

# THE Dorchester Review

*Edited by*

**C.P. Champion**

Vol. 16 No. 1 Spring 2026

Quarterly



***Longest-Serving  
Prime Minister.***

*James W.J. Bowden*

*PAUL ROBINSON*

**Kremlinology**

*RAINER KNOPFF*

**Notwithstanding  
Clause**



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**Decline of  
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***Elbows Up?***

*Dr. Glen Williams*

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# Elbows Up?

GLEN WILLIAMS *on the End of 'Boundless Optimism'*

For the first two decades of my academic career, I specialized in Canadian trade and industrial policy as well as Canada-U.S. relations. When I published the third edition of my *Not For Export*, I felt I had finally got my story straight. I was more than ready to move onto new and unrelated research and teaching interests (which I very gladly did). But last year's loud and persistent annexation alarms were impossible to ignore. Canada's true circumstances were being deeply buried by our ruling elites under an avalanche of emotion and electioneering rhetoric. Despite my resolve to never return to this field, I found myself stopping to make occasional notes on Canada's tumultuous "elbows up" moment, eventually returning to my keyboard in late 2025. The resulting article begins below with a necessary review of Canada's economic history. Canada's protectionist and statist elites, rather than Trump and the Americans, are the ones who are doing the most damage to the country's prospects, I argue. My analysis begins and ends with Harold Innis who once opined that "nationalism is still the last refuge of scoundrels." Innis' analysis, as we will soon see, has aged very, very well.

Harold Adams Innis towers over 20th century Canadian scholarship in history, economics, culture, and politics. Innis pioneered the staples thesis. This theory holds that Canada's abundant natural resources, and the

export of these resources to more advanced economies, explain the unique character of Canadian economic development. According to Innis:

... energy ... was drawn into the production of the staple commodity both directly and indirectly. Population was involved directly in the production of the staple and indirectly in the production of facilities promoting production. Agriculture, industry, transportation, trade, finance, and governmental activities tend to become subordinate to the production of the staple for a more highly specialized manufacturing community.<sup>1</sup>

Staples-led development was attended by "cyclonic" economic growth and contraction as international demand for Canada's resource products waxed and waned. It was also burdened by "rigidities" caused by the massive capital investments in the transportation infrastructure necessary to overcome the vast distances to far away markets.

The "elasticity" provided by Canada's liberal democratic institutions, political culture, and social structure held the key to managing the boom-bust cycles and structural inflexibilities inherent in an economy driven by staple commodity exports. "Responsible government provided the financial support for the spread of industrialism essential to the shift from lumber to wheat," Innis declared, and "it has only been through extensive subsidies in land, money, government guarantees, and railroad lines and by protection of its east and west traffic by means of the tariff and monopoly clauses that the C.P.R. has been able to present a successful history."<sup>2</sup>

Success in staples-led economic develop-

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ment required wise investment choices both by government technocrats and private investors. It also required courage: “New countries are not in a position to ask whether capital investments are sound in the long run. They proceed in an atmosphere of boundless optimism on the assumption that there are no limits to the country’s possibilities.”<sup>3</sup> It was only the marriage of staples extraction to a liberal democratic polity that could ensure the “elasticity” necessary to manage the cyclonic economic turbulence that attended staple export trade while simultaneously diversifying the resource economy through establishing a domestic industrial sector characterized by high productivity and modern technology.

### A Staple Economy

THE CENTURY-OLD staples theory applies directly to our predicament today. We are still a staples-led economy. Up to three-fifths of Canada’s exports consists of energy, minerals, metals, forestry, and agriculture. And so, given the persistent natural resource focus of our trade, “elasticity” in the form of wise choices are today just as necessary as in the late 19th and early 20th centuries.

Let’s turn to a quick overview of staples-led development in the hundred years following the National Policy of 1879. During this period, Canada successfully transitioned from a wheat economy centred in transatlantic markets to “new” replacement staples of minerals and pulp and paper destined for American markets. Access to large flows of American capital in the form of direct investment and ownership in mines and mills primed the pump in this transition.

Designed as a supplement to resource extraction and sheltered behind protective tariffs, Canadian manufacturing was never intended to be internationally competitive or export oriented. It followed the model of import substitution industrialization

(ISI) where technology and capital goods machinery are transferred into a tariff protected domestic market to fill local demand for previously imported consumer goods. In the late 19th century, this was often accomplished through acquiring exclusive licenses from U.S. manufacturers to produce for the Canadian market but by the early decades of the 20th century it more typically involved direct investment by U.S. manufacturers in their own Canadian branch plants. Put simply, the Canadian federal state used its sovereign power to ensure, through tariffs, the northward transfer of a share of U.S.-based manufacturing roughly proportional to Canada’s market size.

By the mid-1960s, Canada’s economy had become very deeply integrated into the American one. When considering trade and investment flows, it functioned less as a fully separate national economy and more as a politically sovereign, but regionally fragmented, zone within the U.S. economy. Some three-fifths of Canadian manufacturing and resource producers were foreign, mostly American-owned, and much of Canadian export and import trade was intra-firm between U.S. parents and Canadian subsidiaries. About two-thirds of Canada’s total exports and two-thirds of Canadian imports came from the United States. Canada’s regions traded considerably more with geographically contiguous U.S. states than they did with each other.

Resource trade dependency, arrested industrialization, and very high levels of foreign direct investment turned out to be a winning economic strategy (to the chagrin of Canada’s left nationalists.) By the 1970s, the traditional 10% to 20% gap between lower Canadian and higher American living standards was gradually being closed. But, as we will soon witness, this would be temporary.

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## **Tariff liberalization**

THE POST-SECOND World War movement for tariff liberalization generally, and more specifically the Kennedy and Tokyo GATT rounds of trade negotiations, kicked the props out from under Canada's ISI manufacturers. By 1987, under the GATT regime, a de facto free trade area had been created between Canada and the U.S. with over 90% of trade between the two countries either tariff free or with tariffs under 5%.

With the end of ISI in sight, Canada's policy-makers looked around for solutions to preserve Canada's manufacturing base, such as it was. The 1965 U.S.-Canada Auto Pact was the ideal because it was a managed sectoral agreement where Canada was conceded a guaranteed production minimum for its branch plants based on its relative share of the combined U.S.-Canada market. But the Auto Pact proved to be a one-of-a-kind that was impossible to reproduce in other industrial sectors. Worse, Canadian branch plants were geographically isolated from American transportation networks and population centres and were not research and development nodes for new products.

**T**he one locational advantage card that could be played in the coming tariff-free era was Canada's traditionally lower overall standard of living and lower labour costs than Americans. However, as already noted, the relative incomes of Canadians had been rising in the 1960s and 1970s, bringing them closer in line to those of Americans. The success of the Auto Pact led to the United Auto Workers union pressing for Canadian wage parity with Americans doing the same jobs for the same U.S. companies. Following the union's lead, Canadian employees in other sectors jumped on the wage parity bandwagon.

Various strategies were unsuccessfully employed in the 1970s to keep Canadian unit labour costs down in the run-up to fully implementing the GATT tariff reductions. These included corporate tax cuts and wage and price controls during the three years from 1975-1978. In the end, our political and economic elites seized upon Canadian dollar

devaluation as the answer because it lowered Canadian wages in relation to American ones while simultaneously offering some level of tariff-like protection from American imports. Jean Chrétien, the Finance Minister, explained it very bluntly:

There are a lot of advantages of having a depreciated dollar at this time because in many areas we had lost our competitive position. Canadians were paying themselves more than our main competitors. Take the pulp and paper industry that I have in my own riding and I say to my electors that they were asking too much, \$1.75 more than their competitors in the United States. It's the same in the textile and so on, but the depreciation of the dollar has brought back our competitive position in many fields.

Chrétien, first at Finance and later as Prime Minister, championed dollar devaluation. "We must use our monetary policy to help our entrepreneurs," he argued. When in Opposition, he pressed the Mulroney government to "lower the value of the dollar" so as to "increase our exports and create jobs ..." and declared that dollar depreciation "was the instrument I used to bring Canada back to a competitive position."<sup>4</sup>

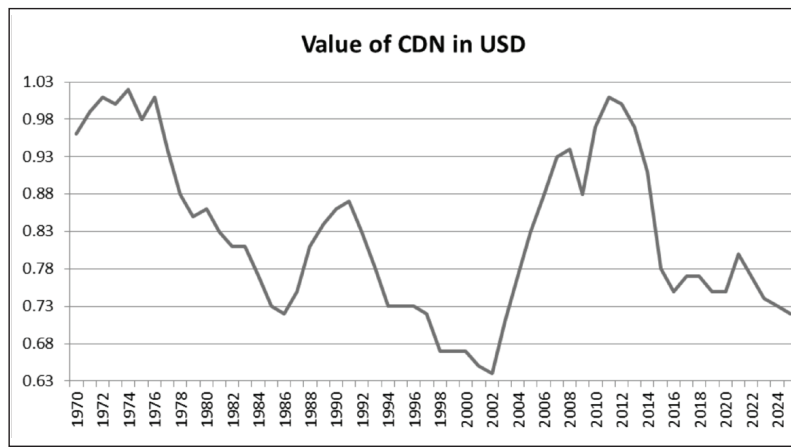
Chrétien's dollar devaluation proved to be no temporary thing. Along with a liberalized tariff regime, for nearly half a century it has stood as one of the two fixed pillars of Canadian industrial policy. Canada's cheapened dollar has served as a de facto trade policy — implicit and undeclared — in contrast to tariff reductions, which are explicitly documented and negotiated in formal trade agreements. Canada managed its currency depreciation regime through a floating exchange rate mechanism, since any open declaration of such a strategy risked provoking retaliation from trade partners and undermining the Bank of Canada's formal independence from political interference.

Let's be clear, we are not talking about a minor downward adjustment. The mean of the annual average for the Canadian dollar against the U.S. dollar from 1950 to 1976 was 99 U.S. cents. From 1977 to 2025, the mean was 78 U.S. cents. In the early 1990s,

then Canadian Auto Workers President Buzz Hargrove gloated that his members

enjoy vis-à-vis the U.S. about \$9 dollar an hour labour cost advantage in the auto industry, a major advantage. For every four workers it costs the industry, whether it be Japanese transplants or American industry to hire in the United States, they can hire five in Canada, an additional worker for nothing.<sup>5</sup>

The chart on this page shows only two pe-



riods of temporary recovery for the Canadian dollar. The first resulted from Mulroney-era Finance Minister Michael Wilson’s belief that devaluation created inflation which required yet more devaluation to fix. Strong economies, he claimed, had strong currencies. Canadian business, now accustomed to a cheap dollar diet, was generally fiercely opposed to Wilson’s upward revaluation and the succeeding decade under Prime Minister Chrétien saw the loonie tumble back from 87 U.S. cents to an average of 70 cents.

A confluence of exogenous factors drove the second recovery: financial crisis and recession in the U.S., a significant depreciation of value of the U.S. dollar on international currency markets, and rising commodity prices particularly in oil. Then, while Stephen Harper was Prime Minister, Bank of Canada governor Mark Carney (2008-13) acknowledged that he could have “leaned against” the appreciating loonie to support Canadian manufacturers (and their employees) but he claimed this would have fuelled infla-

tion. Shrugging off loud protests about the high dollar from central Canadian business leaders — because of the loss of an incredible 9,000 exporting firms — Carney opined dismissively that manufacturing in the “advanced world” was everywhere in decline, not just in Canada, due to “globalization and technological change.” It was all just “part of a broad secular trend.”<sup>6</sup>

In contrast, Carney’s successor, Stephen Poloz, was very open about restoring a devalued loonie to assist the many exporting companies that had shut down or reduced operations during the strong dollar years. According to Julian Beltrame, chief economist of BMO Capital Markets, Poloz undercut the dollar to promote an “export-based expansion — particularly in the manufacturing sector that sustains populous Ontario and Quebec. A weaker loonie means exporters will be able to sell goods at relatively lower prices in the U.S., which buys about 70 per cent of Canadian exports.”<sup>7</sup>

Notwithstanding two exceptional breaks in implementing the devaluation strategy, a relatively low Canada dollar was a “threefer” for Ottawa’s policy-makers: a stealth tariff protecting domestic producers, a politically obscured means to impose wage discipline on Canadian labour, and a substitute for necessary but difficult deep reforms in Canada’s industrial model. On the last point, Ottawa had been warned numerous times from the 1960s to the 1980s — by economists within its own technocratic apparatus — on the urgent need to address the branch plant/ISI model’s serious structural weaknesses.<sup>8</sup> These warnings had attracted some public controversy but in the end were mostly ignored since their assumptions contradicted the conventional wisdoms of free market economics and entrenched interests. And, as time went on, the cheapened loo-

nie became both a default macro-economic policy setting and a self-reinforcing loop of economic debility since devaluation incentivized the substitution of cheaper labour for the productivity-enhancing investments in machinery and technology required to boost international competitiveness.

### **Protectionist ‘free trade’**

LET’S NOW CONSIDER the other fixed pillar of Canadian industrial policy during the last half century — free trade. Largely confined to resource and manufacturing goods production and capital investments in these sectors, “free trade” holds a very constricted meaning in the Canadian context. It is nothing like a common market with unrestricted flows of capital and labour and a single currency.

For reasons discussed above, a single currency was a complete non-starter for Canadian policymakers. And key service sectors of the Canadian economy remained lavishly protected behind a dense thicket of federal and provincial laws and regulations designed to prevent the entry of foreign owned competitors into the Canadian market. These sectors include banks and financial institutions, transportation, broadcast and print media, telecommunications, health, education, legal services, as well as supply-managed agricultural sectors. Labour mobility for goods producing workers, now paid in devalued loonies, was excluded from the 1988 Canada-United States Free Trade Agreement and its successors. Contradicting that approach, in an astonishing display of social-class cynicism, the cross-border movement of 63 categories of credentialed professionals was facilitated.

The automotive sector was the poster child, and later bellwether, of Canada’s tariff liberalization and dollar devaluation strategy. And, at first, it seemed to be a success story. Auto investment flowed into Canada during the 1980s and 1990s, including Japanese manufacturers Honda, Toyota, and Suzuki who set up shop in Ontario.

Soon, Canada was experiencing an export boom in assembled vehicles that peaked from roughly 1998 to 2002. Nonetheless, Canadian auto sector wages were never going to fall low enough through devaluing the loo-

nie to remain competitive under NAFTA and considerable auto assembly work gradually migrated to Mexico. Mexico’s share of North American light vehicle production grew from about 10% in 2005 to 25% in 2024 while during the same period Canada’s share fell from approximately 17% to 8%.<sup>9</sup> Canada has run trade deficits in its NAFTA automotive trade every single year since 2008.

The case for basing auto production on a strategy of cheapening the dollar becomes even weaker when you consider that Canada has an overall automotive trade deficit — some \$60 billion in 2024 on total imports of \$143 billion — despite having “free trade” agreements with almost all of its major suppliers outside NAFTA.<sup>10</sup> And we must also factor in the tens of billions of dollars bestowed by Ottawa and Toronto in a dizzying array of subsidies and tax breaks meant to keep the assembly lines of automotive manufacturers rolling.

The structural problems that plagued the automotive sector manifested themselves more generally throughout Canadian manufacturing during the last several decades. Investment in new capital stock — machinery, technology and facilities — has fallen back to pre-NAFTA levels. In Ontario, manufacturing capital stock is now no higher than it was in 1974.<sup>11</sup>

**F**rom 2001 to 2024, labour productivity increased in the U.S. three times faster than in Canada in part because of Canada’s relatively smaller and less focused capital investments in information and communications technologies that are foundational for the digital economy.<sup>12</sup> Canadian public and private research and development expenditures are well below OECD averages and actually decreased as a percentage of GDP between 2000 and 2023 while it increased in most other “peer” countries. Troublingly, Canadian firms are also slow adopters of new technologies and this trend has increased over time.<sup>13</sup>

Philip Cross, for 36 years an economist at Statistics Canada, estimated that only one-third of innovation by firms in Canada is homegrown, the rest imported. While innovation has been soaring in the U.S. economy,

it has been drying up in Canada because “the values shared by most Canadians encourage rent-seeking by firms to shelter themselves from competition ... too many business models in Canada are based on governments using a thicket of regulations, patents, tariffs, occupational licensing rules, restrictions on foreign investment and price-fixing.”<sup>14</sup>

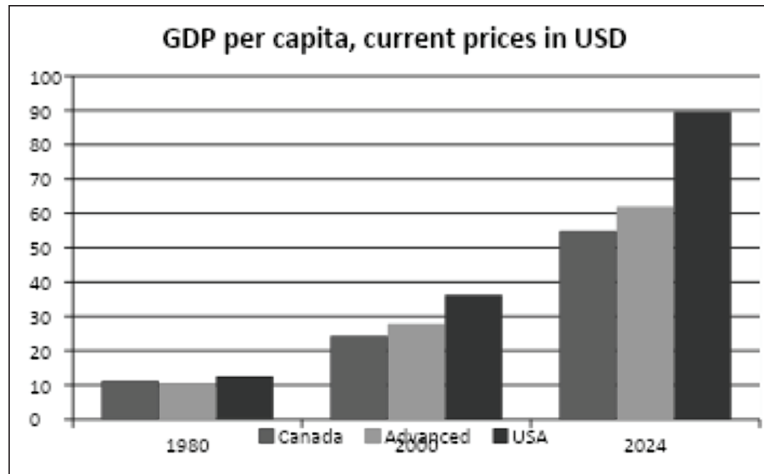
Compounding these issues were policies driven by widespread acceptance of the theo-

2013 and 2023 without noticeably improving that sector’s relatively small share of the overall Canadian GDP.<sup>17</sup>

### Relative Canada-U.S. incomes

DOLLAR DEVALUATION industrialization along with state policies that deliberately hobbled the staples resource engine of the Canadian economy have led to long-term declines in Canadian incomes. It will be recalled

that Canadian incomes relative to American incomes were on the rise in the 1960s and 1970s and that the traditional 10% -20% gap was gradually being closed. The chart below shows that Canada’s per capita GDP in 1980 was only slightly behind that of the U.S. and somewhat ahead of countries the IMF classifies as “advanced.” By 2000, with the now devalued Canadian dollar at



ry of anthropogenic global warming amongst Canada’s state elites and chattering classes. In contradiction to Innis’ belief that the success of a resource staples trade economy like Canada depended on bold decisions made in “an atmosphere of boundless optimism on the assumption that there are no limits to the country’s possibilities,” we see instead an ideological commitment to throttling resource extraction through regulatory and statutory means. One study documented that new oil and gas projects in Canada suffered a 43% decline in the value of its major new projects inventory (under construction or planned) between 2015 and 2023 while new mining projects inventory fell 55% between 2014 and 2023.<sup>15</sup> Another study suggested that well over half a trillion dollars in resource development investment in the last decade and at least 32 major resource extraction projects have been shelved.<sup>16</sup> Tanking investment in Canada’s resource sector went along with Ottawa and the four largest provinces collectively spending over \$150 billion dollars in promoting a “low-carbon economy” between

0.67 USD, the traditional Canada-U.S. income gap had been reestablished (significantly wider at 33%) while the advanced category now slightly surpassed the Canadian GDP per capita. Current data shows the GDP of the advanced countries ahead of Canadian GDP per capita by 13% and the Canada-U.S. gap at 39%.

Employing a somewhat different methodology which factors in goods and services price level differences between the two countries, Trevor Tombe, an economist at the University of Calgary, calculated that real GDP per capita in the U.S. was 43% higher in the U.S. than Canada in 2023. “[T]he gap between the Canadian and American economies has now reached its widest point in nearly a century,” he observed. “If this continues, we’ll have not persistently seen this wide of a gap since the days of Sir John A. Macdonald.”<sup>18</sup>

A sub-national comparison of 2022 median earnings in U.S. states and Canadian provinces found that Canada’s ten provinces ranked at the absolute bottom of all 60 jurisdictions. All of Canada’s richest provinces

had mean incomes lower than the poorest U.S. states. And, there is no sign of improvement on the horizon. Between 2014 and 2022, real GDP per capita in the U.S. grew at nearly three times Canada's average annual rate. In fact, Canada's growth rate of 0.6% was tied for third-lowest among 30 OECD members during this period.<sup>19</sup>

Many Canadians seem unaware that their incomes have declined relative to the Americans' over several decades. In one 2021 survey, 59% of Canadians thought they enjoyed a higher standard of living than Americans; in another 2022 survey, only 27% thought that Americans were better off financially. Jim Stanford's analysis at the Centre for Future Work, a progressive Vancouver think tank, supports this perception. "Simplistic" Canada-U.S. comparisons of per capita income are statistically misleading because, he says, "conventional" statistics fail to consider the uncounted population of "unauthorized immigrants," the excessive overtime hours compelled by low American wages, and how the extreme wealth of America's top 10% distorts averages. In contrast, he claims, Canadians have better public services and therefore "are healthier, live three years longer, face much less inequality and are happier." (In view of the outlines of Canadian nationalism, to be considered below, we will be better able to recognize the "progressive" public policy-focused pattern in this line of argumentation.)<sup>20</sup>

### **A Joke to Make the World Cry**

ENTER THE RE-ELECTED President Trump, disruptor-in-chief. In what he first presented (apparently) as a joke, he suggested Canada would be better off as the 51st state — with higher incomes, lower taxes, and American military protection thrown in. Trump wasn't exactly breaking new ground here. The notion that Canada was poorer than it needed to be and would one day "come to its senses" and beg for annexation has been a historically recurring theme among Americans. But it was unexpected and jarring to hear it said right out loud by an incoming U.S. President especially when it was delivered with disre-

spectful disdain for Canada's Prime Minister whom Trump styled as "Governor" Trudeau.

Why did Trump publicly attack the continental status quo immediately after his election? There may have been a personal element to it. For nearly a decade, Canada's governing Liberals and much of the country's commentariat had amplified with considerable gusto the harshest American political attacks on Trump for domestic Canadian consumption.<sup>21</sup> But Trump's intervention could also be a planned negotiating tactic. With the upcoming 2026 review of USMCA (the free trade agreement) on the horizon, we might suppose that from the beginning the President intended to break down Canada's stiff protection of its non-goods producing sectors, or to force more favourable terms in resource and manufacturing trade.<sup>22</sup> In his first presidency, Trump had wryly observed that Canada's elites had perfected the art of talking the talk of free and fair trade while not actually walking the walk. "We lose a lot with Canada," he said. "People don't know it. Canada is very smooth. They have you believe that it's wonderful. And it is. For them. Not wonderful for us. It's wonderful for them. So we have to start showing that we know what we're doing."<sup>23</sup>

Whatever Trump's reasons, his 51st state gibes proved to be a useful distraction for Canada's elites from mounting published evidence of serious economic decline. As explained above, Canada's elites in several key economic and cultural sectors rely on our federalized state system to shield us from American competition. Statehood and full integration into an enlarged America is absolutely the last thing they would want. Trump's tweet bombs were likewise a significant boon for a federal Liberal Party that had been underwater in the public opinion polls for much of the previous two years.

Historically, Canadian identity and attitudes towards its continental neighbour were formed during its long association with the British Empire. First developed in the 18th and 19th century when Britain was the world's preeminent power, there are four dimensions in the expression of Canadian re-

gional identity and nationalism vis-à-vis the U.S. Two of these (economics and defence) have been mildly or ambiguously espoused while two (territory and sociocultural distinctiveness) are intensely held.<sup>24</sup>

If Trump's administration had been serious about making their case for the 51st state to the Canadian public, they would have done far more to stress the financial and security benefits of union. No doubt, there would have been some receptive ears. Looking back at the immediate post-NAFTA ratification years, nearly two-thirds of Canadians thought Canadians and Americans should have the right to work in each other's country and nearly half would have agreed to drop the loonie in favour of the U.S. dollar.

Near the beginning of the recent "elbows up" campaign, in March last year, Ipsos polling found that 30% of Canadians would vote for Canada to become part of the United States if it came with full U.S. citizenship and guaranteed full conversion of their personal financial assets into U.S. dollars, and that number rose to 43% of Canadians age 18-34.<sup>25</sup>

In the event, Canada's elites mounted a fierce counterattack to the 51st state X posts employing emotional triggers that are rooted in collective beliefs about sociocultural distinctiveness and territorial inviolability. In some ways since the 18th century, at least some Canadians have lived in a kind of moral certainty that they are more civilized, orderly, and kinder than the avaricious, quarrelsome, and violence-prone republicans to their south.

Convinced of their happy state of socio-cultural transcendence, 90% of Canadians in 2003 believed that they enjoyed a better "quality of life" than Americans. Nearly two decades later, only 5% of Canadians think that U.S. citizens had a better "quality of life." In 2022, 91% thought Canada "a better place to live" than the U.S.<sup>26</sup> (One thinks of the Pharisee who prayed, "O God, I thank thee that I am not as other men are.")

Securely grounded in their virtue, since 2015 Canada's elites have portrayed Trump as the "Ugliest American," at once clownish and menacing. Most Canadians readily embrace this view. They are in line with the

view that was consistent for two decades after 2002, during which time about two-thirds of Canadians held favourable opinions of the United States. In 2024 the U.S. favourability rating crashed by 20 points to 34% as 76% of Canadians described Trump as "dangerous."<sup>27</sup> With this as background, Trump was an easy, perfect target for the "elbows up" campaigners who accused him of waging "economic warfare."

Canadians are map nationalists. Nothing sets their patriotic pants on fire faster than seeing a map of Canada showing American incursions on their southern border. In a 1978 Environment Canada pamphlet the arrows indicating the threat posed by U.S. industrial pollution should have been accompanied by a robust trigger warning. Complaining that 70% of Canada's acid rain blew northwards from the U.S., Environment Minister John Roberts fumed that "we are at the end of gigantic geographical exhaust pipe."<sup>28</sup>

One of the most memorable television ads of the 1988 free trade election showed a negotiator taking an eraser to the border of Canada. That Liberal Party ad was so visually effective that the Conservatives were forced to respond with a counter ad in which their negotiator redrew the border.

The reasons behind Canadians' fierce map nationalism are rooted in its unique geostrategic history in the international system between the British Empire and America. Recognition of a kind of military balance akin to "mutually assured destruction" had ended the War of 1812-14. Through the 19th century, Canadians watched warily as Manifest Destiny consumed half of Mexico's territory. Nonetheless, they took some comfort in the notion that the Empire's naval power protected the integrity of their borders. As late as 1896, Liberal grandee Sir Richard Cartwright bluntly assured the Commons that "If it were possible that our neighbours to the south should carry fire and sword to every town in Canada, it is equally true the British fleet could lay in ashes every city on the seaboard of the United States."<sup>29</sup> All of this was imprinted on the cultural memory of the generations of Canadian children who studied under school-

## Elbows Up?

room maps highlighting how the vast extent of Canada's pink-coloured territory made it possible for the sun never to set on the worldwide British Empire.

And, so it was that Trump from his first 51st state posts early in January 2025 blundered into, for him, the wrong side of an emotionally wrought historical trope by calling the border an artificially drawn line. On its own, this one tweet of the stars and stripes superimposed onto a continental map was enough to set the stage for millions of Canadians to be whipped into a frenzied "elbows up!" explosion.<sup>30</sup>

### The elasticity deficit

READERS WILL RECALL how Harold Innis argued that resource-led economic growth required elasticity in its social and political structures in order to overcome the rigidities inherent in cyclonic staples development. Looking back on 19th and early 20th century debates, Innis could observe the ferocious exchanges over economic policy between interests favouring free trade versus protective tariffs, or reciprocity with the Americans versus Imperial preference. The public was aware of the policy alternatives since the press generally followed the partisan prefer-

ences of their editors or owners and thus did not speak with one voice. With elasticity, policies could evolve incrementally and not be trapped in dogma.

But, in the 1940s and 1950s, Innis' view of Canadian democratic life took a decidedly pessimistic turn. He grew alarmed at the decline in public debate and effective parliamentary opposition, as federal inner Cabinets and press oligopolies grew ever more powerful. The epistemic checks and balances of liberal democracy were eroding, he warned, because the media no longer functioned as the "fourth estate" and universities had become "the kept class of autocracies."

"We must remember there is no final answer in a democratic society," Innis said. "It can only survive by an intelligent public opinion, and therefore the crisis in public opinion becomes a crisis for modern democratic states in general, and for civilization as we know it" (See sidebar).

Elasticity is based on choice and choice requires options or alternative possibilities, not "final answers." Neither choice nor elasticity were much present in Canada's recent elbows up, Canada First moment. Spearheaded by electioneering politicians, each pitching their own version of Churchill's "we shall fight on

### 'Confront' the 'Bully'?

ALL OF THE "ARTIFICIAL" border talk has added greatly to the sense of panic and hysteria being shared by Canada's political elites and chatterati. CBC breathlessly asks the question "How does Canada confront the bully?" ("Artificially drawn line: The border and Trump's plan for Canada," Mar. 12, 2025). A widely reprinted CP story featured a University of Toronto professor's wild prediction that if Trump invaded Canada, guerrilla warfare would ensue:

...otherwise ordinary citizens would start engaging in mild civil disobedience — cutting wires, diverting funds, thwarting the occupiers in small ways. Others would escalate to sabotage, ambushes and raids, sowing disorder and slowly draining the invading army of its energy and resources. Neighbours would provide the insurgents with safe havens, allowing them to fade back into the population.

(Michael MacDonald, "U.S. could easily invade Canada, experts agree, but would face decades of resistance," *National Post*, Mar. 30, 2025).

Keeping the map nationalism kettle at a full boil, it was later reported that Canada's military was busy drawing up contingency plans against a potential American invasion using insurgency tactics inspired by the Afghan resistance. (Robert Fife and Gavin John, "Military models Canadian response to hypothetical American invasion," *Globe and Mail*, Jan. 20). All of this scaremongering resonated strongly with a substantial number of Canadians. According to a survey this February, only half of Canadians ruled out Trump ordering an invasion of Canada and a fifth believed it was "likely." (Nanos, "Trust withers while Canadians push back on the U.S.," Feb. 23).

the beaches,” all of the country’s elites were united in warrior mode. The same three points were relentlessly hammered home to Canadians: led by the villainous Trump, Americans are trying to take away our jobs and our land; Canada is an innocent victim of bully tactics; and, unity is required as we must fight to preserve our independence.<sup>31</sup>

With the press excitedly throwing elbows and pouring gas on the flames, Canadians adopted almost a war-footing. There was to be no tolerance for dissent. Few dared stick their heads above the ramparts. Premier of Alberta Danielle Smith was met with cries of “treason” for arguing that Canadians should treat Trump’s intervention as an opportunity to reset continental economic relations. Daring to break publicly with Team Canada, she urged Ottawa and the other premiers to “de-escalate rhetoric, abandon any non-tariff measures for the time being and turn our efforts entirely to advocacy and good faith negotiation.”<sup>32</sup> Likewise, Canadian entrepreneur and television personality Kevin O’Leary was called a traitor for seeing Trump’s tweets as a chance to study the benefits of negotiating a European Union-like common market between Canada and the U.S. with free movement of goods, services, capital, labour, and a common currency.<sup>33</sup> Even hockey-sainted Wayne Gretzky was caught up in the traitor-talk because of his public friendship with Trump.<sup>34</sup>

It is no surprise that the policy alternatives quickly narrowed to “fight” or “treason.” As documented here, the Canadian economy has serious structural problems and has been weakening for decades. Our state elites, who have superintended this economic decline, and our professional and managerial elites in state-protected and -subsidized service sectors, hold desperately to a status quo that benefits them in income, power and status.

*Canada’s elites in  
several economic  
and cultural  
sectors rely on our  
federalized state  
system to shield  
us from American  
competition.*

George Grant’s 1965 *Lament for a Nation* contains his well-known observation that “the Canadian ruling class looks across the border for its final authority in both politics and culture.”<sup>35</sup> Six decades later, we might rewrite this to say: Canada’s ruling class looks southward to the U.S. Democratic Party establishment (and its media allies) as its ultimate political and cultural authority drawing from it the “progressive,” state-centred, policy content that defines (for them) Canadian nationalism.

For them, there was no requirement to address President Trump’s opinion that under existing continental arrangements Canadians were poorer than they needed to be. In fact, with our huge land mass jam-packed with a treasury of resources and a modest population, Canadians could be richer than the sovereign wealth fund-holding Norwegians, among others, but we are not.

For what Philip Cross calls our “rent-seeking” elites, this is not the problem: opening up their sheltered, shielded sectors to American competition is simply unthinkable as they hold their own narrow interests to be exactly the same as the national interest. I nailed it many years ago when I wrote that for our elites, “a protected national market is key and they [can] be counted on to oppose any siren call to annexation as if their livelihoods depended on it.”<sup>36</sup> ❧

Notes

1. H.A. Innis, *Essays in Canadian Economic History*. (Toronto, 1956.) p. 307, and H.A. Innis, *The Fur Trade in Canada: An Introduction to Canadian Economic History*. Yale, 1930. p. 388.
2. H.A. Innis, *Problems of Staple Production in Canada*. Toronto: Ryerson, 1933.
3. Ibid.
4. Commons Standing Committee on Finance, Trade and Economic Affairs, Mar. 10, 1978, p. 12:22; Commons *Debates*, Oct. 10, 1991, p. 3590; and Oct. 1, 1991, p. 3044.

## Elbows Up?

5. Commons Subcommittee on International Trade of the Standing Committee on External Affairs and International Trade, Feb. 4, 1993, p. 30: 27.
6. Bank of Canada, Press Release, “Elevated Commodity Prices ‘Unambiguously Good’ for Canada, Says Bank of Canada Governor Mark Carney,” Sept. 7, 2012. CIBC chief economist Avery Shenfield argued that Carney’s rigid stance on the dollar, allowing the loonie to rise unchecked, left Canada with an unnecessarily badly damaged economy. Carney had superintended a gross overvaluation of Canada’s dollar not based on economic fundamentals, claimed Shenfield. CP, “Is Canada’s economy paying the price for Mark Carney’s hands-off policy on the loonie?,” *Financial Post*, Mar. 13, 2014. See also Julian Beltrame, “Canada missing out on about \$40B in exports, Poloz warns,” *Canadian Manufacturing*, Apr. 30, 2014. Carney’s view reflects mainstream neoclassical economic theory where the intangible value created by services is fully equivalent to the physical value produced within the industrial sector. (“Let them learn to code.”) By contrast, classical, Marxian, and staples theories regard services as resting on - and secondary to - material production.
7. Julian Beltrame, “Strong loonie spoiling Canada’s best-laid plans for economy,” *Chronicle Herald*, July 6, 2014; Ferdinando Giugliano, “Bank of Canada chief Stephen Poloz bemoans ‘atrocious’ oil slump,” *Financial Times*, Mar. 30, 2015.
8. *Not For Export* (3rd ed.), pp. 122-128; J. Britton and J. Gilmour, *The Weakest Link: A Technological Perspective on Canadian Industrial Development*, Science Council of Canada, 1978; “Report of the Task Force on the Structure of Canadian Industry, Foreign Ownership and the Structure of Canadian Industry,” 1968 (Watkins Report); “Foreign Direct Investment in Canada,” 1972 (Gray Report).
9. Andrew Foran, “Potential Hazards Ahead: Trade Risks in the North American Automotive Industry,” TD Economics, Jan. 28, 2025.
10. “Canada remains a net importer, not exporter, of auto products,” *Canadian Auto Dealer*, Apr. 11, 2025.
11. Stéfane Marion, “Canada’s RBI Playbook: Base Hits to Make Canada Investable Again,” Economics and Strategy, Financial Markets, National Bank of Canada, July 2, 2025.
12. Steven Globerman, “Canada’s Productivity Performance: An Historical Perspective, 1981-2024,” Fraser Institute, Nov. 7, 2025.
13. Council of Canadian Academies. *The State of Science, Technology, and Innovation in Canada 2025*. Ottawa: Expert Panel on the State of Science, Technology, and Innovation in Canada, Nov. 18, 2025.
14. Philip Cross, “Canada’s faltering business dynamism and lagging innovation,” Fraser Institute, September 29, 2021. In economics, rent-seeking refers to capturing profits through political means rather than investing in innovation or increasing productivity.
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16. Resource Works, “Billions lost in ditched resource projects,” Jan. 28, 2025.
17. Jake Fuss, Julio Mejía, Elmira Aliakbari, Karen Graham and Jock Finlayson, “Ottawa and the four biggest provinces have spent (or foregone revenues) of at least \$158 billion to create at most 68,000 “clean” jobs since 2014,” Fraser Institute, Oct. 28, 2025.
18. Trevor Tome, “The Great Divergence: Canada’s economic gap with the U.S. reaches a new record,” *The Hub*, Sept. 5, 2024.
19. Alex Whalen, Lawrence L. Schembri, and Joel Emes, “Our Incomes Are Falling Behind: Earnings in the Canadian Provinces and US States, 2010–2022,” Fraser Institute Research Bulletin, Oct. 3, 2024; and, Alex Whalen, Milagros Palacios, and Lawrence Schembri, “We’re Getting Poorer: GDP per capita in Canada and the OECD, 2002-2060,” Fraser Bulletin, July 23, 2024.
20. Abacus Data, “Canadians overwhelmingly think Canada is a better place to live than the US,” Aug. 24, 2022; Environics Institute, Confederation of Tomorrow 2021 Survey, “Attachment and Advantages: How Canadians View their Country, their Province, Confederation, and their Neighbour,” June 2021; and, Jim Stanford, “The perils of per capita GDP: No, Canada is not poorer than Alabama,” *Policy Options*, Apr. 21, 2025.
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  24. Cf. my “Regions within Region: Canada in the Continent,” in *Canadian Politics in the 21st Century*, Seventh Edition, eds. M. Whittington and G. Williams. Toronto: Nelson, 2008
  25. Ipsos, “Four in ten (43%) Canadians age 18-34 would vote to be American if citizenship and conversion of assets to USD guaranteed,” Jan. 16, 2025.
  26. Centre for Research and Information on Canada, “Canadians are Protective of their Way of Life and Consider their Values Distinct from those of their U.S. Neighbours,” Oct. 28, 2002; Abacus, “Canadians overwhelmingly think Canada is a better place to live than the US,” Aug. 24, 2022; Environics, Confederation of Tomorrow 2021 Survey, “Attachment and Advantages: How Canadians View their Country, their Province, Confederation, and their Neighbour,” June 2021; 84% of Canadians thought they had better health care than Americans, 73% better social security, and 66% a better education system. In 2022 (Abacus) 74% of Canadians stated that they enjoyed greater safety than Americans. There is more than just a little historical revisionism at play in the view that government social policies uniquely define Canadian values and identity. Americans, not Canadians, were first to legislate the precursors of the modern welfare state through Roosevelt’s 1933 New Deal. Moreover, according to Tuohy, Canada’s 1960s medicare policies were less a reflection of preexisting Canadian values than an “elite project” that, once implemented, subsequently shaped Canadian values as “a sharing society.” Carolyn Hughes Tuohy, “What’s Canadian about Medicare? A Comparative Perspective on Health Policy,” *Healthcare Policy*, May 2018.
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  29. Commons *Debates*, Feb. 5, 1896, p. 1206.
  30. H.A. Innis, *The Political Economy of the Modern State*. Toronto: Ryerson, 1946. p. 31, and “The Crisis in Public Opinion,” address to the Canadian National Newspapers and Periodicals Association, May 12, 1943.
  31. See, for example “Full text: Read Ontario Premier Doug Ford’s third election victory speech,” *National Post*, February 28, 2025; “Read Pierre Poilievre’s full speech responding to Trump’s trade war,” *CBC News*, Mar. 4, 2025; and, “Full text: Read Mark Carney’s election victory speech.” *National Post*, Apr. 29, 2025.
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  35. George Grant, *Lament for a Nation: The Defeat of Canadian Nationalism*. MQUP, 2005. p. 9.
  36. Williams, “Regions within Region.”