

The Mess in Baja Canada

J. Bradford DeLong

**Professor of Economics, U.C. Berkeley
Research Associate, NBER**

March 12, 2010

Who Manages What, or What Manages Whom?

"I do not claim to have controlled events," said nineteenth-century American president Abraham Lincoln, "but rather freely confess that events have controlled me..." The title of this panel, "Managing the Economic Arena," seems to me to suffer from at least a touch of hubris. If we could manage the economic arena well, thirteen million more than are unemployed or underemployed in normal times of the citizens of the United States would not be unemployed or underemployed. The gap between the level of U.S. production and what two years ago we were expecting it to be would not be more than \$1,000,000,000,000 a year, and Mexico—a bystander—and Canada—a good actor as far as financial regulation and the avoidance of irrational exuberance and its crashes is concerned—would not be now suffering from a depression almost as deep as that of the United States. We cannot manage the economic arena. Rather, it manages us. The best we can do is react to what it feeds us, and somehow eat what is set before us.

There is another dimension along which the claim that we are here to discuss "Managing the Economic Arena" is highly misleading. It presumes that the U.S. government is a rational or semi-rational actor, able to formulate public policies that advance the ideal and material interests of the median voter sitting between the Rio Grande and the True North Strong and Free (adjusted for how wealth, logrolling, and intensity of

preferences enter into policy decisions). That is false. U.S. governance is broken.

That U.S. governance is broken has been perhaps the most consistent thread in this conference to date. But there has been little sense, in my view at least, that people here have grasped how broken it is. So let me pile on by adding two more examples:

First, the views in October 2008 of how to deal with the gathering depression held by senior economic advisors to the Obama campaign—people like Larry Summers and Berkeley’s own Christy Romer—by senior advisors to the McCain campaign—people like Mark Zandi and Douglas Holtz-Eakin—and technocrats in office like Hank Paulson and Tim Geithner and Ben Bernanke—were all very similar. No matter whether Obama or McCain were to win the presidency the odds were very heavy that policies would be very similar and in fact very similar to those that we have seen: large banking recapitalizations, large federal support for asset prices with the side-effect of unfortunately enriching many of the bad-actor bankers, extraordinary expansionary monetary interventions by the Federal Reserve, and a substantial additional deficit spending program divided between government purchases and tax cuts. But how many of you would say, looking at Washington today, that there is substantial bipartisan agreement on the contours of anti-depression policy? Nevertheless, that is the reality, as a little thought about the meaning of the fact that Barack Obama could not find a better candidate for Fed Chair or a better candidate for Treasury Secretary than already-in-office Ben Bernanke and Tim Geithner would reveal. Partisan claims of large differences between the likely policies of administrations are simply Kabuki Theater. Yet the Kabuki Theater of partisan Washington has the side-effect of making the U.S. Government’s ability to act very small.

Second, the United States’s health care system right now wastes about \$1,000,000,000,000 a year, with rather more wasted on the private side than the publicly-funded side, in that we spend much more money than other North Atlantic economies and yet have a health care system that does rather less to cure disease and ensure long and healthy lives.

\$400,000,000,000 a year of this comes from higher doctors' salaries in the U.S. relative to average wages in the country. \$300,000,000,000 a year of this comes from unnecessary, inappropriate, ineffective, and positively harmful care prescribed by doctors who fear malpractice liability, have sweetheart deals with those entities with which they subcontract, or simply do not know what treatment protocols are worth doing. \$300,000,000,000 a year is spent in administration as insurance companies play the game of trying to pass the costs of paying for treatment of the sick off to somebody else. When he was Governor of Massachusetts, Republican politician Mitt Romney constructed—and passed with bipartisan support—a health care plan. Now Barack Obama has thrown his weight behind a Senate health care bill that is, in its essentials, Mitt Romney's health care plan. Yet this plan may well not pass because it will not get a single Republican vote in the Senate—even though the only reason the new Republican Senator from Massachusetts, Scott Brown, can think of for voting against it is that it doesn't do anything for the voters of Massachusetts because Mitt Romney already got them everything it does.

When the United States will not even formulate policies that advance the ideal and material interests of its own citizens, what chance is there to get it to rationally consider and weigh the interests of the citizens of Canada and Mexico as well? Effectively none.

Canada's Agenda, and Mexico's

It thus seems to me to be an error to suppose that Canada and Mexico can have any material impact on U.S. government policy. The interests of Canadians and Mexicans are simply not of first-order importance in the interests of U.S. citizens. And the interests of U.S. citizens are not of first-order importance in shaping the decisions of and policies enacted by Washington politicians. Joint rational management of our common North American home is simply not on the menu. So the agenda for Canada—and Mexico—is to attempt to figure out how to (very partially) manage a United States that cannot manage itself.

Canada has and major economic interests in the good behavior of the United States. It wants to see: (i) a healthy and growing U.S. economy, (ii) a U.S. that performs the further role of being a benevolent conductor of the open global trading system, (iii) a U.S. economy that in any event remains open to imports from Canada and so lets Canada continue to participate in the economies of scale of continent-wide economic integration, and (iv), as Ambassador Gottleib said this morning, Canada seeks a U.S. that joins rather than sits on the sidelines in the efforts to manage our energy future and control global warming—an extraordinary interest to Canada and to the United States too.

Mexico similarly has five major economic interests in the good behavior of the United States. It wants to see: (i) a healthy and growing U.S. economy, (ii) a U.S. that performs the further role of being a benevolent conductor of the open global trading system, (ii) a U.S. economy that in any event remains open to imports from Mexico and so lets Mexico continue to participate in the economies of scale of continent-wide economic integration, (iv) a U.S. that greatly diminishes its appetites for illegal drugs shipped from Mexico—and (v) a U.S. that is at least willing to follow a policy of benign neglect with respect to the flow of working-age Mexicans north across the border (and then back and forth to visit their families and retire).

As far as Canada's (i) and (ii) are concerned, it cannot "manage." It can—along with the rest of the world community—support U.S. policies that produce prosperity and an open global trading system, but these policies are even more in the interest of U.S. citizens than of Canadian systems, and it is hard to see how any form of Canadian influence could make a difference.

(iv) is also outside the bounds of effective action. I believe that effective action against global warming will begin when three of the four potential twenty-first century superpowers regard forward motion on energy and environmental issues as in their vital interest. Western Europe already does. The U.S., at least the U.S. political system, does not. At the moment China and India do not. But they will. There are still two billion near

subsistence farmers living in the great river valleys of East and South Asia: Yellow, Yangtze, Mekong, Brahmaputra, Ganges, Punjab, and Indus. Global warming means other more of less rain and snow in those watersheds. If it means more, some fraction of two billion people will see their homes washed away and their relatives drowned, If it means less, some fraction of two billion people will start to starve. Neither is something that governments in Beijing or Delhi can ignore. And when China and India realize that they are on the front lines of global warming's impact on human populations because of the vulnerability of their poor who don't have many options, they will swing into line. And when they do, the U.S. will concur. This may be of the most long-run importance to Canada, but it is hard to see how Canadian action can be decisive.

For Canada, then, the policy levers attach to (iii), which is essentially attempting to induce the U.S. to live up to its NAFTA obligations. And here, once again, things are very difficult.

Ambassador Pickering said earlier that he was a "wild-eyed optimist" and as evidence for his claim that optimism was warranted on very sticky and difficult issues, he pointed out that we had made, by working very hard, "real progress" on "softwood lumber and 'Buy America'."

As best as I can see, the "progress" that has been made is that now the United States admits that it should feel slightly guilty about its failure to honor its NAFTA treaty obligations, rather than continue to brazenly violate them without a thought. In my view, Ambassador Pickering was claiming that the glass was half full when it is not clear to me that there is still a glass at all.

And Mexico raises a whole additional set of issues, which I cannot get into here without overrunning not just my time but everybody else's time as well...

The Solution

The solution? Conquest, of course. It eliminates the border. It would mean that the Federal Reserve Bank of Kansas City could move its annual summer conference from the second-rate mountain resort that is Jackson Hole to the first-rate mountain resort that is Lake Louise. And it would change the median voter from being the guy with a Ford pickup truck listening to country music outside of Nashville to a nurse-practitioner in Ottawa. All three of these things seem to be good.

Conversely, if conquest is felt unseemly, there is another precedent to consider. In 1660 the governing body of Cromwell's Commonwealth of Great Britain reconstituted itself as the Long Parliament of the House of Stuart, and sent congratulations to King Charles II Stuart on the twelfth year of his reign. The U.S. Congress could rename itself the Parliament of the Dominion of Baja Canada and seek regularization through the appointment of a proper Governor-General by Elizabeth II Windsor. We could even do it with 50 votes in the Senate through Reconciliation--for it would certainly have substantially budgetary implications.

March 12, 2010: 1867 words