

# Economic integration with the USA

by Anthony Westell

## The Option and the Problem

In a seminal article published in 1972 reviewing the history of Canada's relationship with the United States and looking to the future,<sup>1</sup> Mitchell Sharp, then Secretary of State for External Affairs, wrote:

The real question facing Canada is one of direction. In practice, three broad options are open to us:

- (a) we can seek to maintain more or less our present relationship with the United States with a minimum of policy adjustments;
- (b) we can move deliberately toward closer integration with the United States;
- (c) we can pursue a comprehensive long-term strategy to develop and strengthen the Canadian economy and other aspects of our national life and in the process to reduce the present Canadian vulnerability.

Sharp clearly preferred (c) which he called the "third option," a phrase that was soon capitalized and accepted into the language of political discussion in Canada. Although it seems never to have been formally adopted by the Cabinet, the Third Option became the strategy of the government in the 1970s and into the early 1980s.

The goal of reducing "the present Canadian vulnerability" was, on the face of it, modest. The means by which the goal was to be reached were hardly controversial. The government would seek over time to strengthen the national economy and to diversify trade, build national unity and encourage the growth of Canadian culture. As that is about what any Canadian government would claim to be doing at any given time, the significance of the Third Option has to be found in its context, in the underlying purpose of the strategy. That purpose was to set a "direction" for Canada in the development of its relationship with the United States. As Sharp rejected both the status quo (Option a) and a deliberate move to closer integration (Option b), the Third Option was clearly intended to steer Canada away from further involvement with the United States and toward greater national independence. As Sharp wrote, the Third Option "assumes that the conti-

mental tide can be stemmed to some extent." It would be an exaggeration to describe the strategy as outright nationalism, but it certainly inclined the government in that direction.

A dozen years later, it is obvious that the strategy did not achieve its goal. Canada did not achieve greater independence, and its vulnerability was not reduced. On the contrary, it was driven by forces largely beyond its control into a closer and more complex relationship with the United States, while efforts to implement the strategy eroded US goodwill, leaving Canada dangerously exposed to changes in US economic policy. At home, far from strengthening national unity, Third Option policies alienated some provinces and large sections of the business community. By common consent, the national economy is weaker now than it was in 1972.

### Why it never worked

There are several possible explanations for the failure of the Third Option strategy, and it is worth looking at them briefly.

First, these have been exceptionally difficult economic times, and it may be said that the onslaught of inflation, the energy crisis and the world recession simply destroyed a strategy that might have worked in a more prosperous era. Perhaps so, but the reality is that Third Option policies made Canada's economic problems worse rather than better.

Second, nationalists may argue that the strategy was not sufficiently nationalist. In other words, it would have worked if the government had been tougher in moving Canada away from the United States by controlling flows of capital, imposing an industrial strategy on the economy, restricting the importation of US cultural products, and so on. The answer is that even if such drastic policies had been practicable in other respects, they lacked public support. The only major party to put a frankly nationalist platform to the voters, the New Democratic Party, has not succeeded in emerging from its third-party position in Parliament. There was broad public support for the mildly nationalist policies of the Liberal Party in 1980, but certainly no con-