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Straight Talk:

Big Business and the Canada-US Free Trade Agreement Fifteen Years Later

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The 15th anniversary of the historic Canada-US Free Agreement is just days away. This paper examines the free trade claims of the big business lobby, the BCNI (now the CCCE), in relation to its own performance over the last 15 years.

Back then, Canada's premier big business lobby, the Business Council on National Issues (BCNI), led by its CEO, Tom D'Aquino, spearheaded a massive drive to secure passage of the "free trade" deal. It poured millions of dollars into an unprecedented campaign to sell the deal and re-elect the Mulroney Tories in 1988.

The BCNI pulled together a front group called the *Canadian Alliance for Trade and Job Opportunities* to focus its free trade promotion agenda, putting $5 million into election advertising to discredit opponents. It blanketed the media with ads trumpeting the benefits and warning of the dire consequences of rejecting the deal. One of these was a multi-page insert in major daily newspapers called *Straight Talk on Free Trade.* Among its many claims *Straight Talk* boasted that the deal would lead to rising living standards, "create more jobs, better jobs." It also claimed that social programs were "not threatened in any way by the Free Trade Agreement." "Won't Canadian business lobby to reduce spending on social and other programs?" it asked. "Not at all," it answered.

The BCNI's efforts were pivotal to the Mulroney election victory. Despite the fact that a majority of Canadians voted for parties' that opposed the FTA, the country took the 'leap of faith" and Canadians have been living with 'free trade" for the last 15 years.

Today Tom D'Aquino, still at the helm, blithely insists that the FTA (and NAFTA) has fulfilled its promises and has brought Canada unprecedented prosperity. The BCNI changed its name recently to the Canadian Council of Chief Executives (CCCE), though it remains, according to its web site, an organization made up of the 150 leading companies in Canada. Interestingly, BCNI member companies were billed in 1989 as collectively owning almost $1 trillion worth of assets. Today the group describes itself as collectively owning $2.3 trillion in assets, a gain of $1.3 trillion since 1989. These companies have evidently done quite well during the "free trade" era.

The Canadian Council of Chief Executives is now pushing hard for measures to bind Canada even more tightly to the US economy. Once again it is warning that the status quo is not acceptable, that the costs of not taking this leap could be catastrophic for the economy and the well-being of Canadians. Its *North American Security and Prosperity Initiative* calls for—as a matter of top priority—Canada's integration with American security and military operations, a continental resource (including energy) policy, and harmonized regulations and standards. It also wants a common trade policy, common currency, harmonized tax systems, etc.

The fact that Canada has become much more deeply integrated into the US economy over the last 15 years is not in dispute. There has been a huge increase in exports to (and imports from) the U.S., as well as a large increase in two-way investment flows. Trade has become a significantly larger component of our economy. More than half of our total manufacturing output now goes to the U.S., up from one-third in 1989.

There is much disagreement, however, about whether the FTA/NAFTA has been good for the country. Examining its impact on job creation, for example, a 1999 Industry Canada-commissioned study found that more jobs were destroyed by the rise in imports than were created by the rise in exports (Dungan and Murphy 1990). Also in dispute is its role in relation to other policies. (Our view is that the trade deals are part of a neo-conservative policy package that includes monetary austerity, tax cuts, deregulation, privatization, etc. These polices have interacted with each other in mutually reinforcing ways. And their effects have been cumulative over time, making the job of precisely measuring FTA impacts, difficult.)

One thing we can determine with precision, however, is the job and wealth creation performance of these BCNI/CCCE companies. We hypothesize that big business would best be able to deliver on job creation expectations in the realm over which it had the most control, namely, its own member companies.

We examined a sample of 39 such companies, half of which are foreign-controlled. (We did not include financial companies even though they are a prominent segment of the BCNI/CCCE membership). How many people did they employ and what were their revenues in 1988, the year before the trade deal was implemented? We then compared these figures with their current employment and revenue levels.

Our findings are striking:

Fourteen companies in the sample increased employment, by 97,267 or 41%. Some like Bombardier, Cargill and IBM, made major increases in their Canadian workforce. The other 25 companies reduced their combined work force by 197,535 or 43.5%. GM, Ford, Shell, Molson, and Noranda were among those that made major cuts. Only three of the 21 foreign-controlled companies in the sample increased their employment, whereas 11 of the 18 Canadian-owned companies increased employment.

With two exceptions, all companies increased their revenues during the free trade era. In general, their gains varied from healthy to spectacular. The companies that increased employment had a combined revenue increase of $78.5 billion (181%). Those that shed jobs had a combined a revenue increase of $65 billion (69%).

Overall, the 39 BCNI companies increased their combined revenues by $144 billion, a 105% jump. These same 39 companies decreased their collective workforce by 100,268, or 14.5% during 1988-2002.

On the social (and other) program spending front, big business hastily broke its promise once the trade agreement was in place and began lobbying for cuts. Program and tax cuts were necessary, it said, to ensure a "level playing field" for competition with the Americans in the new free trade environment. The Mulroney government began to implement the cuts, but it was the Chretien-Martin government that brought in the largest non-military cuts in Canadian history. It did so under cover of deficit elimination, which, once achieved, was followed by massive tax cuts. Unemployment insurance was the most visible example of a social program that was harmonized down to the American level. The cuts were so brutal that the proportion of unemployed Canadians eligible to collect unemployment insurance dropped from 75% in 1989 to 38% in 2002. But cuts to public services were evident across the board.

Canadian governments collectively reduced their program spending from 44.8% to 34.8% of GDP from 1992 to 2002. Governments reduced transfers to persons from 13.5% of GDP to 10.5% of GDP—the equivalent of $55 billion in 2002 alone (Jackson, 2003b). The cuts were accompanied by a major re-engineering of government—privatization, deregulation, decentralization etc.

While Canadian governments still spend significantly more on social programs and public services than do their American counterparts, the difference has been shrinking dramatically. Canadian governments spent 34.8% of GDP on programs in 2001 compared to the 31.9% spent by US governments that year. The difference fell from 10.9 percentage points of GDP in 1992 to just 2.9 percentage points in 2001. The gap in non-military spending between the two countries is greater—5.7 percentage points of GDP in 2001—but down dramatically from 15.2 percentage points of GDP gap in 1992. The evidence that the

BCNI/CCCEcompanies: Employment and Revenue Record

Name	Employees 1988	1994	1996	2002	Change 88-02	% Change	Revenue (Billions $) 1988	1994	1996	2002	Change 88-02	% Change
3M Canada	2,034	2,114	1,853	2046	12	0.59%	0.50	0.70	0.70	1.00	0.50	99.00%
AbitibiPrice	16,300	6,381	6,500	16,000	-300	-1.84%	3.00	2.10	2.50	5.12	2.12	70.73%
Alcan	44,000	37,500	33,000	50,000	6,000	13.64%	9.00	11.20	10.30	19.69	10.69	118.74%
BCE + Nortel	117,000	116,000	121,000	118,866	1,866	1.59%	14.60	21.70	28.10	36.31	21.71	148.67%
Bombardier	22,527			75,000	52,473	232.93%	2.09			23.66	21.57	1030.63%
CAE Indusries	5,125	5,500	6,400	6,000	875	17.07%	0.50	1.00	0.80	1.13	0.63	126.84%
Canfor	5,099	4,342	5,005	6500	1,401	27.48%	1.20	1.40	1.70	2.11	0.91	76.00%
Cargill	1,074	3,000	3,000	5,900	4,826	449.35%	1.10	2.60	2.50	3.49	2.39	217.55%
Celanese (Merged with Aventis 2000)*	2,062	1,458	1,559	1405	-657	-31.86%	0.40	0.60	0.50	0.70	0.30	74.00%
Dofasco	13,400	7,198	7,000	8000	-5,400	-40.30%	2.10	2.30	2.90	3.58	1.48	70.62%
Domtar	15,871	8,985	7,300	12,500	-3,371	-21.24%	2.50	2.10	1.90	5.49	2.99	119.60%
Dow Chemical of Canada	3,173			2,000	-1,173	-36.97%	2.03			2.00	-0.03	-1.62%
Dupont	4,227	3,707	3,520	3,969	-258	-6.10%	1.30	1.70	1.80	2.47	1.17	89.85%
Ford	27,200	14,000	25,818	15,074	-12,126	-44.58%	14.00	20.10	25.50	23.33	9.33	66.63%
GeneralElectric	10,425	6,200	6,238	6,976	-3,449	-33.08%	1.70	1.60	2.20	3.32	1.62	95.35%
GeneralMotors	44,749	37,519	32,701	25,000	-19,749	-44.13%	16.90	24.90	28.00	37	20.10	118.93%
Honeywell/AlliedSignalMerged	8,727	5,203	5,400	4,900	-3,827	-43.85%	0.90	0.90	0.90	1.35	0.45	50.33%
IBM	12,147	9,139	13,323	19835	7,688	63.29%	3.10	8.40	9.50	5.30	2.20	70.97%
Imasco (Merged with BAT)**	92,353	65,800	57,300	20500	-71,853	-77.80%	4.80	8.10	9.40	8.58	3.78	78.83%
ImperialOil	11,627	8,252	7,483	6,460	-5,167	-44.44%	7.60	7.90	9.20	16.89	9.29	122.24%
Inco	18,706	15,709	16,308	10,534	-8,172	-43.69%	2.30	3.40	4.20	3.39	1.09	47.52%
IPSCO	1,692			2404	712	42.08%	0.46			1.70	1.24	268.33%
Lafarge	4,200	5,139	5,074	14,000	9,800	233.33%	1.00	1.00	1.00	2.18	1.18	117.51%
MacMillanBloedel (Aquired by Weyerhaeuser 1999)*	15,226	12,549	13,497	9137	-6,089	-39.99%	3.10	3.90	5.00	4.18	1.08	34.94%
Molson	11,400	14,700	5,100	5,900	-5,500	-48.25%	1.90	2.60	1.10	2.10	0.20	10.63%
Noranda	44,000	31,000	33,000	16000	-28,000	-63.64%	7.30	6.30	9.50	6.07	-1.23	-16.81%
Nova Corp	7,100			4600	-2,500	-35.21%	4.84			4.86	0.02	0.31%
Pratt and Whitney	9,558			9,000	-558	-5.84%	1.36			2.41	1.06	78.08%
Seagrams (bought by Vivendi 2000)*	14,400	15,800	30,000	25000	10,600	73.61%	3.70	7.60	16.30	13.43	9.73	263.00%
Sears	50,000	39,310	35,296	48,384	-1,616	-3.23%	4.00	4.00	3.90	6.54	2.54	63.40%
Shell	6,913	4,400	3,710	3,825	-3,088	-44.67%	4.80	5.00	5.10	7.23	2.43	50.67%
Stelco	16,960	11,768	12,076	9749	-7,211	-42.52%	2.50	2.80	2.90	2.78	0.28	11.36%
SuncorInc.	3,960	2,784	2,324	3,422	-538	-13.59%	1.30	1.30	1.60	4.90	3.60	277.23%
Teck/CominoMerged	9,637	8,023	9,199	5970	-3,667	-38.05%	1.50	1.60	2.40	2.19	0.69	45.80%
Toyota	482			513	31	6.43%	1.50			3.92	2.42	161.68%
Trans Canada Pipeline	2,207	1,732	2,663	2,475	268	12.14%	3.30	5.20	10.70	5.21	1.91	58.00%
Transalta Corp.	2,515	2,361	2,478	2,553	38	1.51%	0.90	1.50	1.50	1.72	0.82	91.44%
Unilever	5,913	6,887	3,816	3,134	-2,779	-47.00%	0.90	1.30	1.50	1.58	0.68	75.67%
Wajax	1,631	1,419	1,975	2308	677	41.51%	0.30	0.40	0.60	0.91	0.61	202.67%
Xerox	4,700	4,315	4,296	4,213	-487	-10.36%	1.00	1.20	1.20	1.43	0.43	42.80%
Totals	**690,320**	**520,194**	**525,212**	**590,052**	**-100,268**	**-14.52%**	**137.28**	**168.40**	**206.90**	**281.27**	**143.99**	**104.89%**

* Figures in 2002 columns are from 1999 prior to merger

** All data compiled from the Financial Post

Canadian social state is converging down to the U.S. level is compelling.

While the BCNI/CCCE companies saw big increases in the value of their assets and revenues, the promised rise in prosperity for the majority of Canadian workers and their families did not occur. Average real wages have been stagnant in the free trade era despite steady, if unspectacular, productivity gains. Contrast this with the far greater annual increases in executive compensation throughout the period. The bulk of productivity gains went to profits at the expense of labour income. The inflation-adjusted market incomes of the richest 20% of families grew 16.5% from 1989 to 2001 compared to a loss of 7% for the bottom 20%. The share of the market income pie rose for the top 20%, while the shares of all other income groups fell (Jackson 2003a: 10). Poverty rates rose for all working-age Canadians.

Annual growth in average personal income per capita, the best measure of living standards, fell from a sluggish 1.55% per annum in the 1980s to a snail's pace of 0.55% yearly during 1989-2002 (Statistics Canada data posted at www.csls.ca). During the 1960s and '70s, personal income per capita rose at a stellar annual pace of 3.9%.

So how does the *Straight Talk* rhetoric stack up to the reality of the last 15 years. Some sectors of the economy and some income groups have benefited. Certainly big business has benefited, with significant gains in income, wealth, and CEO pay packages. However, the FTA/ NAFTA failed to deliver the goods it promised. And the effect on well-being of a large majority of Canadians, and on the social cohesion of society, has been negative on balance.

The slowing of living standards growth (compared to the previous four decades) to almost a standstill for all but the richest 20% of families; the growth in inequality; and the implosion of the Canadian social state—have all been the hallmarks of the "free trade" era. Clearly *Straight Talk* gets a failing grade.

The CCCE will again trumpet the FTA in the coming days and weeks, dismiss its negative effects and deny its failed promises as it pushes ahead with its deep integration agenda. It claims that we can go down this road without further compromising our sovereignty, inequality, and social cohesion, but warns of the dire consequences of being offside with U.S. policy. This path promises ever deeper integration (read: assimilation), but with no articulation of what kind of Canada would exist at the end of it all.

Will the Paul Martin government resist big business pressure to go down this path? The signs are not encouraging.

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