The Contested Terrain of Central Banking:
Ideas, Interests and the Bank of Canada's Inflation-Rate Reduction Policies, 1975-1991

Matthew Brett

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By: Matthew Brett

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Signed by the Final Examining Committee:

______________________________ Chair
Jean-Francois Mayer

______________________________ Examiner
Francesca Scala

______________________________ Examiner

______________________________ Supervisor
Daniel Salée

Approved by ______________________________
Jean-François Mayer
Graduate Program Director

__________ 2012

____
Dean of Faculty
Brian Lewis

ABSTRACT

The Contested Terrain of Central Banking:
Ideas, Interests and the Class Politics of Canadian Monetary Policy, 1975-1991

By Matthew Brett

Monetary policy in Canada underwent significant changes between 1975 and 1991 as the central bank shifted from fostering full employment to aggressively reducing and controlling inflation. Existing studies of this period largely adopt either monetarist or constructivist frameworks of analysis. Both of these approaches do not sufficiently account for the class-based dynamics of monetary policy. Adopting Epstein's view that central banks are contested terrains in which conflicting interests compete for profit and power over the marcroeconomy (2001), this paper examines the class-based dimensions of monetary policy change. The framework developed in this study accounts for both systemic factors of capital accumulation and class dynamics that influence monetary policy. Three distinct yet overlapping periods are analysed: the monetarist period (1975-82); the Volcker Shock period (1977-84); and the Crow Doctrine period (1988-91). Each of these periods had a distinct configuration of class forces, and these shifting configurations influenced the monetary ideas and policies that prevailed during a given time. Organized labour was significantly weakened during the monetarist and Volcker periods, while finance capital grew in power and influence over the macroeconomy into the 1990s.

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TABLE OF CONTENTS

TABLE OF GRAPHS AND FIGURES

CHARTS

FIGURES

Introduction

Canada is said to have emerged relatively unscathed from the global recession that began in 2007. Such was the confidence of the Conservative majority government that they could position Canada as an international leader at the 2012 World Economic Forum in Davos, Switzerland. Prime Minister Stephen Harper said that “Canada’s choice will be, with clarity and urgency, to seize and to master our future, to be a model of confidence, growth, and prosperity in the 21st century” (PMO, 2012). Others have painted a less optimistic portrait of the Canadian economy.

The International Monetary Fund’s 2012 annual report on Canada warned of significant job losses, housing price declines and protracted low household consumption levels stemming from record levels of household debt (Lam, 2012). “Make no mistake, such a combination of forces would likely cause a recession,” said Craig Alexander, chief economist with TD Bank (ibid). In order to understand the present conditions of the Canadian economy, it is necessary to extend analysis well beyond the crisis of 2007.

Certainly, the crisis has played a critical role in shaping recent political and economic conditions in Canada, as the state was required to inject massive amounts of liquidity in order to pull the Canadian economy out of a recession (Lavoie and Seccareccia, 2009). Subsequent austerity measures at provincial and federal levels continue to have far-reaching consequences, and the broader restructuring of global trade following the crisis will have lasting implications for Canada (Bradford, Colin 2011). Yet the present volatility of Canada’s economy should not simply be regarded as stemming from the global crisis of 2007.

This volatility emerged over time both globally and domestically because of significant political, social, ideological and economic changes that have taken shape since the 1970s

(Baragar and Seccareccia, 2008; Seccareccia, 2007). The Canadian state began to impose sharp monetary, fiscal and regulatory restraint in the mid-1970s, and while these policies were intended to reduce the rate of inflation and decrease levels of public sector debt, they also served to increase levels of inequality, unemployment and household debt (Sears, 1999). Therefore, in order to understand the present circumstances in Canada, it is necessary to understand what has occurred since the 1970s.

A critical aspect of this story is the role of monetary policy. The Bank of Canada, the nation's central bank, has played a vital role in the Canadian economy since it was established after World War II. Historically, central bank policy was focused upon achieving stable rates of growth and full levels of employment. Presenting his *White Paper on Employment and Income* to Parliament in 1944, for example, Federal Reconstruction Minister C.D. Howe emphasized the need for a "high and stable level of employment and income" (cited in Babad, 1995: 58). But just 40 years after this statement, unemployment levels were reaching unprecedented levels and the state was fostering a national recession in order to quell inflation. The central bank has radically shifted its policies from fostering full employment to an almost single-minded focus on obtaining a stable rate of inflation.

This paper is about Canadian monetary policy and the immense class struggles waged around these policies between 1975 and 1991. At the root of this study is the following question: why did the Bank of Canada reorient its monetary policy between the 1970s and 1990s? Answering this question is critically important, as a clear understanding of monetary policy will help explain the contemporary conditions of Canada's political economy. Record levels of household debt and inequality pose serious risks for the Canadian economy, according to the IMF, and I will argue that the Bank of Canada played a central role in fostering these conditions.

Another central purpose of this paper is to challenge conventional narratives of this period in monetary policy history. As I argue more substantively in Chapter 1, existing accounts of this period overlook some important considerations. These oversights and omissions foster partial or inaccurate understandings of Canadian monetary policy and contemporary economic conditions. There is a need to critically appraise prevalent narratives in order to insure that alternative theories are considered.

Monetarism and constructivism serve as two prevalent approaches to the study of Canadian monetary policy during the 1970s and into the 1990s. Monetarists suggest that the Bank of Canada had no choice but to tackle inflation in the 1970s and 80s. The excesses of Keynesian welfare state intervention and expansionary monetary policy spurred inflation, so the monetarist argument goes. The state must therefore take a less interventionist stance in order for inflation rates to decrease. This monetarist account was all-pervasive in economic and policy literature of the 1970s and 80s, yet it completely overlooked key factors. Namely, monetarist accounts evade the political and societal implications of their analysis and theory altogether. Monetarist economists present their arguments as scientifically verifiable and politically benign. Yet, as I argue below, the political and social content and ramifications of their work is clear.

An alternative approach to this period emphasizes the role of economic ideas in shaping policy outcomes. This constructivist approach emerged in the 1990s and continues to evolve rapidly. A core component of the constructivist school is its emphasis upon the role of ideas in explaining policy change. Constructivists generally situate their theories in relation to realist or structuralist arguments, which emphasize distributions of political and economic power. By emphasizing the importance of ideas instead of power, constructivists have developed unique explanations about why certain policies and ideas prevail over others (Blyth, 1997; 2001; 2003; Chwieroth, 2007; 2010).

One of the central arguments made by constructivist scholars is that the 1970s and 80s marked a profound shift in economic thinking. Prevailing Keynesian ideas of the 1950s and 60s gave way to neoliberal ideology, with its emphasis on free markets and free capital flows. This line of argument has gained a strong degree of salience when applied to studies of Canadian monetary policy. Political scientist Timothy Lewis, for example, argues that…

> developments in economic theory brought Keynesian notions of sound macroeconomic policy under increasing challenge across industrialized nations, including Canada. The acceptance of these theoretical changes in bureaucracies often required political sponsorship to be fully expressed. (2003: 4)

With respect to the conduct of monetary policy, this meant a shift away from Keynsian ideas of full employment toward a newfound emphasis upon inflation rate reduction and control. While neoclassical accounts neglect the political content of monetary policy outright, most constructivist scholarship also does not sufficiently engage with political content of monetary policy change. By emphasising the role of economic ideas, constructivists effectively downplay the political and class-based interests embedded in these ideas. As Bieler and Morton argue, constructivists do not adequately "address the question as to *why* a certain set of ideas, rooted within […] material relations, dominates at a particular point in time" (2008: 123).

It is my contention that both neoclassical and constructivist accounts do not adequately explain why the Bank of Canada sought to aggressively tackle inflation between 1975 and 1991. This is a particularly important weakness within much of the constructivist literature, given that this approach is gaining traction within the field of political economy. Emphasising the role of ideas without sufficiently accounting for the interests embedded in these ideas is problematic and should be addressed.

Placing central emphasis upon class interests instead of ideas requires an alternative to monetarist and constructivist frameworks. In Chapter 2, I present a theoretical framework which places greater emphasis upon class struggle and the structural dynamics of capital accumulation. Drawing largely from Marxist scholarship and the Parisian regulation school in particular (Jessop, 1997), this theoretical framework accounts for both structural and agency-based factors that influence which monetary ideas and policies prevail in a given time and place.

The Parisian regulation school holds that "economic activities are socially embedded and socially regularized and that stable economic expansion depends on specific social modes of economic regulation that complement the role of market forces in guiding capitalist development" (Jessop, 2008: 24). Regulationists emphasize the crisis-tendencies of capital, stressing that capital is unstable and subject to change. The nature of the crisis and its subsequent evolution are mediated by class struggle and broader social forces (Jessop, 1997). More recent regulationist literature has moved away from an overt focus on the national state to emphasize the uneven spatial and scalar dynamics of capital accumulation. Greater attempts have also been made to move away from a strict emphasis upon capital to be more inclusive of other institutional orders such as the state, media, law, science, civil society and so on (ibid: 507-8). Integreated with this regulationist approach is a somewhat nuanced understanding of class configurations and class struggle, drawing largely from the ideas of a "power bloc" put forward by Mahon (1977).

The basic line of argument runs as follows: at the structural level, capital has an innate tendency to go through cycles of boom and bust. At the agency-based level, capital divides society into evolving class configurations and organizational forms, and these organizational forms ossify into stable orders that are nevertheless subject to change and rupture. Looked at in this way, the radical shift in monetary policy between 1975 and 1991 was the result of a significant restructuring in national and global capital and class forces.

With respect to monetary policy, a structural crisis of capitalism threw the global economy into a deep recession in the early 1970s, and this crisis opened a window of opportunity for class forces to reconfigure global capital. Monetary policy became a contested terrain of class struggle as competing interests sought to shape policy to suit particular interests. The Keynesian model that prevailed in the immediate post-war era benefited broad segments of society as the central bank sought to maintain levels of full employment. The systemic crisis of capital that emerged in the 1970s brought Keynesian monetary policy into question, as vested interests sought to undermine existing monetary policies.

At the same time, the organizational form of global capital was becoming increasingly finanicalized following the demise of the Bretton Woods system in 1971. The abandonment of the gold standard allowed speculators to invest in national currencies, and investors invariably searched for currencies that provided the highest yield. This shift from broadly Keynesian to neoliberal organizational forms played a disciplinary function upon national governments and central banks, as speculators emerged as critical players within the power bloc, given that they were free to shift investments to currencies that provided the highest return on investment.

Monetary policy served as a central component in the shift from Keynesianism to neoliberalism. With Keynesian monetary policies effectively undermined, the Bank of Canada introduced a series of policies that targeted inflation rather than employment, finally adopting a policy of "inflation targeting" that remains in place today. As Epstein argues, the main effect of this policy has been to increase the share of profits going to financial and speculative interests (2002). The shift from broadly Keynesian monetary policy to its neoliberal variant can therefore be regarded as a class project.

Emphasising the class dynamics of monetary policy and policy change stands in contrast with both monetarist and constructivist accounts. The approach adopted in this study brings class struggle and economic interests to the forefront of analysis. Struggles over inflation control and inflation targeting regimes were not simply struggles over economic ideas and theories. These were struggles waged by competing class interests in an effort to gain an increasing share of profits and power over the macroeconomy. Economic ideas simply served as tools for competing class forces to achieve their desired policy ends.

Historical Context

While inflation in Canada could be attributed to a number of factors, this study isolates two principal sources of inflationary pressure in Canadian economy. First, as I will argue in Chapter 2, capitalism has an innate tendency to go through cyclical waves of boom and bust. This capital accumulation cycle reached its expansionary height, I argue, in the late-1960s both in Canada and on a global scale. Rapid capital accumulation along these lines fostered a significant increase in the rate of inflation. Secondly, a key moment specifically related to the Canadian case was the unpegging of the Canadian dollar to the U.S. greenback in 1971 (Helleiner and Momani, 2010). The Canadian dollar was briefly pegged at a fixed exchange rate to the American dollar from 1962 to 1970. With this peg abandoned in 1971, Canadian currency began to appreciate rapidly. Policy-makers were reluctant to allow the exchange rate to appreciate too substantively, as this would likely slow economic growth due to uncompetitive pricing of Canadian commodities. Thus, the Bank of Canada pursued expansionary monetary policies in the early 1970s as a means of insuring near parity with the U.S. dollar (Helleiner, 2005). Monetarists in particular argue that this served as a major root of inflationary build-up in the Canadian economy (Crow, 2009; Howitt, 1986).

Both the appreciation of the Canadian dollar and this expansionary phase of the global accumulation cycle caused inflation to reach record levels. Policy-makers therefore gradually began to shift their attention away from fostering full employment and toward reducing the rate of inflation. The manner in which this policy-transition occurred was not a politically benign process, however. As I argue more substantively in Chapter 3, vested interests fostered this change in monetary thinking in order to achieve their own class interests. More specifically, advocates of free market capitalism worked to delegitimize prevailing Keynesian policies in favour of their monetarist counterparts as a means of gaining a greater share of national profits and power over the macroeconomy.

This shift in the conduct of monetary policy can be broken into three fairly distinct yet overlapping stages. It is useful to break the history of Canadian monetary policy into stages as a means of identifying what changes occurred with respect to monetary policy over time. These specific periods were isolated because they marked particularly turbulent moments in Canadian monetary policy history: the first period (1975-82) began with the adoption of broadly monetarist policies in 1975 and closed with the abandonment of these policies in 1981; the second and third periods (1977-84; 1988-91) were moments of sustained high interest rates that were unparalleled in Canadian history. These three phases will be addressed substantively in Chapter 3, but a brief overview is provided here in order to contexualize this study.

The Monetarist Era, 1975-82

In order to understand the nature and content of monetary policy, it is first necessary to understand the prevailing organizational from of global and national capital. This organizational form adhered to broadly Keynesian principles in the early 1970s, as the Canadian post-war economy granted organized labour strong powers while fiscal and monetary policy served to achieve levels of full employment. This Keynesian organizational form began to erode under pressures of outsourcing and globalization, with the OPEC crisis serving to significantly alter the prevailing organizational form (Barsky and Kilian, 2004). The global crisis therefore served as a catalyst for change, with various class powers exerting their influence in order to reconfigure global and national capital in their interest.

Monetarist policy prescriptions served as a critical lever to quell the strength of organized labour in the 1970s. Recognizing the class-dimensions of monetarism, significant struggles were waged within executive levels of government in an attempt to prevent the introduction of monetarist policy. Liberal Finance Minister John Turner, for example, opposed his own government's policy and stated in his 1975 budget speech that he rejected monetarist policies outright (cited in Crow, 2009: 3).Organized labour also reached its most militant level in Canadian history during this time, as the level of strike and lockout activity reached its peak during this period. As I argue in Chapter 3, there is substantial evidence from primary records that the state recognized the power of organized labour and worked to weaken these "market rigidities" as a means of achieving their anti-inflation objectives. Monetarist policies were nevertheless adopted and Minister Turner resigned, marking a critical turning point in Canadian monetary policy history. The central bank had effectively abandoned its mandate to foster full levels of employment, focusing instead on reducing the monetary supply as a means of quelling inflation.

This first period marked a decisive turning point away from broadly Keynesian monetary policy toward a neoliberal variant. Whereas constructivist accounts of this period emphasize a shift in economic *ideas* away from Keynesianism toward a monetarist counterpart, I argue that this period marked a reconfiguration of class power within the state and society. The monetarist policies that were adopted in 1975 served to weaken the strength of organized labour, as restraints on the monetary supply slowed the economy to the point of recession in 1981. Unlike the prosperous time that had prevailed in the immediate post-war environment, the weak national economy of the 1970s disempowered organized labour. These monetary policies were coupled with fiscal restraint, regulatory reform and sharp wage and price controls. Yet, despite this first period of austerity, it would take another two waves of anti-inflationary policy in order for the state to achieve its objectives of low and stable inflation.

Ripple Effects: The Volcker Shock in Canada, 1977-84

Just as Keynesian ideas were undermined by monetarist alternatives, monetarism itself was undermined in the late 1970s. The policy-prescriptions offered by monetarists were failing to achieve their objectives of reducing inflation, and the monetarist turn was officially abandoned in 1982. New monetary ideas therefore came to replace monetarist doctrine. Rather than focusing on reducing the money supply, the Bank of Canada sought to increase interest rates to whatever level was necessary in order to curb inflation. This policy was initiated by the Federal Reserve Chairman in the United States, Paul Volcker, in an era that is referred to among critical circles as the Volcker Shock (Bond, 2008).

One of the distinguishing features of this period was the reconfiguration of global and national capital that had occurred. As I argue in detail in Chapter 2, the organizational form of global and national capital had changed significantly since the early 1970s. Abandoning the gold standard in 1971 allowed speculators to invest in national currencies across the world. This reconfiguration of the prevailing organizational form accorded significant power to institutional and private investors, as speculative capital could now flow easily across countries and markets. Investors could signal their discontent or pleasure with national policies by shifting their investments to whatever national currency they favoured. This is precisely what happened in the late 1970s in Canada, as investors withdrew their money to signal that the central bank and the elected government was not reducing inflation rates rapidly enough. The elected government responded in 1978 by sending a clear signal to markets that inflation would become their primary concern. Class struggle had shifted away from traditional worker-owner relations to a struggle between international financial interests and domestic policy actors, with investors prevailing in 1978.

The Crow Doctrine: The Third Wave of Monetary Restraint, 1987-91

The final wave of monetary restraint was somewhat unique to Canada. Incoming Bank of Canada Governor John Crow set out to tackle inflation by again raising interest rates to whatever level was necessary to curb inflation in what is now referred to as the Crow Doctrine (Babad, 1995). Interest rates imposed during this period reached levels not matched in Canadian history. Unlike during the Volcker era, organized opposition to the Crow Doctrine was immediate and widespread. Corporate interests, mainstream media, a broad cross-section of private and public sector unions, households and farmers actively opposed Governor Crow's policies from the start.

Crow was nevertheless shielded by a legal entitlement known as Central Bank Independence (CBI). CBI grants central bank managers the privilege of pursuing their policy objectives without interference from the elected government or democratic forces. It is standard practice in Canada that the Bank Governor has ultimate discretion over monetary policy, but the elected government can intervene in monetary policy. Should this occur, it is unwritten convention that the Bank of Canada Governor resign from his or her post. The relative autonomy accorded to the central bank provided Governor Crow with sufficient independence to pursue his anti-inflationary objectives.

The distinguishing feature of this period is the extent to which Governor Crow was shielded from class pressure. Provincial Premiers went so far as to demand that the government intervene in monetary policy, which would have invariably forced the governor to resign. Crow was able to maintain his position and policies because, as Crow himself argued, Progressive Conservative Finance Minister Michael Wilson was "fundamentally supportive of the clear anti-inflationary stance taken, because he thought that this was the way the world was going, and also the way it needed to go" (Crow, 2009: 7). The Governor therefore relied critically upon support from the elected government in order to impose this third and final wave of monetary restraint.

The account developed in this study places class and class struggle at the centre of analysis. Looked at in this way, the prevailing economic ideas of a given time are expressions of particular class interests. Monetarism, inflation-rate control and inflation-rate targeting may indeed represent three distinct monetary policies and economic ideas, but these ideas and policies are bound by their common support and active promotion from particular class interests. Moreover, the organizational form of global and national capital does influence the nature of class struggle and the relative power of combatants. Tightly regulated post-war economies granted substantial power to organized labour, but the erosion of this organizational form through processes of outsourcing, globalization and regulatory reform effectively increased the class power of financial interests. The contested terrain of central banking is a critical space in which competing interests struggle for profits and power over the macroeconomy.

This study is divided into four chapters. Chapter 1 provides a critical review of the monetarist and constructivist literature. Chapter 2 presents the theoretical framework utilized in this study. An analysis of Canadian monetary policy during the 1970s and into the 1990s is developed in Chapter 3. A concluding chapter follows.

Chapter 1
From Monetarism to the Role of Ideas: Reviewing the Literature

Scholarship on the Bank of Canada's fight against inflation is extensive and expanding. Despite the widespread scrutiny of this period, two opposing interpretations emerged by the 1990s that retain a strong degree of salience within the academic literature today: monetarist and constructivist approaches. Indeed, elements of the monetarist approach remain central to neoclassical interpretations of monetary events. As I argue below, one critical weakness is that monetarists largely present their work as neutral or scientific. Monetarist literature is simply not realistic in this sense, as monetary theory and policy are permeated to the core with political substance. The omission of politics from economic analysis remains a critical oversight within the monetarist literature.

Conversely, the alternative constructivist approach *does* account for the political substance of monetary policy. The de-legitimization of Keynesian ideas required active political agency, which neoclassical economists, politicians and advocates provided. Two factors are nevertheless insufficiently accounted for in constructivist accounts of the 1970s and 1980s. First, a systemic economic crisis took place within the global political economy of the early 1970s. This global crisis had a profound impact upon the conduct of Canadian political and economic affairs. This structural factor is treated as a secondary component of analysis within the constructivist literature.

Secondly, coupled with this systemic crisis was the emergence of widespread class struggle in Canada, the United States and Britain. This global crisis and the ensuing class struggles fundamentally altered the dynamics of the Canadian state, including the conduct of monetary policy. These class struggles are not analyzed with sufficient detail in the constructivist literature. As such, the existing neoclassical and constructivist literature does not sufficiently address the question of why the Bank of Canada adopted sharp anti-inflationary policies throughout the 1970s and into the 1990s. These systemic and class-based dynamics must be more thoroughly integrated into analyses of Canadian monetary policy.

This review begins by detailing the monetarist literature and its treatment of Canadian monetary policy in the 1970s and 80s. Critiques of the monetarist literature are then more fully developed. The constructivist literature is then presented, followed by a critique. The chapter concludes by introducing Marxian theory as the most appropriate framework to address the shortcomings and oversights identified within the monetarist and constructivist literature.

The Theory and Practice of Canadian Monetarism

Monetarist theory came into fruition in the early 1960s, but it would take a particular confluence of events for monetarism to take hold in Canada. As detailed in the introduction, the unpegging of the Canadian dollar from the U.S. greenback in 1971 provided monetarists with the pretext for rolling out their theories and policy proposals. The Bank of Canada was concerned that the increasing value of the dollar would harm the economy, so it expanded the monetary supply in order to slow the appreciation of the dollar. Monetarists were well positioned in this respect. Their central theoretical claim was that inflation is always a monetary phenomenon caused by an "activist" or interventionist central bank. Monetarists could suddenly validate their theory by pointing to the Bank's expansionary monetary policy response to the appreciating dollar. Indeed, Canadian economist Thomas Courchene argued that "the net result of attempting to obtain an 'appropriate' exchange rate was a very large increase in the rate of monetary expansion, the legacy of which is our current inflation rate" (1976: 161). Inflation, it appeared, was indeed a monetary phenomenon.

The central argument adopted by monetarists was that inflation was caused by an overly interventionist central bank and government. This position is held with strong consistency within the literature. For example, Howitt argued that inflation had been correlated with the rate of growth in the national monetary supply since 1960, and that monetary expansion in Canada was excessive throughout the 1970s (1986: 11). Even in 1993, long after monetarist policy principles were abandoned, Laidler and Robson argued that growth rates of monetary aggregates "can and should serve as central indicators and perhaps as targets for the Bank of Canada" (1993: 3). The salience of monetarist ideas remains strong within the neoclassical cannon.

If, according to monetarists, inflation was caused by excessive monetary expansion, it followed that anti-inflationary measures must entail a reduction in the monetary supply. Monetarists of the 1970s would demand that the Bank of Canada tighten the monetary supply, and they would then scold the central bank when it failed to reduce the money supply to levels they deemed appropriate (Courchene, 1976; Howitt, 1986). Their intervention was consistent and forceful to the degree that its adherents may have been the first to use British Prime Minister Margaret Thatcher's famous slogan, "there is no alternative." Couchene argued that "the simple truth is that if Canada is at all serious about reversing the current inflationary trend, *there is no alternative* to ensuring that monetary growth rates fall to more appropriate levels" (my italics, 1976: 235).

Research by monetarists at private think-tanks and public universities then began to influence the Bank of Canada itself. Former Bank Governor John Crow, who worked as a senior official at the Bank in the mid-1970s, said that the Bank had commissioned research on monetary targeting "in response to the burgeoning academic literature [on monetarism]" (2009: 3). Not only was a growing body of monetarist literature emerging in the 1970s, the former Governor notes that "there was pressure on the Governor from senior staff to apply [monetarist policy]" in the early 1970s (ibid). This newfound emphasis upon monetarist theory within the Bank's research department gradually filtered into the Bank's actual policy practices, and by 1975, senior Bank officials were clearly espousing monetarist principles. For example, in an address to the Canadian Life Insurance Association in 1975, Bank Governor Gerald Bouey explained the principal causes of inflation in the following manner:

> The short answer is that it was caused by the over-expansionary fiscal and monetary policies pursued by almost all of the world's industrialized countries in the early 1970s. These policies had been invoked in an effort to restore high levels of output and employment following the economic slowdown at the beginning of the decade […] I doubt whether it is generally appreciated how important a factor this was in laying the foundations for the worst outbreak of inflation of the postwar period." (Cited in Courchene, 1976: 229)

Monetarism unequivocally went from theory to practice with Governor Bouey's "Saskatoon Manifesto" speech to the Canadian Chamber of Commerce in 1975. During the speech, Bouey stated that "whatever else may need to be done to bring inflation under control, it is absolutely essential to keep the rate of monetary expansion within reasonable limits" (cited in Crow, 2009: 3). This placed monetary policy as a central pillar in the fight against inflation, which was coupled with fiscal wage and price controls introduced shortly thereafter. Courchene captured the "philosophical conversion" which took place within the Bank very well:

> On Thanksgiving eve, 1975, the Canadian institutional fabric was effectively revolutionized with the imposition of wage and price controls. Only a few weeks earlier Governor Bouey delivered an address to the 46th Annual Meeting of the Canadian Chamber of Commerce in Saskatoon which represents a watershed in the annals of Bank of Canada policy: essentially the Governor embraced the major tenets of monetarism. The

> combination of these events has, in effect, ushered in a new era of Canadian and monetary and financial policy. (Courchene, 1976: 278)

Following the Manifesto speech, the Bank implemented a period of anti-inflationary monetary restraint known as "gradualism." Gradualism, as the name suggests, entails a gradual tightening of the money supply in order to reduce inflation. This was achieved by gradually raising interest rates to reduce the demand for money. To monetarists, high interest rates were a necessary medicine for mitigating, and ultimately reversing, expansionary monetary policies of the late 1960s and early 1970s. However, targeting interest rates rather than monetary growth rates marked a deviation from strict monetarist principles, and monetarists were quick to point this discrepancy out (Howitt, 1986). Indeed, strict monetarist targeting theoretically entailed direct control of the supply of monetary reserves, but the Bank "never really believed in true monetary targeting" (Lavoie and Seccareccia, 2006: 45). Instead, the Bank estimated a predicted path of real income and prices and then set the interest level to effectively guide the demand for money (ibid: 45-6). Reducing the growth of monetary aggregates was to be conducted in a manner that would gradually bring inflation rates down within a specific target range of 8 per cent for the first year, 6 per cent in the second, and 4 per cent in the third (Crow, 2009).

To summarize the monetarist position, expansionary monetary policy is regarded as the principal source of inflation. Inflationary pressures in Canada are attributed to an unpegging of the Canadian dollar and "activist" policies adopted by the central bank and the elected government. Inflation is almost entirely attributed to state intervention and activist monetary policy in particular. To mitigate these trends, monetarists argued that the central bank must reduce the monetary supply. And while the intellectual roots of monetarism emerged in the early 1960s, it was only in 1975 that monetarist theory had taken sufficient hold of the intellectual climate to become policy.

Critiques of Monetarism

A number of technical critiques of the monetarist position have crystalized in both the Canadian and international context (Brunhoff, 1982; Donner and Peters, 1979; Kaldor, 1982). The monetarist framework does indeed contain logical shortcomings along with problems of interpretation. Two particular critiques are developed in this section. First, monetarists argue that there is only a short-term trade-off between monetary restraint, rates of unemployment and growth. This claim is weak, if not outright false. A substantial body of literature has come to challenge it, yet variants of this theory are still applied to the conduct of Canadian monetary policy today. Second, monetarists interpret inflation strictly as the result of state intervention, and suggest restraint in monetary growth rates are a necessary remedy. Overlooking the validity of this assertion, there are important political positions inherent in this argument that are not sufficiently addressed within the monetarist literature. As I argue below, greater attention must therefore be paid to the ideological and political implications of monetary analysis.

Regarding the first critique, monetarists hold that restraint in the monetary supply only effects economic growth and unemployment rates on a short-term basis. Howitt, for example, argues that "…over long periods of time, the rate of monetary expansion affects neither the rate of real output growth nor the rate of unemployment" (1986: 13). Laidler and Robson likewise hold that the economy's unemployment rate is independent of inflation (1993: 12-13). They argue that the tradeoff between inflation and unemployment is only effected during transitional periods from higher to lower inflation rates (when unemployment is usually high), or from lower to higher rates of inflation (when unemployment is brought down). This position is a central component of monetarism, which holds that there is a natural unemployment rate to which the economy will gravitate.

This position has come under vigorous criticism from a variety of perspectives, with Keynesian and Marxist scholars going to great lengths to refute this theory. Perhaps the most vigorous attack on this position was levelled by Marxist sociologist, Suzanne de Brunhoff (1982). After a critical analysis of the tenets of monetarism, de Brunhoff concludes her study with a sharp rebuttal of monetarist theory:

> To the extent that monetarism equals recession and creates unemployment it is simply an expression of capitalist practice as analysed by Marx. The reserve army of labour is the most certain instrument for restraining wages and disciplining labour and the most sparing of political repression. But monetarism today purports to go beyond the abandonment of the full employment target and yet in practice it fails to provide an operable set of policies that work against stagflation. That monetarist policy is reduced to anti-labour policy signals its retreat from economics to ideology. (1982: 293)

The "reserve army of labour" that de Brunhoff is referring to is a classical Marxist theory. Marx argued that capitalism requires a reserve army of labour for several reasons: an unemployed labour force keeps wages and labour militancy down; the reserve army can also be absorbed into new segments of production when necessary; unemployed labour is also more flexible and mobile than employed segments of society (Marx, 1992: 781-90). For de Brunhoff, monetarism was a means of increasing the unemployment rate, or, put another way, a means of increasing the reserve army of labour. Increasing the reserve army of labour has the effect of reducing wage demands and labour militancy, which means that capitalists can accrue a greater share of profits.

Less radical critiques of the monetarist position on unemployment also exist. Some economists question the validity of a "non-accelerating inflation rate of unemployment" (NAIRU), which holds that there is a natural rate of unemployment toward which an economy will gravitate in the long-run. Espinoza-Vega and Russell, for example, argue that the monetarist position "has fallen out of favour partly because its conceptual foundation is weak and partly because its empirical track record does not inspire confidence" (1997: 4-5). Similarly, post-Keynesians and Marxists generally argue that, contrary to monetarist claims, the monetary supply can indeed have long-term effects on unemployment and growth rates (Saad-Filho, 2000). One of the central pillars of monetarism has therefore come under serious appraisal. The approach does not sufficiently engage with the long-term implications of its policy prescriptions.

A second related critique of monetarism is that monetarists pay insufficient attention to the political context of their theory. As Donner and Peters note, "any major shift in economic policy can be made significantly easier if the political climate is favourable to the change" (1979: 7). The political shift that took place in Canada and internationally during this period is almost entirely overlooked within the monetarist literature. These social and political concerns are effectively externalized on the basis of crisp and parsimonious economic models that dominate the neoclassical literature.

Lewis (2003), for example, rightly argues that this dominant neoclassical or "objectivist" approach obscures the politics of Canadian fiscal and monetary policy. He argues that this objectivist position tends to assert that its analysis is motivated by "real" rather than "ideological" considerations. Adopting this objectivist position, however, does not say anything about how interested parties "may have generated public support for their fiscal [and monetary] agendas, or about the different pressures to which different parties are subject, but which those parties also try to manipulate" (2003: 9). In short, neoclassical scholars neutralize the politics of their economic analysis.

Neglecting the political aspects of monetary policy is a fundamental oversight. The framing and implementation of a given monetary policy carries with it definite social and political consequences. Rather than integrating these political considerations into the analysis, most of the monetarist literature implicitly suggests that these social and political consequences are mere externalities of sound economic theory and policy. These are critical gaps in the literature that should be addressed.

A second body of constructivist literature does take greater account of these political and social factors, but I argue that the constructivist approach introduced below does not sufficiently engage with the importance of class power.

The Political Economy of Ideas

"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas."–John Maynard Keynes (1936: 5)

At the basis of the constructivist approach is an emphasis on ideas, rather than strictly economic factors. A specialist in ideational scholarship, Mark Blyth (2003) argues that this emphasis upon ideas emerged principally in the 1990s due to limitations in rational choice theory. Rational choice scholars emphasize stability, equilibrium and path-dependences. Rational choice theorists therefore struggled to explain how change occurred, and they turned to ideas as a means of resolving this struggle. Byth argues that "in turning toward ideas to explain stability, rational choice began to encounter its own limits" (ibid: 701). The emergence of this ideational approach provided social scientists with a distinct framework with which to appraise the turbulent period of the 1970s and 80s.

And indeed, a number of scholars have emphasized the central role of ideas in determining the nature and content of Canadian monetary policy (Bradford, Neil, 2000; Donner and Peters, 1979; Riddell, 1986). The central narrative of this approach is that the anti-inflationary policies implemented beginning in 1975 can be explained by a shift in economic thinking away from broadly Keynesian ideas and toward more orthodox neoclassical thinking. In this section, I outline the general contours of this argument and provide a critique of its theoretical basis. While the constructivist approach does more effectively address the political substance of monetary policy than its monetarist counterpart, I argue that constructivist scholars have not adequately studied the structural tendencies of capital accumulation, or the class-based struggles that emerge around monetary policy.

The general constructivist argument, as stated above, is that a shift in economic thinking from broadly Keynesian to neoclassical theory occurred in the early 1970s. Baragar and Seccareccia (2008), for example, argue that contemporary economic conditions in Canada can be partially attributed to the shift from economic ideas which fostered Keynesian policies of industrial development and full employment to neoliberal ideas which favour finance capital. Lewis (2003) also provides a very systematic and compelling analysis of the role that ideas played in shaping Canadian fiscal and monetary policy throughout the 1970s and into the 1990s. He argues that Keynesian ideas of the post-war era were gradually displaced by their neoliberal variants.

A unique subset of the constructivist literature places greater emphasis upon changing economic theory and econometric modelling, rather than studying broader paradigm shifts. Riddell offers a rich interpretation of the role of ideas along these lines (1986), in which he relates changing economic theories to the subsequent adoption of distinct monetary policies in Canada. Beginning with the role of economic theory, Riddell identifies three key theoretical developments that shaped monetary thinking from the 1950s through to the 1990s. In the first phase, economic thought during the post-war years broadly followed Keynesian principles, with full employment serving as the primary goal of macroeconomic policy. This is the context in which Reconstruction Minister C.D. Howe presented his *White Paper on Employment and Income* to Parliament in 1944 (cited in Babad, 1995: 58). Riddell argues that this Keynesian mode of thinking prevailed in Canada until the early 1960s, with low levels of unemployment achieved throughout the 1950s (1982: 8).

This system came to be known as "embedded liberalism," insofar as free markets were embedded in a social structure designed to more evenly distribute wealth across the population (Helleiner, 1990: 15). In essence, most developed states insured that sufficient capital was available to meet the growing needs of the emerging welfare state. Given the fiscal demands placed upon welfare states, governments could "no longer permit the practice of corporations and wealthy citizens moving their savings to countries with lower tax burdens in order to evade domestic taxation" (ibid).

However, increasing levels of unemployment were coupled with rising rates of inflation in the late 1960s. This posed a clear problem for classical Keynesian theory, which allegedly held that inflation would only become problematic at levels of full employment. I stress the word "allegedly" because Keynes did not necessarily argue that inflation could only exist at levels of full employment. As economist Harold Chorney noted, "the kind of policies that passed for Keynesianism were inaccurate representations of Keynes' original doctrine" (Chorney, 2004: 250). Nevertheless, the perception took hold that existing Keynesian models had failed. As Burns put it, "inflation does not wait for full employment" (cited in Riddell, 1986: 9). In light of this reality, a growing number of scholars argued that Keynesian policies and ideas were unsuccessful in simultaneously achieving price stability and full employment (AIB, 1979a: 5).

Thus, Riddell argues that the second phase marked a theoretical and methodological shift away from classical Keynesian models. In this second phase, the classical Keynesian model premised upon achieving full employment was replaced by the Phillips Curve trade-off in the early 1960s. The Phillips Curve represented a trade-off between inflation and unemployment. Economists provided evidence to argue that policymakers could choose a rate of unemployment that would be matched with an associated rate of inflation. The notion of full-employment was abandoned in favour of a more flexible balancing act between inflation and unemployment (Riddell, 1986: 9). Economic theory and ideas were therefore designed to shape material conditions on the ground. This trade-off did not represent a complete departure from Keynesian thinking, as economists argued that high levels of employment could be achieved with sufficient fine tuning.

However, this Phillips Curve model likewise came under attack by the late 1960s, as high rates of inflation were coupled with high levels of unemployment that were sharply out of synch with the Phillips Curve predictions. A third phase in macroeconomic thinking therefore emerged (Riddell, 1986: 10). Whereas adherents of the Phillips Curve argued that there was a trade-off between inflation and unemployment, a new group of scholars came to argue that there was a "non-accelerating natural rate of unemployment" (NIRU) to which the economy will invariably gravitate (for an overview see Kaldor, 1982: 22-23). This was the monetarist school, which came to displace Keynesian monetary policy in several developed countries by the mid-1970s.

According to monetarist ideas, as detailed in the section above, expansionary monetary policy can only temporarily reduce the rate of unemployment, and interventionist monetary policy is likely to spur inflation. This third monetarist phase of thinking was clearly articulated by Milton Friedman during his presidential address to the American Economic Association in 1968, which is often regarded as a watershed moment in monetarist thinking. During the speech, Friedman provided a sharp critique of the prevailing Keynesian schools of thought and the existing Phillips Curve model. Rather than attempting to mitigate unemployment through demand-driven policies, monetarists like Friedman argued that a more appropriate course would be to control inflation through supply-side measures (De Angelis, 2000: 147). Insuring a stable supply of state-backed money would serve as the best means of keeping inflation under control.

This third phase of economic thinking came at an opportune moment for monetarists, as persistently high levels of inflation and unemployment undermined both classical Keynesian thinking and the more recent Phillips Curve models, providing the basis for a radically different set of ideas. Structural economic factors, therefore, did play an important role in shaping economic ideas of the time. The monetarist position, in particular, was premised upon undermining existing ideas. As Johnson argues, "the interest in monetarism […] is to be explained more by the fact that policy based on Keynesian theory, and concentrating on fiscal policy, has been an evident failure [rather than by a] full-scale scientific testing of the relative strength of the two approaches"—monetarism being the second approach (cited in Courchene, 1981: 11).

Whether or not this is true is a matter of considerable debate (Hein, 2008), but the important factor here is that existing theoretical models were undermined by economic conditions in the late 1960s, providing a window of opportunity for monetarist thinking to emerge. Nobay and Johnson also argue that monetarist doctrines emerged primarily as a critique of prevailing Keynesian ideas:

> Monetarism has in large measure preferred to concentrate its attack on Keynesianism by directing attention to the dynamic shortcomings of that approach as compared with its

> own framework […] Friedman's 1968 Presidential Address is a powerful and cogent attack on Keynesianism and, in particular, is known for its challenge to the Keynesian use of the Phillips Curve for the 'missing equation.' (cited in Donner and Peters, 1979: 14)

These three phases in monetary thinking—Keynesian, Phillips Curve and monetarist—evolved over time, with each body of thought carrying its own set of policy prescriptions and economic principles. A review of the Canadian literature is certainly consistent with this understanding of monetary policy change. The studies by Bodkin et al. (1967) represent a fairly clear crystallization of the unemployment-inflation trade-off models of the 1960s, whereas virtually all of the material that emerged from the C.D. Howe Institute in the 1970s adopted a monetarist framework. In this respect, emphasising the role of economic models in shaping monetary policy remains a compelling approach.

Finally, some of the constructivist literature very effectively addresses the manner in which ideas are transmitted from one locale to the next. Thus, Drainville (1995) identifies clear constructivist links between Canadian monetarists and various international actors. The fact that Canadian monetarist Thomas Courchene was educated at the University of Chicago offers fairly clear evidence of how ideas can physically travel. Similar to the works of Hall (1993) and Ikenberry (1992), it is possible to trace the diffusion of ideas from one nation-state to the next. It is also possible to trace how these ideas are adopted by policymakers. And indeed, research at the Bank of Canada in the 1960s increasingly began to take the monetarist framework seriously "in response to the burgeoning academic literature" (2009: 3). It is therefore possible to trace the knowledge-transfer of economic ideas across states and from academics into the policy process and popular discourse.

This constructivist approach to monetary policy does have its benefits. Contrary to its monetarist counterpart, this ideational approach does come closer to capturing the inherent political dynamics of monetary policy. Lewis' work on Canadian fiscal and monetary policy, for example, aims to examine the "political and economic conditions that support the selection of some ideas over others… (2003: 4). Monetary and fiscal ideas are therefore not regarded as neutral devices, but are instead situated in a political and economic context which influences the prevalence of certain ideas over others. Donner and Peters likewise argue that "ideology or value judgments usually play a complementary role to economic theory…" (1979: 12). The incorporation of political circumstances and dynamics into the study of economic policy is an improvement upon the neoclassical literature. While neoclassical scholarship does retain a strong empirical base, it does not follow that neoclassical theories and research findings are politically neutral. Their implementation has distinct social, political and economic impacts that cannot be neglected.

Also unlike the monetarist approach, which adopts a single theoretical framework and applies it consistently to the conduct of monetary policy, the constructivist approach offers a more fluid means of understanding the evolution of monetary ideas over time. Monetary frameworks are not regarded as fixed and immutable, but as contested theoretical positions with various contenders in the wings. Nevertheless, while the constructivist approach does have its merits, there are also fairly clear weaknesses within the literature.

Critiques of the Constructivist Approach

Despite his stated emphasis upon the role of political and economic conditions, Lewis accords primary emphasis to the role of ideas throughout his book. He does not pay sufficient attention to the political struggles and vested interests that shape these ideas. This is a shortcoming within the constructivist literature more generally. Scholars adopting the constructivist approach often downplay or neglect the material interests that a particular idea may serve. This runs the risk of overlooking political struggles that take place between competing interests by according greater emphasis to the struggle over ideas.

Regarding the importance of material interests in shaping policy outcomes, Lewis' work is illustrative of constructivist scholarship more generally. Lewis cites a report published by the Organization for Economic Cooperation and Development (OECD) as having marked a critical shift from broadly Keynesian to monetarist thinking. Once this shift in thinking had occurred, political interests then fostered the new monetarist paradigm. Lewis writes that "developments in economic theory brought Keynesian notions of sound macroeconomic policy under increasing challenge across industrialized nations, including Canada. The acceptance of these theoretical changes in bureaucracies often required political sponsorship to be fully expressed" (2003: 95). In other words, the emergence of new economic theory undermined the existing Keynesian project. Political interests then came to adopt this change in economic theory. This linear argument flows from a change in economic thinking to a subsequent change in political practice.

However, this linear trajectory could be entirely reversed. One could begin with political and material interests, and then study how these interests manifest themselves in economic ideas and public policy. After all, as Lewis himself notes, "policies embodying ideas about liberalizing the economy were selected for their utility in realizing interests…" (2003: 103). If this is the case, it would make sense to determine the nature of various competing interests, and to then study how these interests come to express themselves through ideas. Most constructivist scholarship approaches economic policy from the other direction entirely. Ideas are treated as the primary unit of analysis, with various interests then adopting these ideas to achieve their particular ends.

Peter Hall, arguably one of the most sophisticated exponents of the constructivist approach, does resolve these concerns to a degree in his study of monetary policy in the United

Kingdom (1993). As Blyth notes, Hall addresses these concerns by paying attention to "how a policy paradigm privileges certain actions over others and how authority over policy is as much a function of the flow of ideas as brute resources" (Blyth, 1997: 237). However, as Blyth argues, Hall examines the formation and implementation of ideas largely as an elite process. "The elite game may tell us how the ideas get from the blackboard to the party, but not how or why certain ideas come to be accepted over others" (ibid). This is an important oversight, because it again points toward the importance of underlying interests within a given idea. It is entirely possible that one idea is accepted over another because particular actors have vested political or material interests in insuring that a given idea prevails. An idea is often merely a means of obtaining or retaining particular interests. It follows that attention should be paid to the underlying interests, rather than strictly focusing on the ideas which facilitate these interests.

In short, while the constructivist approach does provide much greater political depth than its monetarist counterpart, much of this literature does not sufficiently address the inherent power dynamics and underlying interests of a given idea. Scholars adopting constructivist frameworks do not sufficiently address the question of who benefits from a given idea, nor do they sufficiently address why one idea gains policy traction over another. Bieler and Morton acutely summarize this critique by posing a series of questions that are left unaddressed by constructivist scholars:

> *Whose* values and beliefs have constituted or embodied state identities and interests and the relevant constitutional structure of the international society of states? *Which* agents shape the core intersubjective beliefs of underlying social and world orders? *Why* does a particular set of ideas become part of the structure and not another? As it stands, there exists an under-theorized notion of power across social constructivist perspectives that

> fail to ascertain whose interpretations come to constitute the social world and why they do so. (2008: 109)

Much like its monetarist counterpart, therefore, this constructivist approach would benefit from greater attention to the power dynamics and material interests inherent in monetary policy. In the following theoretical section, I present a Marxian framework which places class interests and class power at the center of analysis, arguing that a Marxian framework is sufficiently rich to capture the inherent political and material interests in any given monetary policy. A Marxian analysis along these lines can effectively overcome the shortcomings of both the monetarist and constructivist explanations of anti-inflationary policy in the 1970s and into the 1990s.

Chapter 2
Bringing Class Back In

Scholars who adopt an ideational approach do not outright neglect material and distributional considerations (Bailey and Schonhardt-Bailey, 2008; Blyth, 2003; Chwieroth, 2007). These authors simply argue that, under certain circumstances, ideas are equally or more important than the role of interests. Chwieroth, for example, argues that material interests must be mediated and interpreted by policymakers (2007: 410). Therefore, while recognizing the importance of interests, Chwieroth argues that mediation and interpretation are nevertheless critical components of analysis. One can indeed hold that ideas and material interests are *both* essential concepts that must be appraised with equal consideration. In this sense, interests cannot simply be brought back into the analysis, because they never really left. That said, constructivist scholarship generally does not place sufficient emphasis upon material interests and distributional struggles. These material factors are subordinated as a means of placing greater emphasis upon the role of economic ideas. Material struggles should be more critically appraised in this regard.

In order to make this argument, however, a theoretical apparatus must be established from which to examine monetary phenomena. At their basis, Marxist explanations examine political events and economic processes as being innately tied to distributions of class power. A fundamental distinction can be drawn here between neoclassical and Marxist theory. Neoclassical economics may vary with respect to its research findings, but neoclassical literature is consistent in its application of rational choice theory, which holds that human agents are utility-maximizing individuals. As political economist Ben Fine has argued, neoclassical economics are pervaded by "individualistic, utilitarian overtones" (2004: 10). Monetarism, for example, is premised upon the core assumption that economic agents are rational utility-maximizing individuals. Monetarists generally hold that "markets reliably and stably enforce a growth path on the real economy determined by tastes, technology and resources" leaving monetary policy "powerless to affect the real economy" (Foley, 2010). Marxist theory can readily be distinguished from neoclassical theory in this regard.

Rather than studying agents as utility-maximizing individuals, Marxists study individual agents as members of distinct economic classes. As Foley notes, neoclassical economic theorists are "reluctant to entertain or even grasp theories that concern emergent social phenomena, especially class" (1989: 2). Adopting a Marxist framework may yield unique research findings, in this respect, given that their unit of analysis shifts from individuals to economic classes. Class-based dynamics of distributional conflict and power struggle are brought to the centre of analysis—considerations of which are entirely overlooked within the neoclassical literature.

Drawing upon the Parisian regulation school of political economy (Harvey, 1990; Harvey, 2005; Jessop, 1997; Smardon, 2010; Soederberg, 2001), I argue that there are two principal Marxist approaches to the study of monetary policy: systemic and agency-based approaches. The systemic approach utilizes aggregate data to capture macro-level processes and distributional struggles. The agency-based approach, conversely, identifies specific actors and their role within a given class struggle. As I argue below, each approach has its merits, but a synthesis of systemic and agency-based approaches is the most effective means of studying monetary policy from a Marxist perspective. A synthesis along these lines captures the macro-level processes inherent in the capital accumulation cycle, while integrating agency-based analyses helps capture the micro-level factors and struggles that feed this cycle.

The first section of this chapter outlines the manner in which monetary policy is inherently connected to the state system. Agency-based theory is developed in the second section, followed by systemic-based theory in the third section. Drawing upon the regulation school literature, a synthesis of these two approaches is developed in the fourth section.

Systemic Frameworks

Rather than studying economic ideas as independent units of analysis—as constructivist scholarship generally does—systemic Marxist approaches situate economic ideas in relation to material conditions of production. Prevailing economic ideas will rely partially upon the means of production during any given time. Within capitalist means of production, distinct social relations emerge with equally distinct ideas. Bieler and Morton introduce this distinction through emphasising modes of exploitation:

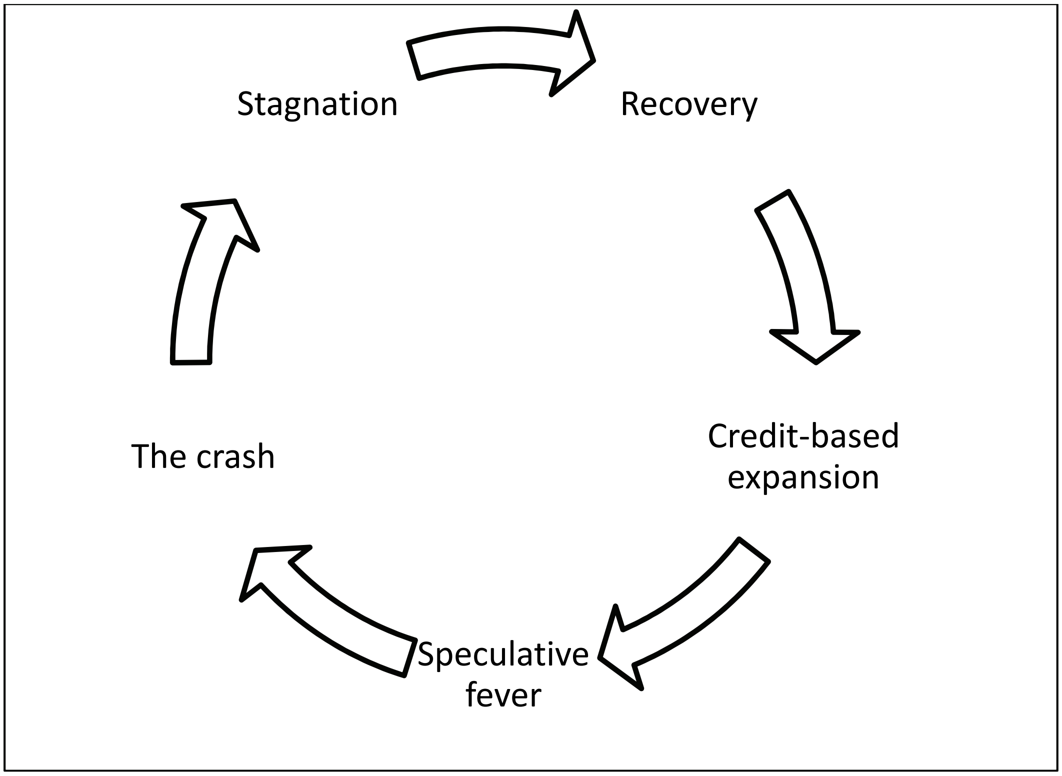
> In contrast to pre-capitalist forms, characterised by the extra-economic direct political enforcement of exploitation and surplus extraction, surplus appropriation and exploitation within capitalism is indirectly conducted through contractual relations between those who maintain the power of appropriation, as owners of the means of production, over those who only have their labour to sell, as expropriated producers. (2003: 471)

Two distinct social forces therefore emerge within capitalist modes of production: workers and capitalists. Adopting a systemic approach, capital and labour are lumped into aggregate classes that compete against one another over the material distribution of wealth and power. Economistic variants of this systemic approach operationalize these conflicting classes, quantify their power and attempt to determine which class is more powerful at any given time, with economic and political outcomes favouring the more powerful class. This competition is waged within a capitalist system that goes through a continuous cycle of boom and bust (see Graphic 1). The nature and outcome of these cycles is determined largely, or at least partially, by the distribution of class forces at any given moment.

The same logic applies to the prevailing political and economic ideas of any given time. Distinct class configurations emerge and these actors collectively come to express conflicting economic ideas to suit their particular class interests. This does not imply that ideas are structurally determined; however, it does suggest that ideas are structurally delineated. That is to say, the prevailing means of production will partially determine the social relations that prevail during any given time. The means of production under slavery placed slave-owners in relation to slaves; feudal means of production situated lords in relation to serfs; within capitalist modes of production, the prevailing social relation is between workers and capitalists. According to systemic approaches, then, economic and political ideas within these systems will oscillate between these social forces.

Applying this systemic logic to monetary policy, which is itself an economic lever within the capitalist mode of production, prevailing ideas and policies of any given time depend upon the particular configuration of class forces. A militant and cohesive working class can exert upward pressure on inflation by making wage demands, whereas an assertive capitalist class can reduce inflationary pressures by weakening the strength of labour. Both social forces can likewise channel their energies toward the state itself as a means of shaping monetary policy to suit their particular class interests. As I will argue below, a systemic analysis of this nature has the benefit of situating monetary phenomena within a far broader context of capital accumulation, cyclical crises and class struggle. However, these systemic approaches largely neglect the critical importance of agency in their class-based analysis. In a sense, they repeat the errors of their monetarist counterparts by sterilizing class struggle in favour of analysis of aggregate trends.

GRAPHIC 1: The Accumulation Cycle



Rowthorn (1980) was a leading early proponent of the systemic approach, arguing that wages are determined by class struggle between capital and labour. As Marx suggests, this struggle "resolves itself into a question of the respective power of the combatants" (cited in Rowthorn, 1980: 133). There are nevertheless clear limitations to working class wage gains within a capitalist system:

> No matter how strongly organized the trade-union movement, however, there are inherent limits to the effectiveness of purely economic struggle. Capitalists control production and they will not invest unless they receive a certain 'normal' rate of profit. If wages rise too rapidly, either because of extreme labour shortage or because of militant trade unions, the rate of profit falls below its 'normal' level, capitalists refuse to invest, expansion grinds to a standstill and there is a crisis. (1980: 133)

There is an interesting additional component of this analysis that requires some elaboration. With the suspension of gold as a material reserve, the central bank can inject state-backed money in order to foster economic growth. This again accords a critical role to the state. A strong working or capitalist class can place pressure upon the state at any stage of the accumulation cycle. When faced with class-pressure during the downturn of an economic cycle, the state may opt to inject money into the markets as a means of offsetting a crisis. Rowthorn explains the matter succinctly: "Now, for obvious reasons, a crisis is not exactly an attractive proposition to either workers or capitalists, and the state may be tempted to choose the other alternative, and accept rising prices as the inevitable cost of economic growth" (1980: 138). Under these conditions, labour and capital can place sufficient pressure upon the state to insure that its interests are met.

Like Rowthorn, Epstein (2002) has also developed a systemic approach to the study of class conflict and monetary policy. Epstein's work falls more closely within a post-Keynesian than a Marxist framework, but he nevertheless argues that central banks are "'contested terrains' of class and intra-class conflict over the distribution of income and power in the macroeconomy" (2002: 17). Whereas Rowthorn regarded class conflict as taking place between capital and labour, Epstein draws upon Keynes to include a class of "rentier" or financial interests. These rentiers have become increasingly influential in promoting monetary policies that keep inflation rates low and reduce the influence of "democratic forces" upon the conduct of monetary policy (2002: 5).

Two critical factors of analysis for Epstein are the degree to which a central bank is fighting inflation, and the relative autonomy of the central bank from the elected government. For Epstein, this autonomy or "central bank independence" (CBI) is a critical indicator that monetary policy is being guided by rentier interests. He argues that "this elevation of inflation fighting and central bank independence is not simply an issue of increasing the share of national income going to rentiers; it is also fundamentally an issue of reducing the political power of labour and other groups in the making of macroeconomic policy" (ibid: 16).

The systemic nature of Epstein's framework is clear. He identifies four critical variables in the study of monetary policy: (1) the structure of capital-labor relations; (2) the political structure of the central bank (an independent bank or integrated into the government); (3) connections between finance and industry; and (4) the position of the nation in the world economy (anywhere from a small closed economy to a large open economy). Epstein then develops a formula with which to measure these variables in order to determine the relative power of industrial, financial and labouring classes.

This systemic approach provides two important contributions to the study of monetary policy not accounted for in both the neoclassical and constructivist literature. Firstly, the global economy is recognized as being in a state of constant disequilibrium. This stands in sharp contrast with neoclassical economics, which is premised upon models of economic equilibrium in which supply balances with demand. Treating the global economy as operating in a state of constant disequilibrium has important implications for the ideational literature as well.

This leads to the second contribution of the systemic approach which fundamentally distinguishes Marxist from constructivist theory. Ideas are no longer treated as independent units of analysis. Instead, ideas are situated within a particular historical and social context, with particular emphasis upon the prevailing means of production. The means of production effectively shapes—and is shaped by—distinct social relations that partially delimit the ideas of any given time. This systemic approach therefore offers one means of explaining why certain ideas prevail over others. During a downturn in the accumulation cycle, prevailing ideas are likely to be challenged or dislodged, which is precisely what happened with Keynesian ideas during the late 1960s and early 1970s. Economic ideas are therefore closely related to the systemic dynamics of capital accumulation, yet ideational scholars do not situate economic ideas of a given period within these systemic dynamics.

The systemic approaches adopted by Rowthorn and Epstein nevertheless leave some critical questions unanswered. In both Rowthorn and Epstein's frameworks, class struggle is operationalized using economic formula, with little to no emphasis placed upon the role of agency. That is to say, class remains a fairly abstract concept within these conflict-theories of inflation. *How* does class struggle manifest itself through monetary policy? How and why would the capitalist and working classes attempt to exert their class power through monetary policy, rather than through other means of class struggle? Rowthorn and Epstein fall short on these questions. Rowthorn's central argument is that capital refuses to reinvest in the production process, effectively creating a crisis of capital in order to reduce the relative power of labour. This accords very little influence to the central bank, monetary policy and agency. Indeed, while this systemic approach explains *why* class struggle occurs, it does not sufficiently explain *how* class struggle is waged and to what ends.

This is an important oversight, particularly with respect to authors like Rowthorn, who identify themselves as Marxist. Marxist theory is called historical materialism because it explicitly seeks to ground itself in the historical and material conditions that prevail during any given period of analysis or political action. This systemic approach effectively unbeds itself from both this historical and material context. Systemic approaches to monetary policy can therefore only be regarded as a partial account of monetary policy during a given time.

Agency-based Frameworks

Class struggle is not an abstract phenomenon. Struggle of any kind requires opposing forces. Class struggle, then, entails conflict between competing classes attempting to exercise their influence in order to achieve class-based objectives. One of the central aims of the Parisian regulation school was to bring active subjects back into economic analysis. As Jessop argues, “without taking account of the subjects who acted as bearers of structures, it was virtually impossible to theorise how contradictions could ever be even temporarily stabilised” (1997: 505). Agency-based approaches to monetary policy therefore examine the role that competing economic classes play as they try to influence policy outcomes. Some agency-based studies attempt to determine the nature of how classes network and interact (Carroll, 2010), while others seek to explore the power and influence of these competing classes (Drainville, 1995). Unlike the systemic approach, agency-based analysis is more explicitly grounds class struggle within particular historical and social contexts. Thus, while systemic approaches can identify macro-level processes and trends that shape and constrain monetary-policy ideas and decisions, the agency-based approach adds political and historical substance to these otherwise abstract processes.

Those who adopt an agency-based approach recognize that ideas are not simply determined by the prevailing mode of production. Instead, ideas are treated as politically contested and unstable. Gramsci outlines this approach in his description of ideology. He notes that “ideologies are anything but arbitrary; they are real historical facts which must be combated and their nature as instruments of domination exposed…precisely for reasons of political struggle” (cited in Bieler and Morton, 2008: 119). In this sense, economic ideas are regarded as instruments of control and domination. Ideas are not fixed and immutable, but are instead sites of conflict and political struggle.

With respect to monetary policy, Drainville (1995) is one of the few scholars that adopts an agency-based approach to study Canadian monetary policy in the 1970s. He identifies key actors including central bank governors, public figures and academics engaged in monetary policy development, reformulation and implementation. Class is no longer treated in the aggregate; instead, classes are disaggregated into a network of distinct elite actors with particular interests and aims. The mere identification of monetary policy actors, however, would not provide any explanatory power whatsoever. Drainville's work is compelling precisely because actors are identified in order to explain the processes by which these actors go about creating and implementing new monetary policies.

Drainville develops a persuasive argument that a particular ensemble of individuals and institutions developed a global monetarist "reading" of the economy. This reading was then transmitted on a global scale, remaining sensitive to particular national contexts and circumstances. The global transmission of monetary *ideas* is examined by tracing the movements and interactions between key monetary policy decision-makers and other elites, including researchers and journalists. Yet Drainville never loses sight of the material and distributive components of analysis. He argues that "monetarist discourses were, of course, shaped by the varying powers of the central banks, and by different national opportunities for strict monetary control, within an environment in which other political actors pressed their claims and priorities" (Drainville, 1995: 15). Monetary policy is therefore regarded as a contested terrain upon which competing interests with varying levels of power struggle to achieve desired ends.

Dickens (1996; 1997) has likewise devoted substantial efforts to the study of monetary policy from an agency-based perspective. He argues that monetary policy in the United States throughout the 1950s and into the 1970s was premised largely upon "the capital-labour conflict over the terms of the employment relation" (1995: 103). Monetary policy in the 1950s was designed explicitly along class lines, and these policies "succeeded in weakening labour significantly" (ibid: 104).

This agency-based framework serves as a critical addition to the systemic approach adopted by Rowthorn and Epstein. Agency-based frameworks identify the micro-level factors of class struggle that remain overlooked within most macro-level studies. Rather than regarding ideas as being structurally determined by the prevailing mode of production, ideas are instead treated as a locus of political struggle between competing interests. This emphasis on struggle and conflict accords agency-based approaches with a distinct advantage over their structuralist counterparts; namely, emphasising struggle rather than structure allows scholars to account for how economic ideas and policies *change* over time. This stands in marked contrast with systemic approaches, which are far more adept in explaining stasis and stability of given economic ideas, structures and policies.

While agency-based frameworks do have their merits, it does not follow that systemic approaches should be abandoned altogether. Structural factors do generally yield substantial influence over the prevailing ideas of any given period, with the capitalist mode of production insuring that social relations can be divided into two distinct classes: capital and labour. Capital, by its very nature, will seek to improve the profits by increasing the rate of exploitation of labour. This necessarily pits capital against labour, with these two competing interests struggling over economic ideas and policies. A more synthetic approach which recognizes the importance of both structure and agency is therefore necessary. Synthetic structure-agency frameworks along these lines have been developed within Marxist theory. Existing approach can therefore serve as useful templates for the study of monetary policy and the contested terrain of central banking.

Toward a Synthesis

Why did anti-inflationary policy prescriptions prevail in Canada through the 1970s and into the 90s? Answering this question requires unpacking the power structures that exist with respect to the conduct of monetary policy. One can begin with reference to Theodor Adorno, who notes that supposedly objective items such as money must be problematized. The money-form within capitalist modes of production embodies a governing system of exchange and social relations (cited in Bieler and Morton, 2008: 115). Critically, the capitalist form of exchange requires that profit be generated. Exchange within capitalist modes of production is, therefore, necessarily unequal: a level of exploitation is necessary in order for the extraction of profit.

The proliferation of money exchange requires some means of coordination. Central banks therefore emerge as a critical locus in circulation of money. Indeed, the abandonment of gold reserves in the 1970s has effectively increased state power, insofar as political and legal backing of money becomes a necessity if people are to have any confidence in the stability and worth of their money (Harvey, 2007: 244). As Bruce Hall notes:

> In our contemporary era of fiat money in which we lack a capacity to measure the value of money against an external standard – such as gold or some other valuable commodity in limited supply—all money is fiat money. Money's value is stipulated by fiat, and the central bank explicitly or implicitly pledges to maintain that fiat value. Thus money is a promise. (2008: 2)

There is one fundamental caveat to this statement, however. Money is not strictly a promise; there remains a material base within the economy, and this material base is measured not by money, but by the amount of human labour expended upon the production of commodities (for overviews of this debate see Fine and Filho, 2004; Foley, 2006; Harvey, 2007; Harvey, 2010; Saad-Filho, 2000). One can therefore distinguish between money as a measure of price, and value as a measure of human labour. It is entirely possible that the amount of money circulating exceeds the amount of value produced by human labour. However, should agents lose confidence in the "promise" that their money is valuable, agents will abandon their fictitious forms of capital and return to a truer measure of value. Harvey notes that this contradiction between money and value…

> can be traced back directly to the dual functions of money as a measure of value and as a medium of circulation. When money functions as a measure of value it must truly represent the values it helps to circulate [i.e. value as measured by human labour.] When money functions as a medium of circulation, on the other hand, it must divorce itself from the 'true' representation of value, permit market prices to deviate from values and prove itself the flexible lubricant of an exchange process that is unpredictable and perpetually changing (293).

This unpredictability and fluctuation leads constructivists to emphasise that money is essentially issued by fiat and is based on a "promise" between those engaged in exchange. However, constructivist scholars frequently downplay or neglect the Marxist conception of value as a measure of socially necessary human labour. Blyth, for example, dismisses the Marxist argument that value is measured by the inputs of human labour into a given commodity. He asks: did housing prices in the United Kingdom undergo a 160 percent increase between 1997 and 2005 because more labour was put into them? And if one musician spends more time in the studio producing an album than another musician, is the former's album more valuable? The obvious answer to both of these questions is "no." Blyth therefore notes that "without a subjective notion of value as subjective utility with price as a denominator it is literally impossible to understand much of anything in a modern economy" (2009: 11). This is indeed true, but a distinction must nevertheless be drawn between this subjective measure of "value," and the value created by human labour. This distinction becomes particularly important following the abandonment of the gold standard in the 1970s. As Harvey notes:

> When the central bank ties its money tightly to a gold standard, it has very little room for manoeuvre. A limited gold reserve forces it to raise interest rates to a point of extreme usury at a time when all capitalists seek refuge in high-quality money. When convertibility into gold is permanently (as opposed to temporarily) suspended, the quantity of central bank money and the rate of interest on that money can become policy instruments. The 'art' of central banking is to use these policy instruments to try to stabilize the inherently unstable course of accumulation. At the same time the severance of central bank money from gold gives rise to the formal possibility of sustained inflation. (2007: 307)

In essence, the distinction between this subjective and material measure of value requires that the state—the central bank, more specifically—instils confidence among those using the national currency (Bruce Hall, 2008). This places the state and central bank as fundamentally linked to the process of capital accumulation. The central bank is therefore a "central point within the state apparatus" or what Marx calls "the pivot of the credit system" (cited in Harvey, 2007: 281). For Marxists and some Keynesians, then, it is hardly surprising that this institution would be a "contested terrain" over the distribution of wealth, class power and control over the macroeconomy (Epstein, 2002).

We are therefore left with a system of monetary exchange that is inherently unstable and crisis-prone. This, in turn, spurred the creation of central banks, which were created to smooth the inherent growth dynamics and crisis tendencies of capital. It follows that economic ideas and policy prescriptions regarding monetary policy will be limited to those which foster sustained capital accumulation. Within capitalist states, therefore, prevailing ideas and policy prescriptions will be structurally limited to those which favour capital accumulation. Systemic conditions therefore partially constrain which monetary ideas can be implemented as policy.

Nevertheless, significant diversity of monetary ideas remains plausible within the confines of the capitalist mode of production. Monetary ideas and policies can be promoted which foster full levels employment, just as ideas of aggressive monetary restraint can be fostered, which invariably increase levels of unemployment. Therefore, while systemic conditions of capital accumulation partially limit the spectrum of economic ideas and policy proposals, there remains significant breadth for conflict and struggle over which ideas and policies prevail.

Looked at in this way, monetary ideas are highly contested yet remain embedded within the prevailing mode of production. Moreover, ideas can only take shape in practice if a particular group of actors decides to foster and implement these ideas. That is to say, as Stuart Hall notes, "ideas only become effective if they do, in the end, connect with a particular constellation of social forces. In that sense, ideological struggle is a part of the general social struggle for mastery and leadership—in short for hegemony" (cited in Bieler and Morton, 2008: 119).

Adopting a theoretical approach that is inclusive of both structure and agency requires the following: an understanding of the prevailing mode of production during a given period. This is necessary given that specific class configurations will vary depending on the particular form of capital accumulation (ibid: 120). For example, highly industrialised organizational forms will result in corporatist struggles over monetary policy with capital, labour and the state mediating amongst themselves over monetary policy outcomes. Organizational forms of production will therefore influence—but not determine—which monetary ideas and policies prevail within a given space and time. Prevailing monetary ideas and policies are instead determined by political struggle, with various social forces and powers competing amongst each other for power and influence.

In this regard, synthesizing system with agency also requires the identification of social forces and powers within a given period of time. These social forces are not static and should instead be regarded as continually evolving in terms of their influence and political power. Drawing from Mahon (1977), it is possible to examine monetary policy as one particular nodal point of class struggle within the state system. More specifically, monetary policy can be regarded as the expression and reinforcement of particular class interests and alliances. Within the state itself, central banks assume an immense position of power. Mahon argues that each branch of the state can be identified in relation to three key features: "its internal superiority vis-à-vis other departments; its connection with other important points in the state system (for example, the provincial governments and the co-ordinating institutions of the international system); and its relationship to social forces" (1977: 175). On these key features, Mahon argues that the Department of Finance is the most powerful state institution, given its coordinating function and influence across state branches, regions and scales of governance. However, I argue that the Bank of Canada maintains a position of power which significantly influences the Department of Finance itself. Through control of the money supply, interest and inflation, the Bank of Canada effectively serves as an economic throttle within the Canadian state and globally. Moreover, in Canada, the central bank is largely autonomous from influence by the elected government (see Chapter 4). This means that civil servants and executives within the Bank of Canada can make decisions without interference from conventional democratic channels.

Finally, a synthetic approach to the structure-agency problem entails the identification of various monetary ideas that emerge. Rather than treating ideas as independent units of analysis, as constructivist scholars are generally inclined to do, a synthetic Marxist approach examines ideas and interests as closely linked. Bieler and Morton summarize this position clearly:

> Social class forces are identified as core collective actors through a focus on the social relations of production. By acknowledging the location of these actors within the social relations of production, that is, the underlying power structure, it is then possible to address the question of *why* a certain set of ideas, rooted within these material relations, dominates at a particular point in time. (ibid: 123)

A synthetic approach can address the central weakness of constructivist theory; namely, the failure of constructivist scholarship to sufficiently account for *why* certain ideas prevail over others during a given point in time. Focusing on the organizational structure of production and the various class fractions involved in this organizational structure helps explain why some social forces are more powerful than others at a given time. This does not, however, imply that more powerful social forces will necessarily prevail in achieving their desired objectives. Ideas are structurally constrained—but not determined—by the prevailing mode of production and its particular organizational form. Having outlined this theoretical synthesis, it is now possible to turn to an analysis of concrete developments in Canadian monetary policy.

Chapter 3
Three Waves of Monetary Austerity, 1975-91

"We'll put a few union leaders in jail for three years and others will get the message"—Prime Minister Pierre Elliott Trudeau jokes to the press, Oct. 26, 1976.

A foreign observer of the post-war Canadian economy would see a very different country from what exists today. The post-war economy was typified by a highly industrialized heartland in central Canada, with the manufacturing sector and auto-industry serving as the core productive base. Finance and capital flows were tightly regulated under the Bretton Woods system, and the aim of monetary and fiscal policy was to achieve full employment (Smardon, 2010). Canadians and new immigrants returning from World War II were promised stable employment and income. This period has variously come to be defined as a Fordist regime of accumulation, Keynesianism or the embedded liberal order, which I define in greater detail below (Harvey, 1990; Harvey, 2005).

The picture looks radically different today. The industrial horseshoe around central Canada has been significantly hollowed out under pressures of outsourcing and globalization. The productive engine of the Canadian economy has been replaced by volatile resource extraction and export, with the Alberta tar sands serving as the lung of economic growth. The Bretton Woods regulatory system has been abandoned in favour of free capital flows, and the Bank of Canada has radically shifted its policy-focus away from full employment toward inflation control.

My central contention is that this major reconfiguration of national and global production was a significant contributing factor to the Bank of Canada's turn toward inflation control. Organized labour was a powerful social force during the Fordist regime of accumulation, but the social power and influence of labour over monetary policy was diminished as the Fordist regime of accumulation unravelled. Resurgent business and financial classes rose to place increasing influence over the conduct of monetary policy. I argue that the shift from employment-driven monetary policy to inflation-control is largely the result of shifting configurations of class power.

This argument stands in sharp contrast with constructivist scholarship. While changes in prevailing ideas and ideology were critically important to this reorientation in monetary policy, new ideas could only gain policy traction when backed by powerful social forces. Looked at this way, the reconfiguration of social forces and organizational forms influenced which monetary policies and ideas prevailed over others. This chapter is divided into three parts to address each unique stage of Canada's anti-inflationary policy.

The Monetarist Turn, 1975-82

"Whatever else may need to be done to bring inflation under control, it is absolutely essential to keep the rate of monetary expansion within reasonable limits"–Bank of Canada Governor, Gerald Bouey, 1975.

With this statement, Bank of Canada governor Gerald Bouey ushered in an era of Canadian monetarism, but the road to monetarism was never smooth. Social upheaval and class struggle in the late 1960s and early 1970s was significant. The struggles waged around monetarism are examined in this section. As stated in the theoretical section above, the prevailing organizational form of national and global capital must first be identified. With respect to the late 1960s and early 1970s, the prevailing organizational form has come to be known as Fordism. This organizational form entails industrial production that accords substantial power to organized labour. The state also plays a critical role, fostering industrial-scale production "either directly through actions such as state-mediated labour relations or indirectly through the impact of the national policy in supporting the intensive period of growth…" (Smardon, 2010: 200). Fordism also entails the development of a "broad welfare state," which fosters social reproduction through the nationalization of key sectors including healthcare and education. This welfare state reaching its "greatest extent" roughly from 1945 to 1975 (Sears, 1999: 92). Duménil summarizes the basic contours of this organizational form, which he defines as the prevailing "social order" of the post-war era:

> It rests on a social compromise between the managerial classes and the popular classes of production and clerical-commercial workers. The prerogatives of capitalist classes—their powers and income—are considerably diminished. In a number of countries, entire sections of the productive economy, nonfinancial and financial, are nationalized; overall, the autonomy of managers in the conduct of corporations is considerably increased; policies aim at employment, growth, and the rise of productivity, in conformity with the 'productivist' trends that dominate the period; the activity of the financial sector is directed toward growth. The compromise with popular classes is expressed in the progress of purchasing powers, social protection, and the progress of education. There is an overall strong faith in 'progress,' both social and technical (while ecological equilibria are destroyed). These transformations are typical of the countries of the Centre—in the context of an unchecked continuation of imperialist trends, despite ambitious development policies as in Latin America and Asia. (2010)

This particular Fordist organizational form set the stage for subsequent conflicts that emerged over the choice of Canadian monetary policy. This organizational form can also be situated within a capital accumulation cycle that fluctuates through booms and busts. The immediate post-war era was certainly a time of rapid economic growth, but cracks in this pattern began to emerge in the late 1960s. The late 1960s and early 1970s, many critical scholars argue, marked the height of the global capital accumulation cycle (Bond, 1998; Harvey, 2007). Indeed, Duménil (2010) argues that the early 1970s marked a structural crisis of capital, distinguishing structural crises from smaller recessions based upon their size, duration and global character.

Global capital in the 1970s was on the precipice of significant downturn in the accumulation cycle, and branches of the Canadian state were clearly aware that the global economy was entering a period of serious volatility, as a comprehensive report issued by the Canadian Anti-Inflation Board in 1979 indicates:

> …unusual developments in the external environment were making it extremely difficult for domestic policies. All principal industrial countries were experiencing high rates of real growth. It appears in retrospect that they may have been operating under excess demand conditions. These conditions contributed to large and rapid increases in the price of commodities, compounded by shortages of agricultural products. (1979a: 19)

Under these conditions of rapid capital accumulation and rising inflation, a structural crisis of capital emerged. Industrial and developing countries suddenly faced the dual problem of high inflation and economic decline—that is to say, stagflation. This structural crisis opened a window of opportunity for conflicting class forces to reconfigure the prevailing organizational form of national and global capital, along with their relative economic and political power. This required a change in all of the key elements of Fordism identified by Duménil, including the compromise between managerial and popular classes. Looked at in this way, monetary policy was simply one channel among many through which competing class interests could struggle.

The state still operated along broadly Keynesian lines prior to 1975, with the Philips Curve model serving as the general guide for Canadian monetary policy. The Philips Curve was an aberration from Keynesianism, but nevertheless allowed for a trade-off between inflation rates and unemployment. However, mounting stagflationary problems placed this policy at risk, as inflation became *the* central concern of state leaders by the early 1970s. The year 1975 was vital for monetary policy precisely because the employment side of this trade-off was done away with. The central bank and broad segments of the state apparatus began to focus single-mindedly on the inflationary side of the stagflation problem.

As I argue below, the struggle over monetary policy—specifically during the monetarist period—was largely conducted within executive and administrative levels of government. The elected Liberal government at the time was a focal point of struggle, as members of the cabinet resisted monetarist doctrines being proposed by their own party. The argument could be made that this does not represent class struggle whatsoever, given that these were elite officials struggling amongst themselves. Yet, as I argue below, the context of this executive-level struggle was explicitly class-based. Those opposing monetarist doctrines recognized the class dimensions of monetarism and sought to resist these policies. The most critical struggle, in this respect, was that between Liberal finance minister John Turner and his own political party.

As anti-inflationary rhetoric mounted throughout the early 1970s, Turner sought to obtain consensus from business and labour interests over wage and price controls. In essence, the struggle to reduce inflation was a struggle over the distribution of rapidly diminishing profits. Turner sought to reach a compromise between competing interests by having businesses reduce their prices and unions moderate their wage-settlement demands. Turner noted in his 1974 budget speech that:

> No group is likely to succeed in getting the full share of the real national pie to which it feels entitled. So long as each continues to attempt to enforce its claim by pushing up its price, its wage, its interest rate or tax rate, the outcome can only be further inflation. We have to find a better way of reconciling the competing interests of the various groups which make up our society. No group need loose in this search (Turner, 1974: 1423).

Attempts to achieve consensus between competing class interests were in vain, as organized labour did not want to make wage concessions and corporate interests were reluctant to reduce prices in the face of strong wage demands and rising inflation. Federal policy therefore shifted from consent to coercion, with the finance minister adopting a notably different tone in his 1975 budget speech: "Since a consensus has not been reached, the government has had to examine a wide range of other options for dealing with the problems of inflation and unemployment" (Turner, 1975: 7020). The finance minister nevertheless signalled in his budget speech that he was strongly opposed to a politics of austerity:

> Among the various policy options open to us, there is one which this government has rejects, and rejects again, in the most categorical manner. This is the policy of deliberately creating, by severe measure of fiscal and monetary restraint, whatever level of unemployment is required to bring inflation to an abrupt halt. Such a course of action would be completely at odds with my own instincts. The cost would be much too high. The hard-won sense of security in our society would be replaced by a sense of fear and anxiety, and the cost in terms of lost output and lowered standards of living would be unacceptable. In human terms for me it would be unthinkable" (ibid: 7024).

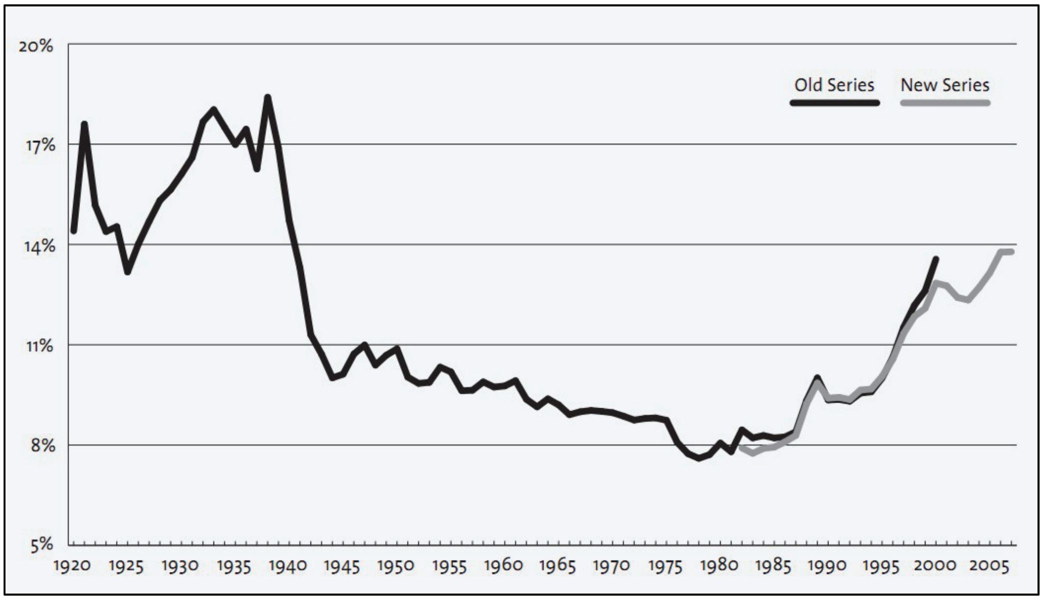
Tensions were nevertheless emerging within executive levels of the Liberal cabinet, and the timeline of events is worth noting. Finance minister Turner introduced his 1975 budget on June 13, signalling that stronger action needed to be taken to reduce inflation while taking a strong position against austerity. Then, on September 10, minister Turner resigned, citing personal reasons. Just one month after the resignation of minister Turner, on October 13, Prime Minister Trudeau went on national television to announce that "tomorrow, the government of Canada will ask Parliament for the authority to impose severe restraint upon rising prices and incomes" (AIB, 1979: 1). The day after the Prime Minister's televised address, the Liberals released a White Paper that ultimately triggered widespread class struggle in Canada. Titled "Attack on Inflation: A Program of National Action," this White Paper called for sharp reforms along with wage and price controls across the country. It was only years later that finance minister Turner stated that he would rather quit than carry out the Liberal's proposal for sharp monetary and fiscal restraint: "Turner admitted that he was frustrated by Trudeau's attempts to undermine him on wage and price controls he was trying to implement" (Colby, 1975). This was a high-level executive struggle, with the Prime Minister prevailing.

Turner explicitly recognized the material and distributional consequences of monetarism and fiscal austerity, seeking to use his power within the Cabinet as a means of resisting monetarist doctrines. Despite the fact that the Finance Minister opposed monetarist ideas and policies, his protest and power were trumped by his own Liberal Party. The Trudeau Liberals went on to implement severe monetary and fiscal restraint, and monetarism therefore prevailed in 1975, not only by debasing existing Keynesian principles, but also because of the particular configuration of power within executive levels of government. The resignation of minister Turner clearly tipped the balance in favour of austerity and monetarism. To a degree, this moment could be considered a pivotal transition within power bloc (Mahon, 1977). As Mahon stressed, "the structure of representation is not conceived in a static, mechanical way but rather as the product of the class struggle as this has developed and is developing within a particular social formation" (165-66). Both the adoption of the Liberal White Paper and Bank of Canada governor Gerald Bouye's "Saskatoon Manifesto" speech "ushered in a new era of Canadian monetary and fiscal policy" (Courchene, 1976).

Both of these changes, however, were not introduced or implemented without substantial opposition. In order to reduce inflation through more coercive means, strict labour contract settlements were necessary. Marxist political economist Leo Panitch argues that these policies were not designed strictly to deal with inflation: "Governments introduce an incomes policy when the collective industrial power of workers threatens to redistribute the share of the national income from profits to wages and salaries" (1976: 5). And indeed, the Liberal government had previously attempted to introduce wage controls in the late 1960s because labour was growing too strong. George Haythorne, who was on the Prices and Incomes Commission at the time, gave the following explanation for why the state tried to introduce wage controls: "From 1957 to 1963 the share of Canada's national income going to profits and capital had risen steadily. The situation was reversed in 1964 when labour's share began to rise, a trend which continued until 1970. Give these conditions...action to stabilise the economy was clearly required" (citied in ibid: 5-6).

The same principles applied in 1975 when the government successfully introduced wage and price controls under Prime Minister Trudeau. Utilizing "old" and "new" datasets from Statistics Canada, Canadian Centre for Policy Alternatives' economist Armine Yalnizyan (2010) detailed the share of income obtained by the richest one percent of Canadians between 1920 and 2005. The share of income obtained by the top 1 per cent of income earners in Canada had reached record lows in the mid-to-late 1970s. Following the collapse of the Fordist organizational form in the 1970s, wealthy classes within Canada began to obtain an increasing share of total income.

Chart 1: Share of Total Income, Richest 1% Canada, 1920-2007



SOURCE: *Yalnizyan, Armine. 2010. "The Rise of Canada's Richest 1%." Canadian Centre for Policy Alternatives.*

A key executive barrier to fiscal and monetary restraint was overcome with the resignation of minister Turner, so the state could now go about adopting its anti-inflationary policies. One of the central conduits for imposing wage and price controls was the federally established Anti-Inflation Board. The Board was introduced with the Liberal White Paper with a mandate to introduce the controls. The Board quickly recognized the class-based dimensions of inflation and sought to weaken the strength of labour. To explain why the Board sought to tackle inflation by reducing the strength of labour, Marxist political economist Leo Panitch identified specific actors within the board, arguing that it was highly "inflated" with corporate interests (1976). Members of the Board held 11 corporate directorships between them: Board chairman Jean-Luc Pepin was involved in six private corporations; Jack Biddel worked with a private accounting firm, and Harold Renouf served as governor of the Canadian Tax Foundation. Moreover, Panitch identifies political links between Board members and the Liberal Party, as the

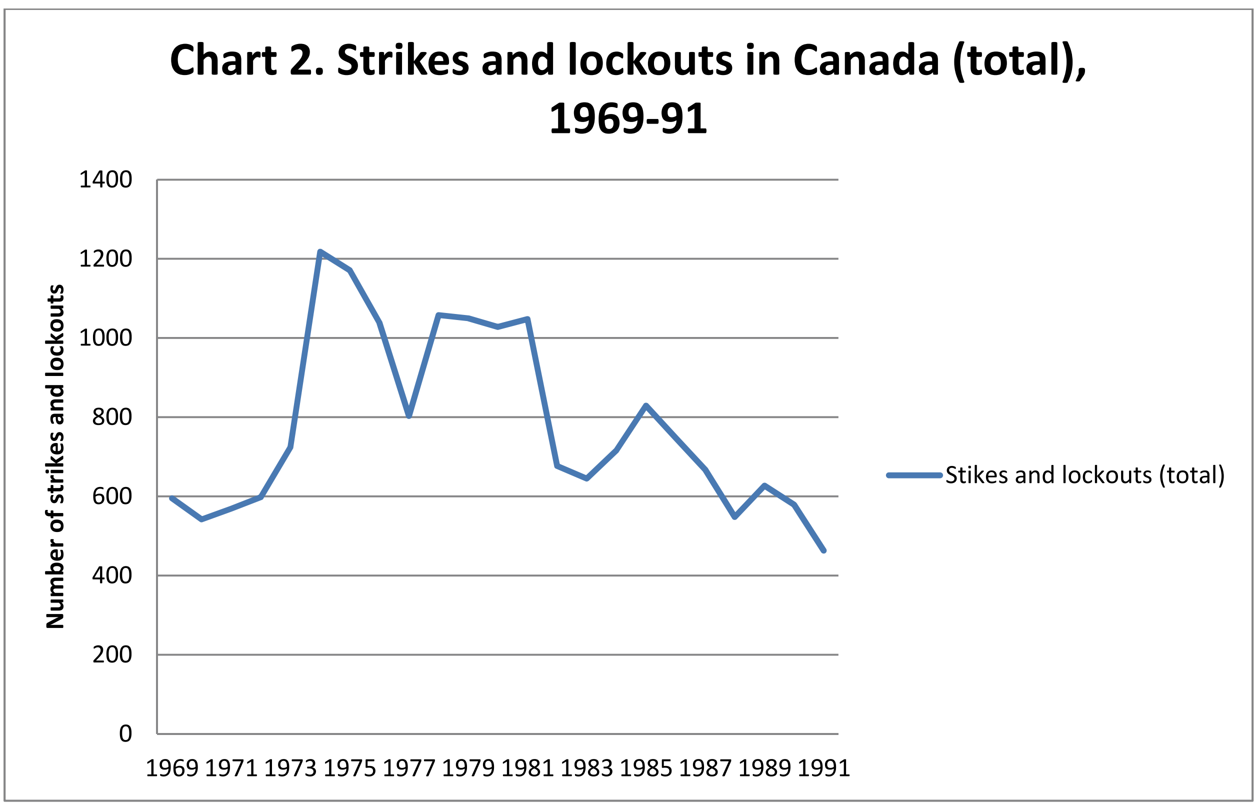
Trudeau Liberals were known for making patronage and partisan appointments to serve party interests (CBC, 2011).

One of the 1979 Board reports noted that "market rigidities" helped sustained high rates of inflation. As the following statement illustrates, the Board is singling out labour as the primary contributor to these market rigidities:

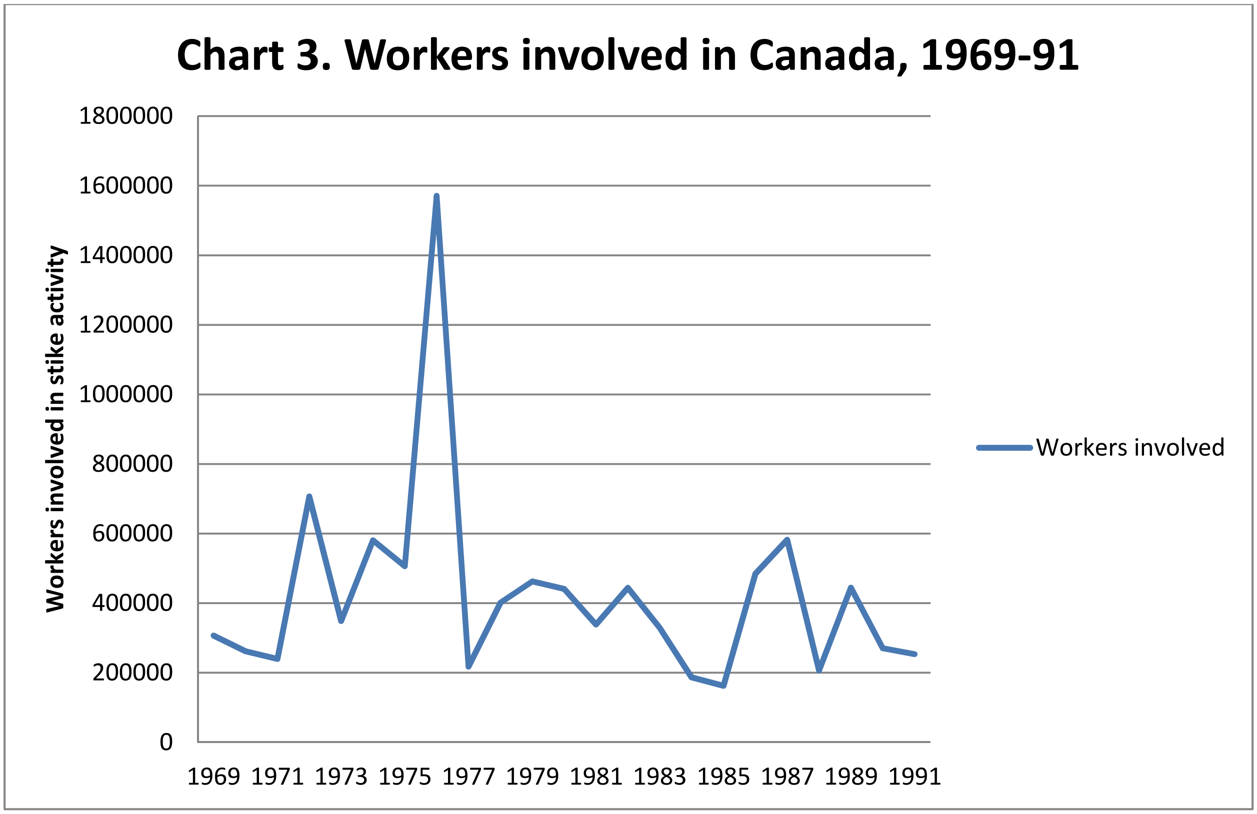
> Some market rigidities can be traced to efforts to insulate a group or sector from adverse market pressures or to protect what were considered their essential economic interests. Organizations have been established with specific representational, non-economic purposes, but have come to have definite economic side effects. In either case the net result is an increase in the organization's effective market power [….] In these cases, substantial market power permits the group affected to exercise some discretion over prices, fees, or wages, relatively independently of underlying supply and demand factors." (AIB 1979b: 44)

The logic of the Board is very clear. Organized labour has managed to increase its "effective market power," and this power allows labour to "exercise some discretion over prices, fees, or wages." The Board is implicitly recognizing the strength of organized class power here. There is also a clear desire on the part of the Board to dismantle these rigidities, as wage and price increases were not moderating rapidly enough after 1974-75. The Board also felt that these market rigidities were often fostered or exacerbated with "the assistance or acquiescence of governments" (AIB 1979b: 45). In essence, the Board was subtly accusing the government of assisting or acquiescing to organized labour.

Insofar as these fiscal and monetary policies amounted to an attack on organized labour, opposition began to emerge in the early 1970s as the anti-inflationary agenda took hold. The Fordist organizational form still granted organized labour substantial power over the macroeconomy in the 1960s and 1970s. Strike and lockout activity began to increase sharply as corporate power began to introduce regressive contract offers that were implemented in conjunction with state fiscal and monetary restraint. Data from the International Labour Organization on the number of strikes in Canada between 1969 and 1991 (Chart 2 and 3) indicate that strike activity reached its height in 1974, with 1,218 strikes and lockout registered. The number of individuals taking part in strikes also jumped sharply in 1975. Thus, Canadian working class militancy reached its height during the introduction of monetarism. This was a clear struggle over the relationship between the state, capital and labour along fairly classical Fordist lines. As Soederberg argues, monetarism was "a political and ideological attempt to *overcome defiance and attain compliance*" (2001: 6). Just as Turner had stated in his 1975 budget speech, the state was shifting from consensus to coercion.



Source: *International Labour Organization. LABOURSTA. 9A.*



Source: *International Labour Organization. LABOURSTA. 9B.*

In the face of this strong working class opposition, the Anti-Inflation Board continued to implement broad wage and price controls across public and private sectors throughout the mid-1970s. The Board began to fold up its operations in 1978, but only fully discontinued its work in 1979. This was coupled with the general crisis of capital accumulation that had emerged in the early 1970s, with the OPEC crisis serving as a major contributing factor to the systemic crisis already underway. Indeed, Barsky (2004) shows that the global recession of the 1970s began before the oil price shock by two years.

To summarize, the Liberal government attempted to introduce wage and price controls through consensus along corporatist lines in the early 1970s. Some suggest that attempts at obtaining consensus around wages and prices were merely a public gesture of goodwill for the inevitable austerity to come (Panitch, 1976), as the state shifted to more coercive measures by 1975. The resignation of minister Turner marked a critical point within executive levels of government, as the Liberals could now approve of monetarist policies along with sharp wage and price controls. These policies were met with substantial working class resistance, with organized labour staging record levels of strike activity in 1975.

This analysis contrasts in two critical ways with the prevailing constructivist account. Firstly, greater emphasis is placed upon the systemic crisis tendencies of capital, as I argue that monetarist ideas only gained a degree of salience because of the stagflationary pressures that emerged in the early 1970s. Secondly, ideas are still regarded as important, but greater emphasis is placed upon the class interests embedded in these ideas, and the class struggles waged around these ideas. Whereas constructivist scholars argue that monetarist ideas succeeded in the 1970s because broadly Keynesian ideas lost their sense of *legitimacy*, I argue that monetarist ideas succeed because they were supported by particular class interests within the Liberal Party. It would nevertheless take an additional two waves of monetary austerity for the state to achieve its desired fiscal and monetary objectives.

By the early 1980s, new banking technologies and practices made it difficult for the central bank to target the rate of money growth and monetarism was officially abandoned in 1982 (Laidler and Robson, 1994: 84-5). Monetarists nevertheless clung to the principles of their theory, arguing that the types of money being measured by the Bank of Canada were insufficient. The C.D. Howe Institute was once again a major advocate for this broader measure of monetary aggregates (Courchene, 1981; Laidler, 1993), sharing a view that was also widely disseminated in the daily press. The Chief Executive Officer of the Royal Bank of Canada, W. Earle McLaughlin, argued at the bank's annual meeting in 1978 that the broadly defined monetary supply must be restrained in order to avoid spiralling inflation, and *Globe and Mail* columnist Wendie Kerr agreed with his assessment: "Measuring money supply at the M-1 level is tantamount to gauging the depth of a deep well by inserting a yardstick. There is more water there than a mere yardstick can measure" (1978). This attempt to sustain the dwindling legitimacy of monetarist models nevertheless failed. Former Bank Governor John Crow describes the demise of monetarism succinctly:

> …the M1 aggregates slowed drastically even as inflation was rising in the latter part of the 1970s. The targets were increasingly ignored both within the Bank and outside, and finally dropped in 1982. Or, as [Bank] Governor Bouey famously put it soon after: 'We didn't abandon M1, M1 abandoned us! (2009: 4)

A window of opportunity had emerged with the abandonment of monetarism in 1982, and it was during this period that Bank of Canada economists Peter Jarret and Jack Selody developed their central thesis that "inflation is the single and most important explanatory variable in explaining slow (or negative) productivity growth" (cited in Seccariccia and Lavoie, 1996: 535). They also argued that varying levels of inflation distort price signals and therefore confuse information for investors, businesses, governments and individuals. Steady and predictable rates of inflation allow actors to make rational decisions based on the projected future value of currency, they argued. Monetary ideas were therefore shifting away from monetarism and toward a new concept of price stability. This concept of price stability was quickly adopted by senior officials within the Bank of Canada. John Crow, the soon-to-be-governor of the central bank, expressed this line of thinking very clearly:

> For my part, since I was concerned not to leave a policy vacuum that others might seek to fill in an unhelpful way, I was quick to set forth publicly my view that the central contribution of Canadian monetary policy to the nation's economic wellbeing was to promote confidence in the future value of Canadian money by establishing and maintaining domestic price stability.

In order to establish a stable rate of inflation, however, existing high rates of inflation in the 1980s had to be brought under control. The Bank and the government therefore turned toward a period of heightened monetary restraint in order to achieve a desired rate of inflation. Developments in the United States provided the ideal policy backdrop with which to achieve these objectives.

Ripple Effects:
The Volcker Shock in Canada, 1977-82

"The devaluation [of the dollar] is a direct vote of non-confidence by international investors in this Government's ability to manage the Canadian economy"—Progressive Conservative Party leader, Joe Clark, 1978.

The global crisis that emerged in the early 1970s—combined with aggressive regulatory, fiscal and monetary policy—resulted in a significant reorientation in the organizational form of global and national capital. State responses to the global recession allowed corporate and financial classes to *reassert* a strong degree of class power. The term "reassert" is used deliberately here, insofar as the 1970s marked a return of capitalist class power which was subdued during the Fordist period. That is to say, the global crisis and subsequent policy responses further eroded "the shaky foundations of the Fordist accord" (Sangster, 2006), and as the Fordist organizational form began to erode, classical principles of free markets and free trade were reasserted under a new organizational form known as "neoliberalism," which can be defined as:

> …a new configuration, *domestic* as well as international, in which the interests and power of capitalist ownership have been restored: a new discipline of labor and management (or corporate governance); deregulation in some respects (those contributing to the freedom of action of large corporations and capitalists), reregulation in others (with respect to the

> fight against inflation); the financialization of capitalism (within the 'nonfinancial' sector, and as manifest in the rise of financial institutions); a determination to tap profits from workers in general and to pump income from the periphery along new lines. (2002: 2)

This reconfiguration of class power in the domestic and international economy had fairly direct implications for the conduct of monetary policy. Three particular class forces can be readily identified as having struggled over monetary policy: (1) finance capital, banks and international investors were a significant force by the late 1970s. As I argue below, finance capital served to discipline Canada in 1978 when policy deviated from market interests. It was only when the state adopted a clear anti-inflationary stance that markets began to react positively. (2) Corporate capital began to coalesce as a political force in the late 1970s. I cite government sources to argue that corporate capital did influence the conduct of fiscal and monetary policy in Canada. (3) Organized labour remained an influential force in Canadian politics despite their considerable defeats in the mid-1970s. I argue that broadening popular opposition to monetary austerity in the 1970s effectively swayed the Liberal opposition party to denounce high interest rates. The remainder of this section will detail the manner in which these class powers influence the conduct of monetary policy in Canada.

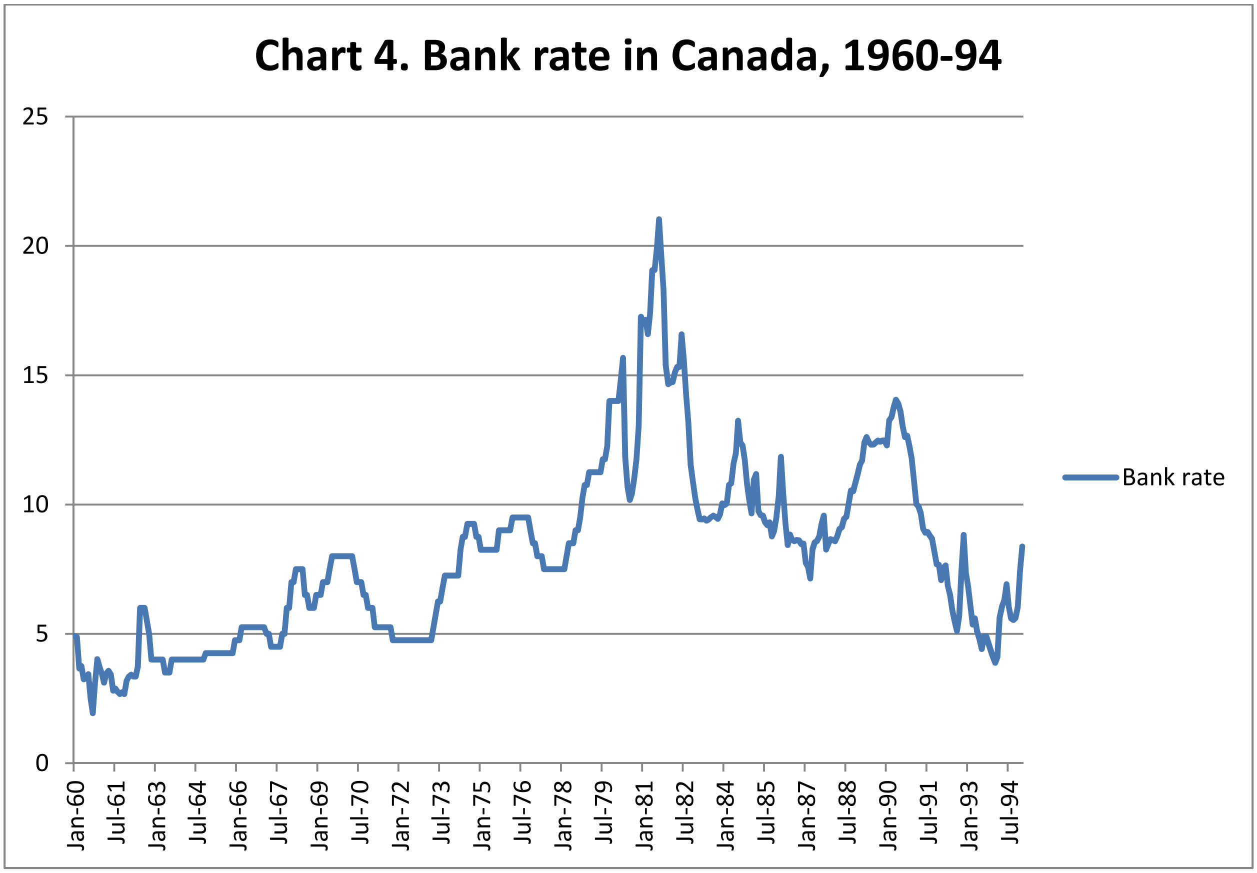
Finance Capital

Whereas speculative capital did play a role during the monetarist era, the transition away from Fordism effectively freed capital to flow across states. These changes in the organizational structure of global capital were brought on by the abandonment of the U.S. dollar as the global reserve currency in 1971. Moving from a fixed to floating exchange rate meant that international currency became far more volatile. "Faced with this new world of exchange rate volatility, investors, banks, and speculators rapidly expanded markets that would allow them to buy and sell currencies on an around-the-clock basis" (McNally, 2010: 93). Investors and banks could therefore capitalize by rapidly shifting to invest in currencies with high yields. The rapid expansion of currency trading in the 1970s served to increase the power of financial, banking and investment capital. States could now be disciplined by the markets. This is precisely what happened on a global scale when the United States sought to balance its current account deficit.

The chairman of the Federal Reserve at the time, Paul Volcker, set a course to raise interest rates to whatever level was necessary in order to curb the inflationary side of the ongoing stagflation problem. This policy came to be known as the "Volcker Shock" (Bond, 2008), as the global economy was thrown into the worst recession since the Great Depression. Some argue that Canada was simply dragged along by monetary policy decisions made in the United States (Crow, 2009). Nothing could be further from the truth. Bank of Canada Senior Deputy Governor Bill Lawson recalled that personnel at the Bank "approved strongly of what the United States was doing" (cited in Babad, 1995: 185). The Bank essentially mirrored interest rate increases being made in the United States in order to reduce inflation. The prime interest rate was raised to a record 22.75 percent—a rate unparalleled in Canadian history—and these excessively high rates in the early 1980s were a major root-cause of the 1981 recession (see Chart 4). Monetarists confirm this general assessment. Howitt, for example, argues:

> There are several factors that can account for the 1981-82 recession. One of the most important of these is monetary policy. Sometime in 1981, the Bank of Canada decided that its approach to fighting inflation had been too gradual, too gentle. Its attempt to fight inflation with relatively little cost in lost output had obviously failed. After six years of Gradualism, the rate of inflation was even higher than it had been at the outset. The Bank

decided that a much stronger does of monetary restraint was needed, even if this resulted in a recession. (1986: 76)



Source: *Statistics Canada. CANSIM II. Table 176-0043*.

The Bank and the government therefore set out to impose a very sharp dose of fiscal and monetary restraint in order to induce a state-backed recession. Unemployment levels reached highs of 12.8 per cent, the highest level since the Great Depression. Elites within government and the Bank of Canada were well aware of the class-based dimensions of the policies they were introducing. Bank governor Gerald Bouey approvingly noted that wage and salary increases were declining sharply as Canadians are now taking "more realistic attitudes towards increases in money incomes" (Barnes, 1978a). During a testimony to the House of Commons in 1978 also held fast to monetary austerity, recognizing that it would have a negative impact on employment levels, but Bouey “refused to give inquiring MPs a detailed estimate of the impact of the bank rate increase on unemployment, although he said it would probably have a negative impact in the short term” (Simpson, 1978a).

Indeed, a newspaper report published in 1978 notes that “politicians and economists in Ottawa are well aware of the consequences of their recent actions, but they feel the measures are needed to restrain inflation and inflationary expectations” (78-09-14). The Anti-Inflation Board also approved of high interest rates and fiscal austerity as being a “significant” contributing factors to downward pressure on inflation rates (Editorial, 1978a). The Board went on to note that lowering real incomes was a necessary means of reducing inflation. The policies of the Volcker era were therefore always explicitly designed to reduce wage gains and slow the economy by raising the rate of unemployment. These were deemed as unfortunate but necessary consequences in the fight against inflation.

It is also clear that finance capital served as a coercive influence upon the Bank of Canada and the elected government during this time. The influence of finance capital during this period of monetary austerity in Canada became apparent in 1978. As the national economy began to contract because of rising interest rates and budgetary tightening, senior officials within the Finance Department anonymously spoke with the press after releasing a report on the Canadian economy. They challenged prevailing government policies of austerity, arguing that national growth rates would decline if the government continued to impose sharp austerity measures (Cheveldayoff, 1978b). When the government began to take these concerns seriously by placing a higher priority on economic expansion and reducing unemployment, speculators started to withdraw their investments from Canada.

Indeed, speculative flight away from the Canadian dollar defined 1978, as the value of the dollar dropped to historically low levels (Anderson, 1978a). These speculative flights served a disciplinary function upon the state, insofar as investors could signal their discontent with the government for not tackling inflation aggressively enough. Again, this particular use of class power was only possible because of the neoliberal organizational form that global and national capital had assumed. The abandonment of the Bretton Woods system allowed investors to speculate on national currencies. Finance capital would not have been able to exert this kind of influence over monetary policy during the Fordist era, given that most currencies were pegged in relation to the American dollar under the Bretton Woods system.

As the value of the Canadian dollar continued to decline in 1978, a sharp debate within the House of Commons emerged over the conduct of fiscal and monetary policy. Progressive Conservative opposition leader Joseph Clark accused the Liberal majority government of economic mismanagement. He argued that "the devaluation is a direct vote of non-confidence by international investors in this Government's ability to manage the Canadian economy" (Editorial, 1978c). In other words, the opposition leader recognized that international finance could influence the course of policy by withdrawing funds or refraining from investment. Such was the power of speculative capital that opposition parties could use evidence of capital flight to call for policy reform.

This placed the Liberal Party in a difficult position, as they were losing popular appeal as unemployment and inflation continued to rise in the late 1970s. Prime Minister Trudeau therefore publicly declared that he would not attempt to further reduce unemployment levels, arguing that the provincial governments would focus on expansionary fiscal measures instead (ibid). The Prime Minister aimed to send a clear message to investors that the Canadian state would be pursuing policies of monetary and fiscal restraint. The state would be targeting the inflationary side of the stagflation problem, effectively devolving the unemployment to the provinces.

The Canadian dollar immediately began to appreciate after this statement, as investors were encouraged by rising interest rates and a sharp reduction in the federal deficit. In effect, investors were now confident that the government had sided with their class interests. The sentiment in early 1978 is well captured in a *Globe & Mail* column published at the time:

> …it appears clear that the authorities are now earnestly intent on terminating the persistent instability and chronic devaluation that have plagued the currency for the last 20 months. A general belief that Ottawa is determined to stabilize the dollar would, in itself, help to dispel the uncertainty. During the past several months speculative pressure against the currency was strengthened by the belief—which was founded on public statements by the Minister of Finance—that the Government planned to do nothing to stop the persistent depreciation. (Anderson, 1978b)

Notable about this period is the reconfiguration of class struggle that had occurred. During the monetarist period, class struggle was principally waged around wage and contract settlements. Increasing union militancy during the monetarist period was largely a response to the more aggressive stance taken by businesses and the state itself, which had shifted from consent to coercion. This had changed by the late 1970s. The struggle was now between domestic civil servants intent on sustaining economic growth and international finance, which was intent of seeking out high economic yields within an increasingly internationalized and financialized marketplace.

Corporate Capital

The increasing power of corporate capital also found its expression at the national level during this time, with banking and corporate interests coalescing to exert increasing political influence within the state and over the elected government. Corporate chief executives from 140 of Canada's most powerful corporations and banks banded together in 1978 to form the Business Council on National Issues. According to Alfred Powis, the retired CEO of Imperial Oil and chairman of BCNI, the council was designed to "influence the public and the governments to follow policies we regard as sound for the economy" (List, 1978a). Powis recognized that class struggle was at the heart of the BCNI's efforts. He stated that "if the balance of power goes too far in either direction, it would lead to difficulties. Our view is that the CLC [Canadian Labour Congress] underrates labor's power" (ibid). The council included media corporations like Power Corporation along with all of the major Canadian national banks. The BCNI also established a research branch that published and circulated material in the late 1970s regarding the impacts of inflation upon Canadian business. Tony Clarke notes that BCNI quickly emerged "as the single most important and effective voice of Corporate Canada inside Ottawa" (1997: 22).

The increasing concentration of economic and political power within coalescing corporate and financial interests resulted in a strong power block exerting influence over the executive and disciplining the state through financial channels. Mahon stresses how this power bloc can emerge over time:

> An alliance of the dominant classes in the power bloc – 'a contradictory unit of politically dominant classes and fractions under the protection of the hegemonic fraction' – is achieved partly through 'private' agencies like national manufacturers' associations and 'core institutions' (corporations whose boards bring together representatives of a variety of leading corporations)" (168).

There are signs that these class interests influenced monetary policy decisions. Clarke noted that both the BCNI and the C.D. Howe Institute "waged a vigorous campaign to keep the government's focus on fighting inflation rather than unemployment, arguing that keeping input costs and wage gains down was essential for big business to be competitive on world markets" (ibid: 25). As signs of the failure of monetarism were evident by 1977, vested interests began to actively lobby to insure that the government did not return to its broadly Keynesian principles from the 1960s. Doing so would effectively reverse their recent gains in class power. The sentiments of these coalescing corporate and financial classes were well-expressed by Bank of Montreal chairman, Fred McNeil, with the bank sitting as a prominent member on the newly formed BCNI. An extract from the *Globe & Mail* is worth quoting in full:

> Problems will only worsen if the federal Government switches from a policy of primarily battling inflation to one of battling unemployment, according to Fred McNeil, chairman of the Bank of Montreal. Fundamental goals of increased employment and income will be achieved to the extent that the battle against inflation is won, he said. These facts must be remembered in the context of pressures, from the media and others who should know better, to 'do something,' invariably of an inflationary nature, about unemployment, he told the bank's annual meeting. […] Mr. McNeil generally praised the federal Government for its current economic policy stance. (Barnes, 1978b).

The government and state administers were critically aware of the influence that business wielded within the state and adjusted policy accordingly. Jean Chretien, who was serving as Finance Minister in 1978, noted that a group of businesspeople has met with Prime Minister Trudeau in 1978 and approved of his policy of *not* increasing government spending (King, 1978). Economists within the Finance Department also stressed that the government must avoid "adverse business reaction" by "ensuring that spending restraint is enhanced as they pursue higher deficits to stimulate the economy" (Cheveldayoff, 1978a). In other words, this coalescing group of powerful corporate institutions did influence state policy to some degree, demanding that the state continue its fight against inflation.

Even as the Bank of Canada and the elected government pursued sharper austerity measures, many in the business community argued the state was not going far enough. Albert Friedberg, vice-president of Friedberg and Co. Ltd. of Toronto, issued a report arguing that efforts at monetary restraint were being curtailed by the creation of new public sector jobs. A news article about the report stated that, “unless draconian economic measures are taken, Canada is headed for a long and painful bout of inflation” (Stephens, 1978). This was in 1978, during the early stages of the Volcker Shock.

Organized Labour

While corporate and financial classes were resurgent in the late 1970s, organized labour remained a considerable class force. Strike activity remained at record high levels throughout the period, with over 1,000 strikes and lockouts recorded for each year between 1975 and 1981 (Charts 2 and 3). As monetary austerity began to really take hold, counter-powers emerged against this significant monetary consensus within the elected government and across business and financial classes. At the annual Canadian Labour Congress (CLC) convention in 1978, outgoing president Joseph Morris warned that provincial and federal governments were intent on restricting workers income and collective labour freedoms (List, 1978b). Morris stated bluntly that:

> The economy will continue to deteriorate and jobs will continue to be lost. With this decline will come ever increasing attacks by governments on wages which they blindly believe cause inflation. Just as the federal Government’s infamous AIB [Anti-Inflation Board] failed to control inflation through its relentless and obsessive battle against workers’ wages, so will future government policies fail if they involve the same areas of concern. (ibid)

Speculative downward pressure on the dollar continued as the leader of the New Democratic Party (NDP), Edward Broadbent, argued that monetary policy was freezing the economy and increasing unemployment rates (Simpson, 1978b). Interest rates increased rapidly through the late 1970s as links between the NDP and the CLC deepened with the acclimation of Dennis McDermott to CLC president. McDermott was blunt about his intent to fight the government's policy agenda: "you don't radicalize people until you kick them in the ass. And we've been kicked hard. And that tends to get rid of those moral differences that exist…now even the biggest among us recognize you can't go it alone - that you need a strong and viable labour congress" (Editorial, 1978b).

Popular and organized opposition to the Volcker-era monetary policies mounted with each increase in the interest rate. Interest rates continued to climb through 1978 and 1979, exceeding historical records at 12 percent and only plateauing at a staggering 21 per cent in 1981. Personal and business bankruptcies began to surge in the 1980s and manufacturing job losses numbered in the tens of thousands (Willoughby, 1981).

Social forces coalesced against these policies from disparate corners. A report published by the Canadian Federation of Independent Business noted that high interest rates were a major concern for business-owners struggling to receive cheap credit and pay down loans, so small businesses therefore began to speak out against increasing rates (Cheveldayoff, 1979). This stood in sharp contrast with the opinion of larger multinationals, with executives arguing that interest rates should be increased to mitigate inflation. At a business outlook seminar organized by the Conference Board of Canada in 1981, executives argued that high interest rates needed to be maintained for at least another three years (Cox, 1981).

The attitudes of conflicting social forces did influence the course of party politics in Canada. One of the clearest changes was that the Liberal Party did an "about face" and internally voted to change their position on rising rates. The party had strongly supported rising rates while in power under Trudeau, but the 1979 federal election resulted in a Progressive Conservative minority government with the Liberal Party serving as the primary opposition party. Once out of power, the Liberals revised their position on the Bank of Canada from supporting to opposing high interest rates (Globe, 1979).

The minority status of the Progressive Conservatives also served to somewhat weaken the strength of the elected government. For example, a motion from the Liberal opposition to investigate the high interest rates gave opposition parties the upper hand within the House of Commons Committee tasked to review central bank policy. A report in the *Globe & Mail* noted that:

> Because the Government is outnumbered in the House of Commons, it is likely to have a minority position on the finance committee and the Liberals and New Democrats will hope to use their position of power to write a committee report condemning the Government's interest-rate policy and to remind the Government, as it did often yesterday, of its criticism of high rates when it was in Opposition before the May 22 election. (Rusk, 1979)

Given that both the NDP and the Liberal Party opposed high rates, the opposition parties could effectively pass a vote of non-confidence in the Progressive Conservatives and trigger a federal election. A vote along these lines would require that opposition parties weigh their options, as they would only trigger an election if their confidence in winning was strong enough. This vote of non-confidence was not to happen, suggesting that opposition parties did not believe they could win a snap election.

Pressure on the elected government and the central bank continued to mount into the early 1980s. Joining the emerging coalition of social forces opposed to austere monetary policy was a group of nationally organized debt incumbent homeowners. High interest rates were causing homeowners to default on their mortgages or to suffer sharp rises in interest rates on their mortgages. “The new rates will have their most serious impact on young families who have just purchased houses with short-term mortgages,” noted a report in the *Globe & Mail*. “High unemployment areas such as British Columbia, where layoffs are expected from major strikes, are expected to suffer the most. Young families face serious jumps in mortgage charges as their one-year mortgages come up for renewal at even more unmanageable levels” (Willoughby, 1981).

As the rates continued to exceed historical precedents into the late 1970s, homeowners began to organize. Over 800 homeowners gathered in Toronto to organize against the interest rate hikes. “Although proponents of a number of sometimes bewildering schemes to reduce high interest rates vied for the allegiance of the crowd, most people were convinced that escalated public protest was the only effective course of action,” a news article on the event noted (Globe, 1981). Several isolated protests were held across the country and outside the Bank of Canada offices in Ottawa. A rally in protest against the high rates was organized in Edmonton in late November, 1981, and the protest drew over 1,000 people—with labour leaders, NDP members of parliament and homeowners demanding that interest rates be reduced (ibid).

The agricultural sector also began to organize against the high rates. Rural and agricultural militancy has historically represented a significant social force in Canadian political affairs, serving as the electoral and militant base of North America’s first socialist party (Reimer, 2010). The Canadian Federation of Agriculture became an assertive force as farm bankruptcies mounted and an increasing number of livestock owners fell into financial hardship. Agriculture Minister Eugene Whelan was actually forced to visit farm communities in Western Ontario as frustrations were growing high. “We respect you but it’s a good thing the Minister of Finance didn’t come with you,” one of the farmers told the minister (Cox, 1981).

Despite increasing agitation and opposition from an array of social forces, interest rates remained high and the national economy fell into recession. It was only when the recession began to seriously affect the national economy and erode support for the reigning government that politicians and officials at Bank of Canada sought to reverse their politics of monetary austerity. In order to ease monetary policy, however, the Bank first needed to work with other international actors to compel the United States to ease its Volcker Shock policies. The U.S. Federal Reserve remained the central fulcrum of global monetary policy, with its interest rates exerting strong influence over the rates of other national currencies (Panitch and Gindin, 2009).

The Federal Reserve and state leaders therefore had to be convinced that their policies were excessive and must be reversed. Bank governor Gerald Bouey “forcefully” expressed his fears of sustained monetary restraint during a meeting with members of the 10 most powerful global economies (the G10), which was held at the Bank for International Settlements in Switzerland in 1981. During the meeting, Bouey said that “we will all be shovelling out money soon by the bucketful to save failed businesses” unless the United States eases its monetary policy (Crow, 2009). International pressure on the United States continued to mount into 1982, and the U.S. finally began to ease its policy of monetary restraint “to significant relief at the Bank of Canada” (ibid).

Having reviewed the class struggle waged during this time, it is worth stressing two key differences between the monetarist and Volcker Shock periods. First, whereas class struggle was centred around wage restraint introduced by the Trudeau government in the mid-1970s, the class dynamics of the Volcker era became one-step removed from immediate class struggle. No longer was wage restraint being imposed upon organized labour. High interest rates were instead being introduced across all sectors of society in a highly diffuse and uneven manner. Panitch highlights this difference clearly:

> ...when the Government increases interest rates, the individual worker and his family are on their own in paying more for credit or higher mortgage payments. Incomes policy, however, only operates by acting on workers collectively, in that it seeks to modify the wage bargaining behaviour of their whole group, as expressed through their union. Thus the union is the direct object of an incomes policy. (1976: 20)

Inflation-control rather than wage control therefore avoided direct class struggle with organized labour. This advantage did not go unnoticed by the Bank of Canada. Former Bank economist and deputy governor Charles Freedman, for example, applauded the inflation-targeting regime for its ability to reduce the number of workdays lost to strikes (cited in Mann, 2010: 16).

Second, the erosion of the Fordist organizational form also entailed a reconfiguration of class forces. Speculative capital exerted strong influence over the conduct of monetary policy and government affairs following the demise of the Bretton Woods system. The deepening integration between economies of the United States and Canada also imposed a structural limitation on the Canadian state and central bank to conduct its affairs independently. The state was not as heavily exposed to these external pressures under the Fordist organizational form. It would nevertheless take one final wave of monetary austerity for the Bank of Canada to finally adopt consistent inflation rate targets.

The Crow Doctrine:
The Third Wave of Monetary Restraint, 1987-91

"The 1980s policies of attacking inflation by squeezing the economy and public spending were a cover to bash the workers. Raising unemployment was a very desirable way of reducing the

strength of the working class. What was engineered—in Marxist terms—was a crisis of capitalism, which re-created a reserve army of labour, and has allowed the capitalists to make high profits ever since"—Alan Budd, economic advisor to Margaret Thatcher.

The neoliberal organizational form had already begun to ossify in the late 1980s, when the final phase in this struggle over monetary policy unfolded. Incoming Bank Governor John Crow introduced another wave of high interest rates that spurred yet another state-backed recession in 1990. Unlike the Volcker era, when opposition to monetary policy developed slowly, opposition to Crow's policies were widespread from their inception. Crow virtually mounted a one-man crusade against high interest rates in what is now referred to as the Crow Doctrine. Upon entering office, Crow said that "the Bank set out of its stall early, and pursued the objective of inflation reduction with consistent focus – a single-mindedness that at the time seemed praiseworthy to some and noxious to many" (Crow, 2009: 6). This final section will elaborate upon the manner in which this pursuit was conducted, the particular social forces that organized around these policies, and the juridical powers accorded to the Bank that allowed the governor to pursue sharp monetary austerity.

Crow took his seat as Governor of the Bank of Canada during a period of widespread economic uncertainty. Stock markets had crashed in 1987, and there was talk that Canada would be dragged into a recession. The state had nevertheless largely recovered from its self-induced recession of the early 1980s, and it was under these conditions that outgoing Governor Gerald Bouey tendered his resignation. A retrospective piece that appeared in the *Montreal Gazette* on the day of his retirement noted that "when Bouey squeezed, he hurt. Businesses went under. People were thrown out of work. Some of them called Bouey and told him what a son-of-a-bitch he was." Asked in the same article how he maintained such austere monetary policies, Bouey replied that it required "a certain amount of stubbornness […] and a lot of support from other people. I don't think I'd want to go any further than that" (Editorial, 1987a). However, the struggle against inflation was not over in the eyes of the central bank.

As the incoming Bank Governor, Crow feared that inflation was creeping into the economy again by the late-1980s. Wage demands were increasing, with several major public union wage settlements approaching. The Progressive Conservative government under Prime Minister Brian Mulroney echoed these concerns about inflation, going further to situate fiscal restraint as a key pillar of their economic policy (McQuaig, 1995: 73). In order to understand the impending class struggle that was to emerge, however, the particular organizational form of Canadian capital must first be developed. An article published in the *Ottawa Citizen* recognized that class struggle was likely to emerge in Canada, and the article accurately depicts the organizational form that prevailed in the late 1980s:

> Canadian labor has never been known as a pussycat.
>
> Quite the contrary, Canadian labor unions were pictured by international investors in the mid-70s as the bad boys of unionism.
>
> They had one of the worst records in the world for time lost because of strikes and lockouts. And the settlements they exacted during the early 70s were way ahead of the gains in productivity. […]
>
> But how times have changed. Work stoppages now place Canada roughly in the middle rank among major industrial countries. Total time lost from stoppages is only slightly ahead of the United States at about half of one per cent of all time worked.
>
> Two shots of wage controls in the last 12 years coupled with the longest and deepest recession in 50 years and sharp declines in prices for oil, grains and other commodities have had a brutal impact on the union movement.

> Rather than bargain for hefty wage increases, unions increasingly found themselves fighting rearguard actions to protect jobs and hold off management demands for contract givebacks. (Ferguson, 1987)

In other words, the first two waves of monetary, fiscal and regulatory austerity had significantly weakened the strength of labour and the working class by the late 1980s. Labour also faced a Progressive Conservative government under Prime Minister Mulroney that was staunchly in favour of neoliberal doctrines, putting labour at a significant disadvantage relative to the strength of capital as the Crow Doctrine of high interest rates were being introduced.

The doctrine emerged largely as a result of the aforementioned "policy vacuum" that had opened up with the failure of monetarism and the subsequent wave of monetary austerity under the Volcker Shock. Crow was quick to fill this policy vacuum by fostering substantial research on the work of price stability upon entering office in 1987 (Crow, 2009). This research led to the development of a new monetary policy known as "inflation targeting." Inflation targeting entails altering interest rates in order to keep inflation within a narrow operating band of between 1 and 3 per cent. Canada and New Zealand were the first countries to adopt inflation targets in 1991 (Lavoie and Seccareccia, 1996), and Canada has subsequently renewed the policy four times. In order for the central bank to achieve its inflation target, however, existing inflation rates had to be further reduced.

One of the definitive moments of this third wave of restraint was Crow's 1988 Eric J. Hanson Memorial Lecture at the University of Alberta. Speaking to a group of students, Crow revived monetarist rhetoric in his speech in proclaiming that "monetary policy should be conducted so as to achieve a pace of monetary expansion that promotes price stability in the value of money" (cited in McQuaig, 1995: 75). Unlike the Volcker Shock period, however, Crow was effectively working to lock inflation targeting into the core mandate of the central bank. Linda McQuaig, a critical journalist and writer, noted the significance of this effort:

> In many ways, this represented a crucial turning point, a final abandonment of any notion that the Bank had a responsibility to balance the interest of all members of society. There was a perennial clash between the interest of those primarily concerned with fighting inflation and those primarily concerned with keeping the economy buoyant and crowing. This is a simplified characterization; the country didn't divide neatly into these two fractions. Most people wanted both low inflation and a growing economy. But, more than was generally appreciated, these goals were often in conflict. (1995: 79)

There are four factors that distinguish the Crow Doctrine period from the previous two waves of monetary restraint. The first is the zeal with which Crow almost single-handedly pursued the goal of implementing Canada's inflation target. The second is the particular organizational form of domestic and international capital, which allowed the Bank to purse the Crow Doctrine despite widespread domestic opposition. Third, the juridical power accorded to the central bank allowed Crow to conduct policies independently from democratic influence. Fourth, the muted but vital support that Crow received from the elected Progressive Conservative government, and finance minister Michael Wilson in particular. Each of these points will be addressed in turn.

Regarding the first point, Crow pursued the inflation targeting regime aggressively upon entering office. Crow initially sought to embed a policy of zero-inflation targeting within the Canadian Constitution, but this effort proved unpopular and unsuccessful. Instead, officials at the Bank of Canada and the Department of Finance adopted an accord in 1991 that allowed the Bank to formally adopt inflation control targets (Lavoie and Seccareccia, 2006: 533). Crow pursued this control target with such zeal that broad segments of business and labour were opposed to his policy virtually from the outset.

The Canadian Chamber of Commerce became the "first big business group to question the bank's strong anti-inflationary stance," according to a 1987 article in the *Toronto Star* (Editorial, 1987b). The Chamber briefed Finance Minister Michael Wilson, arguing that the central bank must ease its policy in order to deal with the expected economic slowdown. Adding to this opposition was the former president of the BCNI, Alf Powis, who likewise questioned the Crow Doctrine. Powis had become the chairman of resource giant Noranda Inc., which was heavily focused on forestry and mineral extraction. Powis told shareholders at an annual meeting that the Bank's policies had artificially increased the value of the Canadian dollar, which made Canadian manufacturing and industrial products internationally uncompetitive (Editorial, 1988). This was the same man that argued in the late 1970s that the Bank of Canada should maintain a high interest rate environment. Times had indeed changed.

Organized labour also strongly opposed the Crow Doctrine from its inception. Whereas labour had developed counter-powers at a very gradual pace during the Volcker era, labour reacted immediately to the Crow Doctrine and began to coalesce against this policy. The National Farmers Union argued strongly against these high rates to the House of Commons Agriculture Committee in 1988 (Globe, 1988); the national Woodworkers union were also spurred to "lash out" against these policies (Schreiner, 1988); local Canadian Auto Worker unions directly accused Crow of causing the indefinite layoffs of 403 Ford workers in 1990 (Windsor, 1990), and CAW president Bob White also offered public condemnations of the Crow-era policies. Organized labour was indeed rebuilding after the two previous waves of austerity, though labour was not to regain its former class power. A column that appeared in *The*

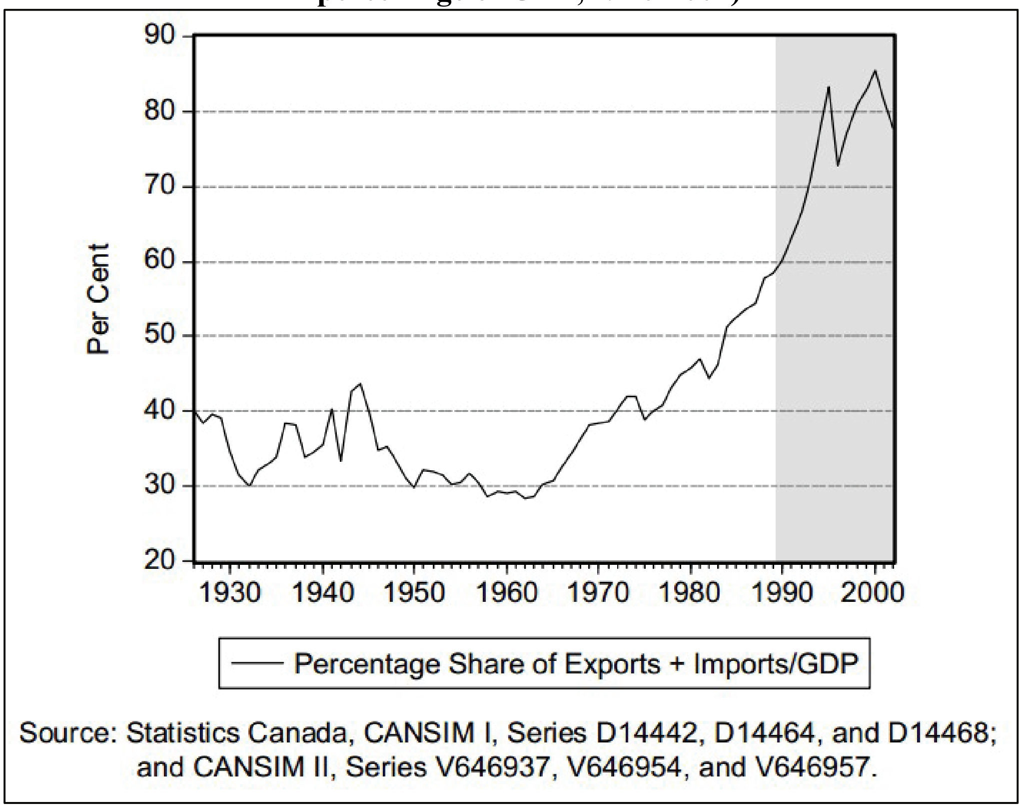
Windsor Star newspaper in 1990 accurately describes the re-emergence of organized labour as a social force during this time:

> Following a decade-long retreat, union leaders regrouped in 1989, licked their wounds and prepared for the counter attack that could make 1990 the year of labor's big push. The '80s had not been kind to the union movement. The decade began with a crippling recession that saw thousands of jobs lost and plants closed. Union leaders headed for the trenches to dig in on the line of 'no concessions.' Led by CAW president Bob White, labor held that line until the economic tide began to turn and the Canadian economy recovered. (Star, The Windsor, 1990)

Opposition to the Crow Doctrine was not limited to corporate interests and a resurgent labour movement, however. Provincial leaders and opposition parties were likewise strongly opposed to the Crow Doctrine from its early stages. Opposition Members of Parliament would sharply criticize Crow's policies during the Commons' finance committee meetings, but the governor remained steadfast. As interest rates began to climb sharply in 1989, provincial finance treasurers also met with Finance Minister Michael Wilson to argue that interest rates were too high. The provincial leaders also argued that the finance minister should urge the Bank of Canada to bring rates down (Star, 1989). "Obviously the provinces will continue to put on the pressure but I don't think he's [Crow] going to succumb: He's made that clear," said Sherry Atkinson Cooper, chief economist with Burns Fry Ltd. (ibid).

It may seem surprising that the Bank would pursue such sharp monetary austerity given that domestic class forces had aligned so strongly against the Crow Doctrine. However, the organizational form of Canadian capital in the late 1980s essentially expanded the terrain upon which class struggle was being waged. During the Fordist period, capital remained fairly concentrated within the Canadian state. Canadian vulnerability to foreign trade remained low throughout the Fordist period, as Chart 5 indicates. However, Canada became increasingly integrated into the global economy following the structural crisis of capital in the early 1970s. Exposure to global volatility increased following the crisis, and the collapse of the Bretton Woods system in 1971 was critical to this deepening global integration of capital.

Chart 5: Canada's Vulnerability to Foreign Trade (Exports plus imports as a percentage of GDP, 1926-2002)



Source: Seccareccia, Mario. 2007. "Critical Macroeconomic Aspects of Deepening North American Economic Integration", Whose Canada? Continental Integration, Fortress North America, and the Corporate Agenda, ed. by R. Grinspun and Y. Shamsie, Montreal/Kingston, McGill-Queen's University Press. pp 234-58.

It is in this context that the Bank was able to pursue the Crow Doctrine despite widespread domestic opposition. The government had committed itself to establishing a two percent inflation target, which it promised to reach by 1995. International investors could therefore rest assured that returns on the Canadian dollar would be high for the foreseeable future. Michael Manford, chief economist at ScotiaMcleod Inc., noted in a 1989 interview that

Japanese and German investors “are still interested in our markets, which look very attractive on a worldwide basis” (Hadekel, 1991). Investors therefore profited from the Crow Doctrine while domestic industry, businesses and households were squeezed. As Epstein argues in his international study of inflation targeting regimes, “a main effect of adopting inflation targeting, thus far, has been to reduce inflation and increase the share of income going to rentiers in many parts of the world” (2002: 5).

With foreign capital flooding into Canada in search of short-term yields rather than productive investment, the purchase of Canadian currency increased demand for the Canadian dollar, causing an increase in the exchange rate (Friedland, 1988). Credit becomes more difficult to access for manufacturing industries and domestic businesses, while the purchase of Canadian commodities becomes less appealing as prices rise.

The inverse also holds true. Decreasing interest rates in Canada would effectively cause investors to withdraw their money from Canada in search of higher yield elsewhere. “As things stand, money is free to rush from one country to another in search of higher short-term interest rates” (ibid). The flight of investors from Canada would increase the supply of Canadian currency, effectively lowering the Canadian exchange rate. Domestic manufacturing and business would benefit as credit would be cheaper, while Canadian goods and services would also become more competitive. However, the Bank of Canada and the Progressive Conservative government were deeply concerned about lowering rates. On the one hand, they feared prospects of inflation, and on the other hand, they had committed themselves to an inflation target of two per cent, which had to be achieved by 1991.

Canada was not the only state in this situation. Group of Seven (G7) leaders from the seven most powerful global economies met in Paris on July 14, 1989, to discuss international economic prospects. A report on the event argued that while central bank leaders were concerned that high interest rates would slow their national economies, the G7 was more afraid of inflation than recession (McGillivray, 1989). This consensus among global powers was expressed in a report by the Organization for Economic Co-operation and Development (OECD) which stated that “while monetary authorities will wish to avoid excessive tightening that would precipitate a downturn, they must nonetheless remain vigilant” (ibid). The OECD was effectively endorsing monetary austerity while cautioning that excessive tightening may cause a recession.

This does help explain why the Bank was able to impose the Crow Doctrine despite widespread domestic opposition. The globalization of financial capital meant that the Bank of Canada needed to retain high interest rates in order to attract short-term investments. International leaders in 1989 were also more concerned about mitigating chances of inflation than they were about fostering a state-backed recession. This was certainly the case for Canada, which had imposed upon itself an internal—and international—commitment to an inflation control target of two percent.

Nevertheless, domestic opposition to central bank policy was widespread and increasingly hostile to these policies. How did the Bank manage to insulate itself from this increasing domestic pressure? The answer lies in the particular juridical powers accorded to the central bank. Central banks in most developed countries are accorded varying degrees of Central Bank Independence (CBI). CBI can be defined as providing central banks with the “authority to conduct monetary policy without interference or political pressure from the finance ministry or the government” (Bruce Hall, 2008: 1). Without CBI, the argument goes that governments may foster expansionary monetary policies during election periods or when their popularity is dwindling. Bank independence is designed to mitigate this possibility. This juridical division of power vests incredible authority in both the Bank governor and the elected government. The governor is appointed rather than elected, and CBI effectively shields the governor from any democratic influence. Political economist Geoff Mann calls this form of governance "punctuated totalitarianism," insofar as the Bank is almost entirely free from democratic influence, aside from government-approved policy renewals and occasional conflicts of interest between the Bank and the elected government (2010: 8).

Should a sharp discrepancy emerge between the Bank and the elected government, ultimate authority rests with the government,[1] and should this discrepancy reach a point in which the government demands that the Bank change its policy course, it is unstated practice that the Bank governor resign. This offers some indication of the extent to which Crow was pursuing his policy objectives. Provincial premiers were in widespread agreement that the federal government should "urge" the Bank governor to adopt lower interest rates. When Crow was asked by opposition MPs what he would do if this happened, Crow openly stated, "I would resign" (Dowling, 1988). He was therefore aware that pressure was mounting for his forced resignation, but Crow continued to implement sharp monetary austerity.

Central Bank Independence allowed Crow to pursue his policy aims despite widespread opposition from corporate interests, organized labour, opposition parties, provincial premiers and general discontentment among the public. Yet Crow relied critically upon the support from the Progressive Conservative government of the day. Crow's views on the government's position are worth quoting in full here. Crow argued that Finance Minister Wilson was:

> …fundamentally supportive of the clear anti-inflationary stance taken, because he thought that this was the way the world was going, and also the way it needed to go. However, some of his senior officials clearly were not so supportive, government in general was manifestly ambivalent, and the Opposition openly hostile. (Crow, 2009: 7)

[1] The *Bank of Canada Act* states that should there "emerge a difference of opinion between the Minister and the Bank concerning the monetary policy to be followed, the Minister may, after consultation with the Governor and the approval of the Governor in Council, give to the Governor a written directive concerning monetary policy...and the Bank shall comply with that directive" (cited in Crow, 2009: 13).

This makes clear that potential discrepancies can emerge between the Bank and the finance minister, with ultimate authority resting with the minister. A clear historical distinction can be drawn between the monetarist era under Liberal Finance Minister John Turner and that of Michael Wilson. Turner was opposed to monetarist principles being introduced by his own Liberal government and resigned when monetarism was introduced as policy. Conversely, Bank Governor John Crow drove interest rates so high that opposition to his policies grew widespread across seemingly conflicting vested interests (labour, corporate power, even the segments of the elected government). The government could have forced Crow to ease his policy stance, effectively insuring his resignation, but Progressive Conservative finance minister Michael Wilson was “fundamentally supportive” of Crow’s anti-inflationary stance between 1987 and 1991.

The third and final wave of monetary restraint therefore hinges critically upon the importance of Central Bank Independence. CBI provided Crow with the legal autonomy to peruse his inflation-control targets by raising interest rates to whatever level was necessary to bring inflation within a desired target range. Inflation rates were indeed reduced to the desired range of between one and three percent, and the Bank of Canada subsequently adopted an agreement with the elected government to retain inflation levels within this target range. This inflation targeting regime was renewed in 2011 by the central bank in agreement with the elected government, and it will remain in place until 2016. In fact, the Bank noted in its statement of policy renewal that it is also conducting research of the possibility of setting an even lower target rate of inflation, which authors of the report claim will “provide significant net benefits to the Canadian economy and Canadian households” (BoC, 2011).

Conclusion#

"But even my most objective principles inevitably will reflect my own theoretical preconceptions, because economics is not an exact science and because the facts do not speak for themselves – people with different a priori views will interpret them differently." (Howitt, 1986: 8)

This rare confession from an economist is refreshing, as rigorous economic assessments are indeed subject to political inclinations and interpretations. The three waves of monetary austerity that were introduced in Canada between 1975 and 1991 are no less rife with political substance, as economic ideas and policies were embedded with particular class interests. It is not enough, however, to simply identify the interests embedded in a given monetary idea or policy. These ideas and policy proposals require active political agency in order to be implemented.

Where did this study take us?

One of the principal themes of this study is that competing class interests do indeed influence the conduct of monetary policy reform and implementation. Far from being a politically benign process, monetary policy is heavily influenced by an evolving array class interests. The purpose of this study was to examine why the Bank of Canada adopted the anti-inflationary policies that it did. On the surface, the Bank was simply responding to the global stagflationary crisis that emerged in the early 1970s, but there are two sides to the problem of stagflation: inflation *and* unemployment. State and central bank elites in Canada opted to fight against inflation rather than unemployment, so why did the state choose to tackle one side of the stagflation problem over the other?

The two dominant approaches to this question—monetarism and constructivism—downplay or overlook the class dynamics of monetary ideas and policies. As Lawson suggests with respect to monetarism, "the overall result is a conception wherein any contribution of human beings to the active making of their own history is denied" (ibid: 10). One of the central conclusions of this paper is that individuals are not only capable of making their own history, but that individuals are also capable of coming together as a class in order to express and struggle for a common will.

And while constructivist scholars do not overlook class to the same degree, much of the literature does effectively downplay the role of class in shaping economic ideas and policy outcomes. Constructivists like Lewis argue that "the rightward shift in politics both at the elite level in the 1980s and the mass level in the 1990s explains most of what went wrong during the 1990s and finally overcame whatever residual Keynesian thinking remained within policy circles" (Chorney, 2004: 253). This emphasis on a rightward shift in economic thinking overlooks the class forces that actively fostered this shift through policy channels.

Rather than placing emphasis on a shift in thinking, I argue that Canada's anti-inflationary policies emerged as a result the systemic crisis of capital and the subsequent reconfiguration of class forces. Three principal factors can be identified as contributing to this change in monetary policy and ideas: first, a given mode of production will structurally constrain—but not limit—the ideas and policy options considered. Capitalist modes of production will invariably be more receptive to ideas and policies which foster economic growth, whereas feudal or slave-based modes of production will favour ideas conductive to outright exploitation.

Secondly, the capital accumulation cycle has an innate tendency to fluctuate through waves of boom and bust, and these structural crises have an impact upon prevailing economic ideas and monetary policies. This was certainly the case for the global crisis that emerged in the early 1970s, as the dual problem of high inflation and unemployment spurred a radical reorientation of monetary ideas and practices.

Third, the organizational form of global and national capital is constantly evolving. Organized labour was a powerful social force in the mid-1970s, but their power began to recede in the 1980s and 1990s to ascendant financial and corporate classes. These changing class configurations will influence—but not determine—which monetary ideas prevail and are adopted as state policy. In the Canadian case, organized labour and other agents of opposition were not sufficiently powerful to challenge the anti-inflationary agenda. Monetary policy served to discipline individuals and groups by raising interest rates to extreme levels. The Bank deliberately induced state-backed recessions in the early 1980s and 1990s as a means of achieving a desired rate of inflation. These policies benefited banks, lenders and investors who profited from high interest rates, while disciplining individuals and businesses that relied on loans for mortgages, basic purchases and business development.

Another important change in the organizational form of global capital was the introduction of floating exchange rates in 1971, which effectively increased the power of finance capital. The effects of this organizational change were evident in Canada when investors placed strong downward pressure on the dollar as markets deemed that the state was not tackling inflation and state deficits aggressively enough. This level of market influence would not have been possible under the former Keynesian organizational model.

It must be stressed that these labour struggles and class reconfigurations were not geographically even across Canada. Rather, class struggle and reconfigurations of class power occurs unevenly across regions, provinces and scales. Indeed, Jessop notes that more recent iterations of the regulation school have accounted more carefully for spatial variation along with the importance of scalar production, reproduction and change (1997: 507). As Jessop notes:

> Regarding the scales of regulation, the Parisian school has begun to shift its focus (albeit sometimes reluctantly) from the national level. When it did direct attention elsewhere in its early

> work, it was usually to consider complementarities among different national economies and/or to enquire how international regimes helped stabilise the external conditions for national accumulation regimes. This prioritisation of the national economy and its national state may explain why the early RA showed little concern with local, urban and regional spaces of regulation or, except for the *grenoblois* school, with supranational economic spaces (ibid: 511)

One weakness of this study is that the uneven regional and scalar reconfigurations of class power and struggle were not accounted for. The class struggles depicted in this study were largely at the national scale of analysis, yet interventions from farmers, provincial Premiers and home owners all indicate the importance of capturing scalar and regional variation within the contested terrain of monetary policy.

Also notable about all three waves is the significant power wielded by the elected government and officials at the Bank of Canada. The government and the Bank were capable of sustaining sharp monetary restraint during each of these three waves despite widespread and powerful opposition from a shifting array of class powers. While the strength of class-based opposition varied in strength from one wave to the next, the government and the Bank retained a dominant position with respect to policy implementation. Political economist Geoff Mann thus correctly argues that "monetary policy-making [is] characterized by what one might call periodic democracy – or punctuated totalitarianism," in which the Bank is largely removed from democratic influence (2010: 8). The struggle over monetary policy is therefore once removed from immediate policy influence. Instead, competing class interests largely influence monetary policy through the markets. This puts finance capital in a privileged position, insofar as speculative capital has immediate impacts upon the value of a currency.

Theoretical Contributions

This study does critique the constructivist account, which has gained increasing traction since the 1990s. While ideas are still regarded as critical, emphasis is instead placed upon the class forces that foster these ideas and attempt to influence political and economic outcomes. I argue that an idea can only influence policy if it is supported by particular social forces. In this case, monetary ideas and policies are inherently embedded with class politics. A given monetary policy or idea will invariably have consequences for the distribution of profit and economic power. Actors in a position to influence these ideas and policies are therefore class agents. Former Finance Minister John Turner fought for the interests of working classes, while former Bank Governor John Crow favoured anti-inflationary policies that had serious consequences for working people.

Constructivist scholarship nevertheless offers essential insights into the conduct of monetary policy and the social sciences more generally, and it must be stressed that scholars of both Marxist and constructivist traditions are moving toward greater levels of theoretical hybridity. There are constructivist scholars that take class into account (Blyth, 2001), just as there are Marxists who integrate the role of ideas into their analysis (Soederberg, 2001). I did seek to critique constructivism while offering an alternative framework, but I regard this study as contributing to a debate that will hopefully bring conflicting theories closer together.

A similar move toward theoretical synthesis is also necessary with respect to Marxism itself. The structure-agency debate shows no signs of disappearing from academic inquiry (Bieler and Morton, 2008; Blyth, et al., 2009), but studies are increasingly moving toward frameworks that account for both structure and agency (Jessop, 2005; Jessop, 2008). As Jessop argues in outlining his approach to the structure-agency problem, it makes sense to study “structure in relation to action, [and] action in relation to structure, rather than bracketing one of them" (2005: 48). Jessop goes on to argue that:

> Structures are thereby treated analytically as strategically-selective in their form, content, and operation; and actions are likewise treated as structurally constrained, more or less context-sensitive, and structuring. To treat structures as strategically-selective involves examining how a given structure may privilege some actors, some identities, some strategies, some spatial and temporal horizons, some actions over others. (ibid)

In this study, I argued that capital structurally constrained—but did not determine—the spectrum of monetary ideas, policies and outcomes during a given time. Thus, ideas and policy options will be influenced by structural conditions, just as ideas and policy options can influence the manner in which structures evolve.

One of the main theoretical contributions of this paper is to highlight the importance of how shifting organizational forms can influence which class forces and ideas have more power and influence over others. A given organizational form of capital does indeed privilege some actors, strategies and ideas over others. In this case, the structural crisis of capitalism in the early 1970s resulted in the fragmentation of the Fordist organizational form. The emergent neoliberal organizational form privileged increasingly internationalized corporate and financial classes.

Prospects and Directions

There are movements underway that will likely reconfigure the organizational forms of global and national capital and its class formations. European and North American economies are stalling while emerging economies now account for roughly two thirds of global economic growth following the crisis (Greenwood, 2012). The framework applied in this study could be utilized as a means of studying these shifting organizational forms and class configurations. The role of monetary policy and its class dimensions could also be studied using the framework employed in this study.

Greater dialogue and theoretical synthesis between constructivist and Marxist scholarship should also be encouraged as both schools begin to study the latest crisis. Recent scholarship within the field of critical political economy indicates that these two schools may be diverging rather than synthesizing. Constructivist scholar Mark Blyth, for example, recently argued that "the world is much more deeply socially constructed than we think and rests upon foundations far more malleable and fleeting than materialist approaches assume" (Labrousse, 2008). Much like the structure-agency problem, the divisions and debates between constructivists and materialists are likely to endure, but the dialogue in itself is encouraging. These ongoing theoretical debates can only serve to enliven the field of critical political economy.

Relevance Today

The global recession that began in 2007 was structural in nature, given its depth, longevity and global character. State leaders are calling for a "decade of austerity" as the crisis continues to unfold (Times, 2012), and the organizational forms of global and national capital are in a period of flux and uncertainty. The evolution of monetary policy from the 1970s to present day has implications for how the global crisis of 2007 developed and its subsequent policy responses.

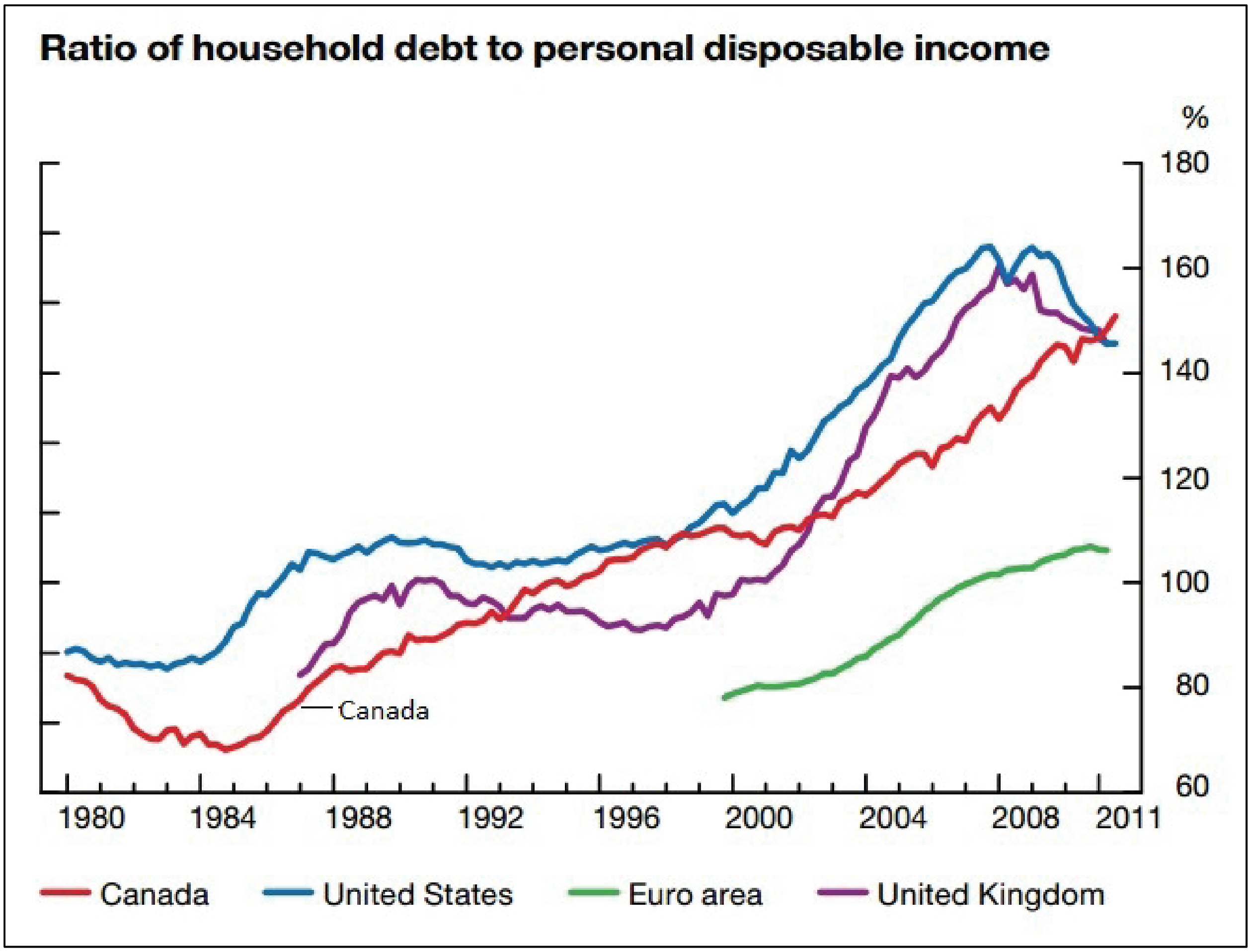
One evident consequence of the monetary reforms that were introduced in the 1970s is an increasing level of global economic volatility. As political economist David McNally argues, the abandonment of fixed exchange rates in 1971 laid the "structural foundation of financialization and the liberalized and deregulated markets that accompany it" (2010: 91). The exponential growth in currency trading that followed the abandonment of the Bretton Woods system allowed speculative trading to flourish. The Chicago Mercantile Exchange created the International Money Market in 1972, allowing investors to speculate in currency futures (purchasing currencies at a set rate and time in the future); complex financial instruments including derivatives and default hedges also began to proliferate (ibid: 94). These are precisely the financial instruments that fostered a massive asset bubble in mortgage-backed securities, which was to burst in a spectacular way in 2007-08 (Gowan, 2009).

The monetary policies introduced in the 1970s and 1980s also help explain why the Canadian economy faces an uncertain and volatile recovery today. The Canadian economy is on fragile ground because of record levels of household debt. Most media commentators argue that people were lulled into purchasing homes because interest rates were so low, and the Bank of Canada did indeed reduce interest rates to nearly zero in an effort to stimulate consumption and investment. However, this only tells part of the story.

The sustained waves of high interest rates in the 1980s and 1990s effectively crippled Canadian manufacturing and industry because borrowing money to finance machinery and research and development became prohibitively expensive. Both the sharp increase in interest rates in the 1980s and again in the 1990s served to bring the Canadian economy to a standstill. These were deliberate recessions engineered by the central bank as a means of reducing the rate of inflation. Doing so, as policymakers knew, had the immediate consequence of significantly increasing the rate of unemployment. The subsequent lack of productive investment and consumption was overcome in two ways, as Gowan argues: “First and most important, the problem of stimulating consumer demand was tackled through the sustained supply of credit from the financial system. Secondly, cheap commodities could be bought on an endless basis from abroad—especially from China” (ibid: 25). This helps explain why the Canadian economy is currently facing a fragile economic recovery. The problem of household debt cannot simply be attributed to low interest rates that encouraged home ownership and credit-financed consumption. These debt levels were accumulated over time, fostered by high interest rates that drove people into debt and crippled manufacturing and industry in Canada.

One final element worth stressing about present-day circumstances is the speculative nature of Canada's economic climate. International investors are purchasing Canadian bonds because the country is perceived as a safe haven in the midst of global economic volatility. A significant portion of these investments are bonds backed by Canadian mortgages that are guaranteed by the Canadian Mortgage and Housing Corporation. A report issued in March, 2012, notes that the CMHC's "vulnerability to mortgage defaults has soared nine-fold in 20 years, nearing levels reached by Fannie Mae and Freddie Mac in the U.S. at the height of the housing boom" (Gowan, 2009). The risk that Canadian homeowners will default on their mortgages is "significant," according to National Bank Financial analyst, Peter Routledge (ibid). The point worth stressing is that monetary reforms and policies beginning in the 1970s contributed to these conditions of household indebtedness and economic volatility. The high interest rates introduced during the Volcker Shock and Crow Doctrine periods accelerated household debt levels, as Chart 6 indicates.

Chart 6:



Source: Crawford, Allan and Umar Faruqui. 2012. "What Explains Trends in Household Debt in Canada?" *Bank of Canada Review*, Winter: 1-15.

There is a notable decline in household debt following the easing of Volcker-era policies in the early 1980s followed by a clear rise in debt with the onset of the Crow Doctrine. Current household debt levels must therefore be put in historical context rather than isolating recent low interest rates as the primary factor. The systemic crisis of the 1970s and subsequent policy responses have profoundly shaped today's global economic development and class configurations, to the extent that present circumstances and trajectories must be situated within their historical context.

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