

WHY THE "BIG IDEA" IS A BAD IDEA

Andrew Jackson

Beware of the big idea, warns the Senior Economist of the Canadian Labour Congress. We've been down this road before with the Free Trade Agreement and the NAFTA, when Canadians were promised secure access to the US market. Now, they're back, writes Andrew Jackson, promoting a customs union within a North American security perimeter as the big idea to assure a smooth flow of trade across the border, while assuaging American security concerns. A bad idea, Jackson asserts, one with negative implications for distinctive Canadian values.

Les grandes idées ne sont pas toujours aussi bonnes qu'on le prétend. Les Canadiens le savent pour avoir emprunté cette voie, il y a quelques années, avec l'Accord de libre-échange et l'Accord de libre-échange nord-américain, sous prétexte de garantir l'accès au marché américain. Parées de leurs plus beaux atours, les voici de nouveau sous la forme d'une union monétaire et d'un périmètre de sécurité. De mauvaises idées nous dit l'auteur, qui entraîneront des conséquences négatives pour la spécificité canadienne.



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 United States. What Tom D'Aquino of the Canadian Council of Chief Executives, former prime minister Brian Mulroney and Wendy Dobson of the C.D. Howe Institute have in mind is a grand "strategic bargain" in which Canada would give the US 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 US market.

The "big idea" seeks to strike down US 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 US 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 toward 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 US. 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-US gap in manufacturing sector productivity. Between 1992 and 2000, manufacturing output per hour worked rose by just 16 percent in Canada compared to 43 percent in the US, 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 industrial goods (45 percent 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 US level, and it is this key gap which explains our weak productivity growth. Canadians do as well or better than the US 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 Nortel or Bombardier to be taken over, 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 US 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 US 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 for manoeuvre under the current WTO rules, while exploring pos-

sibilities 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 oil level of exports given rapid depletion of the cheapest, most accessible convention-

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al resources, and the prospect of rising real prices as the US 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 hydroelectric 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 to be 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 US because of a higher level of tax-funded social pro-

grams and public services, and a higher floor of labour rights and standards. The 15 percent US 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 US (10 percent vs. 17 percent), 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 US. The private sector unionization rate is more than double that of the US.

Canada's more social democratic model is positive in economic terms in many respects. It gives us a more highly skilled work force, 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 US 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 US model of low taxes and low social provision 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 US. 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 US) voice in international trade and investment negotiations. The current formal 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 US 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 US commercial presence. But, the US 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 tax harmo-

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nization 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 neo-liberal 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.

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