

global GDP. Given the extensive degree of fragmentation of production across borders—or, put another way, the integration of economies through outsourcing and trade in intermediate goods (the so-called "global value chain")—our economies are if anything even more interdependent than that figure suggests. If one were to trace the pedigree of even the most humble of domestic products intended for domestic consumption, it would be hard to find one that does not have some degree of international content, whether in terms of components, intellectual property, or the capital equipment or financing used in its production. When a Canadian barber gives a Canadian customer a haircut, a quintessentially "domestic" economic transaction, chances are that either the scissors, the comb, the electric razor used to trim the sideburns or perhaps even the barbershop chair are foreign products, most likely from China!

Yet the price structure that internationally links this web of production and consumption on which we so depend works through a system of exchange rates which since the breakdown of the Bretton Woods system in 1971-1973 has exhibited a degree of volatility that is hard to understand in terms of any current theory of exchange rate determination. It is not unusual these days for the Canada-US exchange rate to move by a full cent in a trading day—annualized, this represents a rate of change (calculated over some 250 trading days) of well over 2,000 per cent. While much of this is high frequency "noise" in the price system with a powerful tendency for excessive movements in one direction one day to be corrected by offsetting movements the next, the extent of movement over periods of months and years has confounded experts and often defied explanation, even with 20-20 hindsight. Common sense suggests that, as firms and countries adapt to cope with volatility, through various forms of hedging for example, the latitude for volatility increases. And periodically, such as during the Asian Crisis, the volatility breaks completely out of control and acquires an elemental destructiveness that, in the economic sphere, resembles a force 5 hurricane breaking on land.

Further, the system—which in theory is supposed to prevent the build-up of imbalances, being self-correcting in na-