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20 Years Later:
Has Free Trade Delivered on its Promise?

By Bruce Campbell

January 2, 2008 marks the 20th anniversary of the signing of the Canada-US Free Trade Agreement by Brian Mulroney and Ronald Reagan.[1] The trade deal changed the course of Canada—but has it delivered on its promise of more and better jobs; of improved public services and a higher standard of living for all?

Then Finance Minister and lead FTA negotiator Michael Wilson promised the FTA would usher in a new era of prosperity in Canada. Now Canadian ambassador to Washington, Wilson believes his prediction has been realized. Nor is he alone. It is cited by business and political elites as one of the great achievements of the Mulroney government. The FTA, with its expanded and deepened successor, NAFTA, has been rated an unqualified success.

Canada's most powerful big business lobby—the Business Council on National Issues (BCNI) led by Tom d'Aquino—was instrumental in convincing the Mulroney government to enter into free trade talks. The BCNI greatly influenced the shape of the deal and played a critical role in securing its passage by persuading enough Canadians—notably through a massive advertising campaign during the 1988 election—to re-elect the Mulroney government.

The BCNI created a front group called the *Canadian Alliance for Trade and Job Opportunities* to focus its pro-free trade campaign and to funnel donations from its member companies. One of its initiatives was a multi-page insert in major newspapers entitled, *Straight Talk on Free Trade*, touting the benefits of the FTA, dismissing its critics, and warning of the dire consequences of rejecting the deal. *Straight Talk* claimed the deal would lead to rising living standards and "create more and better jobs." These benefits would be widely shared among regions and among income groups. It also claimed that social programs "were not threatened in any way by the Agreement." "Won't Canadian business lobby to reduce spending on social and other programs?" it asked. "Not at all," it answered. The FTA will bring "more wealth to improve government services such as daycare."

The BCNI changed its name a few years ago to the Canadian Council of Chief Executives (CCCE), but Tom d'Aquino is still at the helm. Not satisfied with NAFTA, especially after the post-September-11 security preoccupation of the United States, the CCCE has been pushing hard for NAFTA-plus measures to integrate Canada more deeply into the US economy. Its efforts were rewarded in March 2005 with the signing by the three NAFTA leaders of the North American Security and Prosperity Partnership (SPP)—an umbrella framework to advance (largely out of the public spotlight) the continent-wide harmonization of a vast array of economic, security, military resource, social and environmental, policies, practices, regulations, and institutions.

The specific purpose of this report is to examine how member companies of the BCNI/CCCE have done over the last 20 years, in the area of job creation and wealth accumulation. More generally, it will ask, has the FTA delivered the goods that Big Business said it would? Has it helped to better the lives of Canadians? Has it fulfilled its promise of prosperity for all? Surely this is the fundamental test of success for a public policy.

In assessing how well have CCCE/BCNI member companies done in the free trade era, a first clue can be found on its web site. The CCCE describes itself as comprised of the CEOs' 150 leading companies with Canadian operations. These companies, it says, have $3.5 trillion in combined assets and annual revenues of about $800 billion. Back in 1989, however, it billed itself as comprised of 150 leading companies, but then with combined assets of only *$1 trillion* (revenue figures were not provided). This would suggest that member companies as a group have prospered under free trade, more than tripling their level of wealth accumulation since 1987.

Over the years, we have tracked the employment and revenue performance of a group of non-financial CCCE companies on the premise that, who better to deliver on the promise of jobs than the companies themselves. Our list is comprised of companies that were members of the BCNI in 1988. Some companies are no longer members, and new members have since joined this elite club. We deliberately excluded banks and insurance companies from the list, even though they comprise a prominent segment of the CCCE, because the focus of the free trade debate was on trade in goods—since it comprises the bulk of Canada-US trade. (The CCCE states on its website that its members account for a significant majority of Canadian exports [and presumably imports]).

While the core list has not changed much over the years, some companies have been removed from the list because they have been taken over and absorbed by other companies, so it is no longer possible to determine their job and revenue performance as separate entities. Other companies have gone private. For instance, where the parent company bought back the shares of its Canadian subsidiary, it ceased to be a publicly traded company and is no longer required to report its Canadian operations separately.

For example, Seagrams was taken over by Vivendi in 2000. Its workforce had grown by 10,000 to that point. Since then, Seagrams' performance is no longer reported separately from Vivendi's worldwide operations. (The rule of thumb is that takeovers usually destroy rather than create jobs.) Thus, Seagrams is no longer on our list. Neither is the conglomerate Imasco, which in the late 1990s was taken over by BAT. At our last reporting on Imasco as an independent entity, it had shed some 70,000 jobs, likely due to the sell-off of assets. Here as well, separate figures are no longer available and hence Imasco is no longer on the list.

The list (Table 1) compares the employment and revenue performance of 41 companies in 1987, the year leading up to the signing of the trade deal, and 2006, the most recent year for which figures are available. During this 20-year period there have been substantial swings in the economy, but economic growth was strong in both the beginning and end years.

These companies had combined revenues of $310 billion in 2006. Since the combined revenue of the CCCE member banks and insurance member companies is about $200 billion, we assume, as a rough approximation, that our sample represents about one-half of the $600 billion in revenues of non-financial member companies.

The main findings of this analysis are as follows:

- 13 companies in the group increased their employment by a combined total of 88,580 employees. These companies also increased their revenues by $65 billion.
- 28 companies (twice as many) reduced their payrolls by a combined total of 205,062 employees; at the same time they increased their revenues by $93 billion.
- The big three auto-makers shrank their Canadian workforce by over 50%—from 87,626 to 43,000. Nevertheless they managed to increase their

TABLE 1 BCNI/CCCE Companies: Employment and Revenue Performance*

	Employees				Revenue (Billions $)				
Name	**1987**	**2006**	**Change**	**% Change**	**1987**	**2006**	**Change**	**% Change**	**Ownership**
3M Canada	2,034	2,000	-34	-1.67%	0.50	1.10	0.60	120.00%	Foreign
Abitibi Consolidated	16,300	12,500	-3,800	-23.31%	3.00	4.90	1.90	63.33%	Foreign
Alcan	44,000	64,700	20,700	47.05%	9.00	26.80	17.80	197.78%	Foreign
BCE + Nortel**	117,000	88,194	-28,806	-24.62%	14.60	30.60	16.00	109.59%	Canadian
Bombardier	22,527	56,427	33,900	150.49%	2.09	16.80	14.71	702.68%	Canadian
CAE Indusries	5,125	4,500	-625	-12.20%	0.50	1.10	0.60	120.00%	Canadian
Canfor	5,099	7,900	2,801	54.93%	1.20	3.80	2.60	216.67%	Canadian
Cargill	1,074	10,000	8,926	831.10%	1.10	4.50	3.40	309.09%	Foreign
Daimler-Chrysler	15,677	11,000	-4,677	-29.83%	7.20	20.50	13.30	184.72%	Foreign
Dofasco	13,400	10.208	-13,390	-99.92%	2.10	4.60	2.50	119.05%	Foreign
Domtar	15,871	8,400	-7,471	-47.07%	2.50	4.00	1.50	60.00%	Canadian
Dow Chemical	3,173	1,400	-1,773	-55.88%	2.03	4.00	1.97	96.75%	Foreign
Dupont	4,227	3,969	-258	-6.10%	1.30	2.50	1.20	92.31%	Foreign
Ford	27,200	13,000	-14,200	-52.21%	14.00	13.80	-0.20	-1.43%	Foreign
General Electric	10,425	4,519	-5,906	-56.65%	1.70	2.60	0.90	52.94%	Foreign
General Motors	44,749	19,000	-25,749	-57.54%	16.90	33.3	16.40	97.04%	Foreign
Hewlett-Packard	1,100	5,200	4,100	372.73%	0.30	3.80	3.50	1166.67%	Foreign
HoneyWell	8,727	4,900	-3,827	-43.85%	0.90	1.35	0.45	50.33%	Foreign
IBM	12,147	19,426	7,279	59.92%	3.10	5.00	1.90	61.29%	Foreign
Imperial Oil	11,627	4,869	-6,758	-58.12%	7.60	24.50	16.90	222.37%	Foreign
Inco	18,706	11,707	-6,999	-37.42%	2.30	5.50	3.20	139.13%	Foreign
IPSCO	1,692	4,400	2,708	160.05%	0.46	4.30	3.84	832.75%	Canadian
James Richardson	2,900	1,400	-1,500	-51.72%	1.20	2.20	1.00	83.33%	Canadian
Lafarge	4,200	5,701	1,501	35.74%	1.00	2.30	1.30	130.00%	Foreign
MacMillan Bloedel	15,226	9,137	-6,089	-39.99%	3.10	4.20	1.10	35.48%	Foreign
Molson/Coors	11,400	3,000	-8,400	-73.68%	1.90	2.00	0.10	5.26%	Foreign
Noranda	44,000	16,000	-28,000	-63.64%	7.30	9.10	1.80	24.66%	Foreign
Nova Corp	7,100	3,300	-3,800	-53.52%	4.84	7.40	2.56	52.89%	Canadian
Pratt and Whitney	9,558	10,200	642	6.72%	1.36	3.00	1.65	121.40%	Foreign
Proctor and Gamble	2,600	1,900	-700	-26.92%	1.10	2.20	1.10	100.00%	Foreign
Sears	50,000	37,000	-13,000	-26.00%	4.00	5.90	1.90	47.50%	Foreign
Shell	6,913	4,793	-2,120	-30.67%	4.80	14.60	9.80	204.17%	Foreign
Stelco	16,960	6,267	-10,693	-63.05%	2.50	2.60	0.10	4.00%	Foreign
Suncor Inc.	3,960	5,766	1,806	45.61%	1.30	14.30	13.00	1000.00%	Canadian
Teck/Cominco	9,637	7,316	-2,321	-24.08%	1.50	6.50	5.00	333.33%	Canadian
Trans Canada Corp.	2,207	3,400	1,193	54.06%	3.30	7.50	4.20	127.27%	Canadian
Transalta Corp.	2,515	2,601	86	3.42%	0.90	2.80	1.90	211.11%	Canadian
Unilever	5,913	1,950	-3,963	-67.02%	0.90	1.50	0.60	66.67%	Foreign
Wajax	1,631	2,566	935	57.33%	0.30	1.20	0.90	300.00%	Canadian
Xerox	4,700	4,500	-200	-4.26%	1.00	1.20	0.20	20.00%	Foreign
Totals	**603,300**	**484,818**	**-118,482**	**-19.64%**	**136.68**	**309.85**	**173.17**	**126.70%**	

*All data compiled from *Financial Post 500* 2007 edition. Where 2006 figures not available the latest available figures from previous *FP500* editions were used. **BCE and Nortel reported as one company in 1987. They have since separated and now report as separate corporations with widely held ownership.

revenue by 70%, from $38.9 billion to $67.3 billion, after 20 years of free trade.

• The presence of foreign-owned corporations in the CCCE, prominent at the time the FTA was signed, has grown even stronger after several waves of foreign takeovers. Foreign owned companies make up 27 of the 41 companies on our list. The most recent rash of foreign takeovers targeted major Canadian resource companies including: Noranda/Falconbridge by X-Strata; Abitibi Consolidated by Bowater; Alcan by Rio Tinto; Dofasco by Arcelor Mittal; Inco by CVRD Brazil; and Stelco by Tricap.

• Strikingly, despite the massive Alberta oil boom, the three major oil companies on our list cut their combined workforce by almost one-third, from 22,500 to 15,428. Only the Canadian-owned Suncor increased employment. Meanwhile, their revenues soared from $13.7 billion to $53.4 billion, an astronomical 290% rise.

• During this 20-year period, almost all companies on our list reported revenue growth; for most it can be described as healthy and for many it has been spectacular. The exception was Ford, whose revenues remained the same. (It is likely that Nortel's revenue declined in the wake of the high tech meltdown).

• *Overall, the 41 companies' combined revenue grew 127%, from $137 billion to $310 billion between 1987 and 2006. During the same period, they shrank their combined workforce by over 118,482—a 19.6% decline.*

How do these companies' performance compare with employment in the economy as a whole? Employment in the traded goods sector has declined. In manufacturing, the sector where most trade occurs, the workforce was 1.85 million in 2006, more than 100,000 fewer workers than in 1988. There is substantial research showing that manufacturing sector workers displaced by rising imports have tended to find employment in other sectors, mainly in private sector services, at lower average wages.[2] The services sector has absorbed almost all of the 33% growth in the employed labour force between 1987 and 2006.

Has the prosperity that these companies, their CEOs and shareholders have enjoyed under free trade been widely shared?

Average Canadian wages, adjusted for inflation, have not grown at all since 1987—in fact, not since 1980. This is the first time the average real hourly wage has failed to grow since 1914, when data were first collected.[3] Average labour productivity, on the other hand, has continued to grow steadily since 1987, as it had in the three previous decades when wages were rising in tandem. To highlight the effect of this wage-productivity disconnect, Russell and Dufour calculate that, if the average wage increase had fully reflected the improvement in productivity during 1991–2005, full-time workers would have had, on average, $10,000 more in their 2005 annual pay cheques.[4]

In contrast to the experience of average Canadian workers, the pay packages of the top Canadian CEOs have ballooned. According to the Globe and Mail's survey, the nation's top 100 CEOs earned an average of $9 million in 2005, 237 times the average Canadian wage. Ten years earlier, the gap was less than half that—104 times.

Workers' wage share of the national economic pie began to decline from a peak in the late 1970s of close to 66% of GDP, to just over 60% by 2005. By contrast, corporate profit as a share of GDP rose from a low of under 25% of GDP in the early1980s to 33.7% of GDP in 2005, a level not seen since 1961.[5]

Another way to compare the growth in prosperity of CCCE corporations, their CEOs and shareholders with that of Canadians generally is to examine income growth by income group.

Although it has been known for some time that that only the top fifth of Canadians experienced significant income gains from economic growth during the last quarter century, Armine Yalnizyan, in her 2006 study of families with children, found that most of these gains have in fact been concentrated in the top 10% of families. Moreover, she found that all income groups, except the top 10%, were working longer hours just to maintain their income levels or at most, to make very modest gains; and those in the bottom half of families, despite working longer hours compared to 10 years before, were seeing their incomes fall in inflation-adjusted dollars.[6]

More recently, Statistics Canada researchers Murphy, Roberts and Wolfson have uncovered startling insights into where the real action has been. They discovered that only the incomes of the very richest of Canadian individuals (and families), the top 5%, have grown rapidly since 1982.[7] And, only at the top 1% of the income heap were the increases really dramatic. What's more, this top 1% really pulled away from the rest of Canadian society in the 1990s.

Average real individual incomes of the richest 1% soared from $268,000 to $429,000 during 1992–2004—a 60% increase. Their taxable incomes as a multiple of the median taxpayer rose from 601 times to 737 times.[8] The top 0.1% of income earners saw even more stunning increases. Their average individual incomes went from $822,000 to $1,641,000 during 1992–2004, a 100% jump. The average individual incomes of the top 0.01%—the 15,000 Canadians who make up the super rich and where the CEOs are located—shot into the stratosphere, from $2.5 million to $5.9 million during this period—a 136% jump.

In terms of income shares, only the top 5% of individual incomes significantly increased their share of the national income pie—from 20% to 25.3% during 1992–2004. But it was the top 1% that were really pulling up the share of this elite income category, almost doubling their share of taxable income, from 2.6% to 4.7%. The bottom 95% of income earners saw their shares of the income pie decline between 1992 and 2004.

At the same time the wealthiest Canadians have benefited disproportionately from the federal and provincial tax cuts of the last decade. Marc Lee, in a comprehensive study of tax incidence, found that between 1990 and 2005, the top 1% of Canadian families were paying less overall tax as a share of their income than all other income groups including the bottom 10% of the population.[9] He also found that, since the mid-1990s, the total effective tax rate of the top 1% dropped 4 percentage points, double the drop for the large majority of taxpayers. On the other hand, the bottom 10% saw their tax rate rise 5 percentage points between 1990 and 2005.

Lee's work reinforces the findings of the Statistics Canada team that the richest 0.01% of individual taxpayers—those with annual incomes of $3 million (2007 dollars) or more—benefited from a whopping 25% drop in their average effective tax rate, while effective tax rates for 95% of taxpayers fell only marginally.

Public transfers play a much bigger role than the tax system in offsetting income inequality in Canada. Contrary to their assertion in the *Straight Talk on Free Trade* promotional document, the CCCE (and other lobby groups) pushed hard for governments to shrink the size of government, and especially its social programs. Federal and provincial governments responded by slashing program spending by an astounding 26%—from 53.3% of GDP to 39.5% of GDP during 1992–2006. This was deeper than all OECD countries, and more than six times deeper than the OECD average. Holding 1992 spending constant as a share of GDP, this amounts to a cut of $194 billion in 2006 alone.

Transfers to persons were cut from 13.5% of GDP in 1993 to 10.1% of GDP in 2004.[10] The cuts in transfers to persons—mainly unemployment insurance and social assistance—fell hardest on those in the lowest income groups, whose attachment to the labour market became more precarious during this period.

Let's recap who created jobs and who has benefited from the growth in the Canadian economy over the last 20 years. CCCE companies did not directly create jobs, nor did the traded goods sector create much if any employment overall. Large corporations and their senior executives appropriated a major share of the gains from economic growth. Strong corporate revenue growth and strong profits have certainly benefited the business elite and other groups with access to a share of that wealth. Not only did the wealthiest in our society appropriate the lion's share of income growth, but, unlike the vast majority of taxpayers, they also saw a huge drop in their tax rates.

The vast majority of Canadians have not prospered in the free trade era. The vast majority, despite working harder, have experienced either marginal income gains, none at all, or have seen their real incomes lose ground. Many are working harder just to keep what they have. Others are falling behind.

The bottom half of Canadian income earners have been hardest hit. Their real earnings have fallen and their jobs have become more precarious. Government transfers and public services have been slashed, essentially cutting struggling families loose, despite their deepening financial hardship.

Environics polling tells us that today three-quarters of Canadians, the vast middle class, are experiencing a high degree of insecurity about the future. Their anxiety stems from record levels of household debt, knowledge that the social safety net is badly frayed, and that their jobs are not as secure as they used to be. Fully one-half, according to Environics, fear they are only a few pay cheques away from poverty. This is hardly the new age of prosperity that Michael Wilson forecast when the free trade deal was signed back in 1988.[11]

So, is the FTA/NAFTA wholly to blame for this state of affairs? I have written elsewhere about the complex causality at play as policies, structures and institutions, together with external forces, interact to produce the outcomes I have described.[12] The FTA/NAFTA is one component of a broader package of policies that took hold in Canada in1981, and has been fully dominant since the election of the Mulroney government in 1984. This neoliberal policy consensus, as it has come to be called, has been embraced by political, economic, and media elites as both necessary and desirable. Its main elements are well known: monetary austerity, public sector cuts, tax cuts, privatization, deregulation of economic activity such as trade and investment, etc. Different components of this policy package have been dominant at different times. What is important is that they interact in mutually reinforcing ways, and that their effects are cumulative over time.

The FTA was an historic watershed in Canadian public policy, not only because of its sweeping new provisions limiting the power of governments—for example, to play an activist role in shaping economic development, and in granting new protections to corporations—but also by locking in these and previous measures in an international treaty, the FTA made these limitations permanent and irreversible, short of breaking the treaty itself. It ensured that continental integration would accelerate and would do so within a neo-liberal policy mould.

Both directly and indirectly, the FTA enhanced the power of capital relative to that of workers and communities. It shrank the boundaries of allowable public sector economic activity and constrained the power of governments to regulate markets and empower workers.

There will be those among the business elite who will trumpet the free trade agreement's success. They will link it to the current buoyant economy, with its strong currency, fiscal and trade surpluses, low unemployment and low inflation. They will gloss over the inconvenient facts presented here, and they will dismiss the cumulative interaction of policies that have produced these outcomes. They will call for still deeper integration with the United States, for NAFTA is a stage in an integration process that creates pressure for further agreements which themselves foster still deeper integration—but without any consideration for what kind of Canada is being left in its wake. The facts, however, cast strong doubt that the promise made 20 years ago—the promise of a better life for all Canadians—has been fulfilled. It was an empty promise made by a business elite that has reaped the benefits of these self-serving agreements, without really considering how the majority of Canadians would be affected.

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Notes

1 The Agreement came into force a year later on January 1, 1989.

2 See for example, Scott, Robert (2006) *in Revisiting NAFTA: Still not working for North America's workers*, Economic Policy Institute, September; and Andrew Jackson (2005) *Work and Labour in Canada: Critical Issues*, Canadian Scholars Press Inc.

3 Statistics Canada data, cited Lars Osberg (2007), *A Quarter Century of Economic Inequality in Canada: 1981–2006,* Canadian Centre for Policy Alternatives, December, p.15

4 Russell, Ellen and Mathieu Dufour (2007), *Rising Profit Shares, Falling Wage Shares,* Canadian Centre for Policy alternatives, June

5 ibid

6 Yalnizyan, Armine (2007*), The Rich and the Rest of Us: The changing face of Canada's growing Gap*, Canadian Centre for Policy Alternatives, March

7 Murphy, Brian, Paul Roberts and Michael Wolfson (2007) "High Income Canadians," in *Perspectives on Labour Income*, Statistics Canada, September

8 ibid, Tables 4 and 5, page 7–8

9 Lee, Marc (2007), *Eroding Tax Fairness: Tax Incidence in Canada, 1990–2005*, Canadian Centre for Policy Alternatives, November.

10 Jackson, Andrew (2007) *Why Charity Isn't Enough: The Case for Raising Taxes on Canada's Rich,* Alternative Federal Budget 2008, Technical Paper One, Canadian Centre for Policy Alternatives, December

11 *Growing Gap Growing Concerns: Canadian Attitudes Toward Income Inequality*: Environics Research poll conducted for the Canadian Centre for Policy Alternatives, November 2006.

12 See Campbell, Bruce et. al (1999)*Pulling Apart: The Deterioration of Employment and Income in North America Under Free Trade,* Canadian Centre for Policy Alternatives; and Bruce Campbell and Ed Finn eds. (2006*) Living with Uncle: Canada-US Relations in an Age of Empire* (co-editor), James Lorimer & Company.

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