Why the 'Big Idea' is a Bad Idea

A Critical Perspective on Deeper Economic Integration With the United States

By Andrew Jackson

ISBN: 0-88627-346-3

June 2003

CAW 567
OTTAWA

Why the 'Big Idea' is a Bad Idea

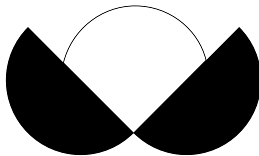
A Critical Perspective on Deeper Economic Integration With the United States

by Andrew Jackson

ISBN: 0-88627-346-3
June 2003

About the Author:

Andrew Jackson is a senior economist at the Canadian Labour Congress. Mr. Jackson is a widely respected labour economist and a regular media commentator on employment, social policy, and trade issues. He is the co-author of three books, published numerous papers in academic journals and books, and has been a frequent speaker at policy conferences and before Parliamentary Committees.



CANADIAN CENTRE FOR POLICY ALTERNATIVES
410-75 Albert Street, Ottawa, ON K1P 5E7
tel: 613-563-1341 fax: 613-233-1458
email: ccpa@policyalternatives.ca
http://www.policyalternatives.ca

Contents

Executive Summary 5

Introduction 9

Economic Costs and Benefits of Deeper Integration 12
- (a) Structural Economic Change Under the FTA and NAFTA 12
- (b) The 'Big Idea' and Industrial Policy 19
- (c) The Pitfalls of Continental Energy Markets 20
- (d) Protection from U.S. Protectionism? 23

Social Dimensions of Integrated Economic Space 24
- (a) The Canadian Social Model 24
- (b) Erosion of the Social Model and Pressures to Convergence 26
- (c) Forced Convergence from Trade and Investment Agreements 30

Deep Integration and North American Social Space 32

Endnotes 34

List of Tables
- Table 1 Productivity and Competitiveness in Manufacturing 15
- Table 2 Structure of Traded Goods Sectors of GDP 17
- Table 3 Indicators of Social Development 25
- Table 4 Taxation and Spending 28

Executive Summary

In recent months, the same people who championed the FTA and NAFTA have been promoting the "Big Idea" of still closer economic integration with the U.S. What Tom D'Aquino, of the Canadian Council of Chief Executives, former prime minister Mulroney, and Wendy Dobson, of the C.D. Howe Institute, have in mind is a grand "strategic bargain" in which Canada would give the U.S. a strong North American security perimeter (including close co-ordination of immigration and defence policies), and even greater access to Canadian energy resources. In return, we would (yet again!) supposedly obtain secure access to the U.S. market.

The Big Idea seeks to strike down U.S. trade and border measures through negotiation of a customs union. As noted by the recent House of Commons Committee report on North American Relations, a customs union features common external tariffs and border measures which involves a loss of national autonomy in international trade and investment policy. The European Union, for example, speaks with just one voice at the WTO. While the precise shape of any future North American deal is hard to predict, not least given the distinct lack of interest in Washington, it is clear that Canadian business is prepared to surrender a lot of policy levers in return for the Holy Grail of Canadian trade policy—"protection from U.S. protectionism."

The Big Idea is a bad idea for many reasons, not least the explicit threat it poses to the expression of distinctive Canadian values on defence, international affairs, and immigration and refugee issues. It is also a very bad idea in terms of its implications for economic and social policy. Specifically, the Big Idea challenges our necessary ability to shape industrial development, to control our energy sector, and move towards a more environmentally sustainable economy; to levy taxes at the level needed to maintain a distinctive Canadian social model, and to limit the impacts of international trade and investment agreements on our social and cultural policies.

Canadians are commonly told that "free trade" has been a huge success in terms of boosting exports to the U.S. In truth, almost all of our export growth has been due to the growth of the American market in the 1990s, the low level of the Canadian dollar, soaring energy exports, and the historical strength of the auto sector. The trade deals have dramatically failed to do what they were supposed to do: close the long-standing Canada-U.S. gap in manufacturing sector productivity. Between 1992 and 2001, manufacturing output per hour worked rose by just 16% in Canada compared to 42% in the U.S., and the gap grew wider as the decade wore on. This carries a significant price in terms of foregone wage growth and prospects for our future prosperity.

Ironically, the large and growing productivity gap is constantly lamented by the same people who said that free trade would give a major boost to industrial efficiency. But, NAFTA has done little to solve the underlying structural problem: an industrial sector which is still too heavily tilted to the production of crude resource-based and basic indus-

trial goods (45% of exports), and far too weak when it comes to the production of sophisticated finished products. To be sure, we have some strong non-resource sectors like auto, steel, and telecom equipment. But, less than one-sixth of Canadian manufacturing production is of machinery and equipment, well under half the U.S. level, and it is this key gap which explains our weak productivity growth. Canadians do as well or better than the U.S. in the resource sector, steel, and auto industries, but the greatest productivity gains have taken place in the advanced capital goods sectors where we are still very weak.

One problem with the Big Idea is that it distracts attention from our real problem, a collective failure by corporate Canada to innovate and to invest adequately in research and development, workers' skills, and new plant and equipment. Worse, a new deal would almost certainly limit our ability to pursue national industrial policies to help build "knowledge-intensive" industries. Would we retain our (regrettably largely unused) right to screen foreign takeovers of Canadian industrial leaders? (Would we really want foreign ownership of Nortel or Bombardier, given that Canadian taxpayers have sunk huge amounts of research and development subsidies into these companies to build our innovation base?) Could Canada and the U.S. really speak with one voice at the WTO when it comes to the negotiation of future industrial subsidies rules? Our interest lies in building up capacity in sectors where we lack a historical advantage, while the U.S. wants to challenge threats to its dominance in advanced industries.

When it comes to industrial policy, a much more sensible approach would be to retain and expand our room to manoeuvre under the current WTO rules while exploring possibilities for closer North American co-operation in the few very closely integrated sectors where we have joint interests. It is possible, for example, to think about common trade policies to expand North American content and jobs in auto, steel, aerospace, and lumber.

Proponents of the Big Idea favour closer continental energy integration, even though we surrendered most tools of control, such as differential export pricing and quantitative export controls under NAFTA. Canadians should be deeply concerned about our fast-rising natural gas exports and high level of oil exports given rapid depletion of the cheapest, most accessible conventional resources, and the prospect of rising real prices as the U.S. rapidly exhausts its own resource base. While it is far from clear that we would want to return to a Trudeau-era regulatory regime, it is surely reasonable to make use of our right under WTO rules to make sure that exports of non-renewable resources do not hinder our ability to meet future Canadian needs. Rather than even closer integration in the oil and gas sector and joint development of environmentally fragile Arctic resources, we need to restore export regulation by the National Energy Board for conservation purposes. And, tight integration of electricity grids is a very bad idea indeed. Today, cheap hydro electric power gives most Canadians much lower prices than American consumers and industries. In the wake of the Enron and California power deregulation fiascos, the case for publicly owned and regulated power utilities is much more compelling than that for deregulated continental markets.

Moreover, deeper energy integration would undermine our ability to build a more sustainable economy and deal with the very serious challenge of global warming. Ratification of the Kyoto protocol and its first-stage targets prompted a storm of criticism from Alberta, and most of the oil and gas industry,

on the grounds that charges for carbon emissions would undercut the development of the tar sands and frontier resources. The primary oil and gas sector is a major producer of greenhouse gas emissions, and the carbon intensity of non-conventional resource development which will dominate the future of the industry is very high. Initially, Kyoto will have a very limited impact. But, the fact remains that there is a fundamental longer-term contradiction between completely integrated continental energy markets and rapid primary energy sector development on the one hand, and energy conservation measures, slower resource development, and the fostering of "green industries" and soft energy paths on the other. We should retain control of our own energy future.

When it comes to preserving the Canadian social model, proponents of the Big Idea like to talk of a purely economic arrangement. That is hardly surprising since the great majority of Canadians remain deeply committed to a more egalitarian and secure society than that found south of the border. But, there is no such thing as a purely economic deal. As soon as the ink was dry on the FTA, business began to complain vociferously that the Canadian model was a barrier to competitiveness.

Canada is a significantly more equal society than the U.S. because of a higher level of tax-funded social programs and public services, and a higher floor of labour rights and standards. The 15% U.S. per capita income advantage over Canadians is enjoyed only by the top one-third or so of the income distribution. Canadian poverty rates, by a common definition of less than half of median income, are much lower than in the U.S. (10% versus 17%), and the minimum gap between the top and bottom deciles of the family after-tax income distribution is 4 to 1 in Canada compared to 6.5 to 1 in the U.S. The private sector unionization rate is more than double that of the U.S.

Canada's more social democratic model is a positive in economic terms in many respects. It gives us a more highly-skilled workforce, and more cost-effective and accessible social protections (with health care being the key example). But, the same organizations promoting the Big Idea have consistently lobbied for cutting income taxes on corporations and high earners to U.S. levels, not to mention more privatized delivery of social services. The "tax cuts for competitiveness" argument has clearly had an impact on public policy. After the elimination of the federal deficit through deep cuts to social programs in the early to mid-1990s, the lion's share of the growing federal surplus went to the Martin tax cuts. As a share of GDP, federal taxes have fallen by about two percentage points since 1997, notwithstanding the consistently strong support of most Canadians for re-investment in social programs and public services. Public opinion research shows that only the very affluent have strongly supported the tax cut agenda, not least because the U.S. model of low taxes and low social provisions would leave them better off. At a cultural level, it is only the corporate elite who routinely compare their level of after-tax income to that of Americans.

The "tax cuts for competitiveness" economic argument was hugely exaggerated. But, it had credibility because of the threatened shift of investment and jobs to the U.S. Extending deep economic integration from the goods sector to the many parts of the services sector still not greatly impacted by NAFTA would lead to much higher levels of cross-border movement of professionals and managers, and would surely strengthen downward competitive pressures on the tax base.

The Canadian social model has been strained rather than undercut by NAFTA. It would not automatically disappear because of closer economic integration. But, the equalizing impact of progressive taxes would be further diminished, and there would be strong pressures not to increase general tax levels to finance better social programs and public services.

The Canadian social model would also be directly threatened by a customs union with its implication of a common (read U.S.) voice in international trade and investment negotiations. The current position of the Canadian government is that social and public services should not be "on the table" for WTO services negotiations, and that our ability to maintain not-for-profit delivery of public services should be maintained. There are already clear threats under NAFTA, as argued in the Romanow report. If a province privatized hospital or home care services, for example, it would be difficult for a future government to return to not-for-profit delivery without paying compensation to the U.S. corporate health care interests which are a growing presence in the system. It is in Canada's interests to defend measures to "carve out" social services and culture from WTO negotiations to preserve the space for choice and to shut out a U.S. commercial presence. But, the U.S. is promoting further liberalization in both areas at the WTO. The direct implications of a common trade policy for sovereignty in "non-economic areas" is a hidden time-bomb in the Big Idea of a customs union.

To conclude, on a wide range of policy fronts, the Big Idea is a bad idea that would undercut the necessary space for defending distinctive Canadian values and interests. That does not mean that the *status quo* of NAFTA is ideal. On some fronts, we should seek to reverse NAFTA constraints, such as the Chapter 11 investment provisions which threaten legitimate government regulation, and the one-sided commitment to unimpeded energy exports. On other fronts, we might want to deepen the relationship through new arrangements. Simplifying a lot of border procedures clearly makes sense. And, sectoral trade deals could work in closely integrated sectors. Also on the agenda should be replacement of the largely toothless side-deals of NAFTA with more effective means to create a high floor of labour rights and environmental standards. Pressures to harmonize tax in a world of mobile capital and transnationals could be countered by explicit agreements to create a North American tax floor.

The future of North America is open, but it does not lie in further reinforcing the neoliberal economic and social model which lies at the heart of the Big Idea. Canadians have no desire to abandon our distinctive social model, and every reason to doubt that "free markets" are the path to prosperity. They want sensible working arrangements to manage economic linkages, measures to stop destructive competition which serves only transnational corporate interests, and preservation of sovereignty in those areas where it is most important.

Introduction

In the wake of September 11, and in the context of heightened U.S. security concerns, many prominent and influential Canadian business and political voices have called for much deeper economic integration with the U.S. Wendy Dobson, of the C.D. Howe Institute, has called for a "strategic bargain" which would push the North American Free Trade Agreement (NAFTA) in the direction of a customs union and a common market.[1] Former senior Canadian trade negotiators, Bill Dymond and Michael Hart, have called for a major new Canada-U.S. negotiation to create a much more integrated economic space than that created by the Free Trade Agreement (FTA) and NAFTA. Tom D'Aquino, president of the Canadian Council of Chief Executives, has explicitly called for a customs union with the U.S., featuring a common external tariff and a common trade policy.[2] All favour the "Big Idea" of negotiating a comprehensive new "NAFTA-plus" relationship with the U.S. in which Canada would trade existing policy levers for closer economic ties. The key Canadian goals would be a much more seamless border and protection from U.S. countervail and anti-dumping laws.

The basics of the Big Idea are roughly as follows. The U.S. would get much closer co-operation from Canada with respect to security concerns (border security, immigration and refugee policy, and defence policy). As well, the U.S. desire for greater energy security would be accommodated, building on the NAFTA framework. In return, Canada would get, through a customs union, greatly simplified border procedures and the Holy Grail of "protection from U.S. protectionism." Border procedures would be greatly simplified by common tariffs and rules of origin, and common competition policies would supplant national trade remedy (countervail and anti-dumping) laws. In this sense, the Big Idea goes well beyond the FTA and NAFTA, which allow each country to maintain its own tariffs against third countries and trade remedy laws, subject to appeal to binational dispute resolution panels. The Big Idea also involves regulatory harmonization (perhaps through mutual recognition of regulations) and enhanced labour mobility for professionals and businessmen. The idea of a common North American currency is not on the agenda at this time, and proponents do not favour significant new political institutions of joint governance of the kind to be seen in the European Union.

The December 2002 Report of the House of Commons Standing Committee on Foreign Affairs and International Trade ("Partners in North America") summarized the Big Idea as follows:

> (Some witnesses) called for Canada to negotiate a customs union with the United States, a common market, or some agreement that would enable Canada to achieve the benefits of a single North American economy. This visionary Big Idea approach would, ideally, provide Canada with greater assurance of access to U.S. markets. To be acceptable from a Canadian standpoint, the new arrangements would have to include the abolition of anti-dumping and countervail rules. In exchange,

> Canada would likely have to support even closer continental defence and security arrangements, common policies on the border, immigration, energy, and so on, as determined by the negotiation of such a "strategic bargain."[3]

As noted by the Committee, negotiation of a customs union would mean a common external tariff against non-member countries, thus getting rid of the complications of rules of origin for imports from non-NAFTA countries which differ between Canada and the U.S. A full customs union would also mean a joint system of countervail and anti-dumping measures. However, "a customs union involves participating nations surrendering some degree of policy freedom, i.e. the establishment of common external tariffs and a common trade policy…a member country's ability to act independently in its external trade policy (would) be affected."[4] Going beyond a customs union to create a common market would involve full labour mobility between member countries.

Even setting aside the political debate in Canada, it is easy to be skeptical over the feasibility of the Big Idea. Moving beyond NAFTA to a customs union or common market is, as extensively noted in the parliamentary committee's report, just not on the current policy agenda in Washington. The committee found no evidence of U.S. interest or support. (In a way, this is not surprising since the Big Idea is very much about deflecting strong pressures to a much more inward looking and protectionist U.S.) The chances of the U.S. giving up their right to impose trade remedy laws seem remote, not least given the continuing high-profile softwood lumber dispute. And, the Mexican dimension of NAFTA adds enormous complexity to proposals for customs unions and common energy policies, let alone common markets involving greater labour mobility. Virtually all Canadian proponents of the Big Idea favour a new, comprehensive Canada-U.S. negotiation to get around the Mexican issue, but Mexico itself has proposed a deeper relationship with the U.S., which might be given a higher priority in Washington. For all of these reasons, a major new "NAFTA-plus" negotiation seems a distant prospect.

That said, the Big Idea is clearly influencing policy debate in Canada. As noted, the Canadian Council of Chief Executives, which championed the FTA and NAFTA on both sides of the border, has embraced the Big Idea. The cause is being championed by former prime minister Brian Mulroney[5] and by former Liberal cabinet minister and royal commissioner, Donald Macdonald. Proposals for deeper integration are under active study by influential think-tanks, including the C.D. Howe Institute, the Institute for Research on Public Policy, and the Public Policy Forum. The federal government's Policy Research Initiative has sponsored research and conferences on deeper integration, as has Industry Canada.

The recent House of Commons Report, "Partners in North America," (in Recommendation 31) called for the Government "to initiate a detailed review of the advantages and disadvantages of the concept (of a customs union) in the North American context." The committee showed particular interest in negotiating a customs union on a sector-by-sector basis. For its part, the Liberal Government appears to be supportive of cementing even closer economic links with the U.S., though more inclined to gradual policy harmonization and incremental progress on an issue-by-issue basis than to a comprehensive new negotiation.

The most significant contribution of the Big Idea may have been to set the stage for

more incremental and gradual harmonization of policy in a range of domains, and to further displace from view alternatives to an already extremely close economic relationship.

The purpose of this paper is to cast a selectively critical eye on proposals for still deeper economic integration with the U.S. The paper discusses the economic costs and benefits of economic integration to date, and argues that Canada needs to retain room to manoeuvre in terms of economic policy if we are to build a more sophisticated and environmentally sustainable economy. The alternative to deeper integration is not a rejection of close trade and investment ties with the U.S., but more active shaping of those links in the interests of Canadians. From this perspective, some elements of the deeper integration agenda are very problematic, though other elements, such as expedited customs procedures and enhanced border infrastructure, are not very contentious.

The "Social Dimensions of Integrated Economic Space" section of the paper looks at the implications of deep and deepening economic integration for the Canadian social model. The argument here is that a shared economic space does not preclude maintaining a more secure and equal society, but that strong fiscal pressures to "downward harmonization" of Canadian policies exist and must be resisted. Further, it is argued that Canadians must reject a common trade policy with the U.S. since autonomy in trade and investment policy is needed to maintain a free hand in terms of social policy. As eminent political scientist Steven Clarkson has noted, the Big Idea of a common trade policy conceals a lot of smaller ideas which are potential time-bombs.

The last section of the paper briefly argues that North America is not and will likely not become a common "social space" despite very close economic linkages, and that the space for Canadian policy autonomy should be safeguarded.

The paper does not address the need to maintain independent Canadian policies in other domains, such as international affairs, defence and immigration. This is no reflection on the importance of these issues.

Economic Costs and Benefits of Deeper Integration

(a) Structural Economic Change Under the FTA and NAFTA

As is well-known, Canada-U.S. economic integration in terms of two-way trade flows proceeded extremely rapidly in the wake of the FTA and NAFTA. Indeed, trade has grown far faster than the advocates (or critics) of the FTA ever envisaged. Exports rose from 25.7% of (nominal) GDP in 1989 to 45.5% in 2000 (but slipped to 43.3% in 2001), while imports rose from 25.7% in 1989 to 40.3% in 2000 (falling back to 38.1% in 2001).[6] The extremely rapid growth of trade, entirely accounted for by trade with the U.S., is not, however, attributable solely to the gradual elimination of the generally low tariffs in place in 1988. The U.S. share of Canadian merchandise exports (85% in 2001 compared to 73% in 1989) has risen much more rapidly than the U.S. share of Canadian imports (73% in 2001 compared to 70% in 1989). Rapid growth of Canadian exports to the U.S. has been driven overwhelmingly by factors other than the trade agreements, notably the strong, rapid growth of the U.S. domestic market compared to most other potential export markets and the Canadian market in the 1990s, and the significant depreciation of the Canadian dollar against the U.S. dollar since 1992. A recent Industry Canada study found that about 90% of export growth is explained by these non-NAFTA factors.[7]

The FTA and NAFTA have deepened economic integration in terms of trade in goods much more than in terms of trade in services. Services exports make up just 12% of total Canadian exports, and the U.S. share of Canadian services trade (58% of exports and 63% of imports) is surprisingly low and much lower than the U.S. share of trade in goods. Services trade remains small relative to the size of the domestic services market. This reflects the fact that many services have to be produced locally, and there is strong evidence that consumers prefer locally produced market services even when imports are an option. (UBC economist, John Helliwell, has pointed to the still very strong "border effect" on Canada-U.S. trade which arises from these preferences. By some estimates, the Canada-U.S. border is 10,000 miles wide in terms of its impact on trade flows thought of as a function of distance alone.)

Increased services trade has also not taken place because of deliberately created "barriers" to protect and promote Canadian cultural and communications industries, and to preserve non-market delivery of public and social services. It also has to be taken into account that many Canadian services are delivered by the Canadian operations of U.S. corporations. Certainly, the FTA and NAFTA years have been marked by a growing U.S. presence in service sectors, such as retail trade.

NAFTA has had some impact on two-way direct investment flows, with generally negative implications for economic development. U.S. FDI (Foreign Direct Investment) in Canada climbed from 12% to 20% of GDP between 1989 and 2001, but fell slightly from 70% to 65% as a share of the total stock of FDI in Canada. FDI can come in the form of new investments, such as those undertaken by the auto makers and other U.S.-owned

trans-nationals, or in the form of takeovers. For the most part, new investment has come in the form of takeovers, while expansion of U.S.-owned companies in Canada has been financed from operations or borrowing in Canada.

On the other side of the ledger, the stock of Canadian FDI in the U.S. has risen from 10% to 18% of GDP between 1989 and 2001.[8] However, the U.S. share of very rapidly rising Canadian FDI has fallen from a high of 70% in the mid-1980s to about half today. Canadian corporations have made major investments in U.S. financial services, and, to a lesser extent, manufacturing. Each of the "big five" Canadian banks are now to be counted in the ranks of the top 20 foreign banks operating in the U.S.; Canadian insurance companies are big players in the U.S., and some major Canadian manufacturing companies, such as Nortel, Magna, and Bombardier, have made significant new plant investments in the U.S.

While changes in FDI flows and stocks between Canada and the U.S. have been roughly balanced, there has been a disturbingly large net outflow of FDI from Canada in the 1990s. Between 1990 and 2001, there was a net outflow (Canadian FDI abroad minus foreign FDI in Canada) of $101 billion, and the ratio of Canadian FDI abroad to FDI in Canada jumped from 0.75 to 1.2. This indicates that the world (including the U.S.) has been a much more favoured investment locale for Canadian transnational corporations than Canada has been for U.S. and other foreign transnationals.

Canadian capitalism has "globalized" to an astonishing extent in recent years, mainly outside North America. Strikingly, the stock of Canadian FDI in other countries is now, at 20% of GDP, double U.S. FDI as a share of U.S. GDP.[9] In short, NAFTA has not made Canada an especially favoured locale for investment by transnational corporations, while Canadian transnationals in areas of traditional Canadian strength, such as financial services and resources, have rapidly expanded their foreign operations, particularly outside of North America.

The Canadian financial and resource sectors have led the way in terms of Canadian FDI abroad. While these capital outflows may have positive aspects in terms of future balance of payments flows, and can sometimes help sustain and create some employment in Canada, the evidence is clear that the positive economic impacts are, at best, small. Economic research has shown that outward FDI is generally a negative in terms of impacts on the level of real domestic investment.[10] The major Canadian study undertaken to date shows that FDI in Canada has a much more positive impact on real domestic investment and thus on jobs than does Canadian FDI.[11] For example, it is calculated that $1 of inward FDI produces 45 cents of extra investment in machinery and equipment, while $1 of outward FDI reduces domestic machinery and equipment investment by 17 cents.

It's likely that the high level of outward FDI by Canadian transnationals has been a factor in our relatively weak domestic investment record in the 1990s.

While tariff changes played only a modest role in deepened trade and investment links, the FTA and NAFTA reflected and cemented the strategic integration of most large Canadian goods producers within North American economic space. The great majority of large Canadian and transnational corporations with major operations in Canada are strongly oriented to the North American market, rather than to the domestic Canadian market or the global market. It is striking that the huge increase in Canadian FDI outside North

America has not been matched by an increase in Canadian goods exports to countries outside North America. The U.S. is a larger market for Canadian manufacturers than is Canada (exports account for about 53% of manufacturing production), and only a minority share of the Canadian market for manufactured goods is now met from Canadian production.

The resource sector and manufacturing were, of course, already very heavily export-oriented before the FTA, and durable manufacturing has now joined the auto sector in being overwhelmingly oriented to the North American market. Supply chains in manufacturing have become more deeply integrated on a continental basis under NAFTA, as shown by the fact that the share of imported inputs in goods production has risen from 29% in 1990 to 37% in 1997.[12] This is, however, largely accounted for by just two major industries—auto and high-tech electrical machinery and equipment—which are exceptional in terms of having tightly integrated North American production chains. (The growth of Canadian exports to the U.S., while significant, is highly overstated if not adjusted for growing imports of intermediate goods. In 1997, exports represented 40.2% of GDP, but net exports [exports minus imported inputs] were a significantly smaller though still substantial 27.7% of GDP.)

The economic gains of the FTA and NAFTA were expected to come not from an expanded trade surplus, but from the positive impacts of expanded exports and imports on economic efficiency, particularly in manufacturing. The basic case for free trade was that it would boost weak manufacturing productivity and close the long-standing Canada-U.S. productivity gap.[13]

Subsequent analysis suggests that there were, indeed, small productivity gains in previously heavily protected industries, which came at a very heavy price in terms of lost jobs.[14] Some of the survivors of the shake-out in previously protected industries, such as clothing, boosted productivity through new investment and taking advantage of new market opportunities. But, part of the productivity gain was on paper and reflected nothing more than the elimination of weak companies with lots of workers. Huge layoffs in previously protected industries in 1989-91 resulted in major labour adjustment costs with little in the way of compensation for the "losers" from the "winners." The job losses were, over time, offset by gains in the higher productivity firms and sectors which survived restructuring and began to grow through exports.

While these labour adjustment costs are now largely behind us, they still continue as some manufacturers continue to close shop in Canada in search of locales in the U.S. or Mexico where wages are low in relation to productivity. The pending shift of heavy truck production from Canada to Mexico by Navistar is an important case in point, and the threat of relocation of production and new investment remains an ever-present threat in collective bargaining and in workplace relations generally.

Economic restructuring in the immediate wake of the FTA was heavily influenced by a very overvalued exchange rate. However, since 1992, depreciation of the dollar has given a major boost to Canadian goods exporters, and has set the stage for a major recovery in manufacturing output and employment. This has been good news for Canadian workers. Nevertheless, closer North American integration in terms of trade and increased exports has done nothing to close the long-standing Canada-U.S. productivity gap in manufacturing. In short, the FTA and NAFTA have been

Table 1 Productivity and Competitiveness in Manufacturing Key Comparisons in 2001 (1992 = 100)	US	Canada
Output per Hour	141.5	116.1
Output	137.3	143.9
Employment	97.6	120.7
Hourly Compensation	130.7	117
Unit Labour Costs		
National Currency	94.1	101.5
$US	94.1	79.2
Average Annual Rate of Change		
Output per Hour		
1990-95	3.3	3.8
1995-00	4.5	1.1
Hourly Labour Compensation		
1990-95	3.5	3.7
1995-00	4	1.4
Unit Labour Costs -National Currency		
1990-95	0.2	-0.1
1995-00	-0.5	0.4
Unit Labour Costs - $US		
1990-95	0.2	-3.3
1995-00	-0.5	-1.2

Source: US Bureau of Labour Statistics. Release of February 26, 2003 (revisions to 2002 report).

pretty much a bust in terms of their key goal of improving the relative long-term performance of Canadian manufacturing.

As shown in Table 1, both output and employment in Canadian manufacturing grew rapidly in the economic recovery between 1992 and 2001. In fact, real output rose by 43.9% over this period (a bit more than in the U.S.) and employment rose by 20.7% (compared to almost zero job growth in the U.S.). This has been good news in terms of job creation. However, manufacturing productivity growth between 1992 and 2000 was much lower than in the U.S. Output per hour rose by just 16.1% over this period compared to 41.5% in the U.S. Between 1995 and 2001—the peak years of the U.S. boom—labour productivity growth in Canadian manufacturing averaged just 1.1% per year compared to 4.5% in the U.S.

Even though real wage growth was even slower in Canada than in the U.S., our cost competitive position would have deteriorated very seriously had not the dollar depreciated. While the dollar fell more than was strictly necessary to preserve cost competitiveness compared to U.S. producers, the fact remains that our healthy export position in the U.S.

market has been almost entirely due to the continuing fall of the dollar.

Detailed analysis shows that our poor relative productivity performance is mainly a matter of the long-standing structural problems in Canadian industry. These include over-dependence on resources and low value-added industrial materials, and the under-development of an advanced capital goods sector. Canadian industries in the same sector are often just as productive as U.S. industries. In fact, we are more productive in primary metals, the forest industry and the auto industry, and very close to U.S. productivity levels in other important export-oriented industries, such as food processing and furniture. The key problem is that we have a much smaller and less productive advanced industrial sector.

In 1997, the two major capital goods industries—electrical and electronic equipment (e.g., computers and telecommunications equipment) and industrial machinery and equipment (which includes aerospace)—accounted for 34.8% of U.S. manufacturing production compared to just 13.5% in Canada. Between 1989 and 1997, the production share of the capital goods sector in the U.S. manufacturing sector almost doubled (from 18.5% to 34.8%), far, far ahead of the modest increase in Canada from 11.9% to 13.5%. U.S. productivity gains in the second half of the 1990s came mainly from very rapid productivity gains in the manufacturing of computers and other information-based technologies. Our productivity performance was depressed by a much smaller machinery sector, and by much slower productivity growth in that sector.[15] Despite the collapse of the high-tech bubble of the 1990s, the capital goods sector remains hugely important to the long-term future of the manufacturing sector in advanced industrial countries.

That the productivity gap is a result of industrial structure is also shown by the fact that Canada has performed reasonably well compared to the U.S. in terms of productivity growth in the business sector as a whole, which includes services and construction. Business sector labour productivity growth averaged 1.5% per year in Canada over the whole period, 1988-2000, just a little below the U.S. rate of 1.9%. Canadian productivity growth picked up to an average 1.9% per year, 1997-2001, though it still lagged the average of 2.3% in the U.S. over the same period.[16]

Unfortunately, deeper integration of the manufacturing sector in the North American economy seems to have done little to decisively shift the structure of our industrial economy away from natural resources and relatively unsophisticated manufacturing towards the more dynamic and faster-growing, knowledge-based industries. Machinery and equipment exports did grow somewhat more rapidly than total exports between 1990 and 2001, mainly because of the growth of the telecommunications and aerospace sectors. As a share of Canadian goods exports, machinery and equipment increased modestly from 19% in 1990 to 22% in 2001, and the ratio of exports to imports of machinery and equipment has increased from .67 to .88. (This is partly because of slower business investment in Canada than in the U.S.) Meanwhile, the export share of the large and highly productive auto sector (largely unaffected by the FTA and NAFTA, but totally integrated into the North American market) has remained unchanged at about 23% over this period. One big change has been the increased energy share of exports, up from 9% to 13% of the total since 1990, driven mainly by a large increase in natural gas exports and rising energy prices.

Resources, resource-based manufacturing, and crude industrial material production com-

bined (i.e. agriculture and fish products, energy products, forest products, and basic industrial goods, including iron, steel, and smelted minerals) still make up about 45% of all exports, down a little from 1990, but remain a hugely important part of the economy. Production of resource-based commodities and basic industrial materials such as wood and paper, minerals and primary metal products (but not including food) still accounts for over one third of manufacturing sector value-added, while machinery production (machinery plus aerospace) accounts for just 17.5%. As shown in Table 2, Structure of

Table 2
Structure of Traded Goods Sectors of GDP: 1988 and 2001

	% Total Real GDP ($1997)	
Sector (NAICS)	1988	2001
Agriculture, Fishing, Hunting, Forestry	2.7%	2.2%
Primary Oil and Gas	2.4%	2.4%
Mining excl. Oil and Gas	1.7%	1.5%
Total Primary	6.8%	6.1%
Manufacturing	17.5%	17.0%
Structure of Manufacturing (Sub Sector as % Real Manufacturing GDP)		
Wood and Paper	15.5%	13.0%
Petroleum and Coal	1.1%	1.1%
Primary Metals	7.1%	6.7%
Non Metallic Mineral Products	3.6%	2.6%
Chemicals	9.0%	8.6%
(including, pharmaceuticals)	1.4%	1.9%
Sub Total - Resources/Industrial Goods and Materials	37.7%	33.9%
Food	10.8%	10.1%
Beverages and Tobacco	4.3%	3.1%
Textiles and Clothing	4.9%	3.0%
Furniture	2.4%	3.0%
Printing	4.4%	2.7%
Plastics and Rubber (approx. one third auto related)	3.9%	5.3%
Fabricated Metal Products	6.3%	6.9%
Motor Vehicles and Parts	9.0%	11.0%
Other Transport Equipment	4.5%	5.5%
(including - aerospace)	3.1%	4.1%
Machinery	5.6%	6.0%
Computer and Electronic Products	3.6%	7.4%
Sub Total: " Capital Goods" (Machinery, ITC, Aerospace)	12.3%	17.5%
Misc.	1.8%	1.3%

Source: Statistics Canada National Accounts Data via Informetrica

Traded Goods Sector, there have been only very modest shifts in the overall sectoral structure of the traded goods sector of GDP under the FTA and NAFTA, with reosurces and resource based manufacturing shrinking very modestly, and advanced industrial goods sectors expanding very modestly. The major increases in two way trade flows disguise an underlying stability in the overall structure of our economy. According to the Bank of Canada, commodity and energy prices remain the major determinants of the exchange rate of the Canadian dollar.

A strong resource-based and commodity production sector is no bad thing to the extent that it is an important source of wealth and jobs, and helps sustain regional economies. The frequently made distinction between a resource-based economy and a knowledge-based economy glosses over the fact that the resource industries are increasingly technologically sophisticated. Still, the long-standing Canadian structural bias to production of relatively low value-added commodities in capital intensive industries, such as smelting, pulp and paper, oil and gas production, and petrochemical production, carries important costs. Commodity and raw material prices, energy aside, have tended to increase only very slowly. This helps explain why Canadian personal incomes, adjusted for consumer price inflation, have grown at a much slower pace than real GDP in the 1990s. (Between 1989 and 2001, real GDP per capita grew by a total of 18.1%, while real personal income per capita grew by a cumulative total of just 7.2%.)

It will be very hard to raise Canadian living standards over the long-term and create well-paid jobs if we do not shift production towards goods and services which command rising rather than falling prices in world markets. That means producing more unique or sophisticated products.

Limited Canadian transition to a more sophisticated industrial economy is also suggested by our continuing relatively low level of investment in research and development, and the particularly low level of business investment in R and D in Canada. Despite a modest increase in the 1990s, the Conference Board of Canada reports that private sector financing of R and D amounts to 0.83% of GDP, less than half the U.S. rate of 1.88%.[17] And, a huge share of business R and D is undertaken by just a handful of companies, such as Nortel and Bombardier. As well, investment in new capital equipment in Canada in the 1990s (until very recently) lagged behind the U.S.

Even the business community has been forced to concede that lacklustre Canadian industrial performance is mainly a failure of strategic vision and purpose on the part of Canadian capital, and not a failure of public policy. The striking fact of the matter is that getting the so-called "fundamentals" right—free trade, balanced budgets, low interest rates, lower corporate and personal taxes—has failed to build a much more sophisticated industrial economy.

It is striking that proponents of deepening our economic links with the U.S. simultaneously put forward contradictory positions. On the one hand, it is argued that FTA and NAFTA have been a great success in terms of promoting more trade and investment. On the other, it is argued that much deeper integration is needed if Canada is not to be eclipsed within the North American economy. Our weak productivity performance in manufacturing, the most integrated sector of the economy by far, is regularly commented upon and lamented. Our failure to attract new "greenfield" foreign investment in recent years has also been widely noted. Many business leaders even echo nationalists, such as Mel

Hurtig, in criticizing the "hollowing-out" of corporate Canada through foreign takeovers, mergers and the shift of the levers of corporate influence to the U.S. Business leaders have lamented the tendency for both Canadian and U.S. transnationals to shift their head offices to the U.S. along with the sourcing of high-value corporate services, such as advertising and legal work. Strikingly, Jayson Myers, vice president of the Canadian Manufacturers and Exporters, told the House of Commons Committee on North American Relations that "Canada runs the risk of becoming a marginalized economy in North America."[18] Yet, curiously, digging in even deeper is seen to be the only way out.

(b) The 'Big Idea' and Industrial Policy

The key issue for Canadian industrial policy remains how to build a more sophisticated industrial sector. While market access to the U.S. is a key issue—discussed briefly below—deeper trade links alone have clearly not done the job. The needed "micro" policy levers have been broadly identified by the federal government and Industry Canada as: increased public support for research; innovation and skills training; and, selective subsidies to corporate research, development and innovation. Public policy is needed to facilitate greater corporate investments in high-value activities and in innovation.

Subsidies remain an important policy tool, as in export financing through the Export Development Corporation, and subsidies to R and D in the aerospace, defence, and environmental technologies industries through the Technology Partnerships Canada (TPC) program. Generous tax breaks for R and D have been a key policy lever, and regional development subsidies are still extended through regional agencies. The National Research Council provides important research support to industry, and recently increased federal funding of universities has often been made conditional on research partnerships with industry—a de facto industrial subsidy.

While industrial subsidies get a bad press, most economists recognize the strong case for support to R and D given the need for large and risky investments and the significant economy-wide spillover benefits of corporate investments. Strategic government investments are all the more important in Canada because of the need to counter inherited structural weaknesses, and the need to support the handful of large, innovative, Canadian-based transnational corporations, such as Nortel and Bombardier, as well as the innovative Canadian operations of U.S. transnationals, such as Pratt and Whitney. Intervention is needed to counter the tendency of U.S. transnationals to concentrate their R and D in the U.S. While the TPC program is small in dollar terms, it has been an important anchor for the Canadian operations of aerospace companies like Pratt and Whitney, and Bombardier. And, R and D tax credits have been a major anchor for the Canadian operations of "high-tech" manufacturers, such as Nortel and Alcatel, which have been the basis for numerous successful spin-off companies.

"Free-market" rhetoric notwithstanding, the North American reality is that U.S. governments actively subsidise U.S.-based corporations to win new investment and jobs. At the state level of government the U.S. has heavily subsidized new auto plants, and their defence programs provide a major source of support for the U.S. aerospace and defence industries. In the real world, subsidies are an important tool for winning new investments by transnational corporations. This has been recently recognized by the CAW and the auto industry in their joint call for strategic government support of investments in new Ca-

nadian plants which would anchor numerous supplier jobs in Canada.

Deeper economic integration could be highly problematic for future Canadian industrial development policy. Targeted firm-level subsidies, under WTO rules, have already been generally restricted to early stage R and D, regional development and development of environmental technologies. Canadian aerospace subsidies have already fallen afoul of WTO rules to some degree. The proposed Multilateral Agreement on Investment, as originally drafted, would have entirely eliminated performance requirements linked to subsidies. Current WTO trade and investment negotiations may feature proposals for major new limits on industrial subsidies, including tax measures.

Current NAFTA and WTO rules still allow for targeted support for key industrial developments, and we can make subsidies conditional on maintaining a certain level of production, investment or jobs in Canada. Subsidies to specific corporate R and D projects are a more cost-effective means of support for strategic investments than generally available tax credits, and can help secure future production in Canada.

Our continued right under NAFTA to review and impose conditions on large foreign takeovers has the potential to protect government investments in subsidies (and R and D tax credits) to some degree. In the absence of a foreign takeover review process, a company could acquire and relocate knowledge developed through heavy subsidies from the Canadian taxpayer. To take one example, if it were not for the power to review large foreign takeovers, the intellectual base of Nortel, produced through massive government subsidies to R and D in the 1990s, could be lost. (In practice, of course, our continued right under NAFTA to review and impose conditions on large foreign takeovers has been exercised only minimally behind closed doors, if at all.)

The key point is that we retain some important room to manoeuvre in industrial policy even under NAFTA, which could be endangered if it is not consciously protected. In calling for a common trade policy with the U.S., advocates of the Big Idea forget that Canada is operating at a serious competitive disadvantage to the U.S. in many industries, and has very different interests in setting the rules for government intervention in the economy. Proponents of the Big Idea are silent on the issue, and generally hostile in any case to micro-level intervention. For example, the Canadian Council of Chief Executives calls for business tax cuts to be funded through the elimination of subsidy programs. The space for industrial policy needs to be preserved if we are to increase Canadian productive capacity in advanced industrial sectors.

(c) The Pitfalls of Continental Energy Markets

The U.S. faces a major and growing imbalance between energy supply and demand, and energy prices have been rising rapidly. Proposals for deeper economic integration with the U.S. explicitly call for a further deepening of continental energy markets, falling into line with the Bush Administration which sees the Canadian frontiers as an integral part of future American energy supply.

In response to the Bush Administration's interest in deepening continental energy markets to increase and secure imports, a three-government North American Working Group on energy policy has already been established. Its main mandate is to explore possibilities for greater co-operation. Most sectors of the Canadian energy industry and the federal and provincial governments are strongly committed to a continentalist future. Yet, the rapid

growth of energy, particularly natural gas exports to the U.S., is problematic from the point of view of Canadian economic development and environmental sustainability.

Energy exports now make up more than 10% of total exports, and about half of all Canadian natural gas and oil production is exported to the U.S. (Oil exports from the Canadian West are balanced by oil imports to the East, but, with energy accounting for only 5% of imports, we still run a very large energy trade surplus. Electricity trade is still very modest, and runs both ways.)

While exports have driven a lot of economic activity in the primary oil and gas sector, such growth risks are becoming a one-way street given the energy provisions of NAFTA. These boil down to no price "discrimination" (i.e. lower domestic than export prices), prohibiting quantitative limits on exports, and requiring proportional sharing of energy supplies in the event of shortages. While NAFTA provisions have been widely interpreted to mean that there has been a near complete integration of continental energy markets and no "preferential treatment" for Canadians in terms of access to our own resources, this is not quite the case.

In principle, energy exports could be regulated by raising export prices. But, NAFTA clearly prohibits maintaining export prices at a higher level than domestic prices. However, there is still some lack of clarity about Canada's ability to regulate the total volume of natural gas or other energy exports under NAFTA. Article 603 allows for licencing of energy exports, subject to GATT rules and additional restrictions, and the National Energy Board is still mandated, through the NEB Act, to establish that exports are "surplus to reasonably foreseeable national requirements." In practice, the Board requires licences only for gas export contracts with terms of two years or more, and gives blanket approval to short-term contracts. These now account for some 80% of natural gas exports, and virtually all oil exports. Since the introduction of the FTA and energy deregulation in the mid-1980s, the NEB has abandoned quantitative surplus tests, and explicitly assumes that markets will produce secure supplies for Canadians. These "free market" assumptions of current policy have precluded any potential contradiction between national energy policies and NAFTA rules.

However, it is also recognized by the NEB that there is still some potential scope for regulatory intervention in cases of "market failure."[19] In the recent Scotian gas case, the NEB turned down a complaint by the Province of New Brunswick that Canadians were not being given the same effective access to offshore Canadian gas as customers in the U.S. However, the complaint was heard by the Board, which declined to endorse the view of the natural gas industry and the Province of Alberta that the complaint itself was not valid under the terms of NAFTA. In short, there is still an unresolved tension between the NAFTA rules on quantitative limits on exports and the legislative mandate of the NEB.

Further, the "proportional sharing" provisions of NAFTA, which some interpret to mean that exports must be maintained as a proportion of production, have never been tested. As noted, 80% of natural gas is now exported under short-term contracts. It is unclear if a given level of current exports as a percentage of total natural gas production has to be maintained indefinitely because of this provision, or if short-term contracts could be allowed to expire and exports slowly fall as limits on supply emerged.

If sources of supply cannot be reserved for Canadian use, industry and consumers will face rising oil and gas prices as production, driven by growing domestic and export de-

mand, shifts to more expensive, non-conventional oil supplies, such as the tar sands and the more difficult to exploit offshore natural gas reserves. NAFTA is already a huge obstacle to any return to regulation of natural gas and oil exports: the Big Idea would further limit our ability to manoeuvre.

Proposals for deeper integration of energy markets pose an even greater threat to Canadian electricity policies. Currently, electricity markets are, with the exception of Alberta, closely regulated by provincial governments, and provincially owned public utilities play a major role in most provinces. Domestic electricity prices are generally much lower than U.S. prices, and exports are generally approved only for power which is clearly surplus to Canadian needs. Quebec has explicitly reserved the major share of its power supplies for use in Quebec.[20] The Canadian electricity cost advantage over the U.S. and preferential access to supplies of cheap hydro power could be eroded if deregulation and continental integration were to proceed much further. While there are strong pressures in that direction, the recent collapse of deregulation in Ontario means that electricity will likely remain a sector which is still regulated in the public interest.

Many would argue that it is better to reap and intelligently invest resource rents from a rapidly growing energy sector than to use relatively cheap energy as a Canadian competitive advantage. There is a strong environmental argument for not maintaining low energy prices. But, NAFTA has already undercut, and deeper integration would foreclose, not just the policy choice of relatively low energy prices, but also the policy option of a slower pace of energy resource development. In principle, the National Energy Board still has some capacity to regulate in the public interest, even if, in practice, the export of oil and natural gas is virtually unregulated. From a long-term conservation and security of supply perspective, it can be questioned if the current, very rapid pace of export growth should be maintained.

Moreover, the energy-sharing provisions of NAFTA, which would be reinforced in a deeper integration scenario, make an independent Canadian environmental policy highly problematic. Canada can, the protestations of the oil and gas industry notwithstanding, probably ratify the Kyoto protocol and meet its modest short-term greenhouse gas reduction targets while maintaining current exports from an emissions-intensive primary oil and gas sector. The current Kyoto implementation plan has been consciously designed to impose a minimal burden on the direct energy-producing sectors. But, there is surely an implicit contradiction between continental energy integration on the one hand, and a goal of long-term environmental sustainability on the other. Canada cannot easily commit to a less carbon-intensive future than the U.S. if we have a fast-growing primary oil and gas sector which is itself a huge user of energy.

Further, political pressure to compromise the implementation of the Kyoto protocol on the grounds of loss of competitiveness could, if successful, derail our potential to build job-creating "green industries" ahead of the U.S. Soft energy paths require major investments in more energy-efficient industrial processes, in conservation through retrofitting of housing and buildings, in public transit, and in alternative sources of energy. Creating a more energy-efficient economy should be a major goal of industrial policy.

The central point is that the Big Idea calls for even closer integration of energy policy through the full deregulation of the electricity sector, and even more rapid development of frontier and non-conventional oil and gas reserves for the export market. Instead, we should be taking a much longer view of how our energy resources are developed, and shift the focus from crude energy resource exploitation to conservation and efficiency.

(d) Protection from U.S. Protectionism?

What Canada is supposed to get from the Big Idea boils down to the Holy Grail of secure access to the U.S. market and protection from U.S. protectionism. This is what we were supposed to get from the FTA and NAFTA. Yet, even the most fervent fans of "free trade" acknowledge that we are, today, still very much subject to U.S. protectionism. From lumber to agriculture, the U.S. still actively uses its countervail and anti-dumping trade laws to selectively harass and penalize Canadian exporters. Some Canadian FDIs in the U.S.—for example, by the steel industry—has been prompted by protectionist U.S. border measures.

Under the FTA, we obtained the right to appeal unfair tariffs to binational dispute settlement panels of experts, but these panels can only decide if U.S. trade law was fairly applied. And, even if a panel decides in our favour, its ruling can be appealed to the U.S. courts. As the softwood lumber industry knows, an appeal procedure, which can literally take months if not years, is no protection at all against harassment. And, in the ongoing lumber dispute, the U.S. has moved the goalposts by changing U.S. law in order to circumvent previous panel rulings in favour of Canada.

It has been argued that the binational panel dispute settlement process has produced a handful of "wins" for Canada, and less onerous "defeats" through the reduction of countervailing duties.[21] Binational panels of experts may, indeed, be more likely to dispassionately apply U.S. law to the facts of the case. Nevertheless, the fact remains that almost all of the partial victories have been trivial in terms of the extent of affected trade, and that the process has not worked in the biggest case by far, namely, softwood lumber. And, the need for the panel process under the FTA and NAFTA has been supplanted to a significant degree by a more effective WTO dispute settlement process. In the softwood lumber case, for example, the WTO has already judged that U.S. calculations of the size of the alleged subsidy from the stumpage policy are highly exaggerated.

It is extremely doubtful that the U.S. would agree to exempt Canada from U.S. trade laws. So great is the anticipated resistance from Congress that proponents of the Big Idea, such as Mr. D'Aquino, propose not only that we fall into line with the U.S. security agenda and embrace even more continentalist energy policies, but also that we forge a common trade policy with the U.S. A common trade policy would entail a common Canada-U.S. position on trade and investment issues at the World Trade Organization. As argued below, this is hugely problematic in terms of distinct Canadian interests and values.

In short, "protection against U.S. protectionism" may be desirable in the abstract given close trade links, but is not worth the high price that would have to be paid in practice. A more sensible approach would be to strengthen multilateral trade rules.

Social Dimensions of Integrated Economic Space

In the great free trade debate of the late 1980s, critics of the FTA expressed strong concern over the potential for "downward harmonization" to the harsher U.S. social model, while advocates argued that a stronger economy would support higher levels of social spending. However, after the deal was signed, business increasingly argued that high social expenditures, financed from progressive taxes, make Canada uncompetitive in a shared economic space. "Competitiveness" came to be defined as lower taxes, lower social spending, and more "flexible" labour markets. Experience has shown that there are some downward competitive pressures from North American economic integration on progressive, redistributive social policy which arise mainly from the tax side. Further, there are some provisions of trade and investment agreements which are problematic from a social policy perspective. In short, deeper economic integration poses still greater risks to the more egalitarian Canadian social model.

(a) The Canadian Social Model

Canada has a very different social model than the U.S., one which is highly valued by most Canadians. Among the enduring elements of difference, Canada has a significantly more equal distribution of both earnings and after-tax/transfer (disposable) income. Our more narrow distribution of earnings reflects, among other factors, a higher unionization rate, a higher wage floor, and a smaller pay gap between the middle and the top of the earnings spectrum than in the U.S. More equal disposable incomes and lower rates of after-tax poverty reflect the impacts of a more "generous" system of transfers acting upon a somewhat more equal distribution of market incomes.

To capture this difference in a couple of summary statistics, the Canadian poverty rate for all persons in the mid-1990s was 10% compared to 17% in the U.S., using a common definition of less than half of median income, and the minimum distance between the top and bottom deciles of the family income distribution was 4 to 1 in Canada compared to almost 6.5 to 1 in the U.S.[22]

Wolfson and Murphy have compared Canadian and U.S. after-tax income distributions in the mid-1990s.[23] The bottom one-third of Canadians are much better off than the bottom one-third of Americans in purchasing power terms, and the U.S. income advantage goes overwhelmingly to the top one-third or so of the income distribution. In other words, affluent Americans have significantly more disposable income than affluent Canadians, but the gap is very small for middle-income families (particularly if adjusted for out-of-pocket health care costs), and does not exist at all for lower income families.

Until the mid-1990s, the Canadian Unemployment Insurance system was notably more generous than that of the U.S., and Canadian welfare programs benefited and still benefit a much larger share of the poor. All Canadian provinces, but very few U.S. states, provide welfare benefits to singles and families without children. Welfare benefits in Canada, while low and falling in real terms,

are generally higher than in the U.S. In the case of benefits for the elderly, the Canadian system (CPP/QPP plus OAS/GIS) is much better targeted to the low end of the income spectrum than the U.S. Social Security system. In terms of income transfers to the working poor, the U.S. provides a significant Earned Income Tax Credit, and imposes little or no income tax on low earners, while Canada's GST and child benefits to low-income families are offset by higher taxes.

The level of public provision of services on a citizen entitlement basis is higher in Canada than the U.S., reducing dependence on market income for some basic needs. Medicare is the key example, but Canada also provides a somewhat higher level of community services, such as not-for-profit child care, home care, and elder care services. Also, the public share of post-secondary education spending is higher. Table 3 provides some data on key indicators of social development.

Table 3
Indicators of Social Development

	Canada	US
INCOME AND POVERTY		
Poverty Rate	10.3%	17.0%
Child Poverty Rate	15.5%	22.4%
JOBS		
Low Paid Jobs	20.9%	24.5%
Earnings Gap	3.7	4.6
SOCIAL SUPPORTS		
Health Care (Public Share as % GDP)	69.6%	44.7%
Tertiary Education (Public Share)	60.0%	51.0%
Private Social Spending (as % GDP)	4.5%	8.6%
HEALTH		
Life Expectancy (Men)	75.3	72.5
Life Expectancy (Women)	81.3	79.2
Infant Mortality/100,000	5.5	7.2
CRIME		
Homicides per 100,000	1.8	5.5
Assault/Threat per 100,000	4	5.7
Prisoners per 100,000	118	546
EDUCATION		
Adults with Post Secondary Education	38.8%	34.9%
High Literacy (% Adults)	25.1%	19.0%
Low Literacy (% Adults)	42.9%	49.6%

Notes and Sources:
Data are from the OECD Social Indicators Database.
Poverty defined as less than half the median income of an equivalent household.

Low pay is employed in a full-time job and earning less than 2/3 the median hourly wage.
Earnings gap is ratio of bottom of top decile to top of bottom decile.

(b) Erosion of the Social Model and Pressures to Convergence

It is far beyond the scope of this paper to detail changes in social policy and outcomes in the 1990s. But, it is important to note that there has been a significant increase in income inequality and poverty among working-age Canadian families. Between 1989 and 2000 (which are fairly comparable years in cyclical terms), the ratio of the market incomes of the top quintile of families and individuals compared to the bottom quintile climbed from 9.2 to 9.9. And, the ratio of the after-tax/transfer incomes of the top compared to the bottom quintiles climbed from 4.4 to 4.9. (The ratios are for income as adjusted for family size.) Over the same period, and driving the change in the ratios between the most and least affluent, the real after-tax incomes of the top quintile rose by 11.2%, while those of the bottom quintile fell by 0.5%. After-tax income inequality (as measured by the Gini) rose sharply among the non-elderly, though it fell among elderly families. Similarly, poverty rates (as measured by the after-tax LICO) rose among the non-elderly between 1989 and 1999. For example, the child poverty rate jumped from 11.5% to 12.5%. But, poverty fell among the elderly.[24]

Income inequality and poverty among the non-elderly rose in the 1990s because of a more unequal distribution of earnings combined with significant cuts in transfers to working-age families. Neither can be blamed directly upon North American economic integration and, undoubtedly, a complex range of factors were at play. However, there may be a link between continental integration and the increased market incomes of the most affluent, given that the (limited) labour mobility measures of NAFTA and closer trade and investment links could be expected to lead to some salary convergence for highly mobile professionals and managers. Also the FTA and NAFTA can be plausibly associated in a direct way with downward pressures on wages in sectors most exposed to the threat of relocation of production or new investment to the US and Mexico. Increased competitive pressures are likely associated with the sharp decline in the unionization rate in Canadian manufacturing, which has fallen from 45.5% in 1988 to 32.4% in 2002. Real manufacturing wage growth has lagged consistently behind manufacturing sector productivity in both Canada and the US, as indicated in Table 1 which shows that Canadian nominal wages (unadjusted for consumer price increases) have just about matched increases in real (inflation adjusted) output per hour. Within manufacturing, the wages of less skilled and hourly paid workers have eroded compared to those of technical workers and managers. In short, it is hard to sustain the argument that manufacturing workers have fully shared in the relatively modest productivity gains that some have attributed to the FTA.

And, closer integration may be linked to the erosion of income transfers to the working-age population. Most observers of public policy trends would argue that the Employment Insurance (EI) cuts imposed by the Liberal government in 1995, cuts in federal transfers to the provinces for welfare, and provincial welfare cuts were driven by fiscal and political/ideological rather than competitive considerations. There is no doubt that the drive to eliminate federal and provincial deficits played a major role in cuts to income transfers, and that some provincial governments, such as those of Ontario and Alberta, were ideologically hostile to "handouts" to so-called "employable" recipients. It should, however, be noted that the Department of Finance, the OECD and the IMF have long argued that welfare state "generosity" in Canada is associ-

ated with a higher NAIRU (non-accelerating inflation rate of unemployment) than the U.S. The core argument is that income benefits strengthen the bargaining power of workers and thus raise the wage floor. Cuts to transfers, particularly EI, were consciously intended to promote greater labour market "flexibility." This was likely seen as desirable given closer economic integration with the U.S. In short, integration made the U.S. model of a more minimalist welfare state attractive to those who worried about the relative strength of Canadian workers.[25]

Economic pressures to social policy convergence are exaggerated to the extent that progressive and redistributive social models have significant economic pluses.[26] Economic integration does not eclipse the space for national choice in social policy. Yet, the operative assumption of the political right is that economic success will go to countries which most closely emulate the U.S. model of deregulated labour markets, low taxes and low social spending. However, the evidence clearly shows that there is no universal trend towards decreased social expenditures and lower taxes in advanced industrial countries. Moreover, there is no link between high social spending and relatively high levels of equality on the one hand, and poor economic performance on the other. Some high-equality countries with high levels of spending on public and social services and very high levels of collective bargaining coverage have done very well in the 1990s in terms of economic growth, employment creation, and productivity. Key examples include Denmark, the Netherlands, and Sweden in the latter half of the decade. Here, there has been no deep retrenchment of social spending (though there have been some welfare state reforms), no deep tax cuts and no major assault on very high levels of collective bargaining coverage. Moreover, there is no generalized linkage from high taxes as a percentage of GDP (the necessary price of high levels of social spending) and low levels of productivity or economic growth.

The lack of a link from progressive social policy to poor economic performance is not surprising if one takes account of the positive impacts of relative equality from social spending and public services on "human capital" and "social capital." More equal countries have higher literacy and numeracy levels among young adults, more highly skilled workers, higher rates of life-expectancy, lower rates of disease, more co-operative workplace relations, and more consensual and peaceful societies. The table above provides some Canada-U.S. contrasts along some of these dimensions. Further, public services funded from taxes are not only more equitable, but also more efficient than market provision (with health care being a key example). And, the costs of inequality and poverty are high. High inequality societies, such as the U.S., waste the potential of many of their citizens.

If "human capital" is what counts in a knowledge-based economy then genuine equality of life-chances secured through social spending and public services is an economic as well as a social plus. The central conclusion from this argument is that Canada does not have to harmonize down to U.S. levels of social spending and public services in order to build an innovative and productive economy.[27]

That said, there are political pressures to downward harmonization of tax systems, which undermine social spending by eroding the fiscal capacity of governments. Over the 1990s, particularly after the elimination of the federal deficit, the political argument has been constantly advanced that taxes have to be harmonized down to U.S. levels to maintain competitiveness and fuel growth and jobs. The

major advocates of the "tax cuts for competitiveness" argument have been business lobby groups, such as the Canadian Council of Chief Executives and the Chamber of Commerce, and conservative think-tanks, such as the C.D. Howe Institute, and the media. To take a recent example, the November 2002 pre-Budget Report of the Standing Committee on Finance of the House of Commons[28] reports that submissions from business organizations continued to stress that Canadian tax rates—particularly personal income tax rates on high income groups and business taxes—should be "competitive" with the U.S. The report[29] underlined that "tax competitiveness is a key component of the federal government's strategy to become a magnet for investment and skilled labour," and heeded calls from business for the elimination of capital taxes and ensuring that corporate income tax rates are kept at or below U.S. levels.

The major argument has been that Canadian business taxes (corporate income taxes and capital taxes) and personal income taxes on higher earners are too high relative to the U.S., helping make the U.S. a more attractive locale for mobile corporations to invest and produce. While many advocates of tax cuts would also argue that lower taxes per se boost economic efficiency, a great deal of stress has been placed on Canada-U.S. tax differences as a factor in weaker Canadian economic performance through much of the past decade.

The economics of the arguments for tax cuts for competitiveness are suspect. As noted, expenditures funded through taxes can have positive impacts on productivity. Moreover, Canada-U.S. corporate tax differences have been small, and are offset by other cost factors, such as lower energy prices, lower health costs for workers, and so on. On the personal income tax side, there is no doubt that high income earners tend to pay more than in the U.S., but there is no evidence for a significant "brain drain," and non-tax factors seem to play the major role in very modest levels of Canadian migration to the U.S.

The political/ideological argument for tax cuts won the day after deficits were eliminated. Table 4 provides some summary data for federal and provincial revenues and program expenditures as a percentage of GDP since 1997-98, that is, after the elimination of the federal deficit. As shown, the federal tax share has

Table 4
Taxation and Spending

	1997-98	1998-99	1999-00	2000-01	2001-02
Net Federal Revenues as % GDP	17.4	17	16.9	16.9	15.9
Personal Income Tax	8.1	7.9	8.1	7.8	7.7
Corporate Income Tax	2.5	2.4	2.4	2.6	2.2
Federal Program Spending as % GDP	12.3	12.2	11.4	11.2	11.6
Provincial Revenues as % GDP	18	18.2	18.4	18.4	17.4
Provincial Program Spending as % GDP	15.9	16	15.9	15	15.6

Source: Department of Finance Fiscal Reference Tables October, 2002
Revenues forecast to decline to 15.5% of GDP in 2002-03 (Budget 2001)
Federal Program Spending was 15.4% of GDP in 1994-95

fallen by 1.5 percentage points of GDP since 1997-98 (and is expected to fall by 1.9 percentage points this fiscal year). Driven by personal income tax cuts, the fiscal capacity of the federal government has been reduced by almost 2.0 percentage points of GDP, amounting to foregone potential expenditures of about $20 billion. Over the same period, federal program spending has been cut a bit further, and is now less than 12% of GDP compared to 15.4% when the Liberal government took office. The same trend for erosion of fiscal capacity and program spending is apparent in the provincial data, though to a lesser degree.

The major beneficiaries of the federal personal income tax cuts—achieved through changes in the rate structure and the level of the rate brackets—were those making more than $70,000 who will pay about 5% less of their taxable income in income tax when the new system is fully phased in. The lower paid got a smaller proportional tax cut ranging from almost nothing at the bottom to about 3% of taxable income for an average worker. The very affluent got the elimination of the 5% high-income surtax and a major break from the reduction (from 75% to 50%) in the proportion of capital gains income which is liable to tax. This measure alone has cost the federal government about $1 billion in revenues, with about half of the benefit going to very high-income persons earning more than $250,000 per year. Reduction of capital gains taxes, which apply to profits earned on stocks and stock options, was very high on the business agenda in 2000, with tax competition arguments featuring heavily in the debate. The federal government tax plan also featured a phased-in reduction of the corporate income tax rate from 28% to 21% with the explicit objective of cutting the rate to levels that are lower than in the U.S.

The key point is that, after the deficit was eliminated, the growing federal surplus went to personal income and corporate tax cuts rather than to a renewal of social spending. The tax cuts were tilted to the more affluent and business despite the fact that lower income groups had been hit hardest by the earlier federal program spending cuts. Tax competitiveness arguments played a major role in this outcome.

Public opinion survey evidence shows that there was a deep cleavage between elites and non-elites over the key issue of tax cuts versus social spending after the federal budget was balanced. Polling in 1998 for the Department of Finance by the Earnscliffe Group found that support for the proposition that "giving the middle class a tax cut" as the best way to "help the middle class" rose by income level from a low of 23% for those with an income of less than $30,000 to a high of 38% for those with an income of more than $60,000. By contrast, those viewing social investment in health care, education, and pensions as "the best way to help the middle class" fell from 76% among those with incomes of less than $30,000 to a still high of 59% among those with incomes of more than $60,000. All broad income groups placed a greater priority on social investment than on tax cuts and rejected harmonization of Canadian and U.S. tax policies, with a clear difference by income level. However, an EKOS survey ("Reinventing Government") which regularly charts differences between elite and non-elite opinion has found that the former, very strongly favoured, corporate and personal tax cuts as the best use of the emerging federal surplus, while the general public consistently favoured social investment.[30] In the final analysis, private elite views were clearly the most influential in policy terms.

The cleavage between elite and non-elite views on the tax cuts versus social spending

debate has probably been influenced by the cultural and not just the economic implications of North American integration. In an ever more closely integrated economic space, private sector elites increasingly see their personal prospects and future in continental terms, and make comparisons of their personal well-being to Americans rather than to other Canadians. To some extent, career prospects have been continentalized at this level given the increasing linkages between the Canadian and U.S. economies which are mediated through transnational corporations operating on both sides of the border. The Canadian trade-off of higher taxes for better services and greater security is less relevant to high-income groups who can afford to buy what they need on the market. By contrast, for middle class and lower income families, the trade off of higher taxes for social programs is still relevant, and comparisons to U.S. disposable income are not relevant.

To summarize, there continues to be a great deal of space for autonomy in social policy, and the Canadian social model is not doomed to extinction because of closer trade and investment ties. But, there are strong downward pressures on our capacity to finance social spending which arise from corporate pressures to lower business taxes and taxes on high-income earners to U.S. levels. A likely outcome from this tension—one which is consciously advocated by many economists—is for Canadian expenditures on public and social services to be severely constrained, and to be financed to a greater degree from relatively less progressive forms of taxation. From this perspective, economic integration has certainly been a factor in the erosion of the Canadian social model in the 1990s.

Advocates of the Big Idea favour greater liberalization of services, and greater mobility rights for professionals and managers. Indeed, the two are closely connected given that many services have to be delivered on site. Deeper economic integration along these lines would significantly increase pressures to downward harmonization of taxes and thus of social spending.

(c) Forced Convergence from Trade and Investment Agreements

Another potential pressure towards convergence of different social models arises directly from the terms of trade and investment agreements themselves. While there are significant exemptions in NAFTA and the General Agreement on Trade in Services (GATS) which allow for non-commercial delivery of social services, these are not completely watertight, and they need to be maintained and even expanded in the face of growing commercial pressures to privatize caring services.[31]

Currently, there is very limited for-profit delivery of primary health care in Canada, and many health and social services are delivered directly through the public sector or through partnerships between governments and not-for-profit organizations. For example, almost all hospitals are not-for-profit institutions, and there is extensive not-for-profit delivery of government-funded social services, such as home care, long-term care for the elderly, care for persons with disabilities, and so on. The funding relationships between governments and not-for-profit providers are various and complex, but frequently include long-term funding relationships, limited provisions for competitive bidding, and explicit exclusion of for-profit providers. Currently, governments make about $7 billion in annual grants and payments to health and welfare not-for-profit organizations, not including hospitals. The operative assumption is that commercial delivery of social services compromises the quality of care, and is often more expensive. That

said, there is significant and growing private sector involvement in the delivery of some services, such as home care and residential care for the elderly, and some U.S. health care corporations, such as Olsten, Extendicare, and Dynacare, have major and growing operations in Canada.

Current Canadian policy is to exempt health and social services from trade and investment agreements in order to preserve the capacity to choose non-commercial delivery. In the context of the GATS, which is mainly a "bottom-up" agreement extending to designated sectors, health and social services have not been listed, and the Minister for International Trade has said that they will not be listed in such a way as to give rights of access to the Canadian market to foreign providers. In the case of NAFTA, there is a broadly worded exemption for health and social services "delivered for a public purpose" which the federal government maintains is a complete and effective exemption. The meaning of this clause in legal terms is vague and untested, but the exclusion likely does not apply if there is a significant commercial presence in the delivery of services. However, non-conforming provincial social services measures were "grand-fathered" under NAFTA, and provincial government procurement of health and social services for citizens is not covered. The major threat to not-for-profit delivery under the current agreement thus arises from Chapter 11 provisions regarding expropriation which potentially make privatization a one-way street.

To take a concrete example, home care services in Ontario are currently contracted for by the province through community care access centres, and there is competitive bidding between for-profit and not-for-profit providers. Unlike most other provinces, there is now a significant and growing U.S. commercial presence in this newly created market. If a future Ontario government were to declare an explicit preference for public or not-for-profit delivery—as is the case in Quebec and Manitoba—these U.S. providers could seek compensation on the grounds that their investment had been expropriated. Similar arguments could be made if hospital services were privatized by one government, and then restored to the not-for-profit sector by another.

The key point is that there are significant and growing markets and quasi markets for health and social services, featuring a mix of public, commercial and not-for-profit providers. The direct limits on governments currently imposed by trade and investment agreements, including NAFTA, are fairly limited, but there are many proposals on the table to "open up" social services to foreign investment and competition. For example, there are proposals at the international (GATS) level to expand government procurement provisions with respect to transparency and neutrality, to end "discrimination" between potential suppliers based on the legal form of the enterprise, to limit subsidies, and so on. Much of this pressure to commercialize health and social services comes from U.S. corporations which are major players in the U.S. health and social services market.

A central problem with proposals for a customs union with the U.S. is that formation of such a union normally entails a common trade policy, as is the case with the European Union which speaks with one voice at the WTO. This would severely limit, if not entirely preclude, maintaining explicit Canadian trade objectives with respect to exemption of health and social services. Similar problems arise in other areas, such as the application of trade and investment rules to cultural industries. The Big Idea is thus highly problematic from the perspective of preserving our national capacity to choose our own social model.

Deep Integration and North American Social Space

To date, despite much closer economic links, there appears to have been little "Americanization" of Canadian perspectives on major social issues.[32] As noted above, public opinion research has shown consistently high levels of support for tax-financed public and social services, as opposed to lower taxes. The Canadian social model remains preferable to most Canadians, and fundamental to our national identity. Indeed, public opinion research suggests that the divergence between Canadian and U.S. views on social policy is widening. And, Canadian public opinion is also not the same as U.S. public opinion (and certainly not current U.S. Administration opinion) on issues of national security, war and peace, immigration, the environment, and global development responsibilities. Canadian "nationalism" incorporates a "progressive internationalist" perspective, making deeper integration problematic, not just for what it means for Canadian sovereignty at home, but also for Canada's place in the world.

The champions of deeper economic integration in North America are (almost) all champions of deregulation of economic space, not re-regulation of economic space and promotion of social development at a supra-national level. Thus, there is a profound ideological difference between proponents of deeper North American integration and many proponents of European integration. There are certainly many strongly liberalizing aspects to the European Union, which explicitly breaks down national barriers to trade and investment. But, the EU has also been about creating new European institutions and, for some, the dream of a federal European state. For many social democrats, such as former EU president Jacques Delors, the European project is about preserving a space for a "European model of society," distinct from that of the U.S. In line with this vision, there is a very concrete social dimension to European integration. Binding EU directives cover a number of important areas, including health and safety at the workplace, working hours, and works councils in larger pan European companies. The EU has adopted some explicit social policy goals, and monitors national success in terms of reaching them. Regional development funds finance some modest redistribution of resources from richer to poorer member states. The European trade unions have, through the ETUC, a formal consultative relationship with EU governing bodies, and many labour market and workplace policy issues have been resolved by seeking a consensus of the "social partners." This "social dimension" of the EU is a major reason why economic liberals, such as former British prime minister Thatcher, have often resisted deeper integration.

By contrast, the NAFTA social dimension is almost non-existent. (In fairness, the side-deals on labour rights and the environment may have had some very modest positive impacts through public exposure of abuses, but both are very low profile and hardly amount to institutions of joint governance.) There is little serious political support in either Canada or the U.S., from the left or the right, for building a social dimension for North America. Closer economic links in the Ameri-

cas have led to some mutual engagement and discussion among "civil society" organizations in the U.S., Mexico, and Canada over alternatives to the existing economic model, but these fall far short of calls for strong political institutions to govern NAFTA or the proposed Free Trade Agreement of the Americas. Most critics of liberalizing integration want to expand the national space for pursuing different economic and social policies. One fundamental barrier to the notion of a North American social space is the fact that the weight of the U.S. is too great, making it hard to conceive of balanced supra-national institutions. Another barrier is the weakness of political forces promoting a progressive social model in the U.S. In summary, deeper economic integration has been and will remain a neo-liberal political project, committed to breaking down "barriers" to trade and investment flows, and hostile or indifferent to attempts to redistribute wealth and resources and to provide security from the market.

The central conclusion of this paper is that the Big Idea is a bad idea. In terms of economic, environmental, and social policy, we need to preserve and expand the space for policy to pursue our distinct, national objectives.

Endnotes

1. Dobson, Wendy. *Shaping the Future of the North American Economic Space*. C.D. Howe Institute. 2002.
2. Presentation to the Policy Research Initiative Conference, "Strengthening the North American Partnership," Carleton University, Ottawa. May 13, 2002.
3. P. 193.
4. P. 183.
5. *Globe and Mail*, December 10, 2002.
6. Except as otherwise indicated, data in this section are from Statistics Canada sources as reported in the *Canadian Economic Observer Historical Statistical Supplement*.
7. Ram C. Acharya, Prakash Sharma, and Someshwar Rao. Canada's Trade and Foreign Direct Investment Patterns with the United States. Paper presented to North American Linkages Conference. Calgary. October 2001.
8. O'Neill, Tim. *North American Economic Integration.* Bank of Montreal Economics Department. 2002.
9. Hejazi, W. and P. Pauly. *Foreign Direct Investment and Domestic Capital Formation.* Industry Canada Working Paper #36. April 2002. P. 4.
10. Feldstein, Martin. "The Effects of Outbound Foreign Direct Investment on the Domestic Capital Stock" in J.R. Hines (Ed.) *The Effects of Taxation on Multinational Corporations*. University of Chicago Press. 1995.
11. Hejazi and Pauly, 2001.
12. Ram et al. P. 33.
13. Jackson, Andrew (d). "From Leaps of Faith to Lapses of Logic" in L. Ian MacDonald (Ed.) *Free Trade: Risks and Rewards*. McGill, Queen's University Press. 2000.
14. Trefler, Daniel. The Long and the Short of the Canada-U.S. Free Trade Agreement. Industry Canada Research Papers. 1999.
15. Nadeau, Serge and Someshwar Rao. "The Role of Industrial Structure in Canada's Productivity Performance" in Someshar Rao and Andrew Sharpe (Eds.) *Productivity Issues in Canada.* University of Calgary Press. 2002.
16. Statistics Canada. *The Daily*. September 13, 2002.
17. Performance and Potential, 2002-03. P. 20.
18. Report of the Standing Committee on Foreign Affairs and International Trade. *Partners in North America: Advancing Canada's Relations with the United States and Mexico.* December 2002.
19. National Energy Board. *Reasons for Decision.* MH-2-2002.
20. Cohen, Marjorie. *From Public Good to Private Exploitation: Electricity Deregulation, Privatization and Continental Integration.* Canadian Centre for Policy Alternatives. 2002.
21. Macrory, Patrick. *Dispute Settlement in the NAFTA.* C.D. Howe Institute. 2002.
22. Jackson, Andrew (b). "Tax Cuts: The Implications for Growth and Productivity." *Canadian Tax Journal.* Vol. 48, #2. 2000.
23. Wolfson, Michael and Brian Murphy. "New Views on Income Inequality Trends in Canada and the United States." *Monthly Labor Review*. April 1998.
24. Data from Statistics Canada. *Income in Canada* CD ROM Tables T706 and T705.
25. Jackson, Andrew (c). "The Perverse Circularity of NAIRU Driven Economic Policy." *Canadian Business Economics*. July 2000.
26. Jackson, Andrew (a). *Why We Don't Have to Choose Between Social Justice and Economic Growth: The Myth of the Equity-Efficiency Trade-Off*. Canadian Council on Social Development. 2000. (www.ccsd.ca.)
27. Similarly, economic integration does not necessarily spell the end of a somewhat different Canadian labour market model with much higher rates of private sector unionization than in the U.S. While there are competitive pressures in collective bargaining to lower wages in relation to productivity, a floating exchange rate is an important safety valve. And, as noted, our productivity performance in most traded sectors where unionization is high has been good enough to maintain real wages. Good workplace relations associated with unionization have positive impacts on productivity.
28. P. 41.
29. P. 36.

[30] Mendelson, Matthew. *Canada's Social Contract: Evidence from Public Opinion*. Canadian Policy Research Networks. November 2002. See Charts 56, 118, 119, 123, 124, 149, and 152.

[31] This section is based on Jackson, Andrew and Matt Sanger. *When Worlds Collide: Trade and Investment Agreements and the Not-for-Profit Sector.* Canadian Centre for Social Development and Canadian Centre for Policy Alternatives. June 2003.

[32] Mendelson, 2002.