Rather, the purpose has been to draw out of diverse literature a general principle of "outside-in" analysis, and a range of concepts which can inform the interpretation of the Canadian case.

REFERENCES

- [1] Charles P. Kindleberger (1973).
- [2] Stephen D. Krasner (1983), p.2.
- [3] Stephen D. Krasner (1985), p. 4.
- [4] Krasner (1983).
- [5] The label "Grotian" refers to one of the founders of international law, Hugo Grotius (1583-1645).
- [6] John Gerard Ruggie (1982).
- [7] Kenneth Waltz (1979).
- [8] See also Kenneth Waltz (1959). It is interesting to note, however, that Waltz has written a most interesting analysis of the contending virtues of the comparatively centralized and autonomous British Parliamentary regime and the decentralized and weak American Congressional system, grounded firmly at the second level of analysis, the state. He argues the long-run virtues of decentralization and democracy for the making of foreign policy. See Kenneth Waltz (1967).
- [9] Waltz (1979) p.100-1.
- [10] Kenneth Waltz (1970).
- [11] Waltz (1979), p. 93, p. 96-7.
- [12] Kenneth N. Waltz (1986).
- [13] Waltz (1979), ch. 1.
- [14] Robert Gilpin (1981), p. 103.
- [15] Richard Rosecrance (1986).
- [16] Gilpin (1981), p. 97.
- [17] Gilpin (1981), p. 145.
- [18] Robert Gilpin (1987), p. 117.
- [19] Ruggie (1986), p. 148.
- [20] Ruggie (1986) p. 149.
- [21] Ruggie (1986), p. 144-5.

[22] Ruggie (1986) p. 145.

[23] Ruggie (1986), p. 147.

[24] Ruggie (1986), p. 149. It should be noted here that Vattel's concerns are rather similar to those of Grotius referred to above, in their discussions of law and institutions among states as sources of order and stability within a more fundamental anarchy. Hence the work of Ruggie and Gilpin establish the conceptual linkage between structuralist, modified structuralist, and cognitive or functionalist approaches to regimes.

[25] Ruggie (1986), p. 147.

[26] Timothy J. McKeown (1983).

[27] John Gerard Ruggie (1982) p. 202; Polanyi (1960).

[28] Kindleberger (1973); Fred Block (1977), ch. 2.

[29] Block (1977), pp. 4-10.

[30] Ruggie (1982), p. 202-3.

[31] Ruggie (1982), p. 209.

[32] Ruggie (1982), p. 199.

[33] Ruggie (1982), p. 198.

[34] Ruggie (1982), p. 199.

[35] Ruggie (1982), p. 199.

[36] Robert O. Keohane (1982).

[37] Keohane (1982), p.330-1, 335. This is the "functional" property of regimes, from which the "functionalist" category derives its label. Regimes therefore are functional for optimal decision-making.

[38] Keohane (1982), p. 339.

[39] Keohane (1982), p. 340.

[40] Keohane (1982) p. 355. Free-riding refers to states consuming the benefits of a public good, without "paying" one's share to support the provision of such goods. For example, a state may benefit from the international system's liberalization, but attempt to maintain protectionist or

discriminatory policies.

[41] Keohane (1982), p.349. This is the link between functionalist and cognitive approaches to regimes. Regimes are functional requisities of pattern maintenance (stability and order) by providing high quality inputs for decision-making.

[42] Keohane (1984) p. 39.

[43] Keohane (1982), p. 347 fn.

[44] Peter J. Katzenstein (1977).

[45] Keohane (1984), p. 91.

[46] Keohane (1982), p. 347.

[47] Keohane recognizes that "Policy-relevant learning is an organizational as well as a psychological phenomenon" in Keohane and Nye (1989), p. 265.

[48] The work of Waltz, it seems to me, in the extent to which it drives toward the unified rational actor conception of the state, implies a state form similar to that of Public Administration's reading of Weber's presentation of Legal-Rational Authority, and bureaucratic administrative rationality. In Offe's terms, to be discussed below, this is the Bureaucratic Allocative state. It is therefore an apparent anomaly for Waltz to celebrate the long-run virtues of the American state, with its division of powers and emphasis of democracy over efficiency in foreign policy making, when compared with the autonomy and effectiveness of the British Parliamentary system. This is an apparent anomaly in Waltz's overall work which merits further analysis. On this see Michael Joseph Smith (1986), and Kenneth Waltz (1967).

[49] Richard Ashley (1988), p. 247. It should be pointed out that Ashley's work cited here is sharply critical of the discursive tradition in International Relations which supports and sustains such a modernist reading as contained in the realist and pluralist debate on anarchy, sovereignty and interdependence, and the structural equilibrium between them.

[50] Ashley (1988), p. 247.

[51] Claus Offe (1975), p. 129-132.

[52] Offe (1975), p.127.

[53] Offe (1975), p. 127.

[54] Offe (1975), p. 128.

[55] Offe (1975), p. 132.

[56] Offe (1975), p. 138.

[57] Claus Offe (1984).

[58] Cox (1987), p. 228.

[59] Cox (1986) p. 228-9. We will see in the analytical chapters which follow that an important element of U.S. power, not noted by Cox, was the uncertainty and unpredictability which the U.S. Congress gave to leadership centered in the White House and the Treasury.

[60] Cox (1987), p. 256.

[61] Skocpol (1985).

[62] Nordlinger (1981).

[63] Skocpol (1985); Weir and Skocpol (1985), Peter Hall (1986).

[64] Peter Hall (1986), p. 233.

[65] Hall (1986), p. 232. This insight has been central to critiques of corporatism by Marxists, who assert that labour's organizational intimacy with capital and the state inhibit "learning" about the true nature of capitalist political economy, undermine union democracy, and makes militancy less likely. Similarly, theorists of bureaucratic politics have been aware of the importance of institutional and organizational factors. The phrase "where you stand depends on where you sit" demonstrates the sensitivity of preference formation and behaviour to organizational milieu. Indeed, Herbert Simon's development of the concepts of bounded rationality and satisficing was in response to the institutional constraints on formal administrative rationality.

[66] Peter Hall (1986), p. 277.

[67] I do not intend the categories of "weak state" and "strong state" to be theoretical categories. Rather they are simply labels appended to the work of a group of authors for the purposes of labelling and categorization. I recognize that labelling and categorization can have analytical and theoretical implications. I do not intend this, however.

- [68] Albo and Jenson (1989), p. 184-5.
- [69] Albo and Jenson (1989), p. 189.
- [70] Albo and Jenson (1989), p. 189-90.
- [71] Albo and Jenson (1989), p. 191.
- [72] Williams (1987), p. 163-4.
- [73] Clarke-Jones (1987), p. 167.
- [74] Clarke-Jones (1987), p. 222-3.
- [75] Mahon (1985), p. 228.
- [76] Mahon (1985), 224-5.
- [77] Mahon (1985), p. 239.
- [78] Mahon (1985), p. 238.
- [79] Laux and Molot (1988), p. 55.
- [80] Laux and Molot (1988), p.56.
- [81] Laux and Molot (1988), p. 59.
- [82] Laux and Molot (1988), p. 16.
- [83] Laux and Molot (1988), p. 198.
- [84] Resnick (1989), p. 272.
- [85] Gerschenkron (1962). Gordon Laxer, who has also explicitly utilized the Gerschenkronian approach, argues that state-led, late-follower development was ruled out in Canada in the 19th century because of the failure of agrarian-progressive politics to stimulate banking and military policies which would support development of a strong state; see Laxer (1989).
- [86] Atkinson and Coleman (1989). It should be emphasized that the authors limit their analysis to the industrial policy issues area, and hold that policy networks linking state and civil society in other issues areas may differ. Laxer (1989) tends to attribute greater organization and coherence to the capitalist class than do Atkinson and Coleman. One of the issues at stake is the location and form of capitalist cohesion. Institutionalists such as Atkinson and Coleman point to the proliferation and

fractionation of interest group representation in Ottawa. Ornstein (1989) attributes a great deal of coherence through inter-locking boards of directors.

[87] Atkinson and Coleman (1989), chs. 2, 3.

[88] Atkinson and Coleman (1989), p. 76.

[89] Atkinson and Coleman (1989), p. 192.

[90] A premise of both Keohane and Cox, and many of the authors I discuss in this chapter, is that there has in fact been a decline of United States hegemony. Gilpin has argued that this decline threatens systemic order and stability, and, therefore, major war; Cox agrees that order and stability are undermined, but because the order which has prevailed has been an unjust one, this may not be a bad thing. Keohane argues that the decline of hegemony need not entail disorder. If leaders can tie themselves to the masts of regimes, there need not be disorder and war "after hegemony".

However, some authors, most notably Susan Strange and Bruce Russett, have argued that there has been no fundamental hegemonic decline, an argument, that if "true", would undermine a core premise of this dissertation. Strange's argument is that U.S. hegemony cannot have declined because the U.S. remains the number one power militarily, economically, and culturally. She claims that the decline of post-war leadership is simply the result of disorganization of the American state, the perils of the division of powers. It is not my intention to rebut all of her contentions here, for this would require even further detailed argumentation. In such an argument, however, I would make the point that Strange analyzes the Gramscian concept of hegemony less well than does Keohane, even though she claims to follow many of Cox's arguments. Fundamentally, although she argues about structural power, Strange's assessment of U.S. power is quite realist, material, and static. She fails to fully appreciate the importance of perceptions of changing relative power, and the effect this has on the U.S.'s ability to induce deference, consensus, and legitimacy. See: Strange (1987).

CHAPTER THREE: EMBEDDED LIBERALISM AND
THE CANADIAN STATE, 1948-1962

INTRODUCTION

The purpose of the preceding chapter was to establish a conceptual framework from contending approaches to an "outside-in", or international political economy explanation, of intra-state and state-societal relations. The purpose of this and subsequent chapters will be to explore empirically the theoretical propositions raised in that chapter. The rest of this thesis will investigate the manner in which change in the norms, principles, and decision-rules of the international political economy, as they are institutionalized in the regimes of the GATT and the IMF, structured debate on the scope of legitimate state action in Canada, including the instruments and machinery of regulation and policy-making. In this chapter I will conclude that Canada conformed to the hegemonic parameters of embedded liberalism, and that the departments of External Affairs, Finance, and Trade and Commerce, along with the Bank of Canada, established the hegemonic core of the Canadian state in a manner similar to that theorized by Cox in the previous chapter. However, the Canadian state was not deterministically shaped by outside forces, for Canadian officials involved also sought to shape the emerging

structure to Canadian interests, and to mediate the effects of the emerging regime on Canadian economic policy. This mutual shaping and invoking of influence was at least in part because Canadian officials were skeptical that the hegemonic goals intended for embedded liberalism could be fully realized.

A directly empirical cause-and-effect relationship between the international structure and the dependent variable is very difficult to establish. This is so if only because the available data, the documentary record, speaks in only the most cryptic manner of the relationship that this work seeks to understand. In this thesis the demonstration of the relationship is indirect, to the extent to which it can be persuasively argued that Canadian perceptions, processes and institutions reflected the range of values expressed by embedded liberalism. Therefore, the chapter demonstrates that Canadian foreign economic policy adhered to the principles, norms, and decision rules of Embedded Liberalism. The linkage between the establishment of, and change in, the structure of hegemony and embedded liberalism, and the institutionalization and change of the Canadian state's foreign economic policy bureaucracies, is accomplished through regime principles, norms and decision rules. This necessarily static analytical exercise is meant to establish the basis for a more dynamic analysis by showing, in subsequent chapters, how change in the regime

environment prompted expected or predictable change in the perceptions, institutions and processes.

In what follows I will demonstrate that the Canadian state's institutions and processes were shaped, in a reciprocal process, between regime and state officials, to meet expectations which were converging in the world order being constructed under U.S. hegemony in the post-war era. These expectations about the parameters of legitimate state action converged around the concept of embedded liberalism. I will argue that in the post-war transition the departments of External Affairs, Finance, and Trade and Commerce, along with the Bank of Canada, constituted the hegemonic core of the embedded liberal state. The officials who represented Canada in the building of the International Monetary Fund and the International Trade Organization/GATT, served a dual function. On the one hand they transmitted the newly emerging hegemonic world order to Canada. On the other they sought to reserve, adapt, and protect Canada's national interest within this emerging order, either by attempting to shape the new order to meet Canada's needs, or by arranging and managing exemptions from the new regimes' norms, principles, and decision rules.

The three departments, and the eminent and accomplished individuals who were leaders in them [1], were not, I will argue, of a single mind, and very often within departments themselves views differed. However, the main departments

had identifiable specialties. For example, Finance had statutory authority over the tariff, with a corresponding special interest in the effects of imports on revenue, the supply and price of factor inputs, and the overall condition of the domestic economy. Trade and Commerce contained the Trade Commissioner Service, responsible for promoting exports. External Affairs was responsible for a wide range of security and other relations with many countries, and had to balance national interest considerations with good relations with these countries over a wide range of issues. The Bank, while concerned with the often arcane matters of money supply, was also of importance to the extent to which short and long term capital flows, for speculation and investment, affected capital accumulation, economic development, the par value of the dollar, and interest rates.

These specialized concerns, while to some extent less developed in the immediate post-war period than in later years, involved the departments in different interest group relationships. Finance's tariff authority made it especially attuned to manufacturers who felt they needed protection in order to survive and grow into self-sustaining industries. Trade and Commerce's export-orientation made it more sensitive to the interests of primary goods and staples producers who depended on foreign markets. External Affairs did not have the same clear societal interests, which

served, especially in later years, to weaken its power in Ottawa. But DEA also served to mediate relations among the core departments when disagreements arose. The Bank, along with Finance, had close relations with banking and other commercial interests.

It has been difficult to judge from the information available the extent to which state-societal relations played a crucial role in policy-making in the time period covered by this chapter. There are in departmental files documents showing that firms and industries, and much less often trade unions or interest groups, made representations to the government on trade, commercial and monetary policy matters. However, as I argue in this chapter, the impression one gets is that in this time period, the state was quite insulated from state-societal influences in the making of foreign economic policy. In subsequent chapters, especially in the late 1970s, we begin to see this insulation erode. Whether or not this insulation, and its erosion, means a decline in autonomy is a question to be addressed further in the dissertation.

There were formal and informal institutions and processes in which departmental specializations and interests were brought into contact and resolved. There were formal interdepartmental committees such as the Interdepartmental Committee on Commercial Policy and the Interdepartmental Committee on External Trade Policy. More

important, perhaps, especially in the early years, were informal and personal contacts among the small number of officials involved in policy-making in this area. Indeed, it will be one of the main arguments of this thesis that the international regimes of the IMF and the GATT made a major contribution to the insulation of officials from private interests and politicians. The consensus on the authority and legitimacy of embedded liberalism supported the preferred informal mode of dispute resolution among the officials and departments involved. The eminent Canadians whose views and actions will be analyzed in this chapter shared the concerns that the United States be committed to internationalism, that the inter-war beggar-thy-neighbour anarchy be buried in the past, and that Canada become a modern, developed economy within the constraints of a declining British empire and a rising American dominance.

There were differences of emphasis on the structure and development of the Canadian economy in a global context, such as over the pursuit of lower barriers to trade and interdependence for staples export, or the maintenance of the traditional National Policy of tariff protection to enhance the diversification, integration, and self-sufficiency of the national economy [2]. It will be shown that differences of view were often predictably departmental, the result of external structuring by embedded liberalism and domestic interest group connections. However,

a division of labour or responsibility among these central departments, and the close personal relationships among the key personnel, facilitated resolution of such differences.

As we will see in some of the following issues, the analysis is hampered by the exclusion of the security and defence dimension. This exclusion works, to some extent, to the analytical detriment of External Affairs. We shall see below, however, that the realms of security and political economy were seen by External as contradictory, but the department believed that this contradiction could be rhetorically obscured. That is, the language of interdependence, functionalism, and universalism could be used to obscure the primacy devolved upon security and cold war concerns, and the discourse of sovereignty.

In this chapter and the one which follows we find international economic relations becoming more remote from explicitly conceived security concerns in international relations as we get away from the conclusion of the war, and especially once the Soviets decided not to participate in GATT and IMF affairs. Consequently, as we will find in the following chapter, by the 1960s there had been a decline in DEA's overall authority in the economic issue area. However, in the 1970s and 1980s, security and international political economy become much more intimately related, involving issues like energy self-sufficiency and mercantilist, predatory export policies [3]. Indeed, it is in part to this rejoining

of security and economic concerns that we see External Affairs seeking to return to a position of authority in Ottawa through institutional reorganization and the doctrine of central agency.

EMBEDDED LIBERALISM IN MONETARY AND TRADE RELATIONS

The purpose of this section of the chapter is to provide greater analytical detail concerning the specific principles, norms, and decision rules of embedded liberalism in international trade and monetary relations. In doing so I will show how the IMF as the monetary regime, and the ITO and GATT as the trade regime, in their particular ways, internalized the compromises and contradictions of sovereignty and interdependence principles. In the IMF the compromise in norms was between financing and adjustment, and in the GATT it was between the sovereignty norms of reciprocity and safeguards, and the interdependence norms of non-discrimination, liberalization, and development. This discussion will establish the analytical link between the generation of an international regime structure and the generation of an embedded liberal state in Canada. Through the analysis of debates among the key departments and officials on issues before the ITO/GATT and the IMF, we can examine the consensus and divisions among officials and departments in the institutionalization phase of embedded

liberalism.

The International Monetary Fund

The purpose of the reorganization of international monetary relations in the post-World War II period was to combine the virtues and banish the faults of the preceding periods of inter-war anarchy and competitive national autonomy, and of the late nineteenth century gold standard. A liberal and multilateral system of trade relations required a stable mechanism of multilateral credit, exchange, and adjustment. Such a system would need to recognize the growing interdependence of trade and capital flows, while retaining national sovereignty over currency, money supply, and interest rates.

The elements of such a system have been succinctly stated by Brett [4]: (i) that national currencies can be converted in exchange for others; (ii) that the relative value at which they will be exchanged is ensured; (iii) that there be provision for an internationally acceptable monetary unit; (iv) that credit be available; and, (v) that governments' adjustment policies do not undermine systemic credibility.

These provisions established the basic principles of a reformed international monetary system. But at the level of norms there was greater division. Cohen expressed this as a choice between financing of, or adjustment to, a balance of

payments deficit.

Adjustment implies that the authorities are prepared to accept an immediate reallocation of productive resources (and hence of exchanges of real goods, services, and investments) through changes in relative prices, incomes, exchange rates, or some combination thereof. ... Financing, by contrast, implies that the authorities prefer to avoid an immediate reallocation of resources or reduction of the ratio of real absorption to production by running down their international monetary reserves or borrowing from external credit sources, or both. [5]

In a liberal and multilateral setting, states prefer the financing option over adjustment because financing permits states to carry on with their established fiscal and monetary policies, and therefore to support their sovereign independence, whereas the term adjustment implies adaptation to internationally established norms and principles. "Thus it has long been felt [by liberals and multilateralists] that ... governments ought not to enjoy unlimited access to balance-of-payments financing" [6].

Financing and adjustment had respectively greater emphasis in the British and American plans for the new world monetary order. Following the war, in which Britain's

economy suffered great damage, and when agriculture and conversion to peace time production would make great demands, Britain expected to be a debtor and to face a balance of payments deficit for some time. Britain did not want to be hampered by an inability to finance these deficits. Consequently, Lord Keynes's proposal for an International Clearing Union emphasized the greater need for liquidity, access to financing which was broad and flexible, and which minimized international supervision of development and adjustment policies [7].

Modelled on the British banking system, Keynes's proposal was not for a fund, and therefore did not entail membership subscriptions, but worked, rather, on the overdraft principle. The reluctance to emphasize adjustment implied that payments deficits could be caused externally as well as by unwise domestic policy. "This of course reflected the widespread view that a major disturbing element in the post-war world would be a depression [or renewed protectionism] in the United States. It was incumbent upon the United States to avoid such a depression, but other countries must be suitably armed to defend their levels of employment if depression should come" [8].

Finally, Keynes proposed that the Clearing Union - in effect a world central bank - would create a new form of international money which it could, in effect, print, in support of liquidity. In fact it would simply credit

members' accounts, just as central banks credit the accounts of commercial banks. What would make such a system work would be the obligation of all countries to accept (in principle without limit) claims on the Clearing Union in payment for net exports of goods and services to other members to the extent of quotas established according to criteria such as a country's share of world trade [9].

In contrast to Britain and most other states, the United States was expected in the 1940s to be the world's creditor for some time to come. It was this perspective which informed the U.S. proposal for a Stabilization Fund, written mostly by Harry Dexter White. The United States sought responsible reconstruction policies and financial rectitude from others, and sought for itself to avoid having to write blank cheques, and to give away its exports.

In comparison with Keynes's proposal, that of White provided for very little liquidity (about \$5 billion). This was consistent with the emphasis placed by the U.S. on the norm of adjustment, not financing. "With rapid adjustment, countries require relatively low reserves. Balance of payments adjustment would be assured by the requisite changes in domestic prices or, if appropriate, in exchange rates" [10]. In White's early drafts of the Fund he foresaw an active supervisory institution, one which encroached on state sovereignty quite significantly [11]. However, it was

quickly recognized that this would offend Congressional sensibilities (not to mention those of other states), and the more strongly supranational aspects of the Fund were written out of the proposal [12].

The compromise between financing and adjustment having been worked out, provision of rules and decision-making procedures followed. Specific prescriptions and proscriptions were derived from the Fund's right to impose conditions on successive drawings on its resources. That is, as a state drew successive "tranches" of its own and Fund-owned subscriptions of domestic currency, hard currency, and gold, the Fund could exact conditions of adjustment which were tightened within negotiated stabilization and stand-by agreements between the Fund and the member. Decision-making procedures as to financing and conditionality would be arrived at through bargaining, negotiation, administrative decision-making, and, if necessary, voting [13]. In short, the more severe a country's crisis became, the less it could call upon claims of sovereignty against IMF supervision, and remain a member.

Following its creation, the IMF went through a quiet period in the early 1950s during which Europe's need for liquidity outstripped the purposes for which the Fund was established, and its liquidity. Liquidity and supervision in this period were provided unilaterally by the United States through the Marshall Plan, the European Payments Union, the

Bank for International Settlements, and, of course, private banking capital.

Nevertheless, in 1952, the Fund created its "stand-by arrangements" in which a member might open a line of credit for a specific time period. This constituted a reassurance of ongoing Fund support. As will be discussed in more detail below, European currency convertibility in 1958 increased attention to monetary issues and the role of the IMF, and a 50 per cent increase in general quotas was voted on and approved. At the close of the period, in 1962, the Fund made provision through the General Agreements to Borrow to replenish its holdings of convertible currencies of \$6 billion [14].

The International Trade Organization (ITO)
and the General Agreement on Tariffs and Trade (GATT)

In March 1948 more than 50 countries signed the Havana Charter establishing the International Trade Organization (ITO). Whereas the negotiations culminating in the establishment of the IMF were dominated by a small number of experts from London and Washington, with important contributions by some Canadian, French, and other mainly European economists, the discussion of trade issues was more multilateral, and included most European powers, along with

Australia, Argentina, Brazil, India, South Africa, and others.

In the context of the times - the need for employment creation for demobilized soldiers, the reconversion of war time to peace time economies, and reconstruction and development - laissez-faire liberalism did not have the primacy that was evident as a principle underlying the monetary regime. The state was to play a more prominent role. This was more evident in the ITO than in the GATT, and, as we shall see, is what led to the former's demise. To simplify somewhat, the ITO was objectionable to some U.S. interests because it fell outside the bounds of the embedded liberal compromise in legitimating state-sponsored accumulation policies, while the GATT drew the boundary in to more acceptable Keynesian welfare-adaptive measures.

In the ITO Charter signatories committed themselves to cooperation to "take action designed to achieve and maintain full and productive employment and large and steadily growing demand" [15]. The Charter contained rather extensive provisions for the regulation of restrictive business practices and cartels as hindrances to price competition and job creation [16]. Problems of trade in primary products and agriculture were of central concern to Canada and other resource exporters, and the ITO Charter reflected this concern. The Charter legitimized state regulation of the inflow of foreign capital and set conditions on foreign

investment, in the interest of economic development. The Charter similarly sanctioned the exchange of preferences among regional less-developed economies. In signing the Charter countries recognized that unfair labour practices created problems in production for export, and they pledged to cooperate with the International Labour Organization for their progressive elimination [17].

The Charter went some distance beyond simply legitimizing Keynesian practices at home and abroad. That American negotiators were prepared to sign the document and recommend it to Congress (as well as to produce initial drafts of the IMF which were strongly supranational) is testimony to the divisions in Washington at the time. Brett [18] quotes the U.S. Council of the International Chamber of Commerce as saying of the proposed ITO Charter:

it accepts all of the policies of economic nationalism; it jeopardizes the free enterprise system by giving priority to centralized national government planning of foreign trade; it leaves a wide scope to discrimination, accepts the principle of economic insulation and in effect commits all members of the ITO to state planning for full employment.

The administration decided in 1950 that it was futile to submit the Havana Charter to Congress for ratification, and

the ITO was killed. A number of its less objectionable provisions were subsequently introduced into the GATT. Some of the more objectionable provisions found their way into documents of the United Nations Conference on Trade, Aid, and Development (UNCTAD), and of the U.N.'s Economic and Social Council (ECOSOC). But these bodies do not have the authoritativeness and effectiveness of the GATT because they do not have the full support of the rich and powerful countries of the North.

The GATT, on which I will focus here, is not so much an institution or organization as a code of principles, norms, and rules, or a contract, on the basis of which states may regulate their commercial relations and resolve disputes. "From an American point of view," therefore, the demise of the ITO in favour of the GATT, "could have hardly been bettered, because the organization in this form could never be anything more than a mechanism for regulating a system based on a generalized commitment to the reduction of protectionism on a multilateral basis" [19].

The GATT, which was being negotiated at the same time as the ITO, was intended simply as a process of tariff binding and reduction to forestall protectionism while the broader ITO was being established. But with the demise of the ITO, the GATT became the international trade regime, one much more circumscribed in scope, less of a competitor with the IMF.

In a similar manner as above with respect to the IMF, I will discuss the principles, norms, and decision rules of the ITO and the GATT, derived from the work of Zacher and Finlayson. I will then look more closely at the Canadian discussion of the ITO and GATT negotiations, in an effort to discover the extent to which departments responded to or reflected sovereignty or interdependence views of the world. A bias towards sovereignty leads in the direction of a more purposive state, while a tilt toward interdependence hints at a more bureaucratically allocative state structure and process. This will permit the analysis to suggest the degree of harmony and consensus among the key officials in the departments concerned here.

Sovereignty Norms:

1. Reciprocity: Finlayson and Zacher [20] state that "while observers are unanimous in proclaiming the influence of the reciprocity norm, no one quite knows what it means in concrete terms." Nevertheless, they show that it derives from the mercantilist injunction that concessions must be compensated, quite to the contrary of orthodox liberal theory that even uncompensated unilateral reductions in protection have net benefits for the country which lowers barriers. It is argued by Finlayson and Zacher that this norm of reciprocity weakened by the early 1970s in the face

of linear tariff cuts and concessions to the developing countries such as the Generalized System of Preferences (GSPs). The decline of this sovereignty provision is evidence that the growing complexity of the international division of labour, economic interdependence, and the developmental consideration of easing Third World countries' entry into the world economy - the hegemonic dynamic intended in embedded liberalism - was having some of the intended effects.

2. Safeguards: a number of provisions in the GATT codes provide temporary or permanent "loopholes" for states to escape from liberalization, such as in government procurement, customs unions and free trade areas, market disruption, national security, and in the agriculture sector. Safeguards have become stronger from the 1950s to the 1970s [21].

Interdependence Norms:

1. Non-discrimination: this is the central norm of the regime. Article 1 sets out the Most Favoured Nation rule that any favour, grant or concession awarded to one Contracting Party must be extended to all others. Exceptions to the MFN rule were allowed (they were "grandfathered") with respect to British and French empire preferences,

regional integration, for balance-of-payments reasons, and, later, for the GSPs and Voluntary Export Restraints. "At the very least this proliferation of regional, developed-developing country, and intra-LDC trade preferences has greatly lessened the amount of trade covered by the non-discrimination norms" [22].

2. Liberalization: Finlayson and Zacher argue, consistent with the compromise nature of embedded liberalism, that liberalization did not have the same broad appeal as non-discrimination. "Liberalization was regarded as important by many American officials, but it was not a primary goal of most other industrial and developing countries" [23]. In the early years of the regime domestic stabilization and full employment took precedence. But with European convertibility and rapid technological change in the 1950s and 1960s, trade liberalization in the Kennedy Round advanced somewhat, especially in the reduction of tariffs. However, with the oil crisis, stagflation, and North-South conflict, non-tariff barriers gained greater prominence, especially, in the West, among "mature" industries such as textiles, steel, and some manufacturing sectors. The Tokyo Round had mixed success in pulling illiberal practices from outside GATT purview into the GATT framework.

3. Development: As we will see below, Third World

development had little distinctive presence in the ITO and the GATT in the early years. But with decolonization and pressure from UNCTAD, development achieved a higher profile as a norm within GATT, such as the legitimacy accorded to GSPs. It should be added that while the goal of development is included by Zacher and Finlayson as an interdependence norm because of its effect in drawing developing countries into the international division of labour, it also has anti-interdependence consequences. That is, and this becomes more clear as we move to later chapters, developing countries insisted on exemptions from liberalization and non-discrimination requirements as conditions of their acceptance of the GATT.

Finally, I consider decision rules. Here Finlayson and Zacher cite the basic interdependence process of multilateralism, the "willingness of governments to participate in rule-making conferences and to allow multilateral surveillance of, and even a degree of control over, their trade policy" [24]. Balanced against this is what they call the "major interests norm", or the "contrasting belief that participation in certain aspects of decision-making ought to be restricted to those most affected or influential, or both, in respect of the issue being dealt with" [25].

An important aspect of the distinction between the

multilateralism and major interest norms of decision-making is the prescription of transparency, that state decision-making be open, such that it may be scrutinized, attacked, and defended, in GATT panels. States must be held accountable, and be able to account for, the decisions which they take.

Finlayson and Zacher consider each of the multilateralism and major interests norms and their impact over time with respect to rule-making and implementation (the latter of which is composed of monitoring, interpretation, and dispute settlement). Their consideration is quite detailed [26]. But they conclude that "while unilateralism has grown more prominent in the rule-making process in the GATT, the impact of the norm on the various facets of rule implementation has at the same time suffered from some attenuation" and "while rule-making in the regime has become more multilateral in character since the 1960s, the monitoring of behaviour and other elements of rule implementation have been increasingly affected by the competing major interests norms" [27].

In this section of the chapter I have looked in detail at the norms, principles and decision rules of the embedded liberal compromise between sovereignty and interdependence. Sovereignty entails financing in the monetary regime, and reciprocity and safeguards in the trade regime. Interdependence involves adjustment in the monetary regime and liberalization, multilateralism and development in the

trade regime. These categories entail even greater detail in terms of decision-making, such as transparency versus secrecy.

Again, these concepts serve as the analytical and interpretive link between the theory outlined in chapter two, and the analysis which I begin to report below. When we observe the state acting according to the sovereignty discourse, we see evidence of a tendency toward purposive rationality, and when we observe the state acting according to the interdependence discourse, we see evidence of a tendency toward bureaucratic allocation. This analysis will allow conclusions to be drawn from the theory discussed in chapter two.

CANADA AND THE FORMATION OF THE IMF

Many countries submitted commentary, amendments, and opposition to the various drafts of the Keynes and White plans. Among these, only Canada submitted a fully-fledged plan of its own. The overall Canadian attitude was a general admiration for the intellectual, aesthetic, and elegant, aspects of Keynes's proposal for a Clearing Union. But a pragmatic assessment of pre-eminent U.S. power, and of the constraints of U.S. domestic politics, led Canadians in the direction White was taking. One author describes Canada's

synthesis of the two as "off-White" [28]. As Louis Rasminsky himself recalled, the main points of the Canadian plan were to increase Fund liquidity (to eight billion dollars), to provide for supplementary liquidity by permitting the Fund to borrow from members, allow more flexible exchange rate changes than in the American proposals, to object to American claims to a veto over major decisions, leaving only a veto on the price of gold, and to protect claims of sovereignty by allowing virtually immediate withdrawal from the Fund. The Canadian compromise also reflected Canada's objective position as both a debtor and creditor; Canadian economic development in the post-war transition required a surplus on balance of payments with the U.K. in order to pay for the deficit with the U.S. [29].

In the following sections I will look at three key issues of the early years of the functioning of the Fund and relations with Canada: Canada's floating dollar, the transition to European currency convertibility, and the relations with the trade regime, the GATT. In these issues we will see similar concerns revealed in Canadian statements and policies: an intuitive and intellectual attraction to interdependence, financing over adjustment, and to a collective approach. But this was an attraction balanced by Canada's sovereignty-based national interest, and a cautious reluctance not to push American opinion too far, too fast. The purpose of the discussion will be to enhance our

understanding of the institutions and processes of the state. We will find that Canada (indeed, like other countries at the time) saw international monetary relations as a foreign policy issue as well as a strictly monetary issue. Therefore, External Affairs had a legitimate voice, along with the Bank and Finance.

Canadian Par Value

As noted above, a fixed system of par values was central to the successful reorganization of a liberal multilateral system of international economic relations. Countries needed to be reassured of the fungibility of currency - that is, that currency earned in trade with one country could be exchanged into other currencies at a stable rate - in order that prices and competition could be assured.

This was especially important to Canada given the triangular nature of Canadian trade (the need to exchange the surplus Sterling earned in trade with Britain for U.S. dollars to pay for the imports of capital needed in the process of industrialization). Canada was a trade-dependent country, and the openness which stable convertible currencies provided was central to Canadian prosperity. However, as we shall see, these general commitments to interdependence principles were not enough to prevent Canada from defecting from the fixed exchange rate system, on the basis of sovereignty-based reservations.

One of the main problems which the government had with respect to international monetary policy and relations with the IMF during the period up to 1962 was the par value of the Canadian dollar. While Canada subscribed to the general principles of fixed and stable par values, which were a part of the IMF Articles of Agreement, the government found it undesirable to abide by the norm because large and volatile flows of short-term U.S. capital, along with corporate dividends, flowed both ways across the Canada-U.S. border. Canada argued in annual consultations with the IMF in the 1950s that despite the floating Canadian dollar, it rarely strayed outside a reasonably narrow range vis a vis the U.S. dollar.

Nevertheless, the Fund and some members were impatient with Canada's failure to fix the par value of the dollar [30]. Under Article VIII of the Fund Charter, Canada was pressed to justify its breach of the Charter. A debate in 1950 and 1951 on a range of policy options in the face of this contradiction of Canadian commitments and practices reveals the diversity of views in Ottawa at the time. Canada could: return to fixed parity, fix parity to a five per cent range rather than the one per cent range called for by the Fund, attempt to change the provision of the Fund's Articles to make legal what was illegal, or retain the status quo. A memo, prepared by the Department of External Affairs, argued that a return to fixed parity was not

feasible until U.S. investors took a long run view of investment in Canada. Fixing par to a five per cent margin was practicable, the memo said, but that would not get Canada much further ahead with the Fund.

In an exchange of memoranda in October 1950, Escott Reid, the Undersecretary at DEA, and A.F.W. Plumptre, a senior departmental economic official, argued that an attempt to change the Articles of the Fund, to make legal what was illegal, would be the preferred course, rather than to alter Canada's policy to make it conform to regime standards [31]. However, three months later Plumptre changed his view during a meeting with Rasminsky at the Bank of Canada, arguing that the stability of the regime structure would be imperilled by Canada's action [32]. The "whole of the articles of agreement would come up for consideration in all legislatures, including Congress," Plumptre wrote. "The Fund has been under serious criticism in many countries for many reasons in recent years and Rasminsky was reluctant to precipitate a review of its constitution and its actions in legislatures at this time".

It was John Holmes, another senior DEA official, who in a marginal note to one of Plumptre's memos, drew the strongest lesson from the debate on the options.

It seems to me that unless there are most compelling reasons for change, we should not at this early date

begin amending the charters and constitution of the international organizations established after the Second World War. While I recognize the dangers of rigidity, it seems to me essential that Arabs, Latin Americans, and others learn the value of sacrosanctity in a constitution. The important thing is to make the constitutions work. If we once admit that the constitution can be changed when we run into a problem we shall have pulled the plug and find ourselves at the mercy of special pleaders - not to mention crackpot world federationists [33].

In the end, though, no action was taken. The status quo was maintained until 1962 when Canada fixed the dollar at 92 cents against the U.S. dollar. The Fund remained concerned that Canada, such an enthusiastic and influential supporter of the IMF, was flouting one of the key norms. But Canada was able to convince the Fund in annual consultations, as well as the United States, that Canada's position was unique, and therefore exceptionable.

The tensions created between sovereignty and interdependence by Canadian exceptionalism were further revealed by Rasminsky. In February 1961 he told an IMF Board discussion on future activities that he "would personally like to see the Fund develop along the lines which would permit these short-term capital movements to take place

without having disturbing domestic or international consequences," and he expressly stated that this ought not to take place merely through state-to-state "coordination of monetary policies" [34], but through a stronger IMF. There was reason to doubt the legal right of the Fund to use its resources for this purpose, Rasminsky said, but perhaps the Articles ought to be amended to make such power clear. This was a change in the direction of interdependence and supranationality which would have required state approval.

Rasminsky

cautioned that if the Fund did provide special facilities for financing short-term capital movements, this in itself would tend to reduce the possibility of exchange difficulties leading to devaluation, and the consequent reduction in the exchange risk attached to capital movements would be likely to increase their magnitude. He suggested it might therefore be desirable to seek further amendment of the Articles of Agreement to change the provision fixing exchange margins by giving the Fund itself the power to agree with each member what the range of its exchange rate variation should be [35].

Such a change would appear both to increase the ability of

states to negotiate their own par value parameters and not conform to universal standards, while at the same time retaining IMF surveillance.

The issue of Canada's par value offers a useful insight into the difficult consequences of the compromises necessary in embedded liberalism's combination of interdependence and sovereignty. In this case, the sanctity of the IMF "constitution" was held not to bind Canada, in spite of Canada's reputation, and especially DEA's reputation, of promoting liberal internationalism and institution-building [36].

Thus, on the issue of Canada's par value, the constraints of regime injunctions were not considered binding. Two arguments were put forward by Canadian officials. One was that the Canadian balance of payments circumstances were unique and therefore exceptional. Other officials argued that the regime "constitution" could be changed to legalize Canada's infractions. Canada argued that the national interest required the pursuit of a sovereignist policy of allowing the currency to float, while maintaining the rhetoric of interdependence at the systemic level. On the next issue, however, that of European commercial policy discrimination following currency convertibility, Canada promoted its image as a "defender of the faith".

European Currency Convertibility

Article 14 of the Fund permitted countries with non-convertible currencies to discriminate in commercial policies, for balance-of-payments purposes, without strict Fund surveillance. Article 8, covering convertible currency countries, carried much stricter Fund surveillance of discriminatory commercial practices. As the European countries approached convertibility, and Article 8 status (a symbol of their progress toward liberalization), they nevertheless sought to avoid the injunctions against discriminatory commercial policies. They wanted to have convertible currencies as well as freedom to discriminate in commercial policies.

Canada opposed the loosening of strictures under Article 8, but was opposed, at first, by the U.S. and the U.K. "The British and Americans were anxious to bring Article 14 to an end by Fund decision, while Canada feared that in order to do so it would be necessary for the Fund to give its consent under Article 8 to a degree of restriction and discrimination which, for a good many countries, would go beyond what could be justified on balance of payments grounds" [37].

This rather strict view, articulated by DEA, was not, it seems, shared throughout the mandarinat, however. Louis Rasminsky, while arguing against the emerging regional

arrangements in Europe as a justification for discrimination, accepted that restrictions and discrimination may be justified in the transition to convertibility in article 14 and 8. He

felt that as a practical matter the Fund should be prepared to continue approving such restrictions under Article 14 (presumably under the guise of payments reasons) to allow time for the necessary adjustment or adaptation of the protected sectors which had grown up in many countries behind post-war exchange restrictions. This would be a sort of intermediate stage in the transition of countries from Article 14 to Article 8 [38].

However, "probably in consequence of consideration of the problem at the ministerial level" (this is not explained in the memo) both the U.K. and the U.S. shifted their positions. The U.S. came over to Canada's side and argued that the Fund would neither approve discrimination under Article 8 nor acquiesce under Article 14. The British,

who previously argued that it was of vital importance to them to terminate Article 14 because of Sterling must, after convertibility, be protected against discrimination, and that it was essential to get the

Belgians, Dutch. etc. away from Article 14 where they could play tricks and into Article 8 where the Fund could "get at them", have now suddenly reversed the field and want the Fund to make an explicit statement encouraging countries to expect the Fund to authorize discrimination under Article 8 [39].

The change of position in the U.K. was based on the argument that adhering too strictly to Article 8 would alienate the French and put wind in the sails of bilateralist opinion there.

This discussion of European integration is relevant because it shows DEA attempting to sustain the consistent theoretical orthodoxy of the principles and norms of the constitution of monetary relations, while Rasminsky and Wilgress, the technical experts, argued the case for a more pragmatic loosening of the rules during the transition to convertible currencies and European integration. For External, the institutional architecture was more important, representing regime-based requirements for a stable and orderly system. We also see that officials were concerned not to provide justification for European integration to turn inward and protectionist, a concern that also arises in the 1960s.

Inter-regime Relations

As noted above, once the IMF had been established it remained relatively inactive for a number of years in the early and mid 1950s. There remained, nonetheless, concern in some quarters with the overall institutional coherence of the regimes established at Bretton Woods, and of the relationship of the Bretton Woods institutions with the parallel trade regime, the General Agreement on Tariffs and Trade. There were those who were concerned that the demise of the International Trade Organization, which had been intended as an equal, Keynesian, twin to the IMF, had unbalanced the system in favour of the United States, which had a veto in the IMF, while the GATT was, at the time, seen as a much weaker, and more liberal, substitute for the ITO.

In the autumn of 1954 the GATT Secretary General, Eric Wyndham-White, wrote to U.N. Secretary General Dag Hammarskjöld suggesting a more intimate relationship between the IMF and the GATT within the U.N., referred to as a more collective approach [40]. Hammarskjöld, in turn, wrote to Lester Pearson, the Secretary of State for External Affairs, urging Canada to consider carefully the suggestion. "I should indeed be perfectly happy with any arrangement likely to lead to cooperation and coordinated action instead of time-consuming overlapping and competition," Hammarskjöld

wrote on 30 December, 1954. He continued, "and it seems to me of the utmost importance that Governments like yours, which have always been actively concerned with avoidance of duplication and confusion of competence among international organizations, should examine the problem carefully" [41].

The lead in opposing the initiative was taken by Dana Wilgress, who was central in Trade and Commerce. Wilgress wrote to Pearson on 30 November, 1954, and to David Johnson, Canada's Ambassador to the U.N., on 9 December, 1954. Johnson's memo to Pearson on 21 December, 1954, very much reflects the views of Wilgress. The memo argued that bringing GATT close to the IMF within the Economic and Social Council (ECOSOC) would have the effect of subordinating GATT further to the IMF. Second, such a move would have a deleterious effect on the independence of GATT staff. Thirdly, the memo obliquely inferred that nesting GATT closer to the IMF could politicize its operations. "Commercial policy matters need careful consideration by an organization (consisting of countries which have accepted the obligations involved) specifically devoted to this purpose and not distracted by other considerations which might not be particularly relevant" [42].

At about the same time as Wyndham-White was approaching Hammarskjöld, the U.K. sponsored a movement to integrate trade and monetary considerations by bringing GATT and the

IMF into closer contact. Early provisions envisioned what was in effect a new international body headed by a parliament-like council. The "essential features of the proposal were the provision of an efficient forum at a high official level for discussion of major economic policy" [43]. However, as it became apparent that most GATT Contracting Parties were unwilling to consider introducing U.S. power from the Fund into the GATT via the weighted vote, the U.K. scaled down its proposal to one of ad hoc coordination between the Fund and the GATT.

The United States was strongly opposed to the U.K. initiative. As the U.K. reported, "they are still not convinced that any further machinery, formal or informal, of any such type, is required in the international field" and that "it would be most unwise to launch such a proposal at the present time and before Congress has passed legislation concerning the Organization for Trade Cooperation. U.S. authorities considered that Congress would insist on considering this proposal in their examination of the OTC Bill, and that difficulties would be caused" [44].

In Ottawa there was a fairly broad range of views expressed. Perhaps the strongest expression of sympathy for the U.K. initiative came from K.W. Taylor, Deputy Minister of Finance, to H.G. Curran, the British High

Commissioner in Ottawa, in a memo on 20 April, 1955.

We appreciate the importance which your government attaches to developing a proper organizational relationship between the GATT and the Fund as part of the progress in implementing the Collective Approach. We continue to share the view that closer consultation and more effective cooperation between the Fund in the field of payments and the GATT in the field of trade, are essential if these organizations are to play their full and proper roles in achieving a broad system of freer trade and payments [45].

Plumptre said in a memo to Norman Robertson, Canada's High Commissioner in London, on 15 April, 1955, "my feeling is that these proposals are, in some of their aspects, premature, particularly having regard to present American attitudes. On the other hand, none of us wants to pour cold water on any project related to convertibility" [46]. Rasminsky saw any permanent representation of the GATT at the Fund as being limited to a "watching brief" and as a "continuing reminder to the Fund of the GATT interest in much of its activity, and as a means of working out informal and flexible procedures for cooperation between the two

institutions" [47].

Least enthusiastic was A.E. Ritchie, a senior DEA official. He wrote to Wilgress in Geneva in November, 1956, explaining his views.

Although we are not entirely convinced of the validity of certain of Cochrane's [a critical U.S. official] arguments [he told GATT chief Wyndham-White that it would be impossible for a GATT representative to participate in the preparation of papers for balance of payments consultations in the Fund, or even to be present for such discussions] neither do we feel sure enough of the value of establishing an office [of the GATT in Washington] at this time to warrant pressing the matter in the face of obvious reluctance on the part of the management of the two organizations [48].

The general issue of GATT-Fund relations was resolved in a narrow and technical fashion, rather than in the rather broader, more institutional or political fashion suggested in the U.K. proposals. GATT Article 25:9 was amended in such a way that it could not be used to avoid Fund sanctions against the use of quantitative restrictions. As Rasminsky wrote to Jake

Warren, Canada's Deputy Permanent Representative at the Fund, "I know it can be said that such a note is unnecessary, but our people who have been most concerned in GATT to not agree, and say that some countries have been using the present 25:9(a) to wriggle out of any GATT discussion of the trade aspect of multiple currency practices" [49].

In considering the issue of inter-regime relations we can see some sympathy in Ottawa, amongst all departments, about the elegance of a balance between the GATT and the IMF which was lost when the ITO was defeated. But there was a stronger concern not to expose the status quo to U.S. opposition, in particular if greater equality of the GATT with the IMF implied a threat to politicize the IMF, and challenge the U.S. veto there. The issue was resolved technically and pragmatically, with, as we have just seen, deference to the concern and expertise of other members of the "community" most directly concerned.

Summary

In the early years of the reorganized international monetary order Canada subscribed to the principles which underlay that system, and the consensus among senior policy makers at the time was quite broad, especially in the long term commitment to the regime. However, this consensus was weak in a number of ways. First, commitment to principles

which were expected to bind nations into a long term order should not have been allowed to spoil the prospects by upsetting the short- to medium-term transition. Second, Canada's national interest, the reconstruction and conversion into a modern industrial economy with full employment, meant that Canada opposed over-emphasis of the norm of adjustment. The floating par value for the dollar was indicative of a desire to finance, rather than adjust to, volatile flows of hot money, or short-term capital. Third, pragmatism won out over grand designs of a collective approach which aimed for a more comprehensive and balanced regime institutional architecture.

That being said, however, it remains true that behind the exigencies of pragmatic, practical, and technical concerns, such as those imposed by American politics, there was a broader vision linked to suspicion about the use of U.S. power. The view of Rasminsky is central on this score, given his principal role in the making of the IMF. As early as 1943 Rasminsky expressed reservations about the emergence of great-power politics in discussions about the post-war regime environment. In a letter to Dr. John Williams of the Federal Reserve Bank of New York Rasminsky said he was "not entirely satisfied with the place being accorded to the smaller of the United Nations even in those aspects of wartime organization in which they are playing an important part" and that in monetary talks the "key currency doctrine

[which would focus post-war reforms on support for key currencies such as Sterling and the U.S. dollar] looks (if I may say this without being offensive) suspiciously like the manifestation of the Great Power doctrine" [50].

In a Summary of an IMF Board's discussion in 1961 of future activities of the Fund Rasminsky said that he foresaw that "the direction of this evolution was towards the development of an institution which resembled a central bank more closely than at the present time - an institution which exercised some influence on the amount of international reserves" and that the speed with which this came about depended particularly on the "attitudes of the countries with reserve currencies which in a sense were now performing the function of a central bank" [51].

In this case, then, I argue that Canada exemplified embedded liberalism. Canada evinced a broad consensus on the principles of the new monetary order. That order embedded a normative structure which benefitted Canada, by providing for currency convertibility, etc., but it was also an order to which Canada found difficulties in adherence. By instinct, interest, and intellectual commitment, a strong interdependence-oriented regime in the IMF was attractive to the key mandarins in the core of the Canadian state. But as I have shown above, on a series of key questions, pragmatism, and arguments about Canadian exceptionalism, made it difficult to adhere to such a preference for a strong

regime.

Within the state we saw inter-departmental differences, mostly between DEA and the Bank of Canada. External tended to prefer options which enhanced the balance, elegance and integrity of the international institutional architecture, but pragmatic and technical concerns for U.S. political opinion and monetary requirements at the Bank of Canada, tended to win out over External's preferences for the institutional framework.

CANADA, THE ITO, and the GATT

This section of the chapter will investigate the interdepartmental considerations of the emerging trade regimes of the International Trade Organization and the General Agreement on Tariffs and Trade. As noted earlier, the ITO was intended to be a twin to the IMF, one with equal stature and authority to regulate trade relations. But its Havana Charter included provision for more than narrowly-defined trade questions. It also included commitments on employment creation and demand management, cartels and restrictive business practices, and investment, as well as tariff and commercial policy questions. The U.S. Congress found the ITO Charter too interventionist and nationalist for its tastes, and refused to ratify it. The General

Agreement, which was simply a tariff related exercise, became, with the addition of some elements of the doomed ITO Charter, the rules of the game for international trade.

This section of the chapter will examine how some of the key issues in the ITO and GATT process were received in Ottawa. One of the key insights of the information from this period is the importance of East-West geopolitical concerns, related to the possible accession of the Soviet Union and the future Peoples' Democracies of Eastern Europe. External Affairs plays the central role here, arguing the pre-eminence of geopolitical values over economic considerations, while attempting to obscure this prioritization in language more appropriate to Canada's image as a liberal, internationalist, institution-builder.

Another important aspect of the argument is the reluctance of those in Ottawa, especially in Trade and Commerce, to endorse preferences and exceptions for Third World countries in pursuit of the interdependence norm of development. It is also shown in this section of the chapter that a number of issues in the ITO threatened to politicize Canada-U.S. relations, but that Finance took the lead in opposing such proposed Charter provisions. We shall see, therefore, that even as early as the discussions of the ITO, there was recognizable departmental specialization, and the development of distinctive "world views", within the general

consensus on embedded liberalism.

The ITO and the Cold War

In a document titled "International Trade Organization - Membership, Relations with Non-members, and Sanctions" [52] DEA (personal authorship is not indicated) explored the contradictions of internationalism in the proposed new trade organization, and the cold war. In considering wording to express the criteria of membership, phrases such as "in general, eligibility for membership should be determined on functional principles" or, "in general, it is desirable that membership in the ITO should be as wide as possible," or "the political question of approval or disapproval of any country's regime or policies in fields other than international commerce would seem to be irrelevant to the question of membership in the ITO" should remain uppermost. In addition, however, there was need for reconsideration of the geopolitical and strategic question of encouraging membership on the part of countries on the margin of the Soviet sphere of influence. This was a "matter of considerable political as well as economic importance," the document stated, "as their membership would encourage trade between these countries and the West, and would to some extent lessen the rigidity of the blocs into which the world is likely to be divided."

The DEA document makes it clear that the geopolitical

interest of bringing Eastern Europe into the ITO required that interdependence principles and the exigencies of liberal economics not be so rigidly enforced as to inhibit inclusion of Eastern European states.

The provisions of the Charter regarding state trading or bulk purchase and barter deals between members and non-members will be relevant here. ... It would seem desirable that any clauses discouraging such deals should not be too severe. Assuming that the USSR stays out, relative laxity in these clauses would also tend to minimize any justifiable excuse for a Soviet complaint that the ITO represented ganging up of the capitalist nations to blockade the USSR. On the other hand laxity in these clauses will offer some temptation to a country such as the Argentine to stay out of the ITO and seek to engage in bilateral deals with member nations, to the detriment of Canadian exports. From a political and strategic point of view it is probable that the considerations in the earlier part of this paragraph outweigh the latter, so far as the future of the countries on the margin of the Soviet zone is concerned we are playing for keeps; whereas the time element is probably somewhat less serious in the case of

South American countries such as the
Argentina. [53]

This quote from the document underlines the extent to which universalism and functionalism could be squared with geopolitical concerns, and Canada's trading interests could be, temporarily at least, subordinated to alliance foreign policy. Nevertheless, the memo went on to urge that such structural priorities be downplayed and obscured in internationalist language. First, it is pointed out that politicization could, indeed, derail the ITO from strictly economic and practical effects.

Calling attention to political potentialities might tend to induce membership for political purposes from countries which would not otherwise join, and which might be tempted to use such membership as a political instrument without carrying out the economic obligation in the spirit of the Charter. It might offer some temptation to manoeuvre in ITO elections, in appointments to the Secretariat, and in the ITO Charter and policies, based on political considerations rather than on the functional economic principles which are essential if the ITO is to achieve its main purpose. [54]

Second, the DEA document argued that U.S. approaches had been misplaced in this regard.

Much of the verbiage of the U.S. draft, for example, has a strong flavour of the philosophy of private capitalism and laissez-faire. This flavour is quite unnecessary to the actual obligations suggested [in the Charter]. And this sort of language unnecessarily begs controversial questions and thus tends to alienate potential supporters in various parts of the world. The actual commitments envisaged can be derived equally logically from the progressive internationalist principle suggested in Paragraph IV. The U.S. officials presumably had Congress very much in mind when drafting the proposed Charter; but it will probably be good tactics to modify the wording in such a way as to obtain wider acceptance by public and political parties elsewhere both of the concept of the ITO, and the actual commitments desired. [55]

In this discussion we can clearly see the key role played by the Department of External Affairs: relating and interpreting the evolving rules of international economic relations in the context of the exigencies of the emerging Cold War. DEA was integrated into both economic and security

regimes, and therefore provided a broader horizon of analysis of the international environment. This was both a source of weakness in the potential for vagueness, equivocation, and lack of precision on economic questions, but also a source of strength in its comprehensiveness. We have seen, however, that for DEA geopolitical concerns appeared uppermost, and that the department was prepared to sacrifice universalism of membership in the trade organization.

ITO, Interdependence, and the Third World

The above section looked at evolving trade concerns in the ITO in context of East/West relations. In this section we alter the context to look at the evolving North/South axis. This perspective was important as it tested the strength of the compromise nature of embedded liberalism, and the ability of the compromise to accommodate development and defection from hegemonic liberalism as decolonization grew through the 1950s. This was important to Canada because, as a staples and raw materials producer that wished to increase its level of industrialization, Canada shared some of the goals of many Southern developing countries; at the same time, since many of these countries were also potential competitors of Canada, Canada would not want to see too many preferences and exemptions granted to them.

A key Canadian concern was expanding trade and investment to develop Canadian manufactured exports. Expansion of the world economy was necessary to this end. Dana Wilgress, who was perhaps Canada's top commercial policy negotiator, was tartly critical of American drafts of the ITO Charter on this issue. In a report to the Secretary of State for External Affairs, and the Interdepartmental Committee on External Trade Policy (ICETP) on ITO preparatory meetings in London, he noted that "it was pointed out with a certain degree of justification [especially by Australia] that the United States draft was entirely negative." By this was meant that it "contained a series of don'ts about what nations must not do in the way of maintaining barriers to trade, but little of a positive character about what nations should do to expand world trade" [56].

However, it was also clear from the Wilgress report that he was not prepared to make the ITO a development agency. He noted the growing solidarity of the Latin American bloc on development issues, and linked this to the influence of "socialistic" ideas, and to the restriction of the Marshall Plan to European reconstruction.

Mexico proposed the establishment within the ITO of an Economic Development Committee, as a counterweight to the Tariff Committee. Wilgress made it clear that development was incompatible with interdependence, widening of world markets, and a more complex international division of

labour. He argued that adherence of the Third World would weaken the regime's pursuit of liberalization.

This proposal caused a good deal of concern to the Canadian delegation [Wilgress wrote], who saw in it a means of converting the International Trade Organization into an instrument for promoting economic development rather than for expanding international trade. Eventually the proposals both for an Economic Development Committee and for a Tariff Committee were dropped as part of the final compromise which made possible agreement on a Charter. [57]

Similar skepticism about the norm of development in the Third World were expressed by Wynne Plumptre (below). However, such a view was apparently not shared unanimously among the mandarinates of the time. For example, Robert Bryce of Finance urged in 1941 that horizons be extended beyond simply the North Atlantic, Anglo-American world. "If sustained and large scale foreign investment is to take place, there must be some great new economy created. Two areas seem to hold some promise as fields for such development - South America and China [58]. Indeed, Bryce is reported to have told a conference as early as 1939 that the value of interdependence is one of the lessons of the inter-war period and of the onset of World War II, that "no nation

can live unto itself alone," so "we must have substantial loans from the richer states to the poorer states"

These conclusions follow from the fact [Bryce continued] that the world and its inhabitants are woefully short of capital and unable to provide it from current income. ... Billions upon billions of dollars must be invested in Asia, Polynesia, South America and Africa, if the great masses of these lands are to be made productive and eventually brought up to minimum standards of health and decency, let alone comfort. [59]

It is not indicated, however, how such a view, which may have been shared by Wilgress, fit into Bryce's views about the role of the ITO in achieving such goals. But, despite the recognition of the importance of opening the world economy to the emerging Third World, we see in the next section that there was reluctance to make it easy, by providing exemptions from the norms and decision rules of the trade regime.

New Members and Most Favoured Nation Status

The U.S. proposed that the ITO Charter provide for immediate MFN treatment to be accorded to new signatories to the Charter by current members, conditional only upon an

undertaking to negotiate reciprocal reductions, on request. DEA interpreted the U.S. position as being one which sought to extend generosity as bait to encourage wide membership, at low cost to the great powers (referred to as the "nuclear countries").

However, DEA argued that this would inhibit the export opportunities of nuclear countries not prepared to compete in a world without preferences, referring here to the U.K. and the issue of empire preferences. It is not certain, the DEA document argued,

that those nuclear countries which are faced with a serious need to increase exports will feel prepared for this generous gesture which means giving up a possible lever for expanding their own foreign markets during the next two or three years. It is for this consideration whether Canadian authorities will wish to give new members a free ride. [60]

Developing countries were seeking exemption from some of the rules of international trade being formulated by the major trading powers. The United States was, it appears, prepared to listen to these requests favourably in the interests of the universal appeal of the new organization. However, DEA for one (and on this particular issue there is no data on the other departments) was unprepared to be generous.

Sovereignty Principles, Full Employment,
Export Subsidies and Economic Development

Among the issues which the ITO Charter took up was supervision of the vigour with which countries pursued full employment policies. On this issue we find the Department of Finance leading in opposition to this principle. The reasoning is mainly that it would politicize Canada's relations with the United States.

Australia pursued a more aggressive line on this question than did Canada. Australia's draft of Charter language [61] called for arraigning before a supranational panel those countries which failed to keep down their unemployment levels, and who adopted import quotas. Canada would go no further than an hortatory convention, even though Norman Robertson spoke against those who would separate full employment from trade provisions by preparing separate conventions. Such a separation would, he said, weaken the commitment to full employment policies. "A chapter on full employment would give the Charter more appeal," he is reported to have told a briefing of Minister Brooke Claxton in London [62]. "He was also afraid that, if two separate documents were prepared, some countries, Australia for example, might ratify the full employment convention without ratifying the Charter," while the U.S. Congress could refuse to ratify a convention on employment.

It is a matter of some irony, then, that Canada's opposition to a supranational supervisory body was given practical testing against the U.S. The U.S. was proposing the establishment of a permanent body to receive complaints from governments, and to initiate enquiries into restrictive practices and cartels which inhibited economic growth, investment and employment.

Canadian reaction to the U.S. proposal, led by Finance, was to criticize it for being too "automatic and juridical," that is, too heavily dependent upon the permanent Secretariat to initiate investigations, name panels, and to report on and supervise compliance with the findings of what were, in effect, political panels (that is, investigative and ruling bodies named by and from member countries). In short, Canada, led by Finance, objected to the supranationality and interdependence principles in the U.S. proposal. It was argued that the United Nations Economic and Social Council (ECOSOC) should, with the demise of the ITO, organize such restrictive practices investigations. Implied in this position is much less automatic and autonomous authority. It was quite clear as the matter was discussed in ad hoc committee meetings that the structure and international exposure of the Canadian economy made such automatic and independent surveillance contrary to the national interest.

A feature of the Canadian economy is the large proportion of the production in certain fields which is in the hands of Canadian subsidiaries of outside companies. The policies of such Canadian subsidiaries are generally determined by the principal companies outside Canada. Would there be any point in Canada seeking support for such a provision in any draft convention to the effect that such control of subsidiary undertakings should not be used to restrict their operations in a manner which would have harmful effects on the trade of the country in which they are located? [63]

The answer to this question was a firm "no", and was given by Finance economist J.J. Deutsch, the lead player on the issue. Deutsch argued to the effect that clear lines of demarcation were to remain between the public and private spheres. It was the principal concern of the Finance department and, presumably, the government, that the draft plan,

would mean that a number of matters that had been sources of dispute between private concerns in the United States and private concerns in Canada would thereby become matters for governmental attention and governmental dispute, and it would not be

desirable to have a situation in which the government would be faced with the alternative of having to endorse the policies of certain producers or exporters as being in accordance with government policy, or having to allow a formal investigation to take place. [64]

In short then, it was feared by Finance that supranational surveillance of full employment, cartel, and investment policy, as proposed in the Havana Charter, would, in contravening the sovereignty principle and the "major power" reservation on multilateral decision-making, encroach on private property rights in a liberal political economy, and thereby unduly politicize Canada's continental economic relations with the U.S. This, in itself, defenders could argue, would hinder investment and employment creation in Canada.

A number of years later, in 1960, Norway sponsored a proposal, with the support of Denmark, Sweden and France, to re-introduce into the GATT provisions against restrictive business practices which had been discussed in the context of the ITO. This time the Americans opposed such measures, having the majority behind them in supporting a provision for only informal bilateral consultation. In this case Canada backed the U.S.-led majority view, but passively. "Some time ago the U.S.A. expressed to us their strong

interest in having [the] majority view prevail and asked for our support in lobbying in this sense in advance of the session," DEA cabled to Geneva. "We have told [the] embassy that our position would be to give our support to the majority view at the session, but not to lobby in advance" [65].

The question of sovereignty, national interest, and the power of the ITO was also raised for Canada in the issue of export subsidies and import restrictions. As noted above, the U.S. negotiators favoured strong supranational organizations to supervise trade and monetary relations. A memorandum prepared for Canada's External Trade Advisory Committee (ETAC) [66] noted that the U.S. was proposing ITO prior approval of states undertaking exceptional practices permitted by the Charter, such as export subsidies and import restrictions, whereas the U.K., which expected to avail itself of such loopholes, opposed prior approval. The memo stated that "Canadian interest in this matter is not entirely clear." The argument went that due to Canada's triangular trade and payments structure - a surplus with the U.K. and a deficit with the U.S. - Canada might find it necessary to discriminate in favour of the U.K. and against the U.S. "This consideration would lead us to oppose the requirement of prior approval by the ITO," the document said. The other side of the argument was that if freedom to discriminate was increased by so limiting the ITO's prior

approval power, "we may find ourselves discriminated against by our customers since there is a tendency to lump Canada together with the United States as a hard currency country." In this case the working group recommended against giving the ITO prior approval. This too was a reinforcement of the sovereignty principle.

With respect to prior approval of export subsidies under Article 30 on agricultural products, however, the working group recommended to the ETAC that the ITO be strengthened, against the U.S. which sought to retain its sovereignty in subsidizing farm exports. In this case the working group explained that, if the ITO was to have prior approval of export subsidies of other commodities (against Canada's opposition, one presumes), consistency of principle required that agricultural produce not be singled out for exception. Furthermore, it was argued, absence of ITO capability here would make it difficult to carry out Charter provisions on commodity agreements. On the other hand it was noted that Canada itself might wish to use export subsidies in support of domestic price support programs in the event of a decline in world prices. "On balance," the recommendation concluded, "it appears to be desirable to continue our attempt to require prior approval of the Organization to the imposition of export subsidies." This was so because U.S. financial capacity to fund such subsidies was much larger than Canada's, so ITO prior approval could act as a

constraint upon greater U.S. power, "and because, in the event that we have to give way on this Article, it could be used as a bargaining point in securing desirable concessions on other Articles" [67].

So, whereas Canada in the first instance supported sovereignty principles in the national interest, national interest in the second urged the group in the direction of interdependence principles and norms. As we have seen with a number of issues so far, the compromise of embedded liberalism, of sovereignty and interdependence principles, was not in practice such a compromise at all, but rather provided states with a rationale for policies which served the national interest; interdependence when supranational regulation was required to restrain others, but sovereignty when unilateral action was seen to be required.

ITO and International Capital Flows

Article 12 of the Havana Charter set out a number of general provisions relating to investment and capital flows as a means of promoting reconstruction, development, and employment. It also, however, gave states the right to control inflows of capital and to set conditions for foreign investors. "One obligation that would have been assumed by member countries was to enter into consultations and negotiations with other members, at their request, in order

to conclude, if mutually acceptable, bilateral or multilateral agreements covering foreign investment" [68].

The provision caught the attention of Graham Towers, Governor of the Bank of Canada. Towers wrote to Pearson at DEA [69] complaining strenuously that the article would require Canada to respond to a request from the U.S. (or from anyone else) to negotiate restrictions and discrimination on capital inflows and outflows, thereby undermining the country's exchange control program. His opposition was based on the argument that under conditions then in place Canada could not, and should not, give political guarantees about the free movement of investment capital. "I do not believe the giving of political guarantees of this character is, in fact, conducive to the movement of capital for productive investment," he told Pearson. "Once the field of such guarantees has been delimited, there is a very heavy handicap towards the obtaining of capital on any other terms than those which come within the scope of the political guarantee." Towers told Pearson that Canada had refused all such requests for guarantees on free withdrawal of capital which had come from U.S. investors, but they had invested anyway - because, at least in part, of the general confidence which comes from not making any such political guarantees.

Summary

In considering the ITO the key departments involved played quite clearly-defined roles: DEA was substantively concerned with both economic and security questions, and related the two; Finance seemed to be concerned chiefly with the domestic economic and political impact of the proposed ITO Charter; Wilgress, of Trade and Commerce, was concerned about the relative substantive merits of various options, but especially keeping the ITO as free as possible of normative and political measures. The Bank of Canada was involved when trade and monetary affairs collided. The main concern was to balance systemic need for a new set of rules, against which infringements of liberalism were acceptable to the United States, and the needs of Canada both for market access abroad, and protection against competitors. There was, therefore, despite the small and informal network of key players in Ottawa and abroad, even in the early days of the ITO, a relatively clear inter-departmental division of labour.

A more general issue is the manner in which developing regime norms regulated state managers' preferences with respect to capital flows and accumulation. There was in some of the issues we have looked at above recognition of Canada's need for investment for development, and Canada supported some of the ITO's more nationalist and

interventionist measures, such as full employment. However, Canada's state managers, especially, as we saw in Finance, were sensitive to the limits of U.S. opinion, and saw market and firm-oriented forms of capital flows and investment as the preferred means of accumulation.

GATT

With the demise of the ITO, the GATT took on much greater importance. While the ITO was intended to be a full and equal partner to the IMF as an organization, the GATT, in keeping with American preferences for more liberalism and less interventionism in trade questions, developed as not much more than a contract. When it succeeded the ITO the GATT was only meant to be a short-term tariff binding and reducing exercise. Yet it became the key set of rules for world trade. The ITO was intended to address a great many issues, such as trade and employment creation, cartels and business policy, as well as tariff and other commercial policy instruments. The GATT was essentially, at the time, a tariff-related process.

Since the United States could make or break any multilateral effort to reorganize international trade rules, and since the U.S. Congress in the early 1950s was in a protectionist mood [70], bending with the prevailing winds blowing in Washington was uppermost in many peoples' minds.

Hence, as Kock [71] summarizes the comparison between the ITO and the GATT documents, "on the whole, it might be said that those parts of the Havana Charter which in American opinion had been most debatable or which would have required approval by Congress, were not included in the General Agreement."

This caution seemed to have been widely shared in Ottawa. In a joint meeting of the Canadian Interdepartmental Committee on External Trade Policy with U.S. officials in June 1951, Norman Robertson urged prudence through consolidation, rather than initiation of new measures, in the GATT. In the circumstances, he said, "there was a real risk that a move for reaffirmation of economic objectives might, instead, lead to repudiation," in both the U.S. and the U.K. The first task, he argued, was to engage a new round of multilateral GATT bargaining to prevent European integration from taking place outside of GATT's purview [72].

Multilateral Decision-making and Linear Tariff-Cutting

Canadian caution led to opposition to moves to strengthen GATT institutionally in the mid-1950s. For example, in July 1955 Eric Wyndham-White, GATT's Secretary-General, proposed in a letter to the Department of External Affairs that "each country [in the upcoming Dillon Round] should present a consolidated list of offers, instead of communicating its

offers individually to each participating country", and that the "Tariff Negotiating Committee should have somewhat broader functions than in previous negotiations" [73]. The U.S. strongly opposed this initiative, insisting on bilateral offers and balancing - a position which, as we saw in the discussion above, is consistent with sovereignty principles and the major interests norm.

Dana Wilgress reported to Ottawa from Washington that nothing should be done which could give encouragement to a protectionist Congress, which meant backing U.S. objections to the GATT-proposed changes. Canada must, Wilgress said, bolster its reputation as a low-tariff country, while at the same time avoiding the appearance of being too close to the Americans, so as not to "give the impression that we have the same procedural difficulties which they have" [74]. Therefore, he continued, "everything must be done to dispel any impression that the [GATT] tariff negotiating committee, if one is set up as proposed, will be a supranational body with powers to dictate or pass on national tariff policies." The implication here seems to be that, notwithstanding the intrinsic virtue of linear tariff cuts, Canada ought to support sovereignty principles to avoid upsetting Congressional opinion. More than this, however, Canada long opposed the move to multilateral, linear tariff cutting, and indeed successfully was a free rider on others' linear cuts in the Kennedy Round because it was, in fact, a

comparatively high tariff country [75].

Wyndham-White's efforts to upgrade the status of GATT, and strengthen interdependence principles, persisted. In 1957 he suggested the establishment of the status of associate membership in GATT, and the placing of the intersessional committee on a permanent basis. These proposals all were part of a package designed to achieve universality by making GATT more accessible to state trading and developing countries.

The Canadian response, this time from Wynne Plumptre of DEA, embraced three concerns: pragmatic caution in the face of GATT instability, Canada's image as a crusading internationalist, and the short-sightedness of the concerns of developing nations. Consistent with earlier evidence, we note in the following lengthy quotation an overall sense that East-West strategic issues were a greater threat than North-South ones to regime stability. He opposes extending associate membership to developing countries within the GATT.

Anyone who has been through a session of ECOSOC or of the General Assembly and who has listened to the attacks on the GATT, coming on the one hand from under-developed countries and on the other from the Iron Curtain countries, cannot fail to be somewhat worried about the situation. One's worries are

increased by the fact that apart from the Canadian delegation virtually no delegation will stand up and defend the GATT. Under these circumstances there is always some danger that another organization may be set up on a broader basis than the GATT which would further undermine its influence and authority. On the other hand we do need to be careful lest in trying to adapt GATT to make it more defensible in the face of criticisms from outside we in fact further weaken its organization and operations and I am rather apprehensive that this is exactly what Wyndham-White's proposals might lead to. The obligations assumed by under-developed countries nowadays in the GATT are certainly not very onerous and I would think that an associate membership to look after those who do not feel that they can undertake even these obligations might have quite serious repercussions. There might be a large number of associates and presumably they would be even less responsible than the existing under-developed members. One can imagine an almost endless prolongation of debates and discussions. This would weaken GATT rather than strengthen it. I would be more concerned to try to do something to bridge the gap with the Iron Curtain bloc. In political terms I suspect that this is more serious than the absence in the GATT of a hoard of

under-developed countries. Whether associate membership is the right answer I am not quite sure. Possibly what we need is not a special category of membership but a more astute set of provisions dealing with state trading countries. [76]

This lengthy quote touches on many of the points of concern raised here: the intersection of the East-West and North-South axes of central concern to DEA; the desire for universalism of the GATT, but not at the expense of its effectiveness; and the image of Canada as an institution-builder, but one with concrete interests to defend. It is quite consistent that this useful summary should be offered by a DEA official with the background and experience which was substantially economic. It provides a useful insight into the comprehensive political, economic, and strategic concerns at whose nexus DEA was in the post-World War II era. This comprehensive scope of policy authority was, as we shall see in the following chapters, slowly eroded by the growth of the more complex international division of labour. It was the desire to restore the comprehensive authority of the early post-war years to which reorganization of the 1970s and 1980s was aimed.

GATT AND THE THIRD WORLD

In spite of the occasional observations by individuals such as Bryce on the necessity of Third World development for overall global economic growth (reported elsewhere in this chapter), it seems clear that tactical and self-interested factors were foremost in considerations bearing on this issue in the GATT.

As Kock states, "the year 1957 might be regarded as a turning point on the long road the less-developed countries had to go to obtain greater understanding in the GATT for their special problems" [77]. At this time a committee of four eminent economists, named for its chairman Gottfried Haberler, reported to the GATT arguing that the trade policies of the developed nations were in large measure the source of the development problems being faced by the third world. The report formed the basis of the GATT's Common Programme for Action, and the establishment of GATT's so-called Committee III, devoted to a focus on the concerns of underdevelopment. A meeting in Tokyo in 1959 was to assess the progress.

It was in this context that O.G. Stoner of DEA's Economic Division wrote to Assistant Under-Secretary A.E. Ritchie, reporting that U.S. officials were disturbed, that the third world was disturbed, about GATT Committee III deliberations in Geneva, and about the EEC's unforthcoming attitude on the

issue. Stoner urged Ritchie that if the Tokyo meeting was to be as bleak as prospects seemed, "it might be worthwhile thinking of whether some new initiative should be explored immediately after the conference with a view to giving some meaning to the various statements that are likely to be made by developed countries about their concern for underdeveloped countries" [78]. The note carries on, though, to underline that self-interest and east-west factors were present in justifying this desire for equity. "The assault against dollar discrimination, in which the United States and ourselves will be in the fore, could also lead Asians to challenge openly in the GATT, discrimination against their imports. This could lead to a great deal of recrimination and provide substantial comfort to the general aims of Soviet and Eastern bloc economic policies" [79].

In a memo [80] assessing the result of the Tokyo meeting, it is remarked (author not stated) that LDCs increasingly regarded the GATT as a useful instrument for advancing their interests. Nevertheless, the note goes on to observe, most of the industrialized countries have merely "paid lip service to the need to extend special treatment to exports from underdeveloped countries," and on specific issues "they have shown little willingness to give ground."

Indeed, one of these specific issues was that of commodity agreements, a measure included in the ITO, but pursued unwillingly in GATT by the West [81]. It is evident

that those in Canada most centrally concerned were similarly unprepared to permit exceptions for the LDCs in the interest of development. A memo from Wilgress in London illustrates this.

Wilgress noted that the U.S. was opposed to extending provision for commodity agreements over from the ITO into the GATT, while the GATT secretariat was in favour, and the U.K. was encouraging close association of the GATT with ECOSOC on the question. Wilgress himself argued that such agreements, "as attempts to control prices ... are contrary to the philosophy of free competition," and that the GATT would command more respect if it refrained from branching into side paths such as commodity agreements and restrictive business practices. However, it is clear that, once again, it was the tactical consideration of the U.S. Congress which ruled. "A defeat for them [the U.S.] on this issue might prejudice seriously the chances of securing congressional approval for the new organizational agreement" Nevertheless, Wilgress did recognize the necessity of securing LDC support for the GATT. "We should encourage them to resort to tariff action rather than the imposition of quantitative restriction to achieve this end," he said. "If we are to retain their membership in GATT we must, however, make exceptions in their favour when drafting new trade rules" [82].

A similar position was reaffirmed in a document entitled

"Memorandum of Instruction for the Canadian Representatives on GATT Committee III: the expansion of international trade - Underdeveloped Countries". As for commodity agreements the memo stated that the "Canadian representatives should be prepared to support the United States and other countries in any efforts to make it clear that it is not appropriate for Committee III to become involved in any detailed examination of commodity problems and commodity agreements" [83]. It was similarly urged that discussion of aid and development assistance not take place in Committee III, and that regional arrangements similar to the EEC in the south ought to conform to GATT's Article 24.

Once again, however, despite pragmatic and tactical action which was relatively unforthcoming, there was recognition that LDCs needed appropriate policies from the North if they were to develop. "It should be recognized," the document reads, "that even if ideal policies were applied, the government of any underdeveloped country which wishes to radically improve the income of its inhabitants, is more likely to experience balance-of-payments difficulties and to find its economic development hampered if other countries apply measures directed at the principal exports of under-developed countries" [84].

It is clear from other documentation, however, that this policy was comparatively unfavourable toward interdependence principles and development, when put beside other views in

Ottawa at the time. This is revealed in a comparison of draft and revised versions of instructions to the Committee III delegation in Geneva, the first dated 21 September, 1959, the second two days later [85]. The first document stated that Canada placed few barriers to imports from LDCs, so attention would be mostly focussed on the Europeans and the U.S. The document goes on to encourage the delegation to take a forthcoming and cooperative tone.

"Canada attaches importance to the work of Committee III and the solution to the problems with which it is concerned," it reads, and urged that "the Canadian delegation should endeavour to play a constructive role." It continued that the delegation "should oppose any tendency to interpret the committee's terms of reference in too narrow a way and thus inhibit the committee's efforts to identify the real obstacles to trade."

However, the document from which the above quotation was taken is marked, "Not Sent: Being revised by [name unintelligible], T&C". The revised document, dated 23 September, is more reticent. "Our role in Committee III should not be a leading one. It should be that of sympathy, and in general constructive support in identifying the problems of less developed countries in their export trade to more highly developed countries." Common cause might be made with the LDCs on protectionism in raw minerals, especially lead and zinc, on which the U.S. was forestalling

Canadian exports. But commodity agreements should be considered, at most, on a case-by-case basis, and "if at all, after long and patient study".

It seems clear that Trade and Commerce officials revised the instructions to make them less forthcoming on issues of concern to LDCs. We have seen this similar scenario already in a number of cases discussed above. Trade and Commerce officials, because their chief mission was to promote Canadian exports, in general supported liberalization and interdependence which would open markets abroad. On this basis they supported the spread of free trade to the third world and developing countries' adherence to the GATT rules. But they opposed measures which gave developing countries exemptions from the rules of the game in order to encourage them to join the GATT. This was because in many areas, in particular in areas where commodity agreements might be established, this could give some developing countries a competitive edge over Canada in some of Canada's established markets abroad.

The harder line was apparent in a memorandum from DEA's Economic division, written by J.R. Roy, to Ritchie, on 7 June, 1961 [86]. Roy accepted the principle of encouraging exports from LDCs, and repeated that the U.S., the U.K., and Europe, but not Canada, were guilty of not giving sufficient support to this aspiration. However, Roy went on to argue that "it is difficult to see what economic justification

there would be for encouraging production" of light manufactured and engineering products in LDCs. They had no comparative advantage in such products, he said, and, furthermore, any markets they might have for such products would be in other LDCs. "Thus, barriers to sales of these products in the industrialized countries seem hardly relevant to increasing production in the less-developed countries." More generally, Roy argued that, in the "absence of a programme [agreed among the U.S., the GATT Secretariat, and the main LDCs] it seems preferable to adopt a passive attitude, but if some programme seems imperative, Canadian recommendations may become appropriate".

One of the main conclusions to be drawn from this section of the chapter is the influence of Wilgress and the Trade and Commerce ministry in areas bearing upon commercial policy and its effects on economic development in Canada and in the third world. We saw a clear example of T&C officials revising DEA documents transmitting advice to negotiators abroad in a way which was much less oriented toward LDC participation in the international division of labour. This example, and Wilgress's general comments on the appropriately narrow, technical, and pragmatic orientation of the GATT, underlines the department's apparent greater commitment, compared with DEA, to liberalization, which inclusion of the LDCs would water down. Trade and Commerce appeared to be less willing to grant exemptions to

developing countries in order to make their transition into a liberalizing world economy an easier one. The reason was to prevent third world countries from becoming competitors of Canada in trade with other northern economies, and in other developing countries, and to prevent development considerations from creating loopholes and exceptions in the drive to open world, especially developed country, markets, to which Canada hoped to export both staples and processed products. We also seem to see the beginnings of a development which becomes more apparent later. In particular, the issue of instructions to the Committee III delegation in Geneva shows that, while DEA was involved in initial policy development, it did not have final authority, and came to serve merely as a telegram drop, or "mail room", for the other main economic departments.

CONSIDERATIONS ON GENERAL PROSPECTS FOR WORLD TRADE

Bureaucrats and politicians often remark that there is little time to think or debate comprehensively, from the perspective of arm's length, about such lofty questions as principles and norms. This section of the chapter reports an exchange of letters and memos between Dana Wilgress and Wynne Plumptre, and Eric Wyndham-White (Secretary-General of GATT), as well as an inter-departmental meeting in which considerations about the evolving international

prospects are not tied directly to pressing policy decisions. We can see in the following discussions characteristic departmental perspectives being revealed: Trade and Commerce for liberalization and interdependence, Finance for caution in the progress toward interdependence because of concerns for the health and adjustment of the Canadian economy, and DEA for longer-term pessimism and systemic stability.

Dana Wilgress was an influential international trade official. He chaired a number of multilateral bodies in ITO and GATT negotiations, and he was crucial in Canadian deliberations. He knew Wyndham-White, the GATT Secretary-General, well, and carried on a personal correspondence with him. In one such letter, dated 24 May, 1951, Wilgress set out a rather clear statement of the parameters of the embedded liberal compromise in Canada.

Wilgress began by reminding Wyndham-White that it would be a mistake to try to put too many items from the recently rebuffed ITO Charter into the GATT, such as those on full employment, commodity agreements, and subsidies. "These provisions have a particular appeal to the countries of Western Europe who have been most most influenced by the ideas of the late Lord Keynes," Wilgress wrote. "What we have to realize is that these ideas have not secured anywhere near the same foothold on the North American continent, and in fact are anathema to the liberal school of

thought often designated by the term 'free enterprise'." No one was endorsing socialism, Wilgress said, but the clash in reality was between economic liberalism and managed economies [87].

In steering a middle ground between laissez-faire and managed economies, Wilgress stated, the GATT's proper role was as a neutral code for the regulation of trade in which negative don'ts were to be preferred to the positive do's, the latter of which might be derailed into ECOSOC.

It is when we endeavour to go beyond the administration of that code of conduct to give effect to more positive provisions that we will land in trouble, simply because then we run up against the irreconcilable differences between opposing schools of economic thought. ... It is too much to expect the United States, representing as it does one-half of the world's economy, to swallow this series of shalls as the price of having other countries swallow the don'ts. [88]

It is worthwhile noting that Wilgress, in preferring "don'ts" to "do's" in this sense seemed to have revised his view documented earlier, when he criticized the United States for seeking only don'ts" in the ITO Charter.

In an interesting aside Wilgress comments to Wynne

Plumptre, in transmitting the above letter to Ottawa, from Geneva, that "I know that your own predilections are distinctly in favour of the European school." He continues

What I want to do is keep ideologies out of the GATT and to make it an increasingly useful international instrument. I am sure that you yourself will be the first to agree that in our approach to commercial policy questions, our general position should be closer to that of the United States than of the European countries. This, I think, is more important than the adherence to any particular theory concerning international trade. [89]

Unfortunately, Plumptre's reply is not known. It is nonetheless true to say, I think, that Wilgress's comments can be said to have reflected the prevailing approach of Ottawa's trade policy community over the next twenty years. It reflected the intention that the liberal side of the embedded liberal compromise was the hegemonic one, and that this hegemonic liberalism was furthermore couched in ideologically neutral and pragmatic, practical language. However, as can be seen in the discussion below, there was some skepticism and pessimism from Finance and DEA officials on the prospects for such a vision being implemented in the manner intended.

The 1950s were years of cautious consolidation for the GATT during which a number of rounds of tariff cutting were successfully held. The prospect of Britain's imminent application to join the European Communities in the early 1960s offered members of the Interdepartmental Committee on External Trade Policy the occasion to give some systematic attention to general prospects for the world economy, and offers a fairly rare opportunity to compare directly departmental perspectives.

Jake Warren of Trade and Commerce generally argued for more of the same, the incremental and progressive lowering of trade barriers. Robert Bryce at Finance was skeptical that the momentum of the 1950s could be sustained. Minutes of a meeting report that Bryce said that "he did not think that Canadian business or the Canadian political situation could permit the adoption of such a plan as Mr. Warren suggested, at least until the employment situation was better" [104]. The trend, he said, seemed indeed to be in the other direction. Even more skeptical, or pessimistic, were Plumptre and Robertson of DEA. Plumptre unintentionally articulated a "hegemonic stability" consideration in arguing that "history seemed to indicate that any particular trade initiative resulted from a lead being taken by a major country. Perhaps Europe would take the lead this time." Robertson said "it was very difficult to see how, as time went on, general multilateral bodies like the GATT would be

successful in gradually lowering barriers to trade, especially in a period of economic difficulty. Perhaps something could be done, however, in smaller bodies like the OECD" [91].

The interdepartmental debate reflected the expected range of departmental views: the Trade and Commerce view of pragmatic and incremental progress in the lowering of trade barriers, the Finance concern with the impact on the domestic macro-economic situation, and the DEA view focussing on international political considerations and leadership. Interviews with persons who were relatively junior at the time turn up differing explanations for the varied opinions among these senior mandarins. Some argue that departmental role had little influence, that these senior officials were more independent thinkers, especially in informal discussions. Others argue, however, that there were characteristic departmental positions, even among senior personnel. It is nonetheless true that the range of views reflect the compromise of embedded liberalism, of sovereignty and interdependence, and the norms, principles, and decision rules which are entailed. What is also suggested, however, is the fact that regime values structured change in the elite's thinking. This is suggested by the fact that Canadian negotiators were prepared to accept the provisions of the ITO as rules for the regulation of international trade. ITO provisions, as we

have seen, were more interventionist and state-centric, more "continental", as Wilgress put it above, than those of the GATT. But prevailing opinion in the U.S. ruled out ITO norms and principles, and out of recognition of U.S. power, the necessity of continued U.S. leadership, and the pragmatics of retaining the existing institutional architecture, Canada's state managers came to accept the parameters of action deemed legitimate by the regimes. The conclusion of the chapter will look more closely at how the perspectives, positions, processes, and institutions in the Canadian state of this period were generated by the regime-based environment.

CONCLUSION

The purpose of this chapter has been to examine the extent to which the international environment structured the perceptions of Canadian policy-makers with respect to foreign economic policy, and also structured the institutions and processes of policy-making. A direct empirical cause-and-effect relationship between the international system and the dependent variables of perceptions and institutions, is difficult to establish. Nevertheless, a relationship can be inferred by the extent to which we can say that Canadian perceptions, institutions,

and processes, reflected the range of embedded liberal values. Indeed, it may be more correct to argue that the parameters of embedded liberalism were probed, revealed, and interpreted by Canadian (and other states') officials in the ongoing process of rebuilding the new world economic order under American hegemony in the early years of the post-war period. What I have detailed in this chapter is that, over a number of issues related to trade and monetary relations, Canadian officials sought to contribute to the the shaping of the embedded liberal compromise, conform to the compromise when interest or exigencies demanded, and to defect when it was prudent to do so. These actions were debated from within developing departmental perspectives about the needs and opportunities of the emerging world order, and Canada's place in it. In this respect, therefore, Canada was a quintessential embedded liberal state.

What the evidence presented here suggests is that embedded liberalism in the Canadian state consisted of greater support for interdependence principles in the monetary sphere, while there were more sovereignty-based reservations on the trade side. What is less readily discovered is the relative political significance of monetary and trade norms within the state, in comparison with the arguably greater comparative significance of the monetary regime within the global regime structure. What is

clearer, however, is that in the intervening time between the fall of the ITO and the rise of the GATT, the types of sovereignty-based claims which the state could make had changed, in a direction similar to that which was followed by the regimes themselves.

I have done a very crude count of the departmental policies and statements reported in this chapter, and the results, while hardly conclusive, seem to be consistent with the expectations. External Affairs was the most active department, with twelve identifiable positions, three on monetary questions and nine in trade. Seven of the twelve backed sovereignty principles, five interdependence, and the sovereignty stance was primary in both issue areas. Finance showed up with four clearly identifiable positions, three-to-one in favour of sovereignty over interdependence. Trade and Commerce had seven clearly identifiable positions, five-to-one favouring sovereignty over interdependence - surprising because of T&C's presumed support for an open world trading system. The Bank of Canada showed five clear positions, four in the monetary area, with four indicating interdependence and one indicative of a concern for sovereignty.

As I have demonstrated in this chapter, Canada's actions in the monetary regime were oriented around strengthening interdependence principles, while defending sovereignty stubbornly in cases which threatened the national interest

directly. As Rasminsky stated [92] the Canadian draft of the proposed IMF Articles of Agreement made amendments to the Keynes and White plans to permit more exchange rate flexibility, to provide for immediate withdrawal from the Fund, and objected to U.S. claims for a wide-ranging veto, each of which bolstered sovereignty against early American proposals for a strongly supervisory Fund under American control. Canadian proposals which enhanced the role of the Fund were relatively modest: to increase liquidity to eight billion dollars, and to permit the Fund to increase its liquidity by borrowing from members. The more modest the Fund's liquidity, the greater the expectation that states would adjust rather than finance, thus we might interpret the modesty of Canada's addition to liquidity as acceptance of the general norm of adjustment, compared with Keynes's Clearing Union, in which financing of deficits was nearly unlimited. This interdependence interpretation of the Fund's role was reinforced by Rasminsky's comments in the early 1960s about a stronger central bank type role for the Fund.

Further indication of Canadian acceptance of interdependence principles was seen with respect to European currency convertibility, inter-regime relations, and with respect to political guarantees of capital repatriation. As I showed above, on the issue of European currency convertibility the Canadian position was to oppose relaxation of sanctions in the transition to convertibility,

a position which reinforced the sanctity of the "constitutional" status of interdependence, and the requirement of others to adjust, not to finance, when currency convertibility had been achieved.

There were various proposals to give greater coherence and coordination to the regime environment by fostering closer relations between trade and monetary regimes, none of which Canadians considered particularly desirable or practicable. It may be possible to argue that this skepticism about the so-called collective approach detracts from Canadian support for interdependence principles. It may be more correct to argue, however, that as with a number of other questions, the Canadian position was moved as much by a desire to protect interdependence principles from U.S. veto power, by importing them into the trade regime via the IMF. What is more, the rather technical result of the various initiatives served to constrain states' resort to protection.

Finally, I noted the strong opposition registered by Graham Towers to Canada's apparent willingness to accept, in signing the Havana Charter, the negotiation of political guarantees on repatriation of foreign capital. Once again, this apparent support for sovereignty principles in fact has the effect (if not the intention) of protecting interdependence from (presumably) American capitalists whose demands for political assurances would have the effect of

politicizing international economic relations.

On these issues, then, we see a balance in support of interdependence as the pre-eminent principle guiding overall international monetary relations. On the main issue on which these principles contradicted Canadian interests, Canada argued that it was an exceptional case, and therefore exempt from the exigencies applied by the constitution of interdependence. That is, until 1962, Canada refused to establish a par value for the Canadian dollar. Even so, as I noted, Louis Rasminsky, one of the main Canadian authorities on the topic, continued to argue in the early 1960s for a strengthening of Fund authority to negotiate new par values for states, a reinforcement of interdependence principles.

With respect to trade issues the balance is more clearly on the side of the assertion of sovereignty principles. The theory of embedded liberalism is one of political economy, and is not directly concerned with geopolitics and security. However, we saw above in the discussion of the ITO and the cold war that geopolitics and political economy were seen by DEA as contradictory, but that this contradiction could be obscured through the adoption of internationalist language. That is, in this case the language of interdependence (functionalism and universalism) could be used to obscure the primacy which was devolved upon security issues, with the deduction that this presumes a primacy to "high politics", or the general principles of sovereignty.

On a number of other more strictly trade issues, Canada unambiguously supported norms and principles of sovereignty. While Canada was prepared to sign the ITO Charter, itself indicative of support for interdependence, we saw on many occasions, especially from Wilgress, argumentation against exceptions and discrimination in the Third World in support of the interdependence norm of development.

We saw evidence of this aversion to the development norm on three specific issues: Canada opposed easy and cheap extension of MFN to new members, most of whom would be post-colonial states, and primacy was given to reciprocity. Opposition was noted to creation of the new status of associate membership in the GATT. We saw evidence that conscious bureaucratic consideration was given to adoption of a less enthusiastic role in GATT's Committee III, especially with respect to commodity agreements. And we noted that Canada opposed adoption of multilateral, linear tariff-cutting rules and the attendant strengthening of the GATT secretariat, indicating support for the reciprocity norm, and reservations about multilateral decision-making.

On two issues, ITO surveillance of full employment policies and the operations of cartels and of restrictive business practices, Canada was firmly opposed. It was recognized that such actions would restrict Canadian sovereignty by giving an international organization authority over areas in which the federal government wished

to legislate, as well as give the international organization authority in a politicized issue area in Canada-U.S. relations.

The evidence presented here showed only one issue on which Canada explicitly sought multilateral decision-rules, and that was to require prior ITO approval of agricultural export subsidies, a move designed to restrain U.S. power, in the Canadian national interest. On other goods and commodities, Canada decided against prior ITO approval of export subsidies and import restrictions, again a Canadian major interest reservation.

Finally, the issue of weighted voting is a strong indicator of acceptance of one set of principles or another. As we saw above Canada sought to limit U.S. power within the IMF by limiting the scope of its veto exercised through its weighted vote. In the ITO, on the other hand, Canada sought weighted voting, and, if this was found to be impossible, a system of permanent seats on the Executive Board was to be pursued, one of which Canada would seek to occupy [93]. Here the reasoning would presumably be based on the functionalist argument which guided many other Canadian foreign policies, that interest and responsibility in process and institution-building goes to those most concerned, and Canada was a bigger player in international trade than in international monetary relations, where the Canadian dollar was not very influential. This was Canadian adherence to the major powers

reservation, a decision-rule of the sovereignty discourse.

On consideration of the evidence then, I conclude that Canada was, overall, an embedded liberal state. Stronger support for interdependence principles was shown in the monetary regime, while sovereignty principles predominated in the trade area. But the content of the extent, or parameters of action legitimized within "sovereignty", had been narrowed between the time of the ITO and the evolution of the GATT.

The finding of the primacy of sovereignty principles in trade needs to be put into context somewhat. While Canada did make many sovereignty-based reservations, these were only done following upon the primary need for some multilateral type regime which restored order and stability to international trade relations, while Canada adjusted to the collapse of empire-based trading patterns and the growing influence of bilateral Canada-U.S. economic integration. This liberal hegemonic structure having been supplied, free riders could claim reservations to the extent which interests required, without, however, threatening the overall health and legitimacy of the system. As we saw, at the forefront of Canadian concerns in many of these questions was the fragility of the house of cards constructed to restore order after World War II, and the need to keep the often hostile U.S. Congress at bay.

In the same way that the regimes embedded mutual

concessions of the sovereignty and interdependence discourses of political economy, within each state there were similar concessions and compromises concerning adherence to global interdependence and reservations based on appeals to sovereign independence. We saw something of this sort of inter-departmental division of labour in this chapter. It will become more apparent in subsequent chapters. In this chapter the community of powerful officials was like-minded, and preferred to resolve its differences informally, rather than through formal institutional means [94].

Later, we will see that departments and bureaus institutionalized the representation of sovereignty and interdependence norms, principles, and rules. Bureaucratic politics and political leadership determined the outcome of compromises on particular issues. Reorganization was a response to patterns of winners and losers in such compromises. But this raises the question of the state, which I discuss next.

The Embedded Liberal State

When I say that Canada was, on the evidence, an embedded liberal state, the shorthand term of convenience in expression implies to some extent a unified rational actor. This glosses over an issue central to the thesis: was there some systematic pattern in the adherence to embedded liberal

principles with the state? Or, how and to what extent did the embedded liberal regime structure "create" some distinctive pattern of state institutions and processes ?

The picture which Dewitt and Kirton [95] paint of policy-making in this period labelled harmonious segmentation, is consistent with the more abstract picture painted by Offe of the bureaucratic allocative state discussed in the previous chapter: broad political leadership and consensus on the scope and limits of state action, functional division of labour within the state in policy responsibilities, and informal consensus formation or conflict management. External Affairs was responsible for security and defence policy formation, and relations with the United Nations. While no longer involved in domestic economic policy concerns, External retained an interest in foreign economic and commercial policy, especially in coordination. Trade and Commerce was strong on commercial policy and retained its interest in micro-economic supply questions in taking over from the wartime department of Reconstruction and Supply. Finance was mainly concerned with domestic macroeconomic demand management, maintained its leading role in commercial policy on the basis of its statutory responsibility for the tariff, and worked closely with the Bank of Canada on monetary questions. The Bank's bureaucratic authority was strengthened by Rasminsky's role in the formation of the

International Monetary Fund.

How did the regime environment contribute to "generating" this form of the state? The global regime environment institutionalized under American power and leadership shaped the hegemonic core of the state. On security questions, NATO established the principles, norms, and rules supporting the primacy of foreign policy in the cold war environment. External Affairs, the Prime Minister's Office, and the Department of Defence, were integrated into this network. The economic side was similarly formed by the IMF and the GATT. These regimes established the international "cultural" and informational networks and background which nurtured the so-called "community" of experts in Canada and in other countries, in the Finance and Trade ministries. External Affairs was central to this security and foreign economic policy system, as it was included in both, and it was further linked with the summit of the state, the Prime Minister's Office [96].

Individuals made this system, while it in turn "made" them. The international connections created by the regimes enhanced the prestige and authority of the individuals involved. In turn these persons' involvement in international regimes enhanced their authority in domestic and bureaucratic politics. At the same time, the on-going action in and through these regimes by these individuals created and maintained the regimes. This reflexivity, or

structuration, recreates the inter-state system and gives it stability [97].

In other words, the hegemonic core of reorganized international capitalism - the GATT, the IMF, and the World Bank - similarly structured the hegemonic core of the post-war embedded liberal state. State-regime relations formed the central locus for continuing organized consultations and bargaining among state and international elites. These relations established a political space relatively insulated from partisan political activity, and from the more routine aspects of government. This is an important dimension of the "demand" for international regimes discussed by Keohane, but arises from more clearly from the "critical" political economy framework discussed by Robert Cox and Claus Offe. The insulation offered by the international regime network served to obscure the specifically capitalist nature and class basis of the embedded liberal state.

In the post-war reconstruction of international capitalism the institutionalization of the new rules of international economic relations gave authority and hegemony to the core of the state in DEA, Finance, Trade and Commerce, and the Bank of Canada. It established the broad consensus, or common sense, which united the community, and provided the standards for adjudication of inevitable conflicts of jurisdiction or opinion. The

embedded liberal compromise was not a once-and-for-all deal, once struck and self-perpetuating. The compromise of Smith abroad, Keynes at home, did not contain any self-perpetuating organic harmony. Rather, there were basic contradictions in the confrontation of sovereignty and interdependence, confrontations which required ongoing negotiation and management. The contradictions could only be exacerbated because of the intended Smithean hegemony within the compromise, that the international political economy was intended to evolve in the direction of liberalism and interdependence. The negotiation of the embedded liberal compromise on a case-by-case basis took place not only within the regimes themselves, but also, as we have seen in this chapter, within the states themselves. This chapter has examined some of the Canadian state's debates on the effects and implementation of the systemic order.

On the basis of the evidence presented here I would put less emphasis on harmony and consensus than do Dewitt and Kirton, and, indeed, as does the general literature on Canadian foreign policy making. There is no doubt that such a consensus was strong with respect to the principles of embedded liberalism, the need for a compromise of interdependence and sovereignty, and for the necessity of maintaining American participation by not irritating the more isolationist Congress. However, there was rather greater divergence within the foreign economic policy community on

the norms which were to flow from this compromise. Although the Canadian state was small, there is yet some evidence that its institutionalization and organization, a division whose basis emerges from embedded liberalism, structured divergence and debate. Finance was principally responsible for the sovereignist, Keynesian side of the compromise - the tariff, imports, and economic development, and overall macro-economic management. Trade and Commerce was responsible for the Smithean, interdependence side - responsible for finding markets abroad and lowering trade barriers, such as tariffs. I showed above that Trade and Commerce adopted five sovereignist policy stances to one interdependence position among the issues raised here. This apparent anomaly is accounted for by the serious reservations of Wilgress and other Trade and Commerce officials on release of developing countries from the norm of reciprocity. There were two main reasons for the reluctance to excuse developing countries from reciprocity: the interdependence value of the universality of the rules of the game, the "constitutionality" of the regime; and, second, the protection of Canadian exports from competition. While this remains an anomaly, the anomaly highlights the ambivalence of "development" as an interdependence norm. This is so because "development" was seen to require loopholes in the rules of the game, and illiberal practices on the part of developing countries. With respect to the Bank of Canada,

not surprisingly, it strongly favoured interdependence over sovereignty. This was to be expected, if only because of Canada's strong need for currency convertibility and for development capital.

External Affairs was responsible for balancing sovereignty and interdependence, and this was seen in the department's espousal of five interdependence positions and seven sovereignist ones. As well, as we have seen, External was responsible for balancing economic with security concerns.

There was, therefore, overall interdepartmental consensus with respect to the authority, legitimacy, and virtue of the embedded liberal compromise. Departments, despite the small size and early days of the organization and institutionalization of the compromise, specialized in elements of the compromise. Disagreements arose from this externally-structured specialization. These disagreements were managed and resolved mainly through informal, personal consultation, as well as through more formal inter-departmental committees. There was little evidence of appeal to political or Prime Ministerial authority, nor to explicit societally-based intervention in resolving deadlocks [98]. Rather, I conclude that the "community" of officials responsible for international economic (and political) relations was well-insulated from domestic political and economic interests, and resolved their differences within

the discursive parameters of embedded liberalism, and that this was, in significant part, their articulation of the national interest, in which Canada's role in the world was defined.

REFERENCES

- [1] Among the key personnel to be introduced in this chapter are: A.F.W. Plumptre, Escott Reid, John Holmes, Lester Pearson, Norman Robertson and others at External Affairs; Robert Bryce, John Deutsch and others at Finance; Dana Wilgress and others at Trade and Commerce; and Louis Rasminsky and Graham Towers at the Bank of Canada. There is a fair amount of inter-departmental transferring of key personnel in the post-war years. For an interesting discussion of these, and other so-called "Ottawa men", see Granatstein (1982).
- [2] On accounts of the Canadian economy, see, *inter alia*, Clark-Jones (1987), Hart (1985), Laux and Molot (1988).
- [3] On the linkage between international political economy and security, see especially the work of Gilpin (1981) and Grieco (1990).
- [4] Brett (1985), p. 65-6.
- [5] Cohen (1982), p. 460.
- [6] Cohen (1982), p. 461.
- [7] Cohen (1982), p. 466; Cooper (1980), p. 30.
- [8] Cooper (1980), p. 31.
- [9] Cooper (1980), p.32.
- [10] Cooper (1980), p. 33.
- [11] Block (1977), p. 43.
- [12] Block (1977), p. 43.
- [13] Cohen (1982), p. 465. On important questions the United States had a veto within the Fund, the result of its much greater economic power and the consequent size of its subscription. We will see below that Canada was uneasy about this American pre-eminence.
- [14] Cooper (1980), p. 45.
- [15] Stone (1984), p. 51.
- [16] Stone (1984), p. 51.
- [17] Stone (1984), ch. 5.

- [18] Brett (1985), p. 76.
- [19] Brett (1985), p. 76.
- [20] Finlayson and Zacher (1983), p. 287.
- [21] Finlayson and Zacher (1983), p. 287.
- [22] Finlayson and Zacher (1983), p. 281.
- [23] Finlayson and Zacher (1983), p. 282.
- [24] Finlayson and Zacher (1983), p. 298.
- [25] Finlayson and Zacher (1983), p. 298.
- [26] Finlayson and Zacher (1983), p. 296-305.
- [27] Finlayson and Zacher (1983), p. 301-2.
- [28] Van Dormael (1977), p. 87-8.
- [29] Plumptre (1977), p. 28.
- [30] Plumptre (1977), p. 39-40.
- [31] A.F.W. Plumptre to Escott Reid, 18 October, 1950, PAC RG 25, vol. 30, 6000-H-40, pt. 2.
- [32] A.F.W. Plumptre to Escott Reid, 4 January, 1951, PAC RG 25, vol. 30, 6000-H-40, pt. 2.
- [33] Holmes marginal note on Plumptre to Reid, 4 January, 1951, PAC RG 25, vol. 30, 6000-H-40, pt. 2. It is likely that Holmes's latter jibe about "crackpot world federationists" was directed at his superior, Reid, who, while widely respected for his energy and creative intellect, had a reputation for being among the more "idealist" of the senior mandarins. That this is so makes it all the more surprising that Reid would propose altering the regime norms to buttress sovereignty principles and to protect Canada's national interest, at the possible cost of undermining international institutions. However, this apparent contradiction may underline the strength of structurally, or institution-based world views.
- [34] Louis Rasminsky cited in Minutes of IMF Board meeting, February 1961, Bank of Canada file 5A-200, Box 77.
- [35] Louis Rasminsky, cited in Minutes of IMF Board meeting,

February 1961, Bank of Canada file, 5A-200, Box 77.

[36] On Canada's and DEA's "internationalist" reputation see Lyon and Tomlin (1979), and Dewitt and Kirton (1983), pp. 48-57.

[37] SSEA to High Commissioner, London, July 15, 1955, PAC RG 25, vol. 18, 6000-H-40, pt. 6.

[38] Louis Rasminsky to SSEA, 15 July, 1955, PAC RG 25, vol. 18, 6000-H-40, pt. 6.

[39] Louis Rasminsky to High Commissioner, London, PAC RG 25, vol 18, 6000-H-40, pt. 6.

[40] Letter from Eric Wyndham-White to Dag Hammarskjold, 4 October, 1954, contained in PAC RG 25, vol. 105, 9100-AO-40, pt. 4.

[41] Hammarskjold to Lester B. Pearson, 30 December, 1954, PAC RG 25, vol. 105, 9100-AO-40, pt. 4.

[42] U.N. Ambassador David Johnson to Pearson, 9 December, 1954, PAC RG 25, vol. 105, 9100-AO-40, pt. 4.

[43] U.K. paper undated, unsigned, PAC RG 19, vol. 5438, file 7765-04.

[44] undated and unsigned UK paper, PAC RG 19, vol. 5438, file 7765-04.

[45] K.W. Taylor to H.G. Curran, 20 April, 1955, PAC RG 19, vol. 5438, file 7765-04.

[46] A.F.W. Plumptre to Norman Robertson, 15 April, 1955, PAC RG 19, vol. 5438, file 7765-04.

[47] Louis Rasminsky to Plumptre, 15 April, 1955, PAC, RG 19, vol. 5438, file 7765-04.

[48] A. E. Ritchie to Dana Wilgress, 9 Nov. 1956, PAC RG 19, vol. 5438, file 7765-04.

[49] Louis Rasminsky to J. Warren, 10 January, 1955, PAC RG 19, vol. 5438, file 7765-04.

[50] Louis Rasminsky letter to Dr. John Williams, Bank of Canada, Rasminsky Papers, LR-76-272.

[51] Louis Rasminsky, in Minutes of IMF Board meeting, 24 March, 1961, Bank of Canada file, 5A-200, Box 77.

[52] Document dated 3 September, 1946, PAC RG 19, e-3(k)2, vol. 3607, ITO-3.

[53] "International Trade Organization Prospects - Membership, Relations with non-Members, and Sanctions," 3 Sept., 1946, PAC RG 19, e-3(k)2, vol. 3607, ITO-3.

[54] "International Trade Organization ...", 3 Sept., 1946.

[55] "International Trade Organization ..." 3 Sept., 1946.

[56] Dana Wilgress to Secretary of State for External Affairs and Interdepartmental Committee on External Trade Policy, 13 July, 1948, PAC RG 2 vol. 252, U-40-3.

[57] Wilgress to SSEA and ICETP, 13 July, 1948, PAC RG 2, vol. 252, U-40-3.

[58] Memo by R.B. Bryce, Dec. 1941, PAC RG 19 vol. 3977, E-3-1.

[59] Bryce, quoted in Arndt (1987), p. 46-7.

[60] "International Trade Organization Prospects - Membership, Relations with non-Members, and Sanctions," 3 Sept. 1946, PAC RG 19, E3(k)2, vol. 3607, ITO-3.

[61] Australian paper contained in PAC RG 19, E-3(k)2, vol. 3611, M-4.

[62] Norman Robertson to Brooke Claxton, 2 Nov., 1946, RG 25, vol. 266, file 9100-A-40.

[63] Dept. of Finance paper, author unnamed, 4 Jan., 1952, PAC RG 2, 18, vol. 235, T-50-1(a)-D.

[64] J.J. Deutsch memo to ICETP, 11 August, 1952, PAC RG 2, series 18, vol. 236, T-50-1(a)-D.

[65] DEA memo (author unnamed) to Geneva, 6 May, 1960, PAC RG 25, vol. 233, file 14052-5-40, pt. 1.

[66] undated memo prepared by inter-departmental task force for External Trade Advisory Committee, PAC RG 25, vol. 267, file 9100-L-40, pt. 1.

[67] undated memo prepared by inter-departmental task force for External Trade Advisory Committee, PAC RG 25, vol. 267, file 9100-L-40, pt. 1.

[68] Stone (1984), p. 54.

[69] Graham Towers, Governor of the Bank of Canada, to Lester B. Pearson, USSEA, 4 Feb., 1948, PAC RG 25, vol. 267, file 9100-N-40, pt. 2.

[70] Kock (1969), p. 59.

[71] Kock (1969), p. 69.

[72] Norman Robertson memo to Interdepartmental Committee on External Trade Policy, 25 June, 1951, PAC RG 25, vol. 194, T-50-1-MO.

[73] Eric Wyndham-White to SSEA, 14 July, 1955, PAC RG 25, vol. 243, 9100-am-40.

[74] Wilgress to SSEA, 4 July, 1955, PAC RG 25, vol. 243, 9100-lm-40.

[75] Winham (1986), p. 332-342.

[76] Plumptre to Rasminsky, and Claude Isbister and Louis Couilliard, 6 August, 1957, PAC RG 25, vol. 243, 9100-lm-40.

[77] Kock (1969), p. 235.

[78] O.G. Stoner to A.E. Ritchie, 20 October, 1959, PAC RG 25, vol. 231, file 14051-3-15, pt. 1.

[79] Stoner to Ritchie, 20 October, 1959, PAC RG 25, vol. 231, file 14051-3-15, pt. 1.

[80] DEA memo, author not stated, 20 Nov., 1959, PAC RG 25, vol. 231, file 14051-3-15, pt. 2.

[81] Kock (1969), p. 165-6. Commodity agreements are negotiated arrangements among the producers and consumers of raw materials or agricultural products, usually involving supply and price conditions, often involving creation of stockpiles for use in price-adjusting market intervention.

[82] Wilgress to SSEA, 20 Aug., 1954, PAC RG 25, vol. 105, file 9100-AO-40, pt. 2.

[83] "Memorandum of Instruction for the Canadian Representatives on GATT Committee III - the Expansion of International Trade - Underdeveloped Countries," undated, PAC RG 25, vol. 105, file 9100-AO-40, pt. 2.

[84] "Memorandum of Instructions for the Canadian Representatives to GATT Committee III ...".

[85] Memorandum of Instructions to Canada's Committee III of the GATT in Geneva, 21 September, 23 September, 1959, PAC RG 25, vol. 232, file 14051-5-40, pt. 2.

[86] J.R. Roy to A. E. Ritchie, 7 June, 1961, PAC RG 25, vol. 232, file 14051-5-40, pt. 2.

[87] Dana Wilgress to Eric Wyndham-White, 24 May, 1951, PAC RG 25, vol. 104, file 9100-AJ-40, pt. 1.

[88] Wilgress to Wyndham-White, 24 May, 1951.

[89] Letter from Wilgress to A.F.W. Plumptre, 20 June, 1951, PAC RG 25, vol. 104, file 9100-AJ-40, pt. 1.

[90] The Diefenbaker government was coming under political pressure because unemployment had been running as high as 7.2 per cent in the previous months. See Campbell (1987).

[91] Minutes of a meeting of the Interdepartmental Committee on External Trade Policy, 20 Nov., 1960, PAC RG 19, Fla, vol. 4226, 8800-040.

[92] Plumptre (1977), p. 39-40.

[93] Comments by Hector McKinnon, in Minutes of "Preparatory Committee on Trade and Employment - British Commonwealth Talks", 8 Oct., 9 November, 1946 PAC RG 2, vol. 252,

U-40-3.

[94] Documents from the time which I have reviewed reflect this. There is surprisingly little discussion about fundamental goals and principles in the interdepartment committees, such as that on commercial policy. There are many discussions about quantitative restrictions on imports of strawberries, carrots, and the like, and the export of turkeys and eggs. There is little debate on general issues, which presumably took place informally. It is in this respect that habitual rule making and compliance contributes to the (hegemonic) creation of "common sense" in the restriction of the parameters of "sovereignty".

[95] Dewitt and Kirton (1983), p. 199-204.

[96] In later chapters we will see that External lost its "inside track" on international economic relations because the core economic departments no longer trusted DEA to operate within their consensus on embedded liberalism. Reorganization was an effort to restore External's core status within the state.

[97] The theoretical grounding for this observation is discussed in chapters one and two above. See also Giddens (1987), ch. 10.

[98] This is not to say that societal interests did not play a part in consideration of the issues. The files of inter-departmental committees contain appeals for protection from imports, or help in opening foreign markets, and domestic economic interests made representation of their preferences during GATT rounds of the 1950s. However, there is little evidence that the insulation or autonomy of the community was fundamentally compromised.

CHAPTER FOUR: THE KENNEDY ROUND AND TRANSITION 1962-1968

INTRODUCTION

The purpose of this chapter is to examine the institutions and processes of Canadian foreign economic policy-making in the early- and mid-1960s, during the negotiation of the Kennedy Round of the GATT [1]. The Kennedy Round was perhaps the most successful of the GATT Rounds because it achieved significant depth in tariff cuts. This success was due in significant measure to the adoption of a formula, across-the-board method of tariff reduction.

As we will see in the analysis which follows, for Canada the Kennedy Round was both an opportunity and a potential threat. Canada, like most other countries, supported the goal of tariff reduction and the freeing of international trade. At the same time however, the Canadian trade policy community, which was discussed in the previous chapter, was concerned that Canada's post-war economic modernization could be harmed by premature exposure to global competition. Therefore, while Canada supported the pursuit of the interdependence side of embedded liberalism during this period, it sought, in a number of issues, to achieve sovereignty-based exemptions from the rapid progress being made towards interdependence in the Kennedy Round.

The personnel comprising the "community" of foreign economic policy officials remained very similar to those discussed in the previous chapter. Norman Robertson of External Affairs was named to head Canada's delegation in Geneva and Hector Mackinnon of Finance chaired the Ottawa end of the delegation. Many of those who were junior officers in the 1950s continued in more senior positions in the 1960s. One of the elements of the insulation of the embedded liberal state in Canada derived from this continuity of personnel from the post-war founding of the new international system, and the socialization of new recruits into the ways of the world in trade and commercial policy.

Nevertheless, some tensions between sovereignty and interdependence discourses within the embedded liberal compromise were evident in the debate within the trade policy community on the Kennedy Round. The focus of the Kennedy Round was to be manufactured products, rather than raw materials. As a country which was a net importer manufactured and secondary goods, Canada's balance of payments stood threatened by tariff-cutting which would expose Canada's nascent industries to greater competition, while failing to further lower barriers to the country's primary export sector.

This structural problem created friction among the core departments at the ministerial level. Mitchell Sharp, who

had moved from the mandarinat to become Minister of Trade, espoused the traditional free trader's argument which was outlined in the previous chapter. Walter Gordon, Minister of Finance, however, was more of a protectionist and continued to argue that Canada must be granted concessions from its trading partners for any tariff reductions that it granted, and that careful consideration of the impact of tariff changes on various sectors of the economy, and on balance of payments, was necessary. Indeed, it was because of this difference of view - Sharp's adherence to interdependence norms such as liberalization while Gordon insisted on the sovereignty norm of reciprocity - that DEA's Robertson was named as head of the delegation, to referee the growing, and departmentally-distinct, differences [2]. This role for DEA as referee and arbiter among contending departmental perspectives on Canada's role in the evolving international political economy was to become more important in the future.

Furthermore, the institutional environment had become more complex with the establishment of the Department of Industry in 1963, giving the comparatively protectionist import side of the economy its own voice. The new Pearson government announced its intention to pursue a more Keynesian economic policy and named Robert Bryce to become Deputy at Finance. The creation of the Industry Department, and the Economic Council of Canada, was evidence of the

commitment to this new policy direction [3].

The international environment of the 1960s, too, was a turbulent one. The escalation of the Vietnam war, the rising consciousness of foreign direct investment and its costs, the "crisis" in Canada-U.S. relations due to the fall-out between Prime Minister Diefenbaker and President Kennedy over Cuba and nuclear weapons, the growth of provincial initiatives in some areas of foreign policy, and the extension of Keynesian/welfare state programmes: all of these and more made the period under review in this chapter a challenging one for Canadian officials.

In spite of this unstable political environment generally, the consideration of trade, commercial, and economic developmental issues raised for Canada by the Kennedy Round was comparatively unconflictual. As the analysis below shows, there were differences of view among the core departments concerned. But the institutions and processes examined in the preceding chapter provided the context and framework to manage the challenges emerging from the international political economy. I will argue, however, that this stability entailed longer term costs. First, there was the cost of retaining tariff protection longer than some now argued was necessary or desirable. Secondly, institutional innovation was postponed, making the 1970s' institutional reforms more disruptive than it perhaps needed to be. Third, we will see in the following chapter that by

the late 1960s and early 1970s some of the formal institutional coordination in which inter-departmental views were coordinated - a task which was central to DEA's mission - had run down somewhat, and External's prominence in the process of foreign economic policy-making declined.

What we will see in this chapter is that the rise of Third World issues and demands on the agenda of international trade negotiations, centered institutionally in the United Nations Conference on Trade, Aid, and Development (UNCTAD) disturbed the post-war systemic consensus on the structure of embedded liberalism, and also began to disrupt inter-departmental relations in Ottawa. Beginning with the Bandung conference in 1955, the non-aligned movement and the Group of 77 complained of the structural impediments to development in the Third World. The GATT was seen as the institutionalization of the rules which prohibited reform of the world economy in a manner which would encourage development. We saw discussion of some of these issues in the previous chapter. We will see in this chapter how issues such as commodity agreements, which had been part of the ITO but excluded from the GATT by the United States, jolted the community consensus in Ottawa, and established part of the basis for later institutional reorganization. In particular, we will see that within External Affairs, its economic officials could not offer support for revision of the GATT along third world reformist

lines, while retaining the confidence of others in Finance and Trade and Commerce.

The more fundamental conflicts were resolved or temporarily buried, to be raised more sharply in the 1970s, as the following chapter will demonstrate. In the 1960s, however, the policy process and debates occurred at two levels. The more important, perhaps, were informal and personalized interactions among the small and like-minded elite moving in familiar social circles. The formal, institutionalized framework which gave order to these relationships was a network of committees, of which the centrepiece was Interdepartmental Committee on External Trade Policy (ICETP) [4]. We shall see in the next chapter that by the late 1960s, more formal, institutionalized setting for inter-departmental dispute resolution, the ICETP, had run down, signalling a rise in inter-departmental divisions. This increased the importance of personal relationships among the key members of the community, and made gearing up for the Tokyo Round more problematic.

In short, the mid-1960s were years of transition and instability, both for the international political economy and for Canada's foreign economic policy elite. Structural conflict was rising in the world economy, and this had begun to be reflected in the Canadian state. However, the institutional, ideological, and personal legacies of the preceding years served to regulate and stabilize the

transition.

This chapter illustrates, therefore, the theoretical argument of Robert Keohane discussed in chapter two. The norms, principles, and decision rules of the GATT established the cognitive structure and information-rich environment which regulated and stabilized the third world challenge in trade matters. We will also see in this chapter, however, that this stabilization was hegemonic. Third world demands which contradicted GATT's evolving embedded liberal compromise, were carefully shunted into institutional fora with less authority. A parallel process took place within the Canadian state, as an effort to retain the small size and cognitive coherence of the post-war community. This insularity has two dimensions. The first was to keep the three core departments distant from other domestic departments, or from the parts of DEA attuned to Third World demands. The second was to keep the mandarins in the three departments insulated from political demands. The 1960s saw the beginning of debate in the country, and in the governing Liberal party, over nationalist and interdependence (or continentalist) economic strategies. In this work I do not directly engage these debates. There is some suggestion, however, from interviews and documents, that GATT's Kennedy Round helped in fencing out "counter-hegemonic" third world proposals, and nationalist stirrings in Cabinet.

THE KENNEDY ROUND OF THE 1960s

The decade of the 1960s was a very important one for the world economy. Many changes were taking place "below the surface," beneath the glittering facade of progressive technological change, rising GNP, growth of international investment, intensification of the international division of labour, and a new round of tariff reductions. The United States' balance of payments was running toward a deficit, inflation was building in the system, Eurocurrency markets were growing, the U.S. was trying to run a guns and butter economy without raising taxes, and there were new, insistent calls for Third World development. In retrospect the 1960s were years of transition in the international political economy, but a transition which it was believed by statesmen and most academics, could be managed by the GATT, the IMF, and the World Bank - the regimes set up after the war to maintain order by establishing and adjudicating the rules of the game, backed by the the power and leadership of the United States.

Canada's national interest in this context entailed the modernization and industrialization of Canadian the economy. The general goals included non-inflationary growth, rising levels of employment, promotion of secondary and tertiary

goods exports, and maintenance of a high and rising level of staples exports to accommodate the balance of payments deficits which were associated with a high level of foreign investment during industrialization.

As discussed in the previous chapter, the GATT and the IMF were seen as important in Canada's pursuit of its goals. Order and stability of the international economy, and the rules of the game, were seen by most officials and economists as of primary importance in ensuring that growth and openness characterized the international economy. The GATT and the IMF provided this order and stability by creating the fora in which the world could slowly, but steadily, open markets and create currency convertibility. At the same time, the stability and the legitimacy of the rules of the game were strengthened by the "sovereignty" side of the embedded liberal discourse which "created" the IMF and the GATT. States were free to adopt adaptive and compensatory measures to ease the stresses and strains of living up to the requirements of interdependence. As I noted in the chapter above, Canada was a quintessential embedded liberal state, and embedded liberalism established the discursive framework in which the national interest, in international economic matters, was articulated and pursued.

Three key issues of the Kennedy Round of the GATT had potential impact upon this classic articulation of Canada's national interest. These were the adoption of an injury test

as a pre-requisite for imposition of anti-dumping duties; the adoption of the linear formula, or across-the-board method of tariff cutting; and formal relaxation of the norm of reciprocity for the less developed countries (LDCs) within the GATT.

On each of these issues one might reasonably expect some substantial difference of opinion among the three departments. The injury test is an interdependence norm. It requires that a state and/or grieving firm or industry demonstrate that predatory price cutting by exporters into the home market will cause "injury" to a domestic firm or industry. This is an interdependence norm because multilateral standards are set to define dumping and injury. Export-oriented departments such as Trade and Commerce like this concept because it strengthens of multilateralism and constraints on arbitrary protection. "Protectionists" such as the Department of Industry would be concerned if international standards were set too high, making dumping and injury too hard to demonstrate.

The linear tariff cut procedure also creates a division of camps among exporters and importers. Exporters like it because it at least creates the impression of concerted action against tariff barriers, and, in the Kennedy Round, this was indeed the case, as tariffs fell rapidly through adoption of the procedure. On the other hand, those who see the tariff as a revenue generator, or as an instrument of

infant industry protection and economic development, get concerned about the linear tariff cut's lack of discrimination. One result of this lack of discrimination, as we will see, is that exceptions began to pile up, a development which contributed in a major way to the longer-term erosion of the GATT system itself.

Finally, as noted in the previous chapter, reciprocity is one of the central sovereignty norms of embedded liberalism's post-war compromise. Internationalists and institution-builders applaud relaxation of standards which constitute a barrier to participation by LDCs in the international division of labour. Nevertheless, exporters resent the extension of privileges to potential competitors, and infant industries resent exposure to outside competition from low-cost imports.

These are the sort of structural contradictions which Canada faced in the Kennedy Round. The evidence from interviews tends to confirm that disagreements among the Departments on these grounds existed, but the small community of officials from the three main departments involved were able to resolve their differences. Indeed, as I will discuss further below, twenty to twenty-five years later, there is a remarkable consensus that they were, in a sense, collectively wrong in the 1960s about the sensitivity of the Canadian economy to the threat from lower tariffs. They now believe that Canada could have, and should have,

been more open to interdependence.

Linear Tariff Cutting

Canada was one among a small number of countries (along with Australia, New Zealand, and South Africa) which sought and was granted exemption from the Kennedy Round's across-the-board tariff-cutting process, an initiative which, as I mentioned in the previous chapter, the GATT Secretariat had promoted for some time. Such a process is quicker, more efficient, and more multilateral than relying directly on bilateral negotiations among principal suppliers and consumers which could then be "multilateralized" via the Most Favoured Nation article of the GATT treaty. One problem with this method, however, is that it does not permit states the selective protection of firms and industries, or it forces them to declare exceptions or exemptions from the results of tariff cuts. Indeed, the exemptions piled up following the Kennedy Round weakening the GATT.

Canadian decision makers decided not to participate in the linear cuts, justifying defection from the evolving international rules of the game on the basis of the history of Canadian economic development, the structure of the Canadian economy, and the damage that linear cuts could do to efforts to modernize and promote the processing of staples. Despite defecting from the rules of the game, Canadian decision makers defend their decision arguing that

in bilateral negotiations Canada gave as good as it got in tariff concessions, and they reject the "free ride" hypothesis, that Canada benefitted from the linear tariff cuts achieved by others without having to endure the pain [5]. Whether or not Canada followed the linear formula, they argue, the bottom line showed at the end of the day that Canada gave and got full value. In short, defenders of Canada's defection in the Kennedy Round insisted that reciprocity was achieved [6].

As we will discover below, these decision makers now argue that, in retrospect, they were wrong in believing that Canadian industries and economic development were too sensitive to exposure to an increasingly interdependent world economy. Indeed, many of them said in interviews that failure to participate in the linear cuts caused the Canadian economy to emerge from the Kennedy Round too highly protected, comparatively speaking, to the long term detriment of Canadian economic development. The judgement in hindsight is supported by Finlayson who states that "Canadian tariff levels on dutiable imports declined only modestly between 1962 and 1973, whereas tariffs were reduced considerably by the United States, Western Europe, and also Japan" [7]. More to the point perhaps is the view expressed by a number of those interviewed that the GATT was Canada's bilateral trade treaty with the United States, so the notions of interdependence and multilateralism upon which

linear tariff cuts were premised were, for Canada at least, increasingly redundant as more Canadian trade was done on a bilateral, continental basis.

As a former senior DEA official [8] stated, the vulnerability arguments about the Canadian economy were valid, and, moreover, the United States took no exception to Canadian exceptions. "We have never been too obsessed by multilateralism," he said. "Canada has never had a reputation for sacrificing our own interest," in spite of the country's role in the development of multilateral institutions. We were not great Idealists, he said, not on this issue at least. Canada tried to make the rules fit our own case so we could not be labelled a law breaker.

Another former DEA official [9] said there was a vast body of theory and justification around the argument for Canadian exceptionalism, some of it disingenuous, but only a bit. He recalled some slight discomfiture that Canada was not playing by the rules of the game, but he added that trade negotiations are very hard-headed, and there is no time for "airy-fairy" arguments.

This view was shared by a Finance official of the time [10] who maintained that Canada was correct not to accede to linear cuts because we had high tariffs and the economy was sensitive to low-cost imports. Canada had many small producers who needed to be built up, whereas to go across-the-board would have hurt small manufacturers. All our main

negotiators were liberals, he said, but they were also pragmatic, practical negotiators.

A senior Canadian mandarin and politician [11], one who has served in all of the main portfolios, recalled that the issue of linear tariff cuts was very important and divisive inter-departmentally. Adopting the linear process would have resulted in Canada giving up much more than it received in tariff concessions, exposing the weak manufacturing sector. "But I don't know if retention of the bilateral form of negotiations turned to our advantage," he said. "Much can be said for the argument that we emerged from the Kennedy Round much more protected than the others [12]."

This view, that Canada was, perhaps, unnecessarily protective during the Kennedy Round, was echoed by a former senior Trade and Commerce official [13], who said "we thought it wise at the time not to adopt the linear process." We always needed the opportunity to negotiate with principal suppliers (the U.S. on most products), he said. At the end Canada threw in a lot of linear cuts as part of the package, to look more attractive to the Americans, he added. They, like many others, had lots of exemptions from the linear cuts, he said. "It is hard to say how much different the result would have been for Canada had we adopted the linear formula," he said. "But I'm not sure if the issue was as important as it seemed at the time. We did not expect the

process to produce so many exceptions."

Another senior Trade and Commerce official [14] recalled that the lead on the adoption of linear cuts "was definitely at Finance" (presumably on the basis of the argument that lower tariffs would lower input costs to Canadian manufacturing, as one DEA official noted). But Canada had "highish" tariffs and was import prone, he said. "Linear cuts would be difficult to take politically because too many sectors were not competitive and linear cuts would have exposed a lot of that." But, he added, agreeing with those already noted, the problem was likely not as serious as had been thought at the time, and the adjustment to lower tariffs could likely have been made without unbearable political ramifications.

The linear method would not have achieved reciprocity for Canada, another Trade and Commerce official [15] argued. However, in hindsight, he added, Canada had been growing as a producer of processed and industrial goods, although not to the level of principal supplier. The decision not to cut linearly had the effect of maintaining the status quo, of not accelerating the transition to a more mature diversified economy. The Canadian tariff, he said, "was too goddam high," but Canadian decision makers may not have seen this because statistical and analytical capabilities were not yet very sophisticated.

In summary it is quite apparent that there was quite a

broad consensus of analysis among senior official in the three departments concerned with trade and commercial relations. It was widely agreed at the time of the Kennedy Round that the Canadian economy was sensitive to shocks from an increasingly interdependent world economy, especially to import competing industrial products from the United States. Pushing the GATT in a multilateral direction through adoption of linear tariff cuts would have exposed prematurely Canada's protected industries to international competition, and undermined the state's sovereign capacity to set tariff levels to provide effective protection for these industries. As I have indicated here, however, it was only in hindsight that the community of officials came to believe that Canadian economic development was stronger than it appeared to them in the early and mid 1960s, and that the increased protection seemingly afforded by defecting from linear cuts in fact contributed to weakening Canada's industrial capability. The interviews with officials offered some evidence that Finance tended to favour retention of relative levels of protection, but also that the lead on linear cuts was taken in Finance. Therefore, it is not possible to draw clear interdepartmental lines in this case, without further detailed research.

It is also interesting to note that two persons interviewed stated that Finance Minister Walter Gordon would have been happy to see the whole multilateral international

economic system disappear. With the resumption of the Liberal government under Pearson and the appointment of Gordon at Finance and Sharp at Trade and Commerce, there is clearer evidence of Cabinet-level disputes about trade and commercial policy impacts on domestic development. Without more systematic evidence it is difficult to say if this development marks a sharp break with the insularity sought by the trade policy community. But defecting from linear tariff cutting was important because it permitted the liberals to argue that they had not abandoned instruments of national economic development to the United States.

What has been in effect a "collective" change of view on the part of many of Canada's officials about the state of Canadian economic development at the time poses an interesting analytical question about learning and cognitive change. As I have reported it here, the officials interviewed suggest it was a shortcoming in statistical data and analytical techniques which inhibited a clearer picture of the state of the sensitivity of the economy to a cold shower of interdependence and competition. The small size and like-mindedness of the "community" which I have been emphasizing suggests that new information might not have had the cognitive effect of altering the prevailing image of the Canadian economy. Foreign policy analysts suggest that such incoming information would have been discounted, ignored, or reinterpreted to conform with the prevailing

mindset [16]. On the other hand, had the institutional division of labour and bureaucratic politics on the issue in Ottawa become sufficiently contentious, better data could have served to fuel the differences.

None of those interviewed could recall any specific or serious complaints - for example from outside DEA's economic bureau - that Canada ought to live up to its internationalist, institution-building role and reputation by playing according to the rules, even if it meant economic costs. Because no one can remember does not mean that such views were not expressed. But it does suggest that the trade policy community was quite insulated from other bureaucratic and political inputs, or that protestations from outside the community made little impact. What is further suggested is that while there were (growing) difficulties within the "community" on issues originating in the embedded liberal compromise, there was sufficient consensus in the 1960s that such differences should not be enough to expose the community and the consensus to values and opinions which may emerge from outside the embedded liberal consensus.

Injury Test

While key decision makers were reluctant to adopt linear cuts for fear of their effects on the protection of Canadian industrial structure, it is odd to see them urging adoption of the injury test with respect to anti-dumping action, a

move which would make it more difficult to justify protection. As the interviews cited here indicate, reasons for adopting the injury test range from enlightened self-interest, to negotiated change, to response to American power, and its relative costlessness [17].

The Canadian system, "grandfathered" under the GATT, provided for automatic assessment of anti-dumping duties on imports arriving for sale at less than fair market value. This system "had received much international criticism emanating primarily from Britain and the United States, for its lack of a formal, case-by-case test of material injury" [18].

A senior ITC official [19] recalled a meeting of DEA, Finance, and Trade and Commerce officials with Hector Mackinnon, the Ottawa coordinator of Canada's GATT team. The meeting was called to try to arrive at a response to the expected attacks on Canada's system. The official recalled that at some point Mackinnon simply said, "why not just get rid of it?" Everyone agreed, he said. Mackinnon was a cautious man, and we probably figured that if he was prepared to forego the protection which automaticity implied, we should be prepared to be open-minded. "The time had just come to modernize," the official said. Interests such as the Canadian Manufacturers' Association were bound to oppose the move, but were going to have to accept the result of the Kennedy Round anyway.

What is underlined here once again is the small size of the "community" and its apparent insulation from governmental and private interests when making important policy initiatives. At some point such a decision would, no doubt, have to be approved at the political level. I have noted above that on over-riding issues such as linear cuts, political input was more important. But on rather more technical issues such as injury test, bureaucratic autonomy will have been more pronounced. Firms and industries made representations to officials on their economic health and the possible effects of a change on the injury test. But, the files suggest, officials made their assessments of these claims on their own. Political review would have been faced with a fait accompli. In later negotiations, such as in the Tokyo Round, we find similar decisions being subject to more intimate political, provincial, and interest group activity. But in the Kennedy Round, important individuals such as Mackinnon, and the community itself, were comparatively insulated. Interdepartmental division seems not to have been a significant factor on this issue.

A senior DEA official [20] recalled that "we felt vulnerable" and that he does not remember being particularly in favour of adopting the injury test. But at the same time Canada, as an exporter, wanted others to adopt the injury test. He said, however, that the economy was not as vulnerable as was thought at the time, or, if it was

vulnerable it would be fairly easy to demonstrate injury. The United States accepted that Canada's special circumstances justified retention of the automatic system in order to act quickly against market disruption, he said, but they were not prepared to acquiesce forever.

A Finance department official [21] recalled that there were big debates on this issue of injury test. But he said "we caved in" to the American position largely on the strength of the argument that the U.S. was threatening not to adopt the tariff cuts which Canada considered essential. Ironically, however, the U.S. itself later failed to pass adoption of the injury test on anti-dumping in Congressional ratification of the Kennedy Round results.

On this issue then, the adoption of an injury test on determination of dumping, the trade policy community appeared more willing to adopt multilateral standards and practices, despite qualms about the vulnerability of the Canadian economy. Despite some evidence of inter-departmental debate on the issue, the United States expressed a strong interest in Canada's adoption of this multilateral practice, and there was confidence that Canada could successfully demonstrate injury. On this issue there was greater recognition by Canada's state managers that Canadian industry needed to be exposed to the cold shower of international competition and standards. As one former Finance official [22] said, the automatic antidump system

was rarely used anyway, because it would have been too vicious in cutting off imports. Canada often applied GATT standards, if only implicitly. Nevertheless, he added, formal retention of the automatic system had had the desired effect simply by creating uncertainty and reticence in the mind of the potential exporter to Canada. However, a new Canadian anti-dumping system was set up in 1969 to conform to provisions of the Kennedy Round code [23].

In comparing the apparently contradictory decisions in the linear cuts and injury test instances, it may be the case that the state liked the adoption of the injury test because it would formalize or legitimize its own institutional capacity to regulate trade and commercial policy, whereas the linear cut detracted from state power by reducing the scope for discrete state intervention, and removing the effective forum to the multilateral level. This may be the case more particularly because the tariff issue directly affected Finance, which has legislative authority over the tariff. Finance was weakened by the injury test because injury determination was a process shared with other departments, such as Trade and Commerce.

Reciprocity and LDCs

As noted in the previous chapter, decolonization and the shifting of reconstruction and economic development concerns from Europe to the South raised questions for the GATT. The

Haberler Commission, a blue-ribbon panel established by GATT to enquire into third world underdevelopment, and the Common Program for Action, a GATT programme to address issues raised in the Haberler report, highlighted the issues of equity and justice by requiring post-colonial states to participate on the same basis as the more developed countries. Developing countries were demanding that the Kennedy Round negotiations grant formal, legal recognition of their release from the norm of reciprocity through implementation of such discriminatory practices as the Generalized System of Preferences. The United Nations Conference on Trade, Aid, and Development was established as an alternative negotiating forum to the GATT, a regime which was charged with favouring the interest of developed states.

The recollection of one Finance department official [24] makes it clear that the arrival of third world concerns on the trade and commercial policy agenda was quite a disruptive surprise. The success of the G-77 in burying their differences and arriving at a common position (by throwing all of their demands into a single pot) in the establishment of UNCTAD "killed our briefing book for the Kennedy Round," he said, because the G-77 positions were so contrary to earlier trade negotiations. Even if UNCTAD embraced many of the things which had been part of the ITO, which Canada had supported, the ITO was ancient history, he said. The consensus of the late 1940s was not

the consensus of the late 1950s and early 1960s. "This came as a total and complete shock," he said. It was something which was anathema to those raised on the consensus.

In illustrating the crisis-like atmosphere induced by the G-77 agreement, the Finance official recalled that someone cabled back to Ottawa the whole 30 pages of the UNCTAD Final Act in 1964, and classified it "Flash", a wire service priority reserved for declarations of war or threats to Canada's national security. The cable tied up the lines to Ottawa for an entire day, he said. The whole thing ended as a tempest in a teapot, the official said, because the apprehended crisis was managed managed or accomodated within the system. But it is hard to exaggerate the shock which it initially made for the trade community of Ottawa at the time, being a complete breach of the MFN and the organization of commodity markets.

This same official noted that what was in the first half of the 1960s completely anathema, had, by the late 1960s, become the conventional wisdom, a sign of how the discourse of trade, commercial policy, and economic development changed - in part due to the third world challenge. However, the trade community had been raised on nostrums from another era. For example, he recalled a lesson which Hector Mackinnon introduced into the Finance department from the early post-war years: never defend a preferential tariff system, not even empire preferences, and this lesson, or

"myth" survived to include the Generalized System of Preferences which LDCs sought. Canada held out, he said, until the United States "caved in" under President Johnson.

The challenge created, or at least exploited, inter- and intra-departmental cleavages. The Finance official said External was more prepared to internalize new norms or discourses deriving from the third world challenge. He said he could recall many meetings in which epithets such as "bleeding hearts" and "get back to reality" were thrown at DEA officers by those from Finance and Trade and Commerce. But, he added, External's perspective was understandable, if only because DEA personnel spent more time in fora such as the United Nations, and were subjected to the "Chinese water torture" of listening to the reformist litany day after day.

On the other hand he added, DEA's economic division had to retain its credibility with Finance and Trade and Commerce, the other economic departments. DEA's economic division could not expect to internalize the reformist agenda and at the same time retain the trust of the more hard-headed, practical, and pragmatic economists and trade policy experts in Finance and Trade and Commerce. At Finance, he said, "we fought an unrelenting battle to keep UNCTAD language and principles out of the the GATT."

The importance of this insulation of the GATT was underlined by another former Finance official [25]. Sealing the GATT off from leakage from UNCTAD was important, he

explained, because so much of trade diplomacy is embedded in the implicit and explicit meaning of words, that one has to be careful not to commit oneself to something unintended. Some in DEA were prepared to be more forthcoming for the LDCs, but not DEA's economic or commercial people, he observed.

Among DEA officials there is some difference of recollection. One official [26] said Third World and UNCTAD concerns were rightly kept out of the GATT system because not to do so would have undermined the universality of the system. The GATT is a Western institution, he said, and introducing UNCTAD perspectives would make rules out of exceptions, undermining, not adding to, universalism. Canada was not unfeeling towards the LDCs, but they generated a small minority of world trade, most of which was accounted for by the North, thereby constituting the system's universality.

Another senior DEA economic official [27] concurred in saying that he could not recall ever actually espousing the third world cause. But another [28] recalled support for the third world such as accepting a separate set of rules for tropical products. A third DEA official [29] of that era suggested such a division within the department. In the Economic branch they shared the concerns of Finance that Canada could be exposed to ill-informed, emotional, and discriminatory proposals, and that the country's legitimate

interests could be put in the worst possible light. However, others in DEA would, he said, claim that the political clout of someone like Nehru could not be ignored. Finance would "invariably" focus on the threat to domestic industries, such as textiles and footwear, he said. But Trade and Commerce would be willing to give away domestic production in return for a quid pro quo of export opportunities abroad.

A former senior Trade and Commerce official [30] recalled in an interview supporting LDCs in their campaign to be released from formal reciprocity, but "on the basis of political realism I guess." That is, he argued that if the successful outcome of the Round required a consensus, and LDC participation was required to achieve consensus, then account must be made of their concerns. "The General Preferential Tariff was not a bad idea," he said, but it was not carried out very far, and I am not sure if their demands had beneficial economic results." In other words, it was more important to maintain the GATT system's universality than to worry about loopholes in the rules, even if it was believed that the loopholes are going to hurt the LDCs in the long run.

The introduction of third world issues on the international economic agenda introduced dissensus on north-south trade issues and their management within the Canadian state. Members of the "community" did not in principle concur in most of the substance and rhetoric of UNCTAD. As

we have seen in this section, however, some were more prepared than others to concede some exceptions and more loopholes in the rules in order to keep the post-colonial states within the system.

However, the introduction of third world issues on the trade policy agenda - such as tariff preferences, commodity agreements, capital pools, and a greater voice in international organizations - opened the possibility for new bureaucratic actors, from labour, energy, and agriculture, for example, to be granted entree into the "community". The "community" would be hard-pressed to retain its informal, personalized, and like-minded character in these changed circumstances. The impact of these changes would begin to show up more importantly in the post-Kennedy Round era.

The phenomenon involving the introduction of third world issues in the GATT during the Kennedy Round is illustrative of a number of points central to analysis engaged in here. Most importantly, perhaps, it illustrates the insight of Keohane's argument about the cognitive benefits of regimes. Third world issues as they were raised in the United Nations and by the G-77 challenged the parameters of embedded liberalism and the progressive implementation of liberal interdependence in the international trade system. The norms, principles, and decision rules of the GATT, as Keohane and other theorists show, stabilized the political, ideological, and decision-making environment of state

officials in Ottawa. Change, which was incremental and negotiated, was manageable. The third world challenge, until it could be assimilated into the discourse of embedded liberalism, or hived off into ECOSOC or UNCTAD, was a crisis, as one official described above.

Also illuminated by this issue is the importance of institutional factors in regulating "learning" by the state and importance of class raised by Robert Cox's approach. This can be observed by comparing briefly the treatment of third world development with those of the European Economic Community. This was especially relevant for Canada after Britain's initial bid to join the EC in 1961. One DEA officer said DEA was the first department to take this issue seriously, as early as 1952, whereas Finance and Trade and Commerce retained the view that GATT and the IMF were the "be-all and the end-all". The difference between the challenge posed by the the EC and that by the third world was that the former was managed explicitly within the GATT and the IMF and on a state-to-state basis (even if it was recognized eventually that the EC would not be approved under GATT Article 24, but was waived), whereas the third world challenge, as I have shown in this chapter, was consciously kept apart from the GATT - or at least there was an effort to do so. The paradigmatic challenge of European supranationality was debated within the discursive framework of embedded liberalism, while the third world challenge was

was regulated on the margins between embedded liberalism and its more radical challenges. It was of pre-eminent importance to manage class and state economic and security relations in the North Atlantic area at the core of the system, rather than at its margins.

Summary of the Kennedy Round

Whereas judgments about the liberalizing and multilateralizing effects of the Tokyo Round are mixed and contentious, there is near-unanimity that the Kennedy Round was a significant step forward in the pursuit of interdependence. The round may not have tackled non-tariff barriers, agriculture, or services, but the lowering of tariffs was a major step.

As the evidence in this part of the chapter demonstrates, the reaction of the core departments - DEA, Finance, and Trade and Commerce - to this stage of the evolution of embedded liberalism in the direction of interdependence, was quite cautious. There seems little change from the period of the 1950s examined in the previous chapter. Canada continued to express its support for the progressive pursuit of interdependence principles in the world economy. But Canadian adoption of specific norms and rules was selective, based on consideration of the developmental prospects for the national economy, at least implicitly articulated as the

national interest.

All three of the instances cited here - linear tariff cuts, the injury test, and the LDC exemptions from reciprocity - are, according to the Finlayson and Zacher framework, norms or rules consistent with interdependence principles. Canada defected from linear tariff cuts because they would expose Canada's growing industries. In consequence, as we have seen, Canadian tariff levels did not decline at a pace consistent with those of its main trading partners. This left Canadian industry relatively protected from international competition, and, as we shall see in the Tokyo Round in the next chapter, this established the basis for others to demand of Canada that it participate more fully in subsequent rounds.

The injury test was acceded to upon consideration that it would not harm the national interest. The reciprocity issue introduced some broader political and moral considerations, but it was seen that the weight of opinion in the three core departments was to resist granting exemptions to the third world because Canada would not achieve reciprocity in doing so - a sovereignty norm. However, External Affairs is important in this regard because the institutional locus of DEA's input into third world issues was its economic branch, which needed to sustain the consensus of Finance and Trade and Commerce in order to retain their respect, and a seat at the table.

A final analytical point is worth considering. There is an apparent contradiction in Canadian positions adopted with respect to linear tariff cuts and third world reciprocity. Canada defected from the new rules of the game adopted by the GATT for tariff cutting on the basis of an argument about the history of Canadian economic development, the structure of the economy, and the structural problem of the balance of payments. On the other hand, Canadian decision-makers sought to deny exemption from the rules of the game to developing countries, an exemption claimed on the basis of similar arguments about the history of their economic development, the structure of their economies, and structural problems with their balance of payments.

None of those interviewed said they had considered this apparent contradiction. Some, upon consideration, accepted its existence [31], but others dismissed it as relatively unimportant in the real world. As one Finance official [32] observed, "it is not always difficult to suck and whistle at the same time," meaning that ethical or theoretical contradictions are unlikely to stymie the pragmatic pursuit of a complex set of international negotiations, and that an apparent theoretical or moral contradiction could hardly be expected to inhibit pursuit of what was seen to be in the national interest. A DEA official [33] said that he could recall thoughts at that time about Canada being a developing country, but there were great efforts made to articulate

Canada's unique status as the basis for exemption. Had such a "contradiction" argument been made, another official [34] said, it would have been defeated. Most industrialized countries saw LDCs as a source of raw materials and food, he said, while Canada saw them as competitors. Others denied that the Canadian and LDC cases could be compared at all. A senior Trade and Commerce official [35] argued that the two are qualitatively different, that Canada sought exemption from a decision rule which it was felt would fail to achieve reciprocity for Canada, while the LDCs sought exemption from reciprocity altogether.

CONCLUSION

The period 1963-1968 in Canadian politics was described overall as one of ideological cleavage, domestication of foreign policy, and politicization. Among the many issues which crowded the agenda and created occasions for intra-state cleavage were the Vietnam war, foreign investment, rising nationalism in continental relations, welfare state initiatives, and provincial initiatives in foreign policy. Despite the problems, this period of the Liberal return to power is widely regarded as an improvement upon the Diefenbaker years, if not a return to the halcyon days of the so-called Golden Age of Canadian diplomacy of the late 1940s and the 1950s [36].

In this chapter, which has focussed on trade and commercial policy during the Kennedy Round of the GATT, we have seen both rising discord and efforts to regulate and manage it. It has been noted that the systemic progress toward a more Smithian international political economy through the search for interdependence principles posed a challenge for Canadian economic development. The dynamic of liberalization, especially in the industrial sector, worried Canada's state managers. They believed that Canada's industrial sector was not yet mature enough to be exposed to competition in the home market, nor to compete in export markets. However, the Trade and Commerce department's mandate to pursue exports led officials there to favour liberalization, in contrast to Finance, which wanted to retain a margin of protection so that Canadian adaptation to greater industrialization would not disrupt the overall fiscal and domestic macroeconomic framework. Another growing issue of inter-departmental concern was the role of third world developing countries in the international political economy. The core of the post-war community of officials resisted release of these countries from obligations of the GATT treaty, and thereby gain a competitive advantage over Canadian industry.

During the Kennedy Round the management of Canada's economic policies and relations was exercised in three interlocking processes which were a continuation of the

institutions of embedded liberalism analysed in the previous chapter. The formal institution in which the core departments shared and coordinated their mandates in the division of labour was the Interdepartmental Committee on External Trade Policy, a committee normally chaired and serviced by DEA. This committee gave formal expression to a second, informal process of inter-personal relations among the key individuals. The third leg was the special arrangement made for the management and coordination of the Kennedy Round, with Norman Robertson of DEA leading the Geneva end of the negotiating team and Hector Mackinnon of Finance's Tariff Board coordinating the Ottawa end.

This chapter has indicated that a number of issues and concerns began to strain the institutions and processes characteristic of the embedded liberal compromise. The introduction of third world concerns to the GATT agenda challenged embedded liberalism and drew new bureaucratic agencies to the table. In particular, I think we can see in this period the beginning of the erosion of relations among the community resulting from the rise in salience of the north-south dimension, throwing the embedded liberal compromise off balance. DEA was more sensitive to this systemic, structural change. We will see more clearly some of the effects in the next chapter, for example the relative decline of the ICETP.

This chapter attests, however, to the ability of the core

"community" to pursue the goal of keeping the GATT immune from challenges based on generated by UNCTAD, the G-77, and the non-aligned movement. It was less feasible to embed the north-south axis of international conflict into the discourse of embedded liberalism than it was to do so for the east-west axis, as we saw in the previous chapter, or for the discourse of supranationalism in the EEC.

Both cognitive and class hegemony approaches are given some credence in this chapter. I have argued that the divisions and conflicts which began to emerge from change in the international political economy were managed and stabilized within the Canadian state by the ability to hive off some of the more serious challenges to embedded liberalism into ECOSOC and UNCTAD, and that this was similarly done within the state, especially within External Affairs, keeping economic and United Nations divisions off the same agenda. This institutional management prevented dissensus. The class approach is suggested by the different treatment given third world and European economic affairs, both systemically within regimes, and within the state. Furthermore, I have suggested, but not pursued, the notion that "nationalist" arguments arising in Cabinet, which could ignite class and regional issues in commercial and trade policy, could also be fended off by protecting the insularity of the mandarinat in the core departments. These issues arise more strongly in the next chapter.

REFERENCES

[1] In this chapter I do not discuss international monetary relations and their management. IMF and World Bank Affairs were managed during this period almost exclusively by Finance and the Bank of Canada. DEA, while consulted from time to time, was not, and did not appear to want to be, more intimately involved. However, in the next chapter I demonstrate that with U.S. President Nixon's formal winding up of the Bretton Woods system, DEA, CIDA, and other agencies of government sought and acquired greater and more regular involvement in international monetary issues.

[2] Granatstein (1981), p. 365.

[3] Doern and Phidd (1978).

[4] I say that the personal and informal links were probably the more important because, having reviewed many of the files of the committees and subcommittees, they are really quite barren of fundamental debates about questions of principle, power, and purpose. For the most part they contain discussions of narrow bilateral or specific commodity problems. Indeed, as we will see in the next chapter, the more formal process, centered in ICETP, fell into comparative disuse in the mid 1960s, and was revived by DEA in the late 1960s and early 1970s as part of its campaign to regain inter-departmental stature.

[5] Winham (1986), p. 333-4.

[6] Confidential Interviews.

[7] Finlayson (1985), p. 48.

[8] Confidential Interview.

[9] Confidential Interview.

[10] Confidential Interview.

[11] Confidential Interview.

[12] It is interesting to note too that this man agreed with the observation of a middle-ranking Finance official of the time that Finance Minister Walter Gordon "just wished the whole multilateral international economic system would go away."

[13] Confidential Interview.

[14] Confidential Interview.

[15] Confidential Interview.

[16] The classics in this genre include Janis (1972) and Holsti (1975).

[17] The adoption of multilateral standards of injury entail agreement on the standards of domestic market disruption, which trigger a state's legitimate resort to anti-dumping duties, or a countervailing tariff. Sovereignty principles suggest that a state wishes to retain discretion over injury determination, while interdependence principles suggest that multilateral standards constrain arbitrary action and foster cooperation.

[18] Protheroe (1980), p. 58.

[19] Confidential Interview.

[20] Confidential Interview.

[21] Confidential Interview.

[22] Confidential Interview.

[23] Protheroe (1980), p. 57.

[24] Confidential interview.

[25] Confidential Interview.

[26] Confidential Interview.

[27] Confidential Interview.

[28] Confidential Interview.

[29] Confidential Interview.

[30] Confidential Interview.

[31] Confidential Interviews.

[32] Confidential Interview.

[33] Confidential Interview.

[34] Confidential Interview.

[35] Confidential Interview.

[36] Dewitt and Kirton (1983), ch. 6.

CHAPTER FIVE: 1968-1982, THE POLITICAL ECONOMY
OF STATE REORGANIZATION

The argument of the previous chapter was that, in spite of general turbulence in the policy-making environment from a number of different directions, the management and institutions of Canadian foreign economic policy remained quite stable in the mid-1960s during the Kennedy Round of the GATT. The GATT was increasingly becoming Canada's bilateral trade treaty with the United States, as Canadian economic activity became more dependent upon continental economic ties. As such the GATT served to provide an institutional centre for insulation of the post-war community of mandarins in the three core departments of External Affairs, Finance, and Trade and Commerce. This insulation was from other ministries, and also from political "interference" from the political level, which was torn by debates about the effects of increasing U.S. investment. In this chapter we will see recommendations for institutional and managerial change become more about fundamental political values. We will also see the erosion of the solidarity and insulation of the core departments.

As I will demonstrate in this chapter, there were those, especially junior and middle rank officials in External Affairs, who felt the need for institutional reform. With the end of the Kennedy Round and the coming to office of the

new Trudeau government oriented toward change, there began a long period of reform and reorganization of the institutions and processes of foreign policy. However, as I hope to demonstrate, these reform proposals entailed not merely the superficial shifting of deck chairs on the ship of state. Rather, the debates on reform engaged more important issues such as the form and purpose of the state in the international political economy, and in the domestic political economy. As I noted in chapter one, many analysts and participants have explained these reorganizations as being the result of personal preferences on the part of the Prime Minister, a manifestation of bureaucratic politics, or re-establishment of administrative rationality. I will argue in this chapter that all of these factors played a part. In particular, there was a clear sense of a need to re-establish some normative sense to the Canadian state as a unified rational actor. While this was articulated by participants from within a theoretical framework typical of administrative studies, the more fundamental factor was the need to adapt the state to changes in the international political economy outside the expected parameters of embedded liberalism, in the direction of neo-mercantilism.

This chapter will proceed in three sections. The first section will examine the years from 1968 until the beginning of the Tokyo Round of the GATT, looking in particular at the Third Option, industrial strategy, and External's efforts

to institutionalize inter-departmental coordination. The second section will look at the reforms in the management of Canada's international economic relations during the Tokyo Round. The final section, which overlaps somewhat with the the Tokyo Round, covers the years 1977-1982, the years from the appointment of Allan Gotlieb as Undersecretary of State for External Affairs until the reorganization which brought the Trade Commissioner service, and other instruments of trade policy, within External Affairs. In this chapter particular attention will also be paid to efforts by External Affairs, along with other agencies, to obtain greater involvement in the making of Canada's international monetary policy in the IMF and the World Bank.

What will become apparent in this chapter is that one of the effects of the decline of American hegemony was to erode the distinction between "outside" and "inside", between domestic and international political economy. This distinction was central to the postwar embedded liberal compromise. It was this erosion, the rise of in Third World issues, the growing salience of bilateral Canada-U.S. relations, and the increasingly mercantilist, competitive international political economy, which prompted the recognition of the need to reform. These issues created a sense of disorder and instability because they entailed challenges to embedded liberalism which could not be managed adequately by the United States in hegemonic decline, nor by

the regimes established as part of the post-war order under American tutelage. While not necessarily of equal importance, these issues are connected. As we began to see in the previous chapter, the rise of the third world agenda tested the normative parameters of embedded liberalism. The rules of the game, their universalism and legitimacy, were coming under increasingly critical scrutiny. This, combined with the growing crises of American hegemony, made stabilization of the Canada-U.S. relationship a matter of greater concern and bilateral management. No longer was the GATT as viable as Canada's trade treaty with the United States. This chapter argues that institutional reorganization was symptomatic of these systemic changes.

This chapter will demonstrate that the reorganization of the state for foreign economic policy was a tortuous and conflictual process because the senior mandarins of the "community" discussed in the previous chapters did not all agree that change was necessary. While the Tokyo Round of the GATT acted in some measure to bolster the authority and roles of those in the "community", the need to involve the provinces and the business community more closely in the Tokyo Round process challenged in a major way the "community's" experience in managing the round.

This chapter will show that it was not External Affairs which took the lead in bringing the reorganization of 1982 to a head. While some members of DEA perceived the need for

change at least as early as the mid-1960s, the leadership of the department was committed to the institutions and processes which had become part of the post-war Embedded Liberal state. It was, instead, the Prime Minister's Office, and in particular Michael Pitfield, who put new leadership in place at External committed to reorganize the instruments of state.

The reorganization at External was part of a larger reorganization of the state designed to make the machinery of government more purposively rational in a disorderly and competitive world. The reorganization sparked a debate, sometimes explicit, more often implicit, among top officials of the community raised in the embedded liberal tradition, and other bureaucrats, inside and outside DEA, attuned to a more mercantilist, state-centric model of competitive international economic relations. This debate among senior officials was parallel to a similarly-structured debate, as we will see, in Cabinet and among interest groups. The two debates were parallel, but they were also connected. I argue that the debate over reorganization was one front on which the larger debate was carried on. The debate over reorganization was, in this sense, a proxy war for the broader debate, because it would not not have been appropriate for senior officials to contest openly basic political values.

I will conclude the chapter arguing that while much of

the attempted reorganization of the machinery was more or less successfully carried out, the more purposive elements behind the institutional reform were lost or dissipated in the battles. One of the reasons was that the normative environment in the international political economy had shifted. The debates were no longer simply between embedded liberalism and neo-mercantilism. By the early 1980s embedded liberalism was also being attacked from the "right", by proponents of neo-liberalism. Thus by the time the reorganization could be implemented, it required a dramatically different set of norms and actor expectations against which to be evaluated.

Finally, I will conclude that the cognitive and decision-making theory of Keohane, his theory about the demand for international regimes, appears here as an explanation and justification for the institutional insulation sought by the economic policy community which we have discussed here. As a functional theory of continuity, not change, Keohane's approach is ill-equipped to thoroughly understand the dynamics which were transmitted from the international political economy to the state's institutions and processes. We will find that the neo-Marxist and neo-Weberian approaches of Cox and Offe provide a useful basis with which to amend and critique Keohane's approach, and to understand "outside-in" approaches to international political economy.

CRISIS AND TRANSITION IN THE
INTERNATIONAL POLITICAL ECONOMY, 1968-1973

The years following the Kennedy Round and leading up to the August, 1971 winding up of the core of the Bretton Woods system by Richard Nixon were a crucial transition in the global political economy. They were the beginning of the end of United States hegemony. Throughout the 1960s the United States had been printing dollars to run a guns and butter economy, to finance both the Vietnam War and to pay for welfare programs at home. But, because of the reserve currency role for the dollar, and the strength and confidence in the United States built up over the post-war years, almost everyone in the world was happy to hold American dollars. Thus, the inflation which ought to have grown in the United States to restrain the printing of money, was exported, and postponed until there was a glut of dollars on the world market. There was insufficient gold in Fort Knox to defend the value of the dollar, and Nixon had to cease gold-dollar convertibility.

This situation was stable as long as confidence in the United States was maintained and there was no run to cash in dollars for gold. But growing criticism of America's role in the war, both at home and abroad, and domestic upheaval in racial riots, undermined American stability and leadership.

On the trade side, America had begun to run balance of trade deficits through the 1960s, and by the late 1960s and early 1970s these had become chronic and of significant proportions. America undermined confidence in the pre-eminence of the U.S. economy by buying more than it sold in world markets [1].

The seminal event capping this transition in the world was the action taken by Richard Nixon on August 15, 1971, to cease gold-dollar convertibility, thus dismantling the foundation upon which Bretton Woods was built. Nixon also created the Domestic International Sales Corporations (DISC), a package of measures designed to induce American multinational corporations to repatriate production activities and create jobs in America.

In Canada there also was a generalized mood for change in government, from which the foreign policy arena was not exempt. Pierre Trudeau became Prime Minister in 1968, and promptly established a cross-country mission to debate with Canadians about what the country's foreign policy orientation ought to be. This produced the "white paper" FOREIGN POLICY FOR CANADIANS which announced the intention to pursue a more national interest oriented foreign policy, in contrast with the perceived notion of idealistic internationalism which had been characteristic of the Pearson years. Along with a fundamental review of policy Trudeau set out to reorganize the "machinery of government"

in order to introduce a more formally rational process to decision-making, which, as we shall see in greater detail below, included foreign policy [2].

The Nixon measures of August 1971 caused a crisis in Ottawa when Canada was not, as it had been on two previous occasions in the 1960s, exempted from U.S. efforts to repair problems with the balance of payments. This alteration in the presumed special relationship was confirmed by Nixon's visit to Ottawa in January 1972 in which he made it clear that the U.S. saw Canada, equally with other countries, as a contributor to its economic problems, and that relations with Canada would henceforth be conducted on a basis consistent with traditional state-to-state diplomacy.

While I will examine these issues in greater detail below, it needs to be noted here that the response in Ottawa was, following a brief period of crisis-induced solidarity, one of profound debate. The Department of External Affairs produced the Third Option paper in which it argued for a policy of diversification of foreign policy and trade links outside the deepening integration of the Canadian and United States economies, linked to a domestic industrial strategy. While External, therefore, was expressing a lack of confidence in market-driven economics and, at least implicitly, in American leadership, Finance sought to re-establish its Ottawa-Washington connections, and restore the system's stability. Much was made of the role of Finance

Minister John Turner in chairing the Committee of 20 leading countries at Jamaica seeking to restructure and restore confidence in the international monetary system. Finance and Industry, Trade and Commerce, in particular, strongly opposed External's Third Option.

It is in this context that I will now examine in greater detail the arguments which were begun for a change in the conceptualization of Canadian foreign policy in the changing world scene, and the connections which this has to institutional reform and adaptation.

Arguments for Foreign Service Integration, 1968-1973

In this section of the chapter the focus will be the arguments made by a number of junior and middle-ranking officials in DEA for a reorganization of the department to account for changing power relations in the world, a reorganization which was complementary to efforts to reconceptualize Canadian foreign policy and role in the world. There was some increase in the processes and institutions of coordination and integration, encouraged by the Prime Minister's Office. But the changes which were implemented were less far-reaching than the proponents of change sought, because other departments opposed integration, and the leadership at External retained confidence in the institutions and processes built up in the

post-war period.

Two main reforms were achieved in this period. First, the Interdepartmental Committee on External Relations (ICER) formalized interdepartmental coordination, mostly of budgetary and personnel allocation. This was a disappointment for proponents of reform because, as we see below, some hoped ICER would become the institutional nexus for more broadly conceived consensus building and collaboration in substantive policy areas. Second, inter-departmental negotiation resulted in ambassadors becoming not simply DEA officials abroad, but representatives of the state as a whole, so that officers abroad from other departments, such as Labour or Agriculture, reported directly to the Ambassador rather than to their ministry in Ottawa, which had been the usual previous practice [3].

We have already seen, in Chapter Three above, that as far back as the 1950s there had been suggestions that the Department of Trade's Trade Commissioner Service ought to be a part of the Department of External Affairs. As a former DEA officer [4] noted, the Trade Commissioner Service "was always a gleam in our eye." In 1963, Marcel Cadieux, the Undersecretary at DEA, looked at the issue once again, along with departmental organization as a whole, in the context of the Glassco commission on government organization. With respect to commercial policy in particular he expressed general satisfaction with the existing coordinative

machinery. However, he added "a closer integration than now exists would be highly desirable" [5].

In the late 1960s External Affairs conducted its own review of integration possibilities and proposals, on a mandate from the Prime Minister's Office. It was clear from confidential interviews that Sidney Pierce, a long-time foreign service officer, who conducted the review, was instructed to come forward with proposals for a programme of integration [6]. As part of the process, senior staff at home and abroad were canvassed for their views, nearly all of whom supported some greater degree of integration of trade and economic work into External Affairs. Many cited a need to break down what they saw as psychological barriers growing between DEA and ITC officers.

Marcel Cadieux, however, seemed more cautious in his assessment of the need for integration. He was prepared to speak in terms of greater integration in staff at posts abroad. But at home in Ottawa, greater problems stood in the way of integration, and coordination was the greatest which could be expected. The department would have to continue to rely on the (newly created) Ministry of Industry, Trade and Commerce for technical and statistical analysis [7].

By 1968, however, concerns about departmental organization began to be expressed in broader, more conceptual terms. T.H. Bennett, the Director General of the Finance and Administrative Branch of DEA, wrote to John

Starnes, an Assistant Undersecretary at the time. For the previous twenty years or more, he wrote, the department was very small and it was, therefore, acceptable to conceive its mandate as narrowly political, so the "Department could not view its role as representing the totality of Canadian interests abroad," consequently "our officers do not feel an obligation to react positively to the needs of these other segments of the 'national interest' " [8].

The memo then goes on to link broadening of the department's conceptualization of the national interest with a central agency type of status and organization. It states that

the whole Department must be in foreign affairs a mirror image of the full spectrum of the Government's domestic policies when this is relevant. To adopt such a view clearly implies not only a willingness but a positive need on our part to promote as our own the objectives of the Government in all aspects of our national life that have an extension beyond our own frontiers" [9].

To provide for such authority and responsibility through a legislative mandate would arouse suspicion and opposition, Bennett argued. It would be better not to proceed from the top down, he added (somewhat presciently, as we shall see),

but from the bottom up, by upgrading desk officers, and by the realignment of Assistant Undersecretaries.

While it is difficult to be categorical, it does seem apparent that in the late 1960s changes in the international system were prompting some in Ottawa to reconsider the national interest, and the appropriate organization of the state to rethink, and pursue, a reconceptualization of Canadian role and interest. As a former DEA official stated it in an interview, "we began to brood about the role of the department." It was not a turf-seeking exercise, he said, "although I can understand how it could be seen as such from someone looking in from the outside. We were simply trying to define better what foreign policy was, as we were looking for better ways to organize ourselves" [10]. Two reasons were discussed as to why External needed to be reorganized. First, DEA was not having enough input or impact on what others were doing. There was no assurance that within ministries, and in embassies around the world, management and policy were aggregated to form a consistent Canadian approach to international economic activities. It was no longer the case, moreover, that it was enough simply to have good people, as Undersecretary Ed Ritchie would argue. Second, there seemed to be a split between policy making and budgetary authority. Policy and management needed to be brought together [11].

A useful illustration of how the rise of international

economic questions was seen to affect External, but that External was not seen as prepared to participate in discussing the impact of such changes, came in 1968. Cabinet had established a committee of ministers, and an interdepartmental committee, to study the structure of Canadian industry with special reference to foreign ownership and control. In a memo to D.H.W. Kirkwood, Director General of the Economic Relations division, James Hyndman argued that DEA ought to be closely involved.

If it is not intended that the study should be confined exclusively to economic aspects and implications (and I don't see how conclusions bearing on Canadian policy could be drawn without consideration of domestic and foreign political implications), this Department would seem to have a special interest in the study and to have an important contribution to make to it. [12]

Thus, as one official stated, the problems at the time were perceived as bureaucratic, administrative, and budgetary, but there was concern about the substance of the "national interest". The increasingly important role of economic issues in foreign policy was threatening DEA's status and influence in Ottawa. Questions of national interest were escaping External's purview because of the department's focus on political and diplomatic affairs. Some

felt that Paul Martin, the Secretary of State for External Affairs, through the 1960s, had allowed the department to become distanced from economic issues, because he was just not interested in them.

Indicative of this state of affairs was the decline of the formal instruments of coordination of economic issues. A former senior DEA official, returning to Ottawa in 1969 after a number of years abroad, said he found the coordinative machinery for commercial policy, such as the Interdepartmental Committee on External Trade Policy, had fallen into disuse.

Why, I don't know. So when I returned to Ottawa I decided to try and give it new life and make it work again. I won't hide that one reason was that the role of External in the economic community was slipping. The expertise was in the other departments, and the coordinative task was the main role of External, and that role had slipped [13].

There was a "discreet reshaping of forces," he said, but this was not something which other departments objected to because it was DEA's role to coordinate. That the new Prime Minister, Pierre Trudeau, was reshaping the overall machinery of government, provided a useful context. But, this respondent added, "the real cause was that the world

was changing, and that Canada's place in the world was changing."

It is clear from discussions with former DEA officials that they saw themselves as coming to see the world in a way that was substantially different from the perspectives in the other core departments. As one said, the world was changing in that the LDCs and Japan were becoming more important, there were OPEC and detente.

In this context we saw our relative power decline compared with most of the post-war period. Certain people around me were very much concerned about that. Looking at other departments, Finance was too narrowly oriented around Bretton Woods, while regional development banks were growing more important. Trade and Commerce was very much GATT-oriented. In my view they were not seeing the emergence of the developing world, which they regarded as a bunch of nuisances to be left to a few specialists [14].

It is clear that there was a fundamental philosophical re-evaluation of the purposes and objectives of Canadian foreign policy and the role of the Department of External Affairs in response to perceptions of fundamental changes in world power, leadership, stability, and order. Discussions with former External Affairs officials reveal that they

were, at least dimly, aware that such changes were in train and adaptive responses were required. As one former DEA official put it, the need to adjust was in significant measure seen as an almost desperate search for a new role for the department at a time when opportunities for Pearsonian internationalist initiatives were waning, and when the department's economic role was almost covert. "How do we justify our existence? It was almost as stark as that" [15].

By the end of the 1960s External was no longer a small cohesive generalist department responsible for political, diplomatic, and coordinative functions in a narrowly defined issue area called foreign policy. A simple survey of the government telephone directory or the organizational chart reveals a massive and apparently poorly organized expansion. But the massive expansion in the department through the 1960s and early 1970s was not balanced by a corresponding centralized control. As one former senior External Affairs officer said of the architect of these changes, Ed Ritchie, "He was a man of immense capacity, but he did not relish line people in his office all the time" [16]. So Ritchie eliminated the line responsibilities of Assistant USSEAs. But this fuelled further the enormous expansion because they were no longer "riding herd" on the line branches. "DEA became less of an intellectual department and more of a service department, and I think he

made an enormous mistake" [17].

It is also useful to compare External with Finance with respect to the management of their rapid growth. Finance's growth, as registered in the government telephone directories, was almost as rapid as DEA's in the 1960s, but it was, apparently, much more orderly. Growth was absorbed into existing divisions and branches, rather than necessitating the creation of new ones. Furthermore, it may be speculated, although it is hard to document, that while DEA may have become less intellectually coherent during the transition in the late 1960s and early 1970s, Finance was actually becoming more intellectually, or technically, rigorous, through recruitment of more highly-trained university economists, at a time when Economics was undertaking a paradigm shift [18].

In light of this massive expansion, budgetary constraints, and a loss of prestige in the Ottawa hierarchy, External hired a professional manager from the private sector. It was argued that effectiveness in inter-departmental competition required getting the ear of the government, and having an efficient organization won points "around town", it got the right people to the right meeting and forestalled raids on top personnel. Some in External felt that improving the department's managerial professionalism could enhance the department's image, prestige, and authority. "There was a perception of an

embattled and threatened department," the man the department hired said [19]. The diplomats felt a strong need to help themselves confront the outside world," which meant, he said, Treasury Board, the PCO, the Public Service Commission, the private sector, and interest groups. And this was especially the case with respect to ITC and Immigration, who were seen to have been much more attuned to modern management techniques.

However, traditionalists at DEA were reluctant to convert to modern management science because they had a sense of themselves as being unique - because it was much more difficult to quantify their inputs and outputs. This raised the fear that the "sharp pencil boys" at Treasury Board would find shortcomings or inefficiencies and deprive DEA while favouring the Trade Commissioner Service. The last thing that many at DEA wanted was to take a generation of brilliant memo writers and immerse them in programming, planning and budgeting techniques. "It was culturally abhorrent," the management expert said. "My job was to sort out some of the more extreme demands emanating from Treasury Board, while responding to what was real."

Conclusion

As one of the former DEA officials interviewed said, the "new thinking" which was engaged in by many in the department was "stillborn". As we have seen here there was a

perception that the world was changing in fundamental ways and that major innovations were required. But, as one said, "We were ahead of our time." Those who felt the need for more fundamental changes were relatively junior, and there remained a great deal of deference to the authority and hierarchy of the senior officials.

There were, nonetheless, some organizational reforms. Deals were struck with departments with officers abroad, such as Agriculture and Labour, to report through the local ambassador rather than through the home ministry in Ottawa. In return ambassadors abroad were to be recognized as representatives of the state as a whole, and not simply of DEA. However, this notion of DEA as a sort of central agency, implemented in posts abroad, was not implemented in Ottawa until the late 1970s and early 1980s. A former senior trade department official said that it was known that there was interest in greater integration and centralization in the public service at home, including transfer of the Trade Commissioner Service to External Affairs, but they said no and dug their heels in, "because we felt that this would not result in equal or better service to the business community" [20].

In Ottawa what was achieved was a more broadly-based, formal, and institutionalized process of foreign policy coordination, through the Interdepartmental Committee on External Relations (ICER), and the Country Programming

process for which ICER was the forum. An official closely involved with ICER for a number of years says it was always his impression from the documents from PMO/PCO establishing ICER that it had been intended to debate substantive policy, to be more than just a personnel and budgetary management exercise. However, he says, only budgets and organization were ever seriously on the agenda [21]. The reason for this was that the only real support for ICER as a policy forum came from PMO/PCO. Senior officials at DEA saw it as an opportunity for other departments to stick their noses in DEA's business. There was no leadership from Ed Ritchie on this because Ritchie preferred operating on a personal, one-to-one basis [22]. Because ICER carried the stamp of the Prime Minister no one actively opposed it, but there was much more "caucusing" outside ICER than coordination within. Deputy Ministers marked time and Prime Ministerial attention drifted, and ICER became irrelevant.

In this section we have seen that there were those in External and the Prime Ministers Office who sought to alter the conceptualization, policies, institutions and process of Canadian foreign policy, to account for a changing world order. But the changes sought were not carefully conceptualized, and those who promoted them were relatively junior. Opposition from the leadership of External, and other core departments which were established in the embedded liberal division of labour, were reluctant to

endorse more than superficial changes which they could not circumvent. In the next section of the chapter we look at the continuation of this debate, and extend it to that of domestic intra-state and state-societal relations in industrial policy, and the connection with foreign policy in the Third Option. It is with the intensification of the debate through the 1970s that we see the reasons why DEA did not get the reorganization that it wanted in the late 1960s and early 1970s. That is, we can see this period as an early round, vaguely conceptualized, of a debate about change in the international system, and appropriate means of state adaptation.

ORGANIZING FOR INDUSTRIAL STRATEGY

More fundamental responses to the crisis of the international political economy were the integration of the Department of Industry with Trade and Commerce in 1969, the pursuit of industrial strategy, and the Third Option of 1972. In the context of this work these three involved a debate within the Canadian state about (1) the linkage between the international political economy and Canadian foreign economic policy; (2) the relationship of industrial strategy with foreign economic policy; (3) the role and parameters of state action in forging a strategic response

in relating industrial strategy to foreign economic policy; and, (4) the appropriate institutional arrangements to conceive and implement such a strategic foreign economic policy.

As this section of the chapter aims to make clear, the linking of these three levels of analysis - international, state, and state-societal - were not always clear and explicit. But they were nonetheless never far from the surface. These issues and the debate we track through them are important because at bottom they represented a debate between the powerful community of top officials from the post-war era at Finance, Trade and Commerce, and External Affairs, and the tradition of embedded liberalism in which they had been "raised" professionally, and a more mercantilistic, state-centric, and competitive orientation to international political economy which was (at least implicitly) critical of that tradition, and the institutions which it had brought to prominence.

The Formation of Industry, Trade and Commerce

The integration of the Department of Industry with that of Trade and Commerce involved the joining together of departments with quite different mandates and outlooks. The Trade and Commerce side was responsible for promoting Canadian exports of staples and manufactures, and therefore

had a preference for maximizing access to foreign markets through trade liberalization. It was in Trade and Commerce that many of Canada's GATT experts originated, and there was strong commitment in the department to the GATT regime.

At the Department of Industry on the other hand there was an interest in the protection and promotion of Canada's growing industries, and there was a clientelistic institutional and personal relationship between industries and the department. Given that much of Canada's industrialization has been centered in Ontario and Quebec there was, therefore, also a regional bias introduced into the formation of ITC [23].

As I have indicated above, the coming to office of the Trudeau government brought many changes to Ottawa. Among these changes it is apparent that one was a preference for a more interventionist, "dirigiste" orientation of the state to the economy, and the pursuit of an industrial strategy along these lines was placed on the agenda. Between laissez-faire and mixed economy versions of modern capitalism, the "majority of Trudeau's Cabinet ministers belonged to the second school of thought", contrary to the prevailing preferences of the dominant corporate sector [24]. The amalgamation of Industry with Trade and Commerce, in part initiated by Michael Pitfield at the Privy Council Office, was designed to enhance pursuit of a comprehensive industrial strategy.

Within the government the leader in promoting industrial strategy was Jean-Luc Pepin, the minister at the newly created ITC. Interviews with those involved tend to confirm a picture of Pepin as a rather tragic figure, left out to swing in the wind by his department. The new ministry over which he presided lacked imagination. It was far too caught up in conventional models of economic behaviour and fearful of change, too willing to cling to the status quo [25].

On the other hand, Pepin "got fanatical" about industrial strategy. It was recognized that the concept itself was rather vague, but something new was needed. Pepin had been studying Japanese trading houses, and tried to sell the department on the idea that there may be more than one model for the promotion of industry and exports. But the department was unable to come up with ideas which he found satisfactory.

In response to Pepin's and Cabinet's request to come up with an industrial strategy proposal, an ITC economist was put to work on the task. But a former senior ITC official agreed this was a very traditional economist. In his paper the ITC economist argued that the best industrial strategy was a good fiscal policy, a rewards-oriented society, and market forces. The paper, this respondent said, was very unpopular in Cabinet. The preference at Cabinet was for the state to help phase out uncompetitive plants or industries, and to assist winners. The department's economist was told

to go back and try again. But through these debates, the senior ITC official says, "we discovered just how uncertain the political leadership was on what they wanted" [26].

The GATT was not an explicit reason for the dilatory opposition to industrial strategy proposals. But GATT was, nonetheless, their preoccupation, one of those close to the process observed.

Tariffs and non-tariff barriers were their single obsession, to which I said this was only a small part of trade policy. I said constantly, so much that I got bored saying it, that it was not enough to have the products and the plants, there must be the instruments and the institutions. I thought in more philosophical and institutional terms [27].

Following Pepin's electoral defeat in 1972, his successors, Alastair Gillespie and then Jean Chretien, sacked the notion of an industrial strategy as a seamless web, and the department delivered a package of sectoral reforms as industrial strategies (plural) [28].

At Finance, too, (if not more so) they tended to decry all such talk of industrial strategy. One of those interviewed recalled discussing with a senior colleague ways of getting around Nixon's 1971 DISC program. Canada's depletion allowance system had skewed the tax system in

favour of natural resource extraction, the former official said, so we considered cutting corporate taxes on the processing of natural resources and on manufacturing income. "You can call that industrial strategy if you like," he said. "But it is budget-related, so External and the others didn't really get involved" [29].

Conclusion

In this section of the chapter we have seen that the Trudeau government came to office in 1968 with a preference for greater state intervention in the pursuit of industrial strategy. The amalgamation of the department of Industry with Trade and Commerce was designed to link the clientelistically interventionist Industry department with the export-oriented Trade and Commerce to create the basis for greater exports of Canada's secondary industries. But the laissez-faire Trade and Commerce and Finance departments were able to take charge of the policy-preparation process and frustrate the apparent demands their Minister and Cabinet.

The link between doctrinal or ideological change and institutions is much more clear in the domestic industrial strategy debate than in the above section on institutional innovation at DEA. But, as we see in the following section on the Third Option, the two - industrial strategy and foreign economic policy - were closely linked conceptually,

but poorly linked institutionally.

The Third Option

The standard description of the Third Option [30] is of a hortatory call for Canada to renew efforts to broaden the horizon of its foreign policy contacts to counter the apparently inexorable trend of continentalism in an increasingly complex and interdependent world. The first two options set out the choice of maintaining the status quo, or of making a virtue out of an apparent necessity and explicitly exploring closer ties with the United States.

A closer reading of the document shows, confirmed in interviews with those involved preparing the paper, the expanding contacts, especially trade relations, were actually the foreign policy side of a document which was very much domestically oriented. Indeed, the basis of widened trading contacts was industrial strategy and a form of planning, or even corporatism [31]. However, it is ironic that Pepin, who was trying to pursue industrial strategy, did not recognize that there were potential allies at DEA, while senior mandarins were seeking to defeat the Third Option, at least in part because of its implied industrial strategy and "statism." DEA was divided in such a way as to make it difficult to pursue the core objective of the Third Option, and, as it turns out, the leadership of DEA was not "on

side" for any of the fundamental reforms being inchoately pursued: administrative bureaucratic reform, industrial strategy, or a Third Option which was 80 per cent domestic.

In the context of the Vietnam War, competitive economic nationalism, the energy crisis, and the Nixon measures of August 1971, the Prime Minister asked Cabinet to prepare and debate a set of proposals for long-term options. The job of preparing the paper was given to Mitchell Sharp, the External Affairs minister following Paul Martin, because he had significant experience as a minister or mandarin in all of the main economic portfolios. The choice gave DEA institutional authority, or a mandate, in areas in which it had little experience or expertise, but for which for some in the department had ambitions.

The industrial strategy part of the argument was implicit, but was recognized and opposed as such by Simon Reisman, who was Deputy at Finance and by James Grandy, Deputy at ITC. Their argument at cabinet was, however, not aimed at the domestic state intervention implied by the document, but that it was wrong for the government to make public for the first time what Canada's policy vis a vis the United States [32]. Nevertheless, Sharp wanted to make it clear that the policy was not intended to be protectionist or interventionist, but that Canada needed to restructure the domestic economy so that Canada would be less dependent upon the apparently faltering United States economy.

Interviews with those involved have indicated that the thinking at the senior levels of DEA was that GATT remained of central importance to Canada, but that there was enough room within the GATT to pursue industrial strategy. GATT, they said, was never meant to put in place pure laissez-faire economics. But opponents of the Third Option did deploy the GATT in their arguments. There was a bias for a minimum amount of intervention. Proponents of the Third Option at DEA say there was a clear desire in Ottawa to rein in the proponents of industrial strategy because of their protectionism, because interventionist industrial strategy exceeded the bounds permitted by GATT. There was concern that the Third Option was an opening to the protectionists [33].

The Third Option as it emerged from DEA, with some last minute interdepartmental consultation, went to Cabinet, and views are divided between proponents and opponents about whether it emerged as government policy, or not. Proponents say "yes" because it was referred to authoritatively by the Prime Minister, while opponents say it was never government policy, and that is why the document was published in INTERNATIONAL PERSPECTIVES, at that time a DEA publication, rather than as a more formal "white paper", like FOREIGN POLICY FOR CANADIANS. Those who claim to have seen the relevant record of Cabinet's discussion agree it is comparatively long and nuanced [34].

A main reason why the Third Option wilted, one former DEA official said, is that because 80 percent of its content was mainly domestic, its implementation required constant and persistent tending by External Affairs of other departments. But the conditions which might have made it possible for DEA to sustain such a role began to dissipate. The crisis atmosphere of 1971-72 faded as negotiations to restore international economic order were organized. Enthusiasm for foreign policy issues in the Prime Minister's Office waned. Ed Ritchie, the Undersecretary at DEA, was not an enthusiastic supporter of more far-reaching aspects of the Third Option, and therefore was not willing to be constantly "going to the wall" for the the Third Option in struggles with other departments. He felt that the Third Option could put too many new battles on his agenda. Therefore, requiring a major selling job, lacking continued Prime Ministerial attention and a crisis atmosphere, facing opposition from the other key economic departments, and with External lacking the instruments and authority to implement the policy on its own, only the 20 percent of of the Third Option which was "foreign" and "political" was consistently pursued.

The Third Option, therefore, was a policy framework set out by External Affairs to reduce Canadian dependence on exports to and imports from the United States, and to slow down or reduce the integration of the economies of Canada

and the United States. Described by those who prepared the document, 20 per cent of the policy consisted of traditional foreign policy measures such as the promotion of trade to other countries such as Europe, the Far East, and some rapidly developing countries. But 80 per cent of the policy was domestic and economic, consistent with the industrial strategy orientation being pursued at ITC by Jean-Luc Pepin. This would necessarily involve External much more closely in policy areas such as energy, regional policy, science and technology, and research and development.

The Third Option was opposed by the top officials at Finance and and ITC. This was because the Third Option implied a new and more active role for External Affairs in economic affairs, a role which implied as well a greater role for the state in the economy. It appears, however, that External had trouble getting even its least ambitious goals accepted in the bureaucracy.

Illustrative of this problem is an exchange between DEA and DREE, the Department of Regional Economic Expansion, in 1975. External was complaining that DREE, and other offices, were misunderstanding the role which DEA should play on a steel trade mission to Japan. As A.S. McGill of DEA wrote to DEA's Commercial Policy Division, the "problems we have been having with DREE are not confined to this particular mission but reflect an inability to date to get a message across to DREE that our role in international economic activities goes

beyond issuing passports and sending and receiving messages" [35].

As a result of these problems - high level concerns at Finance and ITC about the competence of DEA to advise on domestic and international economic matters, the political desirability of External's participation in such activities, and the lower level, bureaucratic obstacles to effective participation - the status of the Third Option as official government policy was uncertain (at best).

Summary and Conclusion

The purpose of this part of the chapter has been to demonstrate that in the post-Kennedy Round of 1967-1973, a period in which the world economy began to experience the onset of the crisis which was to persist for some years to come, sectors of the Canadian state instigated adaptive policy and administrative reforms. The conscious and explicit reasoning behind such adaptation was not always strategic and comprehensive, and no one at the time would admit to conceptualizing the external changes as consistent with a decline of American hegemony. When asked, most observed that it was the trees, not the forest, domestic or bureaucratic concerns which were the immediate cause. However, at the same time, most conceded that, in hindsight or in considering the wider perspective, global change was significantly behind their concerns about the

appropriateness of existing policies and government machinery.

The adaptive changes considered above - making posts abroad outposts of the state as a whole and not of DEA alone; improving DEA's professional managerial skills; formalizing interdepartmental coordination in Ottawa; merging Industry with Trade and Commerce; policy developments such as industrial strategy and the Third Option - do not repudiate the parameters of what has been described as the embedded liberal state. As one of those interviewed stated, no one was intent on "changing the face of the nation" in a radical way, and the proponents of change made great pains to underline that their intention was not protectionism or interventionism. Indeed, one of those interviewed argued that one (minor) purpose behind the Third Option was to shift the centre of the state and government slightly leftward to pre-empt those such as the Waffle of the NDP, whose project it was to, in some sense, change the face of the nation. As indicated implicitly or explicitly by many of those interviewed, the proposed changes would entail some shifting in the balance of the political economy between the public and private sectors, but not outside their perceived parameters of embedded liberalism.

Therefore, it is not so much the absolute changes which created conflict in the relationship between those proposing

reform and those identified as the post-war community of trade, commercial policy, and international economic policy mandarins. It was that the proposed changes fell within the broadly-conceived notion of neo-mercantilism, a doctrine or practice which had growing numbers of adherents in many countries. The spread of these practices contradicted the intended historical, hegemonic dynamic of embedded liberalism, in the intended direction of progressive liberalization and multilateralism. As indicated from the previous chapter, the prevailing view of the "community" seemed to be to accept free-riding or exceptions to the rules of the game, but to ensure that the rules moved toward liberalism, and did not fall back toward protection and bilateralism.

Finally, as I have noted, the Canadian version of neo-mercantilism in this period was far from strategic and comprehensive. Had it been so, policy such as industrial strategy and the Third Option would have been explicitly linked to integration such as that of ITC in 1969, and with coordination efforts such as ICER. But the proponents of adaptation were dispersed, relatively junior, and uncertain about what the goals were; the community opposed to reform was small, senior, and of like mind in favour of the status quo of personal and informal coordination within the parameters of a well-known international framework of action. The resumption of the Multilateral Trade

Negotiations in the Tokyo Round re-established the status, role, and authority of the community, and postponed further serious consideration of reform until the late 1970s. In particular, the Tokyo Round offered an opportunity to resume the precarious balancing act of managing the pre-eminent relationship with the United States within the multilateral context of the GATT. In this respect, therefore, we can see how the international political economy, debate on policy responses, and institutions, interacted. Small size, seniority, and centralization aided the opponents of change.

THE TOKYO ROUND

I have already indicated that the world economy was in a transition and crisis in the period following the Kennedy Round. Many countries, now including the United States, began raising protectionist barriers, and the U.S. also formally closed the Bretton Woods phase of international monetary relations by ending convertibility of the U.S. dollar into gold. This neo-mercantilism challenged the parameters of the post-war embedded liberal compromise. In embedded liberalism states were assumed to intervene in their economies to provide welfare and to promote adaptation to the progressive implementation of liberalism. In the new mercantilism states acted to alter the conditions of supply, demand, production, accumulation, and import and export, in ways which challenged the very conditions of liberalism. States sought to create and manage their respective comparative advantages in the more dynamic, high value added sectors of the world economy. Raised in many minds was a return of interwar anarchy, of beggar-thy-neighbour policies. A new round of the MTN was needed, many argued, to restore order and stability against the threatened resurgence of economic anarchy. As Gilbert R. Winham has put it, the argument was often expressed in terms of the "bicycle theory". Liberalization was like riding a bicycle: you had to keep pedalling, or the bicycle would fall down.

Unless

GATT sustains the momentum in the fight to maintain a liberal trade regime, this regime will collapse as nations take unilateral actions to protect their producers from foreign competition. Negotiation is therefore perceived as an antidote to protectionism, and by and large the history of trade relations has supported this perception [36].

Briefly, the Tokyo Round picked up from where the Kennedy Round left off, and instituted new initiatives in keeping the tide of protectionism and neo-mercantilism at bay. With respect to interdependence principles, non-discrimination retained some significant salience for trade among OECD states, but voluntary export restraints (VER), orderly marketing arrangements (OMA), and the Generalized System of Preferences (GSP), undermined non-discrimination in many trading relationships. Liberalization was perhaps most strengthened, with progress made in codes regarding non-tariff barriers, and some further lowering of tariffs. Some advance was made in multilateral rule making and implementation, such as the effort to bring VERs under GATT supervision. The GATT secretariat's substantially improved data collection and analysis contributed to enhanced multilateral rule implementation [37].

However, sovereignty principles were strengthened by further release from reciprocity by LDCs, and by the failure to ratify the code on safeguards. The continued use of the linear tariff cutting process sustained multilateral rule making, and the number of "foremost" actors was widened such that the EC and Japan were more nearly equal to the United States. Nevertheless, bargaining remained concentrated in the hands of the world's principal economies [38].

In spite of the crisis of the international economy and pressing needs for a resumption of multilateral bargaining, the Tokyo Round was slow and difficult to launch. While the round began officially with the September 1973 ministerial meeting in Tokyo which gave the round its name, legislation authorizing the U.S. President to negotiate was not signed into law until January 1975, after a conflictual passage through Congress. Further delays were caused by the U.S. election and the naming of a chief negotiator by the new President, Jimmy Carter. Most of this early period engaged the GATT Secretariat and the Contracting Parties in data collection and analysis. The round was concluded, then, in two years of intensive negotiations in Geneva, ending finally in Spring 1979.

This section of the chapter will proceed in two stages. The first will examine the early years of the round, from 1973 until about 1977, which were primarily preparatory, during which the United States was sorting out its

negotiating authority. In this section the focus will be on difficulties in relations among the three traditional core departments, Finance, ITC and External, as they renegotiated the division of labour which had been jostled in the hiatus since the Kennedy Round. There was a new dimension added, however, and that was the growing demands of the provinces, business, and labour, to be more closely consulted and involved in decision-making in trade-related issues. The second section will examine more closely some of the specific issues of the round as they affected Canada and the intra-state, and state-societal relations of the period.

Canada in the Early Years of the Round

We have seen in the previous chapter that the departments responsible for trade and commercial policy negotiation were insulated from domestic interests. The key negotiations at Finance, Trade and Commerce, and DEA, would meet with and receive submissions from firms and industry representatives about what they wanted and could accept in terms of demands and concessions. Then, this group of mandarins would negotiate on the basis of these consultations, and the negotiations would be managed through informal discussions and in interdepartmental committees. The image one has is of a state insulated from domestic interests during the trade negotiations, an insulation bolstered by regime institutions

and norms.

In contrast, the negotiation of the Tokyo Round was marked by a breakdown of insulation, and a rise in conflict among the three core departments. The intervening years between the Kennedy and Tokyo Rounds were, as we have just seen, turbulent ones for the international political economy, and for the organization and management of the state for international economic relations. The rise of neo-mercantilism served to undermine the separation which had long existed under embedded liberalism between domestic and international economics. The debates on what to do about this changing political economy, which I examined in the section above, served to sour the "community" spirit which had existed among Finance, External, and IT&C. External's attempts to promote what were seen as interventionist and self-serving scenarios caused questions to be raised about the department's "soundness" on important economic issues. Furthermore, in the intervening years, the autonomy of the state as a whole to negotiate on these issues was being challenged by the provinces, business, and labour, all of which saw their interests much more directly at stake in international economic relations, and wanted to be closely involved to safeguard those interests.

In the Tokyo Round Canada was under pressure from its negotiating partners to participate on an equally multilateral basis as the other Contracting Parties, to

reassess its commercial policies, and to reduce protection of domestic industry following its alleged free ride in the Kennedy Round [39]. Consequently, domestic industry was to take a more active interest in the ongoing negotiations. Moreover, because the Tokyo Round was to engage more seriously the issue of non-tariff barriers, the provinces' direct constitutional prerogatives would be affected.

In the more complex international and domestic environments, a number of venues were developed for the management of Canada's participation in the Tokyo Round. First, there was the Canadian Trade and Tariffs Committee (CTTC), which was established to channel representation from industry and interest groups. The CTTC was inter-departmental, including the three core departments plus other line departments such as Labour, Energy, DREE, and Consumer and Corporate Affairs. To bring the provinces in a Federal-Provincial Committee of Deputy Ministers of Industry was created which was a compromise of the provinces' demands to have representation on the negotiation delegation in Geneva. Reports from these committees, along with departmental analysis, were transmitted to the Trade Negotiations Coordinating Committee (TNCC), the successor to the post-war triumvirate of External, Finance, and IT&C [40].

Winham quotes one official as saying the TNCC was "too oriented to the MTN, and not to the wider picture," unable

to link the external and domestic ends of trade or commercial policy and domestic political economy [41]. Others have conceded point [42], saying that the TNCC, chaired by DEA, was not doing its job, and that the PCO was fed up.

Also illustrative of the difficulties among the three core departments was a dispute over an important memo to go to the Ministers: MacEachen at DEA, Turner at Finance, Gillespie at ITC, and to the PCO, concerning which economic sectors were to be subject to negotiation in the round. ITC had prepared the memo, but Finance and DEA were strongly opposed to its being forwarded to the Ministers. The two departments in opposition agreed that the memo had to be fleshed out further, and further interdepartmental negotiations were required before it could go before the ministers. While it is unclear from memoranda what the substance of the disputes entailed, it is clear that the disagreements were played out over at least six months in 1975. The PCO was frustrated that the solution agreed among the three core departments was to involve ministers as little as possible. As one document states, the memorandum on sectors had been intended for full Cabinet, but when the interdepartmental difficulties arose, it was decided among the three core departments that a way of short-circuiting these in future was to provide negotiators in Geneva with Ministerial authority by reference only to the ministers

most directly concerned. This did not raise as many objections as anticipated, especially from Energy, Mines and Resources, and from Agriculture, and there were feelings in Ottawa that this method might be used to seek ministerial authority for most areas of the negotiation, sending only the most important memoranda to full Cabinet [43].

In this episode we see that the three core departments had some substantive problems in the negotiations, which could only be resolved by attempting to retain their relative autonomy from political processes involving provincial governments and the private sector. When the PCO, trying to manage the politics of the process, was confronted with this obduracy on the part of the core departments, it sought ways to reorganize the core departments' relations. A senior PCO source complained in an interview that officials of the three core departments rarely considered that trade deals in the 1970s had to be "shopped around" to the provincial capitals.

In 1977 the government appointed the Canadian Coordinator for Trade Negotiations (CCTN), Jake Warren, having him report to Cabinet through Deputy Prime Minister Allan MacEachen. This was a move which Winham says "reduced the role of the principal federal departments in the trade negotiation," and "increased the role of the provinces" [44].

Part of the reason for the existence of problems among the core departments in the early years of the round seems to have been that there was no pressure emanating from outside the country to centralize and give order to the inter-departmental and state-societal patterns of consultation. As one participant recalled, in the early days of the Tokyo Round there was not a great deal of work to do while the Americans settled negotiating legislation for the President. Coordination activity in Ottawa was not intense, and ITC and Finance resisted the idea that the middle-level working groups should get too close to DEA, despite the fact that the TNCC was chaired by DEA [45].

Robert Strauss was appointed the U.S. President's Trade Negotiator in November 1976, and upon his appointment toured the capitals of the principle trade powers, emphasizing that he had a tight deadline to meet with the MTN, so they should hurry and prepare their delegations for the negotiations. The departments were forced to recognize that they were going to have to make the coordination work. There was a very private lunch with the three key Assistant Deputy Ministers, who were personally close, and who knew why coordination was falling short - Finance and ITC did not want DEA to have much territory [46]. Views differ about the details of the process which brought Warren back from Geneva to be named CCTN, but it is clear nonetheless, from interviews and from documents, that the process was a

delicate one, centered around a need not to favour one or more of the three departments. So, while Warren's office was located in the C.D. Howe building, the home of ITC, Warren reported not through DEA, ITC, or Finance, but directly to Allan MacEachen, who had been named Deputy Prime Minister.

While it would, I think, be a mistake to overstate it, it seems evident that within the "natural triumvirate" there was a degree of tension that was unusual in the post-war period. A number of factors lead one to believe that the relatively comfortable division of labour within the state for the management of international economic relations had deteriorated significantly. It seems more clear than in earlier periods that DEA, as a department, was not "trusted" by the other departments to carry a substantive policy making role, beyond that of coordination. Also, the erosion of the international/domestic distinction which was characteristic of embedded liberalism, politicized issues in a way which challenged the triumvirate's traditional autonomy.

A number of reasons for External's "decline" emerge from discussions with principals. The first is a long-standing one, the concern about rotationality, the quite rapid and frequent changing of assignments among foreign service officers, with the effect of a failure to develop depth and expertise. While this aspect of DEA's operation has long

been a topic for debate - the generalist versus specialist debate - it may have taken on a sharper relevance in the 1970s. The 1970s were years in which Finance seemed to take on a more academic, orthodox, theoretical laissez-faire liberal line (and also at a time when Finance itself, as well as DEA, was the victim of some "poaching" from the Prime Minister's Office). This development at Finance is difficult to support with evidence [47], but it is a factor toward which a number of those interviewed pointed. This is further supported in the gradual obsolescence of the tariff as an instrument of revenue and of economic development, a central historical and legislative basis for Finance authority in trade and commercial policy making. Indeed, one of those interviewed even recalled Finance officials going to interdepartmental meetings arguing the textbook laissez-faire line of unilateral tariff reductions, ignoring the sovereignist injunction on reciprocity. Finance, therefore, may be seen as weakening in its support for the sovereignty leg of the embedded liberal compromise, becoming more committed to interdependence.

A second factor internal to DEA affecting its inter-departmental credibility was the apparently growing internal division between multilateralists and bilateralists. As one long-serving Foreign Service Officer [48] said, for much of the post-war period the two central bilateral economic relationships, those with the U.K. and the U.S., were

"housed" in the department's multilateral Economic division. With Britain's relative decline in importance as a Canadian trading partner and its admission to the EC, this distinctive treatment of the U.K. became redundant. The distinctive U.S. position in the Economic division was based on the perception of the GATT as Canada's bilateral trade treaty with the U.S. However, the crisis in the world economy, the Third Option, the Canada-Europe Framework Agreement, the foreign policy Review, the Nixon speech in Parliament ending the formal so-called special relationship between Canada and the U.S., as well as the decline of U.S. hegemony, contributed to DEA's creating a separate Division for Canada-U.S. relations. This increased the salience of the bilateral in contrast to the multilateral approach to foreign policy management. A letter from A.S. McGill of DEA to departmental official Vern Turner in Washington on 16 November, 1975, underlines the novelty and sensitivity of this change.

One of the most interesting things that is happening here at the moment is the effort of our Department, through the U.S.A. Division, to establish ourselves as a manager of the Canada-U.S.A. relationship in a way that has never been done before. The strengthened authority which was obtained from Cabinet in December 1974 for External to play this role was, I gather,

stubbornly resisted, but it did give us a clearer and fresher mandate than ever before. ... Our problem is to pull these individual efforts (on USA, Japan, Europe, and the NIEO) together into a cohesive and clear role as the prime movers in Canadian foreign policy, both in the intellectual and the managerial sense [49].

It was not DEA's economic policy people who promoted this development, but the political side, and it was this group which was responding to encouragement from the PMO-PCO for a more strategic foreign economic policy, such as was implied in the Third Option. For example, the Framework Agreement, or the so-called Contractual Link with the European Community, was widely seen as an example of giving the Third Option practical effect. Under the rubric of the Framework Agreement there was an initiative in the mid-1970s, from DEA and the Prime Minister's Office, to lean on Air Canada to purchase additions to its fleet from the Euroconsortium Airbus Industries, a move strongly opposed by Finance and ITC. This new "strategic trade policy" did not affect only relations with Europe, for a Finance official [50] recalled spending "too much time" following the Prime Minister around the world negotiating joint economic agreements with anyone with whom the slightest case could be made.

Finance and ITC raised in the post-war "community"

resented what they considered the politicization of trade relations created by the rise of the "bilateralists" at DEA. Bilateralists at DEA, it is argued, did not support GATT because when issues got on to a multilateral agenda they lost control. DEA came to be dominated by the bilateralist side, and the last thing they looked at was Canada's right under the "law" which GATT and other such treaties provide. A Finance official of long experience said there had always been distinctive cultures in multilateral and bilateral bureaus at External. He recalled always trying to keep issues away from the bilateralists - they were more fussy and formal, they would always blow things out of proportion [51].

In this section of the chapter I have tried to show that in the early years of the Tokyo Round changes in the international political economy following the Kennedy Round undermined the ability of the post-war community of trade policy officials in the three key departments to recreate the unity and autonomy which had characterized Canada's participation in earlier rounds of the MTN. The attempts by External in the period 1968-1973 to strengthen its own role by anchoring a more formally integrated and coordinated policy process, to claim a voice in such domestic policy areas as industrial policy, and to enunciate "interventionist" and politicized doctrines such as the Third Option, raised mistrust in the other two main economic

departments, Finance and ITC. We have also seen that with the participation of the provinces, the private sector, and many other government departments in the on-going multilateral negotiations, it was more difficult for the three departments to maintain the authority and the autonomy to resolve their differences which they had had in the past. Furthermore, changes within DEA and Finance, bilateralism in the former and increased liberalism in the latter, reflect changes in the international environment. Their mutual apparent increased sensitivity to the bilateral U.S. connection, joined by the "ideological" differences between the two, set the two departments up as contenders in this increasingly important dimension of foreign policy.

Issues of the Tokyo Round

The Tokyo Round of the GATT addressed a complex array of issues in attempting to move beyond tariff reduction into the area of non-tariff barriers. In this section of the chapter I will look at three issues which were of particular importance to Canada: renewed efforts to bring Canada into the process of linear tariff cutting; safeguards and voluntary export restraint agreements; and subsidy and countervail codes. In a manner similar to that examined in chapter four above, these three issues will be utilized to assess the extent to which Canada was moving in the

direction of sovereignty or interdependence principles, and whether the departments involved adopted distinctive positions. We will find that (1) in linear tariff cuts Canada adopted a revised linear formula in the face of strong fears from the manufacturing sector (a sovereignty-oriented position); (2) on safeguards and VERs Canada signed an agreement with the U.S. and Europe approving tighter controls under GATT purview (an interdependence-oriented position), but the EC backed out; (3) on subsidy and countervail Canada accepted the new codes (an interdependence-oriented position), in part, at least, once again, because the Europeans could be counted on to block anything that would be have been a threat to Canada's regional development programs. In general, then, we can see Canada moving slowly toward a more interdependence-oriented stance in the Tokyo Round.

Linear Tariff Cutting

With respect to tariffs and the process of tariff cutting, Canada was, once again, something of a defector from multilateralism. And, once again, the reason was reluctance to expose Canadian industry to interdependence and international competition.

Participants in the Tokyo Round adopted a Swiss formula for linear tariff cuts, one which would cut tariffs basically in proportion to the height of the tariff. This

formula, when aggregated, would lower tariffs by about 40 percent among developed countries over its eight year phase-in period [52]. Canada, as a relatively high tariff country, would see its tariffs cut proportionately greater than its trading partners.

It is clear that there were strong contradictory pressures on the government and the negotiators from domestic economic interests, and from the other Contracting Parties. There was pressure on Canada to adopt the linear formula and adhere to interdependence principles. At the same time, the Canadian Manufacturers' Association (CMA) was most reluctant to expose its members to international competition.

The CMA was concerned that the government was about to accept the principle of tariff harmonization, a central element of the Swiss formula which would have high tariffs cut in greater proportion than low tariffs, to harmonize tariff levels among high and low tariff countries (of which Canada was seen to be among the former). Manufacturers expressed their traditional argument that lowering tariffs in this manner would pose a serious threat to Canada's manufacturing sector, that the government would give away Canada's manufacturing sector in return for greater export penetration of Canadian traditional exports of staples and raw materials.

The CMA was told that in balancing all elements of the

national interest, no one will be allowed to suffer unduly. It was explained that harmonization did not mean that all countries would be applying the same rates of duty on comparable products, except, perhaps, in forest products and in non-ferrous metals. Nor did it mean that Canada accepted in full the principle of harmonization. The manufacturers were told that the conclusion of the Tokyo Round would still see retention of a measure of effective protection, a factor well-known to economists in which a minor nominal level of tariff protection between raw materials, intermediate goods, and end-use products, creates a wide margin of real protection for domestic producers. Furthermore, the government gave assurances that concessions granted by Canada in the manufacturing sector would be balanced by gains for Canada, not in raw materials and resources, but in manufacturing [53].

In the end, Canada did adopt a linear format for reduction of tariffs, but not the Swiss formula adopted by most of the other Contracting Parties. Canada also registered serious reservations concerning a new customs valuation system adopted by the Contracting Parties. On these issues then, Canada can be seen to have made some progress towards acceptance of interdependence principles, but while retaining some protective caveats and exceptions. In the central bilateral relationship, however, that with the United States, Canada negotiated an agreement which

basically harmonized tariff levels between the two countries [54].

Article 19

One of the central issues of the Tokyo Round was the attempt to promote multilateralism by finding a way to avoid selectivity, discrimination, and bilateralism in safeguards action in general, and in Voluntary Export Restraints (VER) in particular. The issue first arose with the growth of Japan and other NICs as sources of low cost imports - which posed threats of market disruption in the developed countries. "The dilemma for importing nations was that not to act risked severe dislocation in domestic markets, while action (presumably non-discriminatory) under Article 19 would disrupt the trade of third countries that were not the cause of the problem" [556]. Bilateral VERs had grown up as "illegal" extra-GATT measures to control the problem, such as in steel, electronic products or automobiles, while the Tokyo Round sought to bring these practices within the surveillance of multilateral processes.

As one ex-Finance department official [56] stated, Canada has never gotten over, even to the 1980s, the schizophrenia of being both an importer and an exporter. In the past the Trade Policy side of ITC would hammer out a policy in the exporters' interest and in the interest of hemming in the United States, but then the import substitution side of ITC

would react, and often, get the better of them on the basis of political electoral appeal, despite support from DEA and Finance. Nevertheless it had always been felt that multilateralism protected Canada through strength in numbers; it was the exporters' view, that the more who complain, the better [57].

But, as a result of the rise of the Newly Industrializing Countries (NICs), there began to be felt a change of perception, one that saw the NICs as great a threat to Canada's industrial structure as the United States. Therefore, to adopt the multilateral approach to export restraints could mean throwing the U.S. into the same pot with Japan, Singapore, or Taiwan when taking action against "goods regardless of source", instead of selectively. Similarly, when the U.S. took action against disruptive imports from LDCs under a multilateral provision, Canada could get side-swiped [58]. Thus the increased complexity of the international division of labour represented in the rise of the NICs was altering the structural context in which Canada viewed its relationship with its chief trading partner, and seemed to be reducing the desirability of seeking multilateral solutions.

The slow changes in the international division of labour had an apparent effect on Canada's decision-making on VRS. Some participants recalled Canada favouring multilateralizing safeguards and VRS in the interest of

constraining the big players, the U.S., the EC, and Japan. Others, however, recalled a preference for retaining sovereign capacity to retaliate, unencumbered by international rules. "We do 90 percent of our trade with partners who are more powerful than us," said one participant. "We wanted to have the legal right to retaliate unilaterally if someone adopted safeguards against us" [59].

In the end, Winham reports that Canada, along with the U.S. and Japan, accepted a formula which would permit selective safeguards where injury, and "unusual and unforeseen circumstances" could be demonstrated, under the surveillance of a GATT-sponsored committee. But the EC opposed this multilateral provision on the basis of its erosion of economic sovereignty. This failure to achieve some greater measure of control over VRS was seen as one of the Tokyo Round's major shortcomings [60]. But it seems likely that the failure was something of a relief to the Canadian team, given the apparent inability to come to a interdepartmental consensus on pursuit of further acceptance of interdependence principles, or the holding on to sovereignty-based rights to unilateral action.

Subsidies and Countervail

Less controversial, apparently, was the issue of the adoption of stricter subsidy and countervail codes. As a person [61] with wide experience in the three core

departments explained, Canada has historically not been a frequent user of the countervailing duty because, he said, the economy was not a major importer of highly subsidized goods. Canada placed greater stress on the anti-dumping duty. Nevertheless, Canada developed a countervail system, if only to have something to negotiate with.

Canada's principal interest in the injection of an injury test into the countervail/subsidy code, an interdependence norm, is based on export prospects. The main objective was to bind the U.S. to an injury test on countervail, and not to pay too much to get it. The precedent of the battle over the injury test in the anti-dump during the Kennedy Round, eased relations in the Tokyo Round, and no significant inter-departmental differences were aroused among the core departments [62].

However, an official [63] told a story which highlights the heightened importance of the impact of evolving multi-lateral norms and the role of the "community" in the domestic economy. It was explained that Rodney Grey, a key member of the post-war community and a respected international expert on GATT and commercial policy, had been asked to find a solution to the subsidy/ countervail/injury issue, to iron out the differences between the United States and the Europeans. However, the solution which Grey developed with respect to which subsidy practices were countervailable, horrified Canada's Department of Regional

Economic Expansion, since Canadian regional subsidies surely would have been found to contravene Grey's proposed criteria. A great deal of inter-departmental time was spent trying to formulate a coalition to work out a basis for Canada's continued participation in subsidy/countervail discussions, without threatening Canada's regional development policies, and to stop Grey in his tracks. Grey, after having stubbornly stuck to his guns, finally reversed his earlier formula as administratively not feasible. In the end a less stringent formula was found [64].

While the GATT has from the beginning prohibited export subsidies on non-agricultural goods (and these were strengthened in the Tokyo Round), at Tokyo agreement was reached on consultation and dispute settlement procedures with respect to "domestic" subsidies. "This was the first time the GATT provided the right to take action against domestic subsidies, and it promised to give injured nations increased political access to subsidizing nations in the future" [65]. Slight progress was made on agricultural export subsidies. The U.S. in turn accepted an injury clause in its countervail legislation, one less stringent than that devised by Grey. It also agreed once again to adopt the injury test on anti-dump agreed in the Kennedy Round, but which was lost in the Congressional ratification process [66].

Canada was able to accept these extensions of

interdependence and multilateralism, despite opposition such as that from DREE and the Department of Agriculture, where the Minister, Eugene Whelan was, according to a Finance official an "out-and-out mercantilist," because its practices were seen to be less a problem than those of the Europeans, and because "right-thinking" ADMs were strategically placed in the two departments to steer the desired course [69].

Summary of the Tokyo Round

The purpose of the Tokyo Round was as much to forestall backsliding into protectionism than to push forward the agenda of liberalization of the world economy. For Canada the main innovation of the Tokyo Round was procedural and institutional, the bringing of business and the provinces more directly into the decision-making process. This innovation seems to have eroded the authority and autonomy of the natural triumvirate of the community in the three core departments, in favour of a more politics-centered process of coordination. This innovation hurt DEA most because coordination was its role in the division of labour among the post-war triumvirate. This change also set the stage for DEA's pursuit of central agency status in the Ottawa hierarchy, a role which would give it a window on domestic politics and economics, as a link with foreign policy. It was more difficult to disentangle inter-

departmental views among the three core departments on Tokyo Round issues. But it was clear from interviews that External had lost the confidence of Finance and ITC on international economic issues which it had enjoyed in the earlier post-war period.

On the substantive side of the Tokyo Round, in not adopting the Swiss formula, Canada once again failed to fly fully with the rest of the flock, so Canadian tariffs did not fall as much as others. While it would take a much more detailed analysis to understand why this continued to be the case, confidential sources discussed above show that the government was under pressure from the Canadian Manufacturers' Association not to permit interdependence and raw materials export interests to push Canada too far in the direction of linear tariff cuts and interdependence principles.

Canada was ready to adopt the interdependence norm with respect to injury test and on subsidy and countervail. This was so as long as the multilateral criteria were not going to be so tough as to threaten domestic programs such as regional development grants. The more complex situation prevailed with respect to bringing VERs under multilateral supervision. This called into question Canada's relationship with the United States as both an importer and exporter: Canada wanted interdependence norms to bind the U.S., but did not want to itself get caught in that net with other

fish such as Taiwan and Singapore. Canada also wanted the sovereign ability to deal bilaterally with such NICs, without catching a shark like the U.S. in the net. The failure of the Round to untangle this question relieved the necessity to resolve the apparent divisions in Canada on the issue.

The world political economy, and the Canada-U.S. relationship within that structure, had changed such that it became apparent that the GATT could no longer satisfactorily serve as Canada's bilateral trade treaty with the U.S. This was a development, as we saw above, foreshadowed in interdepartmental discussions as early as 1971. Interdepartmental positions in this context were complex. ITC retained its traditional fidelity to multilateralism and the GATT. Finance officials in this period cooled to multilateralism and sought to solidify the bilateral Ottawa-Washington corridor as a forum for resolving trade irritants. At External Affairs there too was an increase in bilateralism, especially with the United States. But Finance did not trust External's credentials or wisdom on economic matters following the Third Option episode, and did not want competition from External in managing the bilateral relationship. We will see some of these inter-departmental differences also arising as we look next at management of international monetary relations.

THE MANAGEMENT OF INTERNATIONAL MONETARY RELATIONS

In Chapter Three above it was noted that the "community" of officials composing the core of the Canadian state shared, in significant measure, interest and concern for IMF questions in particular, and in international monetary relations more generally. The origins of this shared concern rested in the overlap of trade and monetary issues in the post-war reconstruction. This overlap was given greater emphasis by provisions in the proposed Havana Charter of the ITO, which affected monetary relations in such areas as capital flows. However, we saw that with the demise of the ITO and the more permanent establishment of the GATT, that monetary and trade relations obtained more specialized institutional expression. We also saw in Chapter Three that attempts to articulate a closer relationship between the GATT and the IMF were met with reservations and opposition. Through the late 1950s, as the European currencies achieved convertibility, the trade and monetary regimes refined their norms, principles, and decision rules in a more or less exclusive fashion, within the prevailing discursive hegemony of embedded liberalism. The IMF handled balance of payments problems, and the World Bank increasingly took up development issues, including creation of such specialized offshoots as the International Finance Corporation, and the

International Development Association.

In the period of the 1950s and the 1960s the management of trade and monetary relations in the Canadian state evolved in the direction of a more discrete division of labour. The management of international monetary affairs, consequently including some aid and development functions, came under the nearly exclusive authority of the Department of Finance and the Bank of Canada. While coordination and cooperation were sought and offered on an ad hoc basis when the need arose, relations with the U.S. Treasury, and with the IMF and the World Bank were, one is led to understand, jealously guarded by Finance and the Bank [68].

As I intend to demonstrate in this section of the chapter, however, demands began to be expressed by External Affairs, CIDA, ITC, and others, for a systematic, on-going, and legitimate voice in policy development, coordination, and management, in the area of international monetary relations. While the pressures for such change were, undoubtedly, expressed regularly throughout the late 1960s, the 1970s, and the early 1980s, the evidence gathered in research in confidential documents suggests two particularly intense campaigns, one in the period following the August 1971 closing of the gold window, signalling an end of convertibility of U.S. dollars into gold, and hence, the core of the Bretton Woods system itself, and a second in the early 1980s, in the wake of the second oil price shock.

The evidence relates both to the substance of policy, as well as to the apparently petty bureaucratic competition for position and power. However, as we shall see, the substantive and the positional are linked, with those seeking reform of the institutions and processes also promoting a change in the orientation of policy. As we shall see, especially in the later period, Finance sought to retain an exclusive hand on the oars of monetary policy in order to sustain the insulation of the monetary order from destabilizing development influences.

The period 1968-1973

External Affairs' concern with playing a role in the IMF and World Bank affairs can be traced back to 1968. External sought to name to an IMF delegation a francophone, from within the Washington embassy, in order to enhance liaison with delegations from francophone Africa. However, Finance preferred to keep what it considered an already too-large delegation restricted along more functional lines [69]. Finance apparently saw no desirability in pursuing general foreign policy goals through IMF channels.

Past practice had not been to seek formal approval from DEA for delegations to such meetings because the Finance Minister was Canada's Governor at the IMF. The Secretary of External Affairs, Mitchell Sharp, was asked if he wished

to seek the right to approve such delegation lists. He replied that this ought to be done [70].

Finance resisted awarding External the right to approve delegation lists to IMF/World Bank meetings. A former Finance official vividly recalled a meeting involving senior Finance, Bank of Canada, and External Affairs officials. DEA was seeking to name some of its people to a delegation to a Washington IMF meeting in 1971 because international monetary relations had become more political following the Nixon measures of August 1971, and because of the impact of monetary issues on development. However, Finance rebuffed the initiative [71]. Finance and the Bank zealously protected their traditional reservation of the monetary policy domain. However, with the the Bretton Woods crisis the monetary policy issue area came to have even greater salience, and the parameters of the debate widened accordingly.

Indeed, senior personnel at DEA saw in Nixon's August 1971 actions not simply an economic crisis, but a fundamental realignment of world power relations. Some in DEA argued that Nixon's actions signalled recognition of the end of an era. In that event, it was argued, Canada ought to take advantage of the earthquake to secure a more independent position for the future, to attempt, in the negotiations which would inevitably follow, to acquire greater scope for flexibility within the constrictions of

the more permanent, and rigid, continental structural relationship. In a theme complementary to that expressed in the Third Option paper, it was said that the focus should not rest simply with trade-related questions, but include pressing for renegotiation of the international monetary system, to achieve one not dominated by the U.S. dollar. In particular, it was expressed that the reserve currency role of the dollar had, in the post-war world, been the most important power resource held by the U.S. permitting U.S. firms to acquire assets in other countries, not least in Canada [72].

A senior Finance official gave short shrift to this analysis. One argued that it was not the dollar's reserve currency role that gave U.S. multinationals such a powerful advantage, but comparatively high U.S. corporate tax rates which gave firms an incentive to shift production out of the U.S. [73].

The Nixon shock created a crisis in Ottawa, not only as a result of the severity of the measures taken, but because, unlike previous similar actions, Canada was not exempt. On the basis of confidential interviews and documents, it is impossible to establish where the crisis was felt more severely: at External Affairs because of the fundamental change in world power relationships in the economic, rather than the political realm, or at Finance, where the systemic crisis was also struck close to home by disrupting the close

personal relationships which had been built up in the Ottawa-Washington corridor between the Treasury and the IMF. External's response to the crisis was to ask searching and fundamental questions about American leadership, as we have just seen, and in the Third Option paper, while Finance set to work to restore its institutional authority by leading international efforts to rebuild a stable world order in as close a fashion to the status quo ante as possible.

In the complex and uncertain environment in the immediate wake of the crisis, however, a premium was placed on interdepartmental coordination and cooperation. In this environment, External was more aware than before that it would have to develop greater credibility in monetary issues if it was to play a legitimately greater role. External was convinced that it needed to develop a core group of officers with expertise in more technical aspects of international monetary issues, both with respect to the link between trade and monetary questions, and on development issues. Apparently, Finance was not encouraging External to pursue this type of expertise. But, in 1972 Finance agreed to establishment of an ad hoc inter-departmental group, chaired by Finance official Bill Hood, to deal with Canada's interests in the forthcoming discussions of reform of the international monetary system. We will see below that this innovation was, apparently, not of lasting duration, for the battles were fought all over again in the early 1980s, in more divisive and conflictual

terms.

In the meantime, however, a number of issues captured the attention of those concerned with international monetary reform: a new exchange rate regime, the role of gold, revision of IMF quotas, establishment of an Oil Facility at the IMF to help subsidize the cost of oil imports for LDCs, and the Compensatory Finance Facility to enhance the export earnings of single-crop LDCs. There is no available documentary evidence of inter-departmental discussions of these issues. However, one issue which did get caught in some inter-departmental debate was the link of SDR creation and development assistance.

The real debate on the potential merits of a link between the distribution of new SDRs and development assistance was within External, with the debate being won by those who agreed with Finance that indeed there was no merit or virtue in such a link. The SDRs, or Special Drawing Rights, were an accounting unit and a form of liquidity, valued on the basis of a weighted basket of 16 major currencies, created by the IMF in 1967 and put into use from 1 January, 1970. While liquidity, provided by the the U.S. dollar and gold, was not a problem in the early 1960s when ideas for a new reserve asset began to be discussed internationally, it was foreseen that a shortfall of liquidity could, at some time, become a problem. Indeed, the liquidity problem was one which preoccupied participants at the Bretton Woods founding

conference, where Britain and other potential debtor countries insisted, on the grounds of justice, equity, and efficiency, that the IMF Articles ought also to provide for sanctions against countries, such as the United States, which could be in a chronic balance of payments of surplus position - the proposed "scarce currency" provisions.

When the SDR was created, it was designed primarily to relieve pressure on the US dollar and gold, as inflation and U.S. balance of payments problems created pressure on the dollar as a reserve currency. But by the late 1960s, as we have seen, third world development issues had risen in importance in international economic relations, and the development assistance dimension was added to the debate on SDRs and system reform.

There was, apparently, some debate in 1972 within DEA on the SDR-aid link. Some officials urged support for a second allocation of SDRs which would not go according to quotas and voting power in the IMF, but according to principles of redistributive justice and economic development. One argued for reconsideration of Canadian support for the orthodoxy of a separation of liquidity and development questions because the Europeans were signalling a possible shift in this direction, and Canada ought at least to be prepared. The orthodoxy remained, however, in DEA, Finance, and the IMF, as it was successfully argued that liquidity, of which there was plenty anyway due to the overhang of U.S. dollars,

had no connection with the question of development assistance, which had its own separate and justifiable merits [74].

Conclusion

In the 1940s the IMF and the ITO were to be "twins", equal institutions regulating the refounding of the trade and monetary sides of the new international economic order. The ITO failed because, in the eyes of U.S. business interests and the Congress, it was more than Keynesian, and it was replaced by the more modest GATT. Attempts to develop a closer relationship between the GATT and the IMF failed, as we saw in previous chapters, and the trade and monetary sides of the international political economy developed quite independently through the 1960s. A parallel institutional separation occurred in Ottawa, with monetary issues closely held by Finance and the Bank of Canada. But we have seen in this section that this separation could not be sustained when when U.S. monetary problems became a foreign policy problem, and monetary issues affected third world development issues. The energy crisis was a foreign policy, economic, and development problem, with monetary implications. We have seen in this section that DEA, along with other agencies, began in the early 1970s to try to gain a share of policy authority with Finance and the Bank on this issue. They were only partly successful, as IMF-

centered reform secured the orthodoxy of monetary policy from other issues. With Finance Minister John Turner a key international player, Finance was able to parry the initiatives made by other departments. In the early 1980s, when DEA was seeking central agency status, the initiative by DEA to get greater authority in the monetary sphere was renewed.

The period of the early 1980s

Two things, one domestic and one systemic, combined to raise once again, struggles for and against reform of the management of international monetary questions in the Canadian state in the early 1980s. The domestic issue was the return of the Liberals and Pierre Trudeau to government, following the brief Conservative government of Joe Clark. Internationally, the second oil price shock in the wake of the Iranian revolution caused serious balance of payments problems to once again plague developing countries, and link monetary and development problems.

In the summer of 1980 the Prime Minister asked Finance for a study of the IMF and Canadian policy. In discussing the request, Finance officials argued that the PMO was seeking to establish a greater role for other departments in IMF-related issues than had traditionally been the case. However, Finance officials stated that it would be

undesirable to see the exercise broadened in such a way that it would lead to any alteration in the handling of monetary and macro-economic policy in Ottawa. Finance hoped to meet the demands of the Prime Minister, without enlarging the scope of inter-departmental involvement [75].

However, by early in the new year 1981, demands from External, the Canadian International Development Agency (CIDA), ITC, and the PCO, for access to monetary policy were intensifying. Finance officials felt they had arrived at an acceptable division of labour with CIDA, in particular with respect to balance of payments problems of third world countries. CIDA would administer balance of payments programmes (in Official Development Assistance, ODA, projects only, not multilateral projects), while Finance chaired the policy development committee [76].

At an inter-departmental meeting in February, 1981, however, Finance found itself faced by a coalition of DEA, CIDA, and the PMO-PCO, questioning the justification of Finance's primacy on balance of payments questions. DEA, CIDA, and the PMO-PCO were seeking to broaden the agenda of the inter-departmental working group on international monetary policy to include consideration of IMF policies on the development process [77].

Finance officials were concerned that broadening the agenda in this way could introduce non-technical, ideological factors into relations with the Fund, and

jeopardize the smooth relations the department had developed with the Fund over the years. In return Finance proposed a senior committee of Deputy Ministers, chaired by Finance, including DEA, PCO, and CIDA, with a mandate to review major policy issues and to provide broad guidelines governing Canadian policies on IMF matters [78].

The senior committee was established, but this did not resolve inter-departmental problems. Having allied to force Finance's hand, External and CIDA began to fall out and compete. DEA, pursuing its central agency mandate (on which more below in this chapter) wanted the committee only to include Finance, External, PCO, and the Bank on a regular basis, with periodic input from other departments. Finance officials felt that a lot of trouble could be avoided by including CIDA from the start [79]. It was clear that amidst all the proposals for change Finance had no intention of doing other than attempting to retain the status quo.

It is not surprising, then, that after a decade or more of inter-departmental squabbling and assaults on Finance's positional and ideological dominance, the department was exasperated. A senior Finance official said to his opposite number at DEA that he was growing impatient with the amount of energy being consumed by territorial quarrels, and that he hoped a way could be found to reduce the bureaucratic infighting [80].

Conclusion

The discussion of the management of international monetary relations is a useful illustration of issues under examination in this thesis. We saw earlier in this section the decline of U.S. hegemony was associated with the undermining of the separation of trade and monetary issues and institutions in the late 1960s and early 1970s. This increased disorder, complexity, and unpredictability also occasioned institutional and bureaucratic squabbling in the Canadian state. Restoration of management of the crises, through the Smithsonian and Jamaica meetings - sponsored by the IMF to restore order to the international monetary system following the Nixon measures - cooled the bureaucratic competition in Ottawa. Later in the decade, however, renewed systemic crisis, such as the oil price shocks, soaring interest rates, and the debt crisis, fed DEA's renewed ambitions to attain central agency status, of which having a continuing hand in international monetary questions was seen as an element.

The temporal coincidence or correlation is, therefore, readily apparent. It is more difficult to demonstrate anything which might be called a causal explanation. Nevertheless, I argue that it was hegemony which created and maintained the institutional separation of monetary from trade and development questions in the post-war period, and

thereby supported the technical form of economic problem-solving in which the Fund specialized. It was this same discursive dominance of economic rationality which bolstered the claim of Finance and the Bank to international monetary policy authority. However, hegemonic crisis exposed the IMF and the economics paradigm to critical examination on the grounds of justice and equity. These cracks in the discursive edifice created the opening for institutional confrontation in Ottawa during the 1970s, in which CIDA, DEA, and others, sought policy input, on political, developmental, and other grounds.

We find support, therefore, for Keohane's regime/cognitive/decision-making approach. Regime-centered change in actors' expectations about monetary issues affected intra-state institutions and processes. Actors' expectations at the systemic level with respect to monetary policy issues affected bureaucratic actors' expectations within the state, and this set off institutional reform. But one would, I think, be hard-pressed to describe this as state learning. Change in the international political economy altered the institutional and coalitional networks within the state. The state did not "learn", but new actors, values, and expectations were brought into a revised institutional framework. It would be stretching the argument to say this was clearly about class relations and the fundamental purposes of state action. Cox, for example,

argued that class relations are implicated in systemic and state change of the kind discussed here. And it remains true that issues such as debt and development have consequences which can be analyzed in class terms. However, the theoretical and conceptual development of class at the level of system-state relations remains rudimentary, especially in monetary issues. Rather, External's campaign to gain a permanent seat at the table in making international monetary policy decisions was part of its goal to achieve central agency status in Ottawa. The institutional reform was aimed at contributing to External's status, with the normative purpose of enhancing the state's purposive rationality, and insulation, an adaptation occasioned by change in the international environment. In the following section we finally look in some greater detail at the period 1977-1982 in which this campaign reached its peak.

THE ROUTE TO REORGANIZATION

Introduction

The purpose of this section of the chapter will be to examine the issues and debates finally culminating in the reorganization of Canada's foreign economic policy bureaucracies. The time period covered is 1977 to 1982,

from the appointment of Allan Gotlieb as Undersecretary at External to the announcement of the reorganization. There is an overlap, of course, with the conclusion of the Tokyo Round, and with international monetary issues, discussed above. But the appointment of Gotlieb was an important turning point in the process, and serves as a useful boundary of periodization.

As with the preceding analyses, the point of this section of the chapter will be to demonstrate that the reorganization was driven significantly by changes in the international political economy. In spite of the fact that much of the debate of the issues by those involved was, and remains, centered on personalities, bureaucratic politics, and administrative coherence, underneath it all was recognition of a need to reorganize the state to adapt to changing international conditions.

The argument will be that Gotlieb's appointment by the Prime Minister was planned by Michael Pitfield, Clerk of the Privy Council, for the purpose of getting External back into the "game" in Ottawa. That is, it was felt, especially by senior officials in the PMO, that over the preceding years, when international economic relations had become politicized by a crisis in the world economy, Canada had been unable to respond appropriately in terms of making the issue an element of both foreign policy as a whole, and in relating foreign economic policy to domestic economic

policy. The crisis, or crises, of the 1970s, involved a crisis of embedded liberalism, and that, following the defeat of the Third Option earlier in the decade, Canada was ill-equipped conceptually and institutionally to respond to the increasingly competitive and conflictual international political economy.

The centrepiece of the reform was External's achievement of the status of central agency [81], equivalent to that of Finance, Treasury Board, and the PMO/PCO. In this section of the chapter the central agency status of DEA will be discussed in the context of a parallel reorganization of domestic economic policy coordination instruments, the preparation of the policy paper Canadian Trade Policy for the 1980s, and the Economic Summit of 1981, held at Montebello, Quebec. It is especially interesting to note that the notion of central agency as a role for External is paralleled by the notions of the need for a "beacon" to guide and illuminate the way of summitteers and their sherpas to the Chateau Montebello to discuss revitalization of liberal internationalism, and of External's expressed need to serve as a "focal point" for business and the provinces in economic policy in the post-reorganization period.

Domestic reorganization

Before looking in greater detail at the foreign policy side, I will briefly set out some of the reforms made to the domestic institutions and processes of economic policy-making and coordination. This domestic side of the reorganization question should be understood as part of a larger attempt by the Liberal government to stamp a new will on policy and the institutions of government in the early 1980s. The foreign policy side will be discussed in the following section.

There had been growing frustration in Cabinet in the 1970s that the government's instruments were inadequate to the government's will to direct and manage regional and sectoral policy. The Liberal government returned to office in 1979/80 with a will to implement a more aggressive economic development strategy, but the entrenched traditions of national politics and the institutions and processes of the state frustrated that intention.

Doern [82] reports that DREE Minister Pierre De Bane wrote to Prime Minister Trudeau in March 1981 lamenting that his department had become "an excuse for other departments not to do anything about regional development." DREE, he complained, had been given the mandate in 1969 to coordinate regional policy, but did not have the ministerial or

bureaucratic resources to carry out the mandate effectively.

This concern fed into a number of others taken up by the Trudeau government upon its return to office in 1980. A task force was established by Allan MacEachen designed to heal the divisions which had grown up within the state in earlier battles over industrial strategy.

The internal debate ranged from the degree of state intervention to be involved (especially given the reaction to the NEP and proposed changes to the Foreign Investment Review Agency); whether resource mega-projects and their spin-offs were a viable anchor for industrial policy; the regional-sector coordination issues already referred to; and the trade issues, especially in the Canadian-American context. To all of this was added the highly politicized concern about federal visibility ... [and] the Prime Minister's constitutional reform strategy [83].

The Liberals had returned to office clearly intending to stamp a federalist, or nationalist, mark on economic, constitutional, and foreign policy. As Marc Lalonde has commented,

For the last few years we appeared to be running

around in circles administering but with no clear sense of direction. So, frankly, we told ourselves that if we were ever elected again, we weren't going to be defeated because of fudgy leadership or because we haven't indicated where we wanted to take the country. We'd rather be defeated for having done something than for having done nothing" [84].

But, as Doern makes clear, however, whatever energy and determination may have been behind the initiation of reform in regional, sectoral, and industrial policy areas, it was dissipated in the pursuit. Prime Ministerial attention could not be sustained, policy and ideological consensus was incomplete at both the political and bureaucratic levels, and because the reorganization was not "planned" in any real sense, but took place in three separate streams of action [85]. As Doern rather pessimistically concludes, purely administrative problems were "ultimately submerged in the even larger contradiction inherent in pursuing sectoral and regional policy in Canada, whether it be within the confines of a merged department or within the confines of the government as a whole" [86].

The Reorganization of Foreign Policy Bureaucracies

The initiative for the reorganization of External came from the Prime Minister's Office. As in the domestic area just discussed, there was deep concern about decentralization of the state and fragmentation in foreign policy making in the absence of a counterweight of centralized authority and coordination. Consequently, Michael Pitfield identified Allan Gotlieb as the person most qualified to reshape External and to get it back into the game of foreign economic policy. Gotlieb fit the bill because he was known at DEA, being a recognized scholar of international law and a former foreign service officer. He was also an "Ottawa man", having served in a number of ministries, including Deputy Minister of Immigration. He therefore understood both the international scene, and how the Ottawa corridors of power worked. On this basis, then, External might be reintegrated into the Ottawa networks of power.

Michael Pitfield, chief of the Privy Council Office (PCO), had become fed up with the fragmentation of foreign economic policy making, and the dominance which this permitted Finance and a small group of officials, the post-war "community" and its inheritors. It was felt that the roots of the fragmentation stretched back to the 1960s,

when the "cri de coeur" was "all power to the ministers". What emerged, in the view of the critics in the late 1970s and early 1980s, was the emergence of a proliferation of quasi-independent "satrapies" engaged in "terrible, internecine warfare" over authority, policy, budgets, and personnel. In short, critics were concerned that the classic pathologies of bureaucratic politics were threatening to undermine the national interest [87]. With this fragmentation came an absence of lateral vision. In the words of one key player, "for everyone involved the world looked like a long dark tunnel with only a tiny spot of blue at the end. There was no strategic vision when you had to get twenty people into a room [88].

In spite of the efforts made during the Trudeau years, innovations intended to develop a rational system balancing centralization and decentralization were sterile. In particular, said one observer, industrial strategy efforts were "pathetic". While the attempted innovations of the early 1970s, such as ICER and the Third Option, had grown sterile, the traditional base of External's authority - treaty making, political reporting, and coordination - were no longer sufficient. For example, coordination had been taken over by other central agencies and by ministries of state. As one key player observed, "the power of coordination and the chairmanship of committees were sources of power, but they were no longer very great. ... I was

looking for the power to overcome fragmentation [89].

It was not inevitable that, in trying to get a handle on the fragmentation by establishing strategic authority, External should be chosen to lead. As noted in Chapter One, countries have chosen a number of different routes for coping with the pathologies of interdependence and bureaucratic politics. As we shall see below, Summitry came to be an important route for Canada, and, as in the U.S., where the Treasury coordinates Summit participation, Finance might have been the logical choice, especially since the Summits were originally designated "economic" summits, to respond to the crisis of international economic relations in the mid-1970s. But, as one top source said, the PCO resented the power and secrecy of Finance, and was keen to counter-balance its weight by establishing DEA as a central agency and Summit coordinator [90].

Therefore, External's central agency status was the result of an alliance between External the Privy Council Office, headed by Michael Pitfield. The purpose was to go beyond the coordination which had been partially achieved in the early 1970s, but also to allow substantive input from External over a range of both traditional foreign policies and domestic policy with foreign policy implications. In the era of interdependence and a proliferation of interconnected issue areas and regimes, this gave a wide possible scope to External's potential domestic range. As Allan Gotlieb wrote

at the time, "If domestic policies with foreign dimensions are improperly coordinated with external policies, or are inconsistent with Canada's international goals and objectives, we in the Department of External Affairs are obliged to intervene" [91]. It was also important that DEA as a central agency, not only have coordinative authority, but have its own means by which to lead in this coordination. That is why Gotlieb linked authority to instruments. "To strategize is to choose, which requires control. [One must] emphasize the importance of institutional organization in this respect and the need for central management of all aspects of foreign policy within the Canadian government" [92].

As will be discussed below, there was resistance in other departments to External's central agency status. But there were also objections and trepidation within DEA itself. There were those who resisted in a manner similar to the opposition to introduction of modern management techniques a decade earlier. Meetings were held in which it was protested that DEA as a central agency would become "like a Treasury Board for foreign policy", that is, that it would dilute and despoil the "priestly calling" of foreign service [93].

A more serious problem related to the issue of budgets and programs. A senior DEA official with experience in aid and commercial policy said of Gotlieb, "at first his

emphasis on central agency did not imply an increase in programs - which was all the rage at the time." But, he continued, "Allan soon realized that one had to have control of a fat envelope to have power." This caused a problem with areas such as CIDA which, if DEA was to take over, "would be like a snake trying to swallow a dinosaur." Highlighted here in the possible distinction between power (over programs and budgets) and authority (deriving from expertise, experience and legitimacy). The source says External may have tried to purchase the former with the latter. "At DEA there are too many bright people spinning the wheels of programs, while other departments are making foreign policy" [94].

In spite of these concerns, however, the reorganization was announced in January 1982. This reorganization of the principal instruments of trade and commercial policy should be seen as parallel and complementary to the integration of international monetary policy, and domestic economic revitalization, both of which have been discussed above. As for the third "leg", that of the aid side of foreign (economic) policy, as Nossal stated it, the view at the time was, "only CIDA was left unscathed, although officials hinted that its turn would come" [95].

The broad outline of the government's reorganization was three-fold:

1. Creation of a new coordinative Ministry of State for

Economic and Regional Development;

2. Amalgamation of the regional programs of DREE with ITC's small business and tourism sections to form DRIE (Department of Regional Industrial Expansion);
3. Establishment of DEA as a central agency, and its integration of trade policy, and export promotion functions. The new DEA acquired the Export Development Corporation, Trade Commissioner Service, Program for Export Market Development, and Export Permits Act authority. DRIE retained the Textile and Clothing Board and the Machinery and Equipment Advisory Board. DEA altered its ministerial setup and overall organization by adding two junior ministers, one each for foreign policy (political), and for trade policy, each with a Deputy Minister reporting to the Undersecretary. The department was also thus organized along "functional" rather than along "geographical" lines.

The reorganization was the finale of more than 10 years of debate and contention. But there was a coda yet to come. Having absorbed and integrated (or ingested) the new agencies, the new DEA was reorganized again in 1983. It was widely viewed that the new DEA was not a happy shop. Trade

officials especially were worried that commercial opportunities were going to suffer for more political foreign policy goals [96]. On the other hand, foreign policy veterans were afraid that they would have to become salespersons. Exacerbating these fears was the fact that shoe-horning all the new staff into the External Affairs building meant introduction of the open-area office concept, a blow to the perceived status, prestige, perquisites, and, (perhaps) the confidentiality of the affairs of state. Consequently, although the open office concept could not be turned back, the geographical organization scheme for the department was re-introduced, in an attempt to lessen tensions between the so-called "left wing" (political) and "right wing" (trade) sides of the 1982 department [97].

There is little doubt, following a number of interviews with many of the participants, that bureaucratic, administrative and idiosyncratic understandings inform the perceptions of participants about the causes and consequences of the reorganization. In this respect their testimony reflects the standard literature on foreign policy analysis and public policy. It is most important, however, to supplement idiosyncratic, bureaucratic, and administrative factors to development in the international environment. Therefore, what I want to do in the rest of this section is to discuss the reorganization in the context of a number of events linking international change with

domestic economic management. These are: recognition of the GATT as a constraint on regional and industrial policy; an increasing salience of the OECD and the G-7 Summit processes as fora of more politicized international economic cooperation; finally, the inter-departmental debate on the trade policy review in the early 1980s. These institutional changes and debates reflect changes taking place in the regime environment, that is, actors' expectations about the international political economy in the wake of the decline of United States hegemony.

GATT Constraints

First, as French notes, the Canadian government's renewed attention to industrial and regional policy began to run up against the evolving logic of the GATT in the post-Tokyo Round days. Cabinet, he says, was beginning to notice these constraints on the renewed political will to "intervene".

Further progress at the MTN indicated that trade liberalization would indeed make significant progress, despite the desultory beginnings of the Tokyo Round. This was consistent with Canadian policy, but it raised the issue of the delivery of adjustment assistance to business and labour in industries which

would be exposed by tariff reductions, notably those in Quebec. None of the existing departments and agencies in the economic area appeared to have the appropriate breadth and mandate to undertake such a function [98].

The reorganization at DEA, to make it more purposively rational, was designed to begin to put in place the mandate, breadth, and expertise to make these linkages. However, once again, the reorganization ran up against the concerns of Trade Commissioners, whose fear it was that political and protectionist actions would undercut their mission promote exports [99].

The Organization of Economic Cooperation and Development (OECD) as a Competitor for the GATT

A second systemic development was the increased importance of the OECD, and a more subtle division between the OECD and the GATT. The crisis of domestic and international economic relations of the 1970s politicized interdependence among the core Western industrialized capitalist democracies. The need to cooperate and coordinate among this core group strained the ability of the GATT as a regime to manage and stabilize the system. The GATT was weakly institutionalized, met only intermittently, as was,

consistent with the post-war embedded liberal tradition, legal at its core, not political. The GATT's political side was the hegemonic legitimacy of the United States, of which the crisis of the 1970s revealed significant limitations. Consequently, in the 1970s, the OECD experienced a boost as a forum in which the core capitalist states could discuss their international economic problems in a political, rather than a legal milieu.

A meeting of senior Canadian trade and commercial policy officials in 1980 reflected this more subtle division of labour between the GATT and the OECD. Debate around the table reflected a growing appreciation amongst academics and practitioners in international relations that the GATT was becoming less useful as a forum for resolving the (increasingly salient) political dimension of trade and commercial policy frictions, and that its continuing value remained as a legal or contractual framework for regulating trade relations. It was increasingly becoming recognized that a distinction could be made between GATT's status as a legal document on such narrow issues as quantitative export restraints, safeguards, and agriculture, while the OECD was becoming a more useful environment to debate issues which were crowding the international economic policy agenda, such as energy and macro-economic demand. Committee members considered it important to distinguish between political commitments to combat protectionism and

specific matters more properly falling within the GATT [100].

Summits and the G-7

Third, the 1982 reorganization needs to be understood in the context of Canada's membership (since 1976) in the Group of Seven (G-7) countries, a sort of OECD executive committee. Through active participation in the G-7, Canada was to advance to the front ranks of world power and revive a new Golden Age of Canadian diplomacy which had seen its zenith in the mid-1950s [101]. As Gottlieb and Lee have explained, the relative decline of U.S. power, influence, and leadership, made the G-7 essential. This is an argument very much consistent with that of Keohane in AFTER HEGEMONY, that multilateral cooperation can replace hegemony as a source of systemic order and stability.

In the 60s, 50s, - and notably the 40s which had seen the establishment of the principal international institutions - the U.S.A. was virtually unchallengeable in its supremacy in the non-communist world, and far outdistanced the U.S.S.R. as well on most criteria of power. But by the early 1970s, no longer was there a solitary colossus bestriding the non-communist world [102].

In the absence of American hegemony and the inappropriate norms, principles, and decision rules of the GATT, then, cooperation through more collective leadership within the G-7 was necessary to confront the macro-economy, debt, north-south, and other economic problems which were accumulating through the 1970s and 1980s. At least, as Gottlieb and Lee note, the G-7 settled the agenda which a prospective new GATT round, would pursue. Moreover, if Canada was to take its rightful place among the world's principal powers, it had to speak with one voice, and that was to come from External [103].

There were, however, problems encountered in achieving the goal of speaking with one voice. First, it was clear that other departments, especially Finance, opposed the new role for External. The opposition came, though, not so much on the terrain of institutions and process, in which External had a legitimate track record and role, but in substantive policy formation. This will be seen more below. But former officials agree that DEA was frozen out of important policy initiatives connected to OECD and Summit affairs. For example, the National Energy Program was kept secret from DEA by being processed through the annual budgetary process, over which Finance retained suzerainty. External was also, according to participants, kept out of the "defanging" of FIRA. Finally, despite the changes in

monetary policy management discussed above, there is also some suggestion that the substance of international monetary relations remained firmly in the control of Finance and the Bank [104].

Aside from bureaucratic politics, Summit coordination also lodged DEA in the middle of Cabinet battles between protectionists and free traders. As a senior participant recalled, economic issues such as the shrinking size of the public sector were frequently on Summit agendas, and increasingly so as the neo-conservative movement gained momentum with elevation to office of leaders such as Thatcher and Reagan. Trudeau was, however, an uncertain leader on such issues, equally influenced by such traditional Keynesians as Galbraith, and also drawn to aspects of neo-conservatism. Canadian policies remained comparatively nationalist and protectionist, while the G-7 was attempting to lead the GATT and the OECD toward renewal of free trade principles. Consequently, Canada often found itself the "black sheep" at the Summit, and this was uncomfortable. Becoming a member of the club meant being big enough to play by the rules [105].

Contention along these lines influenced intra-bureaucratic debates on a number of issues. For example, the there was concern in 1981 that Canada's position at an upcoming summit on third world development could harm Canadian regional development interests. A domestic

department argued that slow medium-term economic growth, along with a prospective challenge from third world exports, cast serious doubt on the Canadian state's willingness and ability to cope with the rapid industrial and social adjustment which would be required for third world development. The belief was that Canada was in no position to act in accordance with the rhetoric proposed to animate concern for north-south issues. The international division of labour had evolved to such an extent that it was no longer just Canadian textiles and clothing which were under threat, but also autos, steel, electronics, printing, pulp and paper, and petro-chemicals. The third world NICs were beginning to compete seriously with Canada in the core of the Canadian manufacturing sector, and the domestic ministry wanted to know if Canada was going to encourage this further at the Summit. The dilemma was that the Prime Minister's commitment to third world development, and the range of available policy instruments, made protection and promotion unavailable or not viable. Canada had still not put in place the policy instruments to facilitate the adjustment [106].

The Trade Policy Review

Another issue which revealed divisions in the core of the state was the preparation of the trade policy review, CANADIAN TRADE POLICY FOR THE 1980s [107]. The debates

involved in the preparation of the document are useful and important in revealing further the extent to which ministries formerly in the core of the trade policy community diverged in their analyses of the evolution of the world economy, and how Canada ought to respond. In the debates the uncertainty of the era is visible, and in hindsight the uncertainty can be seen as a transition from the post-war embedded liberal regime to both neo-mercantilism and neo-conservatism. In a way, the trade policy review and the reorganization, along with the other debates examined here, were the final skirmishes of a battle fought over the previous ten to fifteen years, in advance of the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission) and the decision to negotiate a bilateral deal with the U.S. Indeed, a senior DEA official reminded colleagues that the trade policy review was a response to a request from the Prime Minister to Finance and ITC in the late 1960s - which had never been fulfilled because of these departments' strong resistance to a comprehensive statement of Canadian trade policy [108].

In the year or two preceding the release of the document CANADIAN TRADE POLICY FOR THE 1980S, drafts were circulated widely as specialists in DEA, Finance, ITC, and others, wrote their particular sections.

The core of the debate was carried on between officials

in External Affairs and Finance. Officials at External, consistent with their central agency role, sought to reinvigorate the linkages between foreign and domestic economic policy which had been suggested ten years earlier in Mitchell Sharp's Third Option statement, and to ensure that External's role in shaping the linkages was recognized. External supported its arguments along this line with the observation that this policy direction responded to the wishes of Cabinet. Other DEA officials abroad, especially those in Europe, supplied reports on what they considered successful corporatist and other interventionist economic policy planning systems.

Finance officials, on the other hand, argued the case for keeping the foreign and domestic sectors analytically separate. Furthermore, it appeared to be the view of Finance that DEA had been influenced by business groups. In its enthusiasm to link the foreign and domestic sectors, External had undermined insulation from the business community which had comprised an important tradition of the post-war era [109].

External had allies in its bid to offer a critical examination of the post-war tradition as it informed the making of the 1982 trade policy review. An assessment of an early draft of the trade policy paper by a domestic department argued that a trade policy review which focussed exclusively on marketing and promotion was inadequate. A

broader strategic effort, including energy, natural resources, ownership, and regional and industrial policy, would mesh well with External's proposals to introduce a stronger bilateral dimension to Canadian foreign policy [110]. It is ironic, however, that at the same time as this department was writing to support DEA's more wide-ranging thoughts, a senior DEA official was writing to his opposite number at the department worrying that their papers too greatly emphasized bilateral over GATT-oriented multilateral solutions [111].

In summary, then, it seems apparent that the trade policy review of the early 1980s was the product of an immensely detailed, complex, and politicized process. Finance was at one end of the spectrum trying to maintain what was in effect the post-war orthodoxy of a separation of foreign and domestic economic management, and that the foreign side should go little further than the traditional focus on trade promotion, marketing, and commercial policy instruments in a multilateral setting. On the "left" were those of the old Department of Industry who wanted to put regional and industrial policy onto the trade policy review agenda, and bring the management of foreign and domestic economies closer together. DEA seemed divided internally between the bilateralist/interventionists who had grown up through the 1970s outside the GATT-related community, and the Trade Policy people the department had taken over in 1982. The

trade policy document which emerged was a cautious compromise of industry and resource based investment and development, multilateral and bilateral relations (in particular that with the United States), and GATT and non-GATT regime authority.

SUMMARY AND CONCLUSION OF CHAPTER FIVE

In this chapter I have argued that reorganization of the Canadian state for the pursuit of foreign economic policy was significantly driven by changes in the international political economy. I have argued that the root of debates about purpose and organization was the decline of U.S. relative power and hegemony through its economic, monetary, and trade policies and the rise of competing political economies such as Europe, Japan, and the NICs. The international division of labour changed dramatically since World War Two when the international economic regimes were established, and even in the twenty years or so since the end of the Kennedy Round. The Bretton Woods system of international monetary management went through a crisis in the early 1970s and has relied more on ad hoc multilateral oversight and cooperation since. The Tokyo Round of the GATT was successful in extending the scope of interdependence principles to non-tariff barriers, but it was one step forward, two steps back in the sense that increasing amounts

of world trade were taking place outside the regulation of the GATT regime.

The reorganizations within the Canadian state were not primarily the result of personality, bureaucratic politics, or administration because I have presented evidence which shows that concern about reorganization preceded not only Allan Gotlieb, but also, to some extent, Pierre Trudeau. The evidence presented here indicates that the factors which underlay the reorganization of the early 1980s, such as the national interest, the drive to central agency, and the erosion of the domestic/foreign distinction, were perceived in the late 1960s. The 1970s were a decade in which debates about the parameters of embedded liberalism, of state action, and of political economy, became more focussed and intense. The debates had three sides, one on the "left" in which neo-mercantilists argued for a more active and interventionist state, the status quo of embedded liberalism with limited role for state action in the provision of welfare and adjustment to a slow, yet, progressive advance of multilateral liberalization, and a "right wing" critique for a quicker, more radical liberalization leaving behind, if necessary, the universal/multilateral commitments of the post-war order. These debates animated the debates within the Canadian state about reform and reorganization of the processes and institutions of foreign economic policy, about the articulation of power with purpose within the state.

In the previous two chapters I showed that there was a core of officials in the three main departments who "grew up" within the the post-war embedded liberal compromise, officials who formed a relatively insulated and consensual community within the state. The community formed the hegemonic core of the state, managing Canada's relations with the world. They successfully managed Canada's participation in the Kennedy Round of the GATT, and the early years of the 1970s. But as crises in the international political economy and the regime structure began to become apparent following the Kennedy Round, serious thinking about policies and institutions were begun by some Canadian officials. They were concerned that the decline of U.S. pre-eminence was eroding the parameters of the post-war order and that Canada was ill-equipped to compete in the emerging neo-mercantilist environment. Others were attuned to issues of justice and equity in north-south relations in the changing world order, and the impact of the rise of the NICs on Canadian economic policies. Many of these concerns became focussed and overlapped during the negotiation of the Tokyo Round of the GATT, and in reconstructing the post-Bretton Woods monetary system.

There were those who felt that in an uncertain world the post-war traditions of multilateralism and embedded liberalism were values which should be reinforced. We saw above that early in the 1970s ITC officials remained

faithful to the call for a new round of multilateral trade negotiations. Secondly, there were also officials, especially in the Finance department who, while raised within the GATT multilateral tradition, changed their view in the 1970s. For them the GATT had not been so much a multilateral contract as a bilateral treaty with the United States for the managing of Canadian economic development. As we saw in this chapter, by the Tokyo Round it had become apparent that America was becoming less of a benevolent hegemon, less willing and able to pay the costs of leadership if it meant derogation of the national interest. Also, the world was becoming a more complex political economy. The GATT was no longer primary in this new environment. For some in Finance the bilateral Ottawa-Washington corridor was more important. The crux of their dispute with External was not so much bilateralism with the United States - both seemed to agree that this was the central foreign policy axis - as the norms, principles, and decision rules around which actors' expectations would converge in this relationship. External was, much more than Finance, driven by neo-mercantilist norms, principles, and decision rules derived in part from a reading of the expectations of countries such as Sweden, France, Japan, and Italy. The Finance officials either remained faithful to the embedded liberal tradition, or, increasingly, to neo-liberal ideas.

External was not of a single mind, of course, and it did not take the initiative in reorganizing institutions to make possible the shift in economic policy which it thought in the national interest. The Prime Minister's Office initiated many of the reforms, but the issues and values which gave form and content to the debates over reorganization emerged from debates in the international political economy.

The slow, fitful, and politicized route to reorganization can be attributed to the absence of consensus or structure at the international or regime level about the appropriate place of the state in international and domestic political economy. As we have seen, such a hegemonic consensus existed at the close of World War II, on the basis of the U.S. model and the experience of the inter-war period. However, this sense of order was absent through the 1970s and 1980s. Neo-conservatism, the approach of Thatcher, Reagan, and others, had powerful appeal, but it did not have the systemic or structural legitimacy which embedded liberalism had in the reorganization of capitalism after World War II.

Domestic, idiosyncratic, partisan, and administrative efficiency concerns were raised, and were often foremost in debating and in analyzing these changes in Canada. But, I contend that the rhythm and the character of the adaptive behaviour responded most fundamentally to the changing international environment, especially the apparent inability of the regime structure to provide the order, discipline,

and flexibility to manage global change. This conclusion suggests that Keohane's approach, that regimes provide a source of order and permanence, is weakened as we look back historically over the post-war period. Keohane's functionalism is predisposed to explain stability, and analysts in that tradition argue that the post-war regime environment has been characterized by "norm-governed" change, within the parameters of embedded liberalism [112]. The information, analysis, and argument reported here, however, suggests that embedded liberalism did not command strong allegiance among members of the state elite, even as far back as the early 1960s. But the institutions provided a means of insulating the state elite from political and societal forces and politicians, and a set of criteria to regulate their own disputes. With the decline of U.S. hegemony through the 1960s and 1970s the intra-state consensus weakened and elite relations became more conflictual. The very power and purpose of the state was up for debate. An analysis based on Robert Cox's work would suggest this has as its basis changing international and domestic class relations. This dissertation has not been able to observe this factor, although my reading of documents of the period suggests that External pursued much closer consultations with representatives of big business, such as the Business Council on National Issues and the Canadian Manufacturers' Association, than to trade

unions. My suggestion has been that the reasoning underlying the arguments of those promoting reorganization was normatively Realist - to reassert the autonomy of the state from interest groups by taking the initiative to reforge state-societal alliances behind neo-mercantilist principles. State reorganization was a necessary prelude to the more general purpose. There was a clear recognition among promoters of reorganization that the decentralized or chaotic conditions of state institutions prohibited reformulation of national purpose in a new world economic order, and made it easier for opponents of change to stand in the way of change.

I will argue in the concluding chapter that the intentions of proponents of change were in this sense neo-institutionalist and neo-mercantilist. But the intentions were in vain for reasons suggested by neo-Marxist analysts.

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- [2] von Riekhoff (1978).
- [3] On these reforms see also: Madar (1980), Kirton (1978), Dobell (1978).
- [4] Confidential Source.
- [5] PAC RG 25, 84-85, Box 1, file 1-1-11, pt.1. The Glassco commission, the Royal Commission on Government Organization, reported in 1962, strongly criticizing the federal public service for not being more innovative in implementing a wide range of new management and administrative techniques, such as cost-benefit analysis, being developed in the private sector; Adie and Thomas (1982), p. 168-9.
- [6] Indeed, some believed that the PMO wanted Jake Warren, a senior trade official, to conduct the review, but he refused when it became clear that some substantial degree of integration was being insisted upon by the PMO.
- [7] Confidential Source.
- [8] T.H. Bennett to Assistant USSEA John Starnes, 23 April, 1968, PAC RG 25, 84-85, Box 1, file 1-1-11, pt. 1.
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- [13] Confidential Source.
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- [18] Phidd (1988).

[19] Confidential Source.

[20] Confidential Source.

[21] Confidential Source.

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[23] French (1980).

[24] Bell (1990), p. 101.

[25] It is interesting to note that a senior ITC official stated that some of the department's thinking was based on the intellectual merits of Product Cycle Theory, at least implicitly with reference to the work of Harvard economist Raymond Vernon; Vernon (1971).

[26] Confidential Source.

[27] Confidential Source.

[28] French (1980).

[29] Confidential Source.

[30] Sharp (1972). Sharp's paper is usually conceived to be the "missing" booklet from the earlier foreign policy review, FOREIGN POLICY FOR CANADIANS, which, while intending to be a revision of Canadian foreign policy, neglected to address Canada's key relationship, that with the United States. Sharp's paper is doctrinally consistent with the earlier publication in that it was "Canada centered", that is, that foreign policy was to be the pursuit of domestically-based priorities, rather than reactive to events abroad.

[31] Sharp (1972) p. 17-18: "its purpose is to recast that economy in such a way as to make it more rational and more efficient as a basis for Canada's trade abroad. ... In terms of policy, it would be necessary to encourage specialization and rationalization of production and the emergence of strong Canadian controlled firms. ... The close cooperation of government, business, and labour would be essential through all phases of the implementation of such an industrial strategy. ... In saying that the strategy must be deliberate, it is accepted that it must involve some degree of planning, indicative or otherwise."

[32] Keenes (1983).

- [33] Confidential Sources.
- [34] Confidential Sources.
- [35] A.S. McGill memo, 9 Nov., 1975, PAC RG 25, 84-85/128, Box 1, file 1-1-11, pt. 2.
- [36] Winham (1989), p. 284.
- [37] Winham (1989), p. 284.
- [38] Finalyson and Zacher (1982), p. 307-8.
- [39] Winham (1989), p. 334.
- [40] Protheroe (1980), p. 156-9.
- [41] Winham (1989), p. 337.
- [42] Confidential Sources.
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- [47] although see Phidd (1988).
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- [50] Confidential Source.
- [51] Confidential interviews.
- [52] Winham (1989), p. 201.
- [53] Confidential Sources.
- [54] Winham (1989), p. 270-271.
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- [56] Confidential Source.
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- [60] Winham (1989), p. 240-47.
- [61] Confidential interview.

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[63] Confidential Source.

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[65] Winham (1989), p. 220.

[66] Winham (1989), p. 220-1.

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[81] The discourse is suggestive, and may warrant further examination: the reorganization was a phase in a distinctly modernist/statist discourse whose parameters were set in the post-war phase by embedded liberalism. The phrase "central agency" is suggestive in combining two key concepts in such a modernist discourse - that of the centering of the state as a source of both order and struggle, and the legitimization of the state as a unified rational actor, an "agent" with will, purpose, and means. It is ironical, however - an irony which perhaps points to the accumulating crisis of the state - that the state embraced several such "central agents".

- [83] Doern (1987), p. 39.
- [83] Doern (1987), p. 42.
- [84] Graham (1986), p. 61.
- [85] Doern (1987), p. 55.
- [86] Doern (1987), p. 56.
- [87] Confidential Sources.
- [88] Confidential Sources.
- [89] Confidential Sources.
- [90] Confidential Sources.
- [91] Gotlieb (1979), p. 8.
- [92] Gotlieb and Kinsman (1984), p. 24.
- [93] Confidential Sources.
- [94] Confidential Sources.
- [95] Nossal (1989), p. 215.
- [96] see especially Hines (1985).
- [97] Nossal (1989), p. 215-6.
- [98] French (1980), p. 123.
- [99] Hines (1985).
- [100] Confidential Sources.
- [101] For a programmatic statement on this "principal power" theme, which Gotlieb has endorsed, see Dewitt and Kirton, CANADA AS A PRINCIPAL POWER, 1983, and Gotlieb and Kinsman, op. cit.
- [102] Gotlieb and Lee (1984), p. 274.
- [103] Confidential Sources.
- [104] Confidential Sources.
- [106] Confidential Sources.
- [106] Confidential Sources.

[107] Minister of Supply and Services (1983).

[108] Confidential Sources.

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CHAPTER 6: CONCLUSION

INTRODUCTION

I began this work saying that three purposes would be addressed. The first would be to explain more satisfactorily the reorganization of the institutions and processes of Canadian foreign economic policy in 1982. The second was to better understand the nature of the state. The third was to better understand the nature of the relationship of the state to its external environment, in this case the part of the international political economy composed of the regimes governing trade and monetary relations.

In pursuing these three goals I have addressed a more general theoretical problematic, one which sees the three goals as interdependent. That is, a more general purpose has been to explore the "outside-in" perspective on explaining the state. I have argued, theoretically and through the examination of the Canadian case, that we can gain a more sophisticated understanding of the nature of the Canadian state through study of the reorganization of institutions and processes of Canadian foreign economic policy as deriving from change in the international political economy. Furthermore, I noted briefly in chapter one that the dynamic is not simply one way; there is an element of reciprocity in the relationship of inside to outside. The outside-in

approach entails an ongoing shaping of intra-state and state-societal relations, which in turn are reflected back from each state to influence systemic norms and principles.

Before going into further detail, let me try to briefly answer the three questions posed above:

1. The explanation of the reorganization

The reorganization of 1982 was a continuation of efforts begun at least ten years earlier in the vague recognition of some officials in External Affairs that the international political economic order established under United States leadership after World War Two was eroding with the relative decline of U.S. capabilities. The reorganization episodes were intended as adaptive responses of doctrine, institutions and processes, and in the 1982 case, of state-societal coalitions, to a more competitive, disorderly, and unpredictable world.

2. The nature of the state

The complex of institutions and processes which make up an important element of the state is a site indicative of larger struggles over fundamental political values. Change in these minute or micro aspects of the state signal tensions or contradictions growing in the larger, or structural relationships between state and society, or in the political economy. The reorganization intended to

increase the state's relative autonomy by linking an institutional framework of purposive rationality to a more interventionist industrial strategy by making External Affairs a central agency.

This argument undermines the contention of Clarke-Jones on the nature of the Canadian state discussed in chapter two. Her observation was that the re-organization of 1982 was indicative of the state as an instrument in the hands of the hegemonic class fraction, which sought reorganization to pursue a continentalist, and anti-nationalist political economic strategy.

My argument favours the rather more Poulantzian approach of Mahon, who argued that the state is a site of struggle and contention. In this case the struggle was between competing articulations of modern capitalism, not over the continuation of capitalism itself. However, while this case tends to affirm Mahon's neo-Marxist argument, neo-Weberian factors, such as institutional mediation, played an apparently decisive factor in the outcome of the pulling and hauling. The dialogue of Neo-Marxist and neo-Weberian approaches which I examine suggests that a useful distinction should be made between (relative) autonomy, and institutional or discursive insulation.

3. The outside-in approach

The state's structural and micro aspects are importantly

forged by conditions of international relations. The hegemony of embedded liberalism sought to secure what I have called, following Offe, the bureaucratic allocative state, in which institutions and processes were appropriate to limited reach into the political economy. In the decline of hegemony, reorganization endeavoured to adapt by moving in the direction of a purposive rational state, or what Realists call the unified rational actor. This was not a case of the international system being "turned off" by the decline of hegemony, but the nature of the cues arriving from the international system being different.

My case study highlights useful insights from Keohane's amendments to hegemonic stability theory. Regimes did offer an institutional milieu and value consensus which secured systemic stability and predictability, and insulation for the hegemonic core of the state. This milieu and consensus shaped the outcome of intra-state struggle, as I noted in point two above. But Keohane's approach, grounded in states' demands for stability and predictability, is not attuned to the systemic sources of "counter-hegemonic" action. My argument has been that the international political economy itself provided the basis for such "counter-hegemonic" action by embedding contradictory discourses - sovereignty and interdependence - in regime constitutions. With the decline of U.S. dominance, hegemonic progress in the direction of liberalism and interdependence

began to unravel, and sovereignty's legitimacy was enhanced. The state took the initiative in seeking to reposition domestic coalitions around new policies, an argument which tends to affirm the approach of Cox, Offe, and Ashley. This study suggests the need for further research into the systemic sources of institutional instability and reorganization with which others states have struggled since the mid-1960s.

SYSTEM, STATE, AND INSTITUTIONS

I have argued that the literatures on Canadian and comparative foreign policy, Comparative Politics, and International Relations, have overlooked important connections among themselves by not fully exploring the outside-in perspective. When foreign policy and public policy analysts address the question of bureaucratic reorganization they usually produce explanations drawing on leader personality, preferences, and style, on the requisites of legal-rational administration, or on bureaucratic politics. In Comparative Politics, reorganization is usually explained as resulting from changes in state-societal relations, interest group coalitional politics, shifting class relations, or efforts by the state to enhance its autonomy from civil society. It is only quite recently that some theorists of Comparative

Politics have looked to factors such as war as a reason for the state to seek greater autonomy. More prominent, however, are explanations based on factors within the bounds of the territorial nation-state.

International Relations, where one would expect to find concern for the state as having qualities generated by the conditions of its environment, has also been surprisingly silent about this factor. I have argued that the general concern in International Relations for order and stability among states, and the level-of-analysis approach which has so disciplined the field's research agenda, blinkered theorists to the interdependent relationship between the nature of the state, and international relations. I have argued that the Realist tradition of International Relations developed what is primarily a normative theory of the state as a unified rational actor, one which argued that institutional and procedural questions ought to be oriented toward security in a fundamentally unstable and dangerous environment. It is only recently that Weberian concerns of this kind have been explicitly recognized as being at the heart of Realism [1]. Critics of this normative Realist orientation, such as transnationalist and interdependence theorists, brought a more empirical and analytical approach. They concentrated their empirical gaze on process, institutions, and perceptions, such as in bureaucratic politics analysis. But in the process they lost what was

useful in the realist analysis, and that was the state as a core concept. In some more recent theory, such as dependency theory and neo-realism, a crude form of outside-in analysis has been offered, one in which the state plays an important role. But their particular determinisms and ahistoricisms make these approaches only a little more fruitful as a guide to the kind of analysis in which I have engaged this dissertation [2].

My purpose in this dissertation, therefore, has been to engage in a critique of the outside-in approach, a critique in the sense of seeing how far one can push an explanation of behaviour as apparently minute as institutional and procedural change, from change in the international political economy. As I stated in chapter one, I believe that "direction of causation" is not only from the outside in. If, for example, as Ruggie has argued [3], the paradigm of state-societal relations of the rising hegemon sets the standard for regime norms, principles, and decision rules, to which follower states defer, it is logical to propose that during periods of hegemonic decline, when follower states reorganize their own domestic political economies, these alternative, adaptive, or counter-hegemonic actions will seek to displace hegemonic regime norms; this because states seek legitimization of their own arrangements in community or social norms [4].

In pursuing this critique of an outside-in approach, I

have not tried to argue that one can ignore altogether idiosyncratic, administrative, and bureaucratic factors which lead toward change within the state. In this work, however, I have tried to hold these levels of analysis "constant", while pushing as much as seemed reasonable the outside-in theory which I put forward. In fact, I argue that bureaucratic, administrative, and idiosyncratic factors can be seen as effects of change in the international political economy.

It is on this point, the pushing of the outside-in framework on the Canadian case, which I ought to admit forthrightly as a possible weakness in the research design of the dissertation. On the one hand I argue that the three goals I note above are connected. There is also a contradiction. My point has been to try to show how the Canadian case can be explained by the outside-in framework, holding constant factors endogenous to the Canadian political economy. However, it became clear, especially in chapter five, that in order to satisfactorily explain the Canadian reorganization, domestic variables had to be recognized. That is, in order apparently to meet the challenge of better explaining the reorganization, I had to contradict the stated overarching purpose of endorsing the outside-in approach by falling back on domestic factors, such as interest groups and provincial governments. In a sense this result was "data-driven". In the early years of

the formation and steadying of the regimes, the Canadian embedded liberal state was insulated from domestic interests. Very little evidence from files appeared in which the state was pushed or pulled in one direction or another. The evidence, then, suggested an autonomous state. It was impossible to miss the greater involvement of business, the provinces, and (to a much lesser extent labour) pulling and hauling, seeking a voice in Canadian trade (and to a much less extent monetary) policy in the 1970s. The state was certainly less insulated in the 1970s and 1980s. Indeed, this is an important factor explaining why some elites in the state took the initiative to seek reorganization - a (vain) effort to restore autonomy, not by restoring insulation so much as by taking the initiative in redefining the state's strategic goals, and reorganizing the state to make External Affairs a central agency, an instrument of managing a new domestic coalition in support of the new strategic policy. In this respect the normative realist argument about seeking to maintain the state as a unified rational actor remains a powerful one.

An analysis of this kind seems to undermine the intention of sustaining the outside-in problematic, that is, that in the 1970s the structural shaping of embedded liberalism was "turned off" and the propulsion of domestic politics was "turned on". However, I believe the outside-in perspective remains of significant importance. American hegemony - the

economic and military capability and ideological basis for the engineering of consent to United States leadership, and deference to the universalization of United States preferences about rules of international economic relations - suffered serious erosion in the late 1960s and throughout the 1970s. In accordance with the explanations of deference offered by Keohane, values and policies outside the embedded liberal compromise (Smith abroad and Keynes at home, with progressively increasing Smitheanism) claimed less legitimate authority. As states began to defect from the embedded liberal compromise [5], and the international political economy became more competitive and mercantilist in the late 1960s and through the 1970s, domestic interest groups took the cue and began to make legitimate claims for more interventionist policies at home. Some in the Canadian state saw continued international competitiveness linked to a moderately left-nationalist economic platform, replicating the changes being taken by others. The institutions, processes, and values of the state had, however, been formed in the rise of embedded liberalism. The core of the embedded liberal state in Canada, Finance, Trade and Commerce, and External Affairs, resisted an authoritative reallocation of values, and an institutional and coalitional reorganization which supported such a reallocation. Therefore, in order to rearrange the values and coalitional framework in which new purposes could be pursued, the Prime Minister's Office

stepped in to encourage and shape the dissension which had been growing among the three core departments for the decade previous during American decline.

The reorganization, can, therefore, be attributed in part to styles, preferences, and needs of leaders and the state elite, and to bureaucratic politics. Prime Minister Trudeau and his senior staff had an important impact on reorganization. External Affairs, which had lost prestige and status in Ottawa had an interest in reorganization which would make it a central agency and bring it back to the centre of power. The institutional environment for making economic policy had become complex, inefficient, and ineffective. Interest groups of one type or another became more active. But, I believe that international factors are a necessary prerequisite to a satisfactory explanation pointing to the timing and character of the reorganization.

First timing: why the chronic and persistent attempts to reorganize through the 1970s, capped by the 1982 reorganization? It is true to say that the 1970s, with the modest successes of the Tokyo Round, represented in part the fulfillment of the promise of embedded liberalism of evolving in the direction of greater liberalism, interdependence, and multilateralism in the international political economy. There remained, nevertheless, as I have pointed out from interviews and documents, recognition of the onset of American decline, or at least the recognition

that the zenith of American hegemony had been achieved, and that the rise of economic protectionism, the closing of the Bretton Woods regime, and chronic U.S. balance of payments deficits, were harbingers of a period of decline and conflict. This was the period of the most intense efforts to reorganize the state for the competitive international political economy to come. Indeed, the defeat of the Third Option can be seen as a crucial turning point, since, when read carefully, the document is clearly a call for (1) internal state reorganization, (2) state-led planning of industrial policy, supported by (3) increasingly corporatist state-societal structures, (4) as the basis for a more diversified foreign economic policy.

I have shown that there was genuine concern among some of the state's key mandarins in the early 1960s about the stability of the U.S.-led, regime-based, world order. Officials in the three key departments were loath to abandon the legitimate resort to sovereignist protection of the economy through tariffs and other measures while they believed that the U.S. led world order was unstable and unpredictable. Therefore, in the 1960s period of the Kennedy Round, Canada was reluctant to abandon tariffs which were necessary to protect Canada's industrialization. Canada was a comparative defector from the modest progress toward Smitheanism which other countries continued to pursue. During this time External was, as information reported here

has shown, interested in taking over the Trade Commissioner Service from Trade and Commerce, even in the late 1950s and early 1960s. I have shown from documents that part of the basis for this administrative and bureaucratic pulling and hauling was doctrinal, or paradigmatic dissensus on economic statecraft among some of the key mandarins in the departments. For example, Dana Wilgress was quite self-conscious and explicit about the contending American and continental outlooks held respectively by himself and Wynne Plumptre, a senior External and later Finance department official. In a wide-ranging discussion just before the Kennedy Round, I showed that members of the key departments held a wide range of views ranging from pragmatic, incremental optimism about the prospects for trade liberalization, through to some quite clear long term pessimism, especially as to the universality of the liberal international economic order.

In chapter one I noted, but did not detail, the phenomenon that during the same time period of the mid-1960s, many states similarly began to become concerned about the organization and processes of their foreign economic policy bureaucracies. Canada was not unique in this regard. The fact that many countries were similarly pre-occupied suggests a historical, systemic causal factor. I have argued that in Canada, and in other countries, institutional and procedural reform was symptomatic of rising concerns about

the stability and predictability the regime-based international economic order. Unease about foreign economic policy bureaucracies in many countries, including Canada, beginning in the early or mid 1960s, and which gained momentum through the 1970s, is evidence that regimes were not fully successful in supplying the functional properties which have been claimed by Keohane and other liberal institutionalists. Keohane and others claim that regimes make the cognitive and decision-making environment stable and predictable by supplying reliable and cheap information and a framework of rights and duties. But, as we saw throughout the post-war period, Canadian decision-makers, while cognizant of the normative parameters of sovereignty and interdependence in embedded liberalism, were also attuned to the unpredictable nature of the U.S. Congress, United States pursuit of self-interest in the wake of hegemonic decline, continental integration of the Canadian into the United States economy, the rising challenge of Third World demands to the integrity of embedded liberalism, and the defection of many countries from embedded liberalism to more neo-mercantilistic policies. The politics, both state-societal and bureaucratic, which attended the various ways in which countries debated and implemented reorganization in the face of regime erosion and the rise of contending international issues and norms, served to challenge the normative parameters of international

political economy.

Therefore, in the 1970s and early 1980s there were good reasons, or incentives, to revise the strategic and instrumental aspects of Canadian participation in the international political economy: the reorganization of External Affairs as a central agency to embrace trade and monetary policy instruments in support of a neo-mercantilist foreign economic policy, one more appropriate for a country aspiring to return to the front ranks among the principal powers [6]. The purpose was to counter-balance the institutional power of the Finance Department and its sanctioning of embedded liberal (and what were increasingly becoming neo-liberal) economic doctrines. Indeed, with the election of neo-liberal (or neo-conservative) leaders in the United States and Britain, embedded liberalism was being gutted of the Keynesian half of its bargain.

If the timing of reorganization can be linked to hegemonic decline and the eroded authority of regime norms, what about the character? Embedded liberalism was a compromise encoded in the international political economy after World War II whose effect it was to create, normalize, and regulate the territorial nation-state. It was a middle ground between laissez-faire, free-market liberalism and the minimal state on the right, and on the left closed, self-sufficient autarchy or mercantilism. The former represented the height of British hegemony of the previous century, the

latter the economic anarchy of the inter-war period. Embedded liberalism was, as I noted above, to combine Smith abroad and Keynes at home. That is, international economic relations were to privilege unhindered market-driven price allocation of production, distribution, and accumulation, while states were permitted to undertake Keynesian welfare redistributive measures designed to ease the political burdens of transition to an increasingly laissez-faire, transparent, and multilateral political economy.

Embedded liberalism regulated the state in at least two ways. First, the compromise had the effect of generating and regulating the territorial nation-state because it legitimized commercial policy at the border, or margin, of the political economy. Politics and the state were limited spatially to the territorial domain and to (constrained) authority over capital and the economy. Furthermore, the GATT and the IMF were not conceived as "states" governing capital in the spaces between territorial boundaries. They were articles of agreement coordinating action among states (the IMF), or a contract (the GATT). Regimes with the prospect of initiating a more nearly governance function in the interstices among states were defeated (the ITO), given no authority (UNCTAD), or regulated by the GATT and the IMF (European integration). The state was further regulated by sanctioning its reach only to the margin of the economy. The GATT, in its encoding of liberal economics, always prefers

the state to act through the price system, not to reach more deeply through accumulation and investment to the domain of private property rights. Thus, state sovereignty in its territorial and functional application was generated, regulated, and sanctioned, in important measure, by regimes of the international political economy [7]. In chapter two I showed that Claus Offe's concept of the bureaucratic allocative state is at the core of embedded liberalism. I also showed how Robert Cox's account of the class basis, or political sociology of the state under Pax Americana, supports the primacy awarded to interdependence and multinational capital under embedded liberalism and the bureaucratic allocative state.

In the wake of the decline of American hegemony and the erosion of regime oversight, states voiced their unease with efforts to attempt to maintain the integrity of the regime norms and principles. The increased resort of states to protectionist and mercantilist policies, signified defection or exit from the regime-based order. The embedded liberal compromise was able to claim less legitimacy. Those who took the lead in attempting to redefine a new strategic purpose, institutional framework, and coalitional politics, for Canadian foreign economic policy, such as Michael Pitfield, Jean-Luc Pepin and Allan Gotlieb [8], had in mind Japan, Sweden, France, and Italy, countries with policies more clearly within the neo-mercantilist frame. In this sense

they were looking to fit a renegotiated Canadian policy framework within a set of rules being rewritten incrementally within international politics, against another set of rules institutionalized in the existing regimes.

Through the late 1960s, the 1970s, and early 1980s, international political economy debates therefore were about tension between a hegemonic set of rules institutionalized in the established regimes, and a new set of norms, principles, and decision rules around which actors' expectations could converge, which were being worked out incrementally among those chafing under the declining hegemonic order. Their probing and exploration was itself "inspired", if such a word can be used, by more diffuse paradigms of economic statecraft which had been in existence for centuries [9].

In the time period of the 1970s the contention was generally on the centre-left, between embedded liberalism and more mercantilist paradigms. By the early and mid 1980s, the right had re-entered the debate with the election of Margaret Thatcher in Britain and Ronald Reagan in the United States. The more right-wing laissez-faire or neo-liberalism was entered on the agenda of international political economy through such institutions as the International Monetary Fund, the Organization for Economic Cooperation and Development, and the annual G-7 Summits. Hence, very soon after the Canadian reorganization at External Affairs had

taken place, under very diffuse guidance of neo-mercantilist policy intentions, the international agenda had moved much further to the right than embedded liberalism [10].

Is it easy to demonstrate that such counter-hegemonic practice was indeed shaped or guided by some clear discourse or paradigm? Of course it is not. The existence of some counter-hegemonic voice or practice is only revealed empirically through bargaining or struggle over the creation of a new order. In the same way it is not easy to demonstrate that deference is the result of hegemony, it is perhaps even more difficult to demonstrate that defection and resistance are the result of counter-hegemony. Recent work by Ikenberry and Kupchan is interesting in this light. In a pair of complementary articles they endeavour to set out a framework for outside-in research similar to that reported here, one article couched in behaviouralist socialization theory, the other in Gramscian hegemony theory. The authors argue that it is relatively easy to demonstrate that the United States intended to, and succeeded in, establishing a hegemonic world economic order. However, they continue,

Identifying and measuring the process of legitimation within secondary states is a far more difficult task, which faces numerous obstacles. The normative orientation of nations is not often clearly

articulated by a state's leaders, either in planning documents nor in public speeches. Even if we are able to show that norms and practices change over time, it is very difficult to identify and characterize a process of socialization. [11].

They argue that it is difficult to demonstrate that patterns of deference and legitimation are produced by hegemony. Empiricists argue that identification and harmonization of interests are sufficient to demonstrate a reason, or provide an explanation, for cooperation. Keohane's work, looked at closely in chapter two, is exemplary in this regard, arguing the cognitive basis for the harmonization of interests. Keohane's argument, like functional explanation in general, is good at explaining pattern maintenance, lack of change, the maintenance of deference and hegemony, and the continued demand for international regimes.

The focus in this work has, however, been change. I believe I have showed that Canada's adherence and deference to embedded liberalism was never as stable and predictable as Keohane's approach would predict, and by the 1970s some in Canada, especially those in External Affairs and the PMO, expected even greater change and challenge for the Canadian political economy. Keohane's approach requires resorting to decline of hegemony, a structural variable, to explain

change. We have observed this, and support such a conclusion as to the timing of change. But it is not sufficient to explain the conceptualization of the alternatives open to those seeking to realign the Canadian state. There is insufficient evidence to argue that there was a class basis to the articulation of attempts to redefine the strategic, institutional, and coalitional basis of Canadian foreign economic policy towards a more purposive rational state. I am led to the argument that the intention of the reorganization was an effort to reassert state autonomy by taking the initiative in rearticulating purpose and organization. However, problems of class and institutionalization doomed this Realist initiative to failure. This leads to a discussion of the Canadian state.

In reviewing literature on the Canadian state in chapters one and two I set out three approaches. First, a number of authors, mostly on the left, argue that the Canadian state's central political purpose has been to ensure the stability of capitalist rule in Canada by managing relations among potentially contending fractions of the capitalist class, and by negotiating Canada's role in the continental or international division of labour. The state, in this account is (merely) relatively autonomous of societal and economic interests, ultimately framed within a discourse and agenda set by ruling class interests. Another group of authors argued that while this may have been the case historically,

in the post World War II years the state had become more than merely relatively autonomous, and had become an interest or actor in its own right. Goal formation and instrument development had become "sui generis", oriented around some conceptualization of the state's interest, and the national interest. This group of authors writes in a Weberian and Gerschenkronian tradition. For authors writing in this tradition the state had been able to overcome the constraints of the past and to (admittedly with mixed success) achieve its stated goals. The third approach which I noted is something of a mixture of the first two. This perspective argues that the state intended to articulate a Gerschenkronian-style, but failed. It failed because the embedded institutional framework of the Canadian state and society prevented successful implementation of strategic or unified rational action. Federalism, a large and incoherent state bureaucracy, a capitalist class institutionally decentralized, and a working class similarly disorganized, dispersed power and instruments to such an unwieldy extent that purposive rationality had become a non-starter.

What does this dissertation reveal about the Canadian state? I have argued that embedded liberalism - United States hegemony legitimized by the institutionalized compromise of Smithian and Keynesian political economy in world politics - generated and supported the core of the Canadian state. It empowered Finance, External Affairs, and

Trade and Commerce to transmit hegemonic goals into the Canadian political economy, and to maximize Canada's national interest within the parameters of that international compromise. I have shown that among these three departments at the core of the state there was debate about the evolution and adaptation of the compromise in Canada, but that in the end there was the pre-eminent interest in agreeing, and insulating the debates as much as possible from political and interest group involvement. This insulation was created by the small, personal, and informal links among the key mandarins, and through the support which participation in the international regimes offered.

My argument about the reorganization supports, in part, the argument of the Weberians and Gerschenkronians. That is, in promoting reorganization, External Affairs and the PMO sought to restore the strategic, unified, purposive rational state. I showed in chapter five that there was great frustration in particular that industrial policy was not coherently integrated into an overall domestic and foreign economic policy strategy, that instruments and strategy were not rationally linked. For too long, it was complained, trade policy had been a substitute for a more comprehensive framework of economic instruments. This reliance on trade policy was sanctioned by international regime norms, principles, and rules.

However, I showed that through the 1970s, in particular

with respect to industrial strategy and the Third Option, the intention to foster a more purposively rational state was frustrated. The institutionalist perspective offers two useful insights. First, the interdepartmental division of labour inherited from the post-war period made it difficult to carry the intention of reorganization into practice. Finance especially retained legislative, technical, and reputational means to resist, as we saw clearly in the Third Option case. Secondly, the insulation of the post-war experience led to debate about adaptation to the changing international political economy taking place within the administrative elite. But because mandarins are constrained in their freedom to confront fundamental political values, the debates about adaptation took place in code, about the relative merits of institutional reorganization. Dispersal, overlap and incoherence within the state overall, and the concentration of international economic authority in the embedded liberal core of the state, made adaptation to a changing international political economy confused, hesitant, disorganized, and late.

From the Third Option to the reorganization of 1982 some Canadian state managers attempted to refashion the purposive rationality of the Canadian state on the "left-wing" margin of embedded liberalism, where it meets neo-mercantilism, because they thought the rest of the world that mattered to Canada was going in a similar direction. But by the early

1980s embedded liberalism itself was outflanked on the right by Reagan, Thatcher, and other neo-liberals who saw the weakening of GATT as a threat to multinational capital. Through its integration of trade policy instruments External Affairs linked itself more closely to the market and class interests which made insularity and increased autonomy a most remote proposition. Rather than serving as a counter-balance to departments such as Finance in which debates about fundamental values could be structured within the state, over issues such as the Canada-U.S. Free Trade Agreement, External Affairs linked itself institutionally into class and interest group networks riding the neo-liberal ascendancy.

CONCLUSION

The dissertation has a number of weaknesses. I have noted some here: the intention of resting with the outside-in approach could not be strictly sustained, the "fit" of the case study to the theory is not as tight as one might wish because the cause-and-effect relationship between hegemony/socialization and behaviour is not empirically obvious, and the conceptual frameworks are not drawn to be mutually exclusive [12]. However, I hope this study has served to demonstrate the persistence of the shaping effects of the state's political economy environment on the

nature of the state itself. If this effect has been persuasively argued, I hope the study has served to contribute to Political Science as a whole by highlighting the useful linkages which can be made among the discipline's subfields. Finally, I hope the study has serves to encourage the study of Canada's international economic relations, a dimension of Canada's foreign policy too much overlooked by students of Canadian foreign policy and international relations, and left in the hands of economists and practitioners.

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Tony Burger
Mel Clark
Michel Dupuy
Allan Gotlieb
James Grandy
Rodney de C. Grey
John Halstead
Roy Hines
James Hyndman
Robert Johnstone
Jeremy Kinsman
Jerry Kirkwood
J.C. Langley
Robert Latimer
P.D. Lee
J.R. Loomer
Don McPhail
J. Alex Macpherson
Robert Martin
J.R. Maybee
J.R. McKinney
L.J. O'Toole
Jean-Luc Pepin
Michael Pitfield
Louis Rasminsky
Ed Ritchie
J.S. Roy
Gerry Shannon
T. Shoyama
Mitchell Sharp
O.G. Stoner
Rudy Verspoor
J. H. Warren