

# WHAT THE WEST WANTED AND WHAT IT GOT

Todd Hirsch

No region of the country was more supportive of free trade than the West, and no province more supportive than Alberta. We asked our Calgary-based columnist Todd Hirsch for his thoughts on what the West expected from the Free Trade Agreement, and what it got. "Access for natural resources was expected by western Canada and was delivered," he writes. But apart from what it delivered on the economic side, he observes that for the West, "the FTA was seen as a way of finally breaking out from under the economic thumb of Ottawa." While there have been disappointments, he concludes, "with the FTA, the West wanted economic gains and it got them."

Au Canada, aucune région n'est plus favorable au libre-échange que l'Ouest, et aucune province ne l'appuie avec la même ferveur que l'Alberta. Nous avons demandé à Todd Hirsch, notre collaborateur de Calgary, de décrire quelles étaient les attentes de l'Ouest canadien à l'endroit de l'Accord de libre-échange et ce qu'on lui a accordé. « Il réclamait l'accès aux ressources naturelles et l'a obtenu », écrit-il. Mais au-delà de cette demande, « l'Accord était considéré par l'Ouest comme un moyen de se libérer de l'emprise économique d'Ottawa ». Et malgré quelques déconvenues, « il a effectivement obtenu les gains économiques qu'il recherchait ».



The 1980s were meaningful years in Canada's economic development. It was a decade full of booms, busts, change and adapting to new realities. After the euphoria of Expo 67 and the nation's centennial was long forgotten, after the secular and sophisticated Pierre Trudeau both enraged and enlivened, Canada found itself struggling with the reality that we had not yet grown into the economic and cultural giant we thought we were.

It turned out that the 1980s was a good time to be studying the Dismal Science. Back in 1985, I was an economics student at the University of Alberta and like most undergrads I was impressionable — idealistic, simplistic and optimistic. And also typical of students studying theory, I likely missed the tsunami of public policy and economic events swirling around the very real economy in which I lived.

Consider some of the events that defined the economic landscape at the time:

The Bank of Canada was on the cusp of a new course of action. The newly appointed Governor of the Bank of Canada, John Crow, gave a speech on the U of A campus in 1988 that advanced the monetary policy objective of price stability. It was shortly after this point that the bank formally adopted price stability as its primary goal, changing the implications and purposes of monetary policy in Canada.

In the mid-1980s, Alberta's economy was still suffering the collapse of oil prices at the beginning of the decade. A nasty economic contraction in the province, sliding housing prices and the political sting of the National Energy Program was still fresh in our (or at least, our parents') minds.

Calgary hosted the 1988 Winter Olympic Games, and no matter how much we in Edmonton liked to think that it was Alberta's chance to shine, it was really Calgary's show. The 1970s were Edmonton's decade, with Premier Peter Lougheed flexing political muscle — for the province and for the West. By the spring of 1988, the Edmonton Oilers had already won the Stanley Cup four times. But the 1988 Games really were a symbolic turning point in the rivalry between Alberta's two major cities. Calgary had arrived on the world stage and has never looked back. In terms of economic stature, profile and influence, Calgary eclipsed Edmonton in the same way Toronto had eclipsed Montreal a decade earlier.

And perhaps most seminal of all, the 1980s was the decade we entered into a free trade agreement with the Americans. Canada was in the throes of a debate that helped define a generation. The soul-searching over the FTA consumed the cultural, social, business and intellectual energy of the country. If there ever was a time Canadians needed to think about their national identity, it was in 1988.

By 1988, the US under Ronald Reagan had more or less conquered the so-called evil empire. The Cold War was winding down. America's economy was finding its feet. It was the decade of Lee Iacocca and the US auto industry clawing its way back against the onslaught of Japanese competition. The self-loathing and political turmoil of the Vietnam War was nearly a generation old.

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In short, America was back — more confident and brash than ever. It appeared that its super-power status was here to stay.

It was against this background that teensy, weensy Canada was considering opening its borders to free trade with the United States. Of course, Canada's entire history is rife with stories of our relationship with the Americans. Oddly, America's history seems to have nothing to do with us. The British show up here and there, but never much attention to the Canadians.)

I also remember, that final year as an economics undergrad, listening to presentations by anti-free trade crusaders Mel Hurtig and Maude Barlow. It was a bleak foretelling of what free trade would bring. Health care, gone. Canadian culture, gone. Our currency, gone. Environmental protection, gone. Jobs, gone! And they wouldn't vanish gradually — they'd all be gone overnight. (The debaters at the time did not eschew hyperbole).

The part about vanishing jobs was particularly ominous, especially for someone such as me, on the brink of completing a degree in economics and having absolutely no idea what to do. Jobs in 1988 in Alberta were scarce.

And it seemed that the only point of going to university in the first place was to get a good job. What if Mel and Maude were right? What if free trade made finding work even harder? Did I favour this trade deal or not?

In the end, I supported free trade. Maybe it was my economics training (or, less generously, indoctrination). Free trade was the stuff of David Ricardo and the market economists

who wrote my textbooks. How could they be wrong?

A lot of friends of mine at the time, though, did *no* back the deal, which led to some heated debates. There was one friend in particular who seemed to want to reevaluate her whole friendship with me based on this topic. How could I support something so terrible? Our national identity was on the line! It was treason.

About a year and a half after Canada did officially sign on to free trade with the US — and just as the entire North American economy was slipping into recession — the friend and I had both graduated, but neither of us had a solid job prospect.

"The Free Trade Agreement hasn't done us a lick of good," she quipped. The words burned in my ears. While I knew perfectly well that the benefits of the deal would take years, maybe decades, to be realized, I had little defence against her harsh critique. Canada's economy was in worse shape than before the deal was struck. How can you argue with that?

Fast forward to 2007. On the 20<sup>th</sup> anniversary of the negotiation of the Free Trade Agreement, and its successor, the North American Free Trade Agreement, it is worth asking two significant questions: What did the West

expect from free trade? And what did the West actually get?

The pro-free trade economists at the time talked a lot about two concepts economist love to talk about: greater economies of scale and greater efficiency. By having unfettered access to the 300 million consumers in the US, Canadian industries were expected to grow in size and increase scale economies, and in the process become more competitive.

Of course, not even the most ardent free trader denied the fact that some Canadian industries would suffer and likely fade away against the stiffer US competition.

In western Canada, a region that owes a great portion of its economic wealth to natural resources, the Free Trade Agreement was expected to secure access for exports of base metals, processed foods, agricultural products and a great multitude of other commodities. (Forest products were always exempt from the trade deal, and they have their own unique chapters in the history of Canada-US trade. And energy seemed to enjoy unfettered access already. More on those products later.)

In the process of securing a large, duty-free market to the US, western Canada's natural resource producers were able to share in the largest economic expansion in America's history. The western provinces became wealthier as a result. The early years of the 1990s were tough, marked by provincial cut-backs and a repositioning of provincial finances as deficits were tackled. But the fact that they became America's *de facto* market of preference for a range of commodities — Manitoba's hydro, Saskatchewan's potash and uranium, Alberta's energy and beef and BC's base metals — helped a great deal in lifting their provincial economies.

So access for natural resources was expected by western Canada and was delivered.

There were some upside surprises, too. In the early 1980s, British Columbia's fledgling wine industry was hardly world class. Several dozen tiny vineyards clung to the arid soil of the Okanagan region of south central BC, providing some passable vintages mostly for the local market and tourists. Most were very small scale, and one of the reasons they could compete is that the abundant American wines were slapped with a hefty duty at the border. Once that border came down, almost everyone agreed that BC's wine industry would soon vanish.

But instead, a curious thing happened. The poor wine makers did vanish, as expected. But the good wine makers flourished. They developed unique brands and styles of wine and focused on grapes and vintages that did well north of the 49<sup>th</sup> parallel, such as ice wines. They even started winning some international awards. And today, two decades after trade barriers started to come down for imported US wine, BC's wine industry is stronger than ever.

Western Canada's eagerness to embrace a free trade deal with the Americans did, in some immeasurable way, stem from western alienation. Like Quebec nationalism, western alienation has been one of those Canadian problems that is hard to pinpoint. Its intensity ebbs and flows. Some believe it doesn't exist. Others suggest that it is a more potent force than Ottawa has ever recognized.

Almost everyone, though, agrees that western alienation has as many variations and different meanings across the West as there are stocks of grain or pump jacks. From Flin Flon to the Fraser Valley, from Regina to Revelstoke, western Canadians all have different relations with their country and with their federal government.

Whatever one believes about western alienation, it is nearly undeniable

that it is strongest in Alberta. And it was Alberta who cheered the hardest for a free trade agreement.

Part of the issue goes all the way back to grievances against Ottawa and the National Policy of the late 19<sup>th</sup> century. At the time, Prime Minister John A. Macdonald pursued a strongly nationalist vision of a country united coast to coast with the Canadian Pacific Railway. The railway would open up the vast Prairies to settlers, and would also keep out the northward encroaching Americans.

But even more importantly to economic nationalism, a wall of steep tariffs was erected to keep out American products. Central

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Canadian manufacturers would produce the goods, western Canadians would produce the agricultural products, and the country would grow stronger as a result.

For central Canada, all of this nationalism likely seemed perfectly rational and fair. But in the West, the National Policy was eventually blamed for impoverishing the West while enriching Ontario and Quebec. The famous cartoon of the giant cow straddling a map of Canada — the poor, labouring farmers on the Prairies feeding the cow, and the rich business tycoons in Ontario milking the cow — came to symbolize a streak of western resentment against Ottawa and central Canada.

Even though the National Policy and the settlement of the Prairies was a century old at the time of the free trade debate, there has always been a lingering bitterness against what was seen as a pro-central Canada economic bias. The FTA was seen as a way of finally breaking out from under the economic thumb of Ottawa.

Did it deliver? Did the western provinces get the economic liberation from Ottawa that they thought they lacked? It's hard to say.

On one hand, businesses in the western provinces were able to increase their exports to the US, and import equipment and capital less expensively. Their economies expanded, and (at least

in the case of Alberta) the average rate of annual GDP growth surpassed that of Ontario. It was at some point over the past two decades that the economic size of Alberta and BC combined surpassed that of Quebec. And it was around 2005 that the population of these two western provinces surpassed that of *la belle province*.

The economic size and population figures may be only statistics. But at the same time, they are symbolic of a steady, westward shift of economic and political clout. The shift has been happening for many decades. It was boosted by free trade. And it has been accelerating significantly of late.

(A key question remains, however. Did the FTA/NAFTA do anything to encourage more value added industry in the West, or did it only spur businesses to export more raw materials? That's a larger, empirical question, the answer to which could show that instead of being the raw material "cash cow" to Eastern Canada, the West has become the "cash cow" to the US. Maybe that cow cartoon is still relevant, except instead of eastern Canadian hands milking the cow, they are American.)

But on the other hand, if any of those alienated western Canadians had



Calgary Herald photo

**The skyline of Calgary, the new image of the West, no longer just Cowtown, but a booming energy and financial centre. The West got much of what it wanted in the FTA, writes Todd Hirsch, but not everything, particularly in natural resource industries such as forestry.**

counted on free trade to end their frustrations with Ottawa, they will have been greatly disappointed by now. Ottawa's economic muscle is still flexed in the West, and those who may have been disgruntled then, are doubtless still disgruntled now. Free trade with the Americans may have strengthened the western provincial economies — and in this way it may have even strengthened the western premiers' hands at First Ministers meetings — but it has not changed one fundamental fact of Confederation: vote-rich Ontario and Quebec still control the House of Commons. No trade agreement has or ever will change that.

**Y**et the FTA/NAFTA has been a disappointment for the West as well. The ideals of a barrier-free, hassle-free continental market — more in line

with what the Europeans were starting to achieve back in the 1980s — hasn't really come together as most of us envisioned. Outside of those sectors where there already were established agreements for trade, like autos and energy, what was received was an agreement to trade freely unless the US was unhappy with it. This has turned out to be particularly true for many of western Canada's natural resource industries.

The forestry sector, for example, was always outside the FTA/NAFTA agreement. But it demonstrates most clearly how committed the US is to establishing a truly free trade market between the two countries. Forestry is a major industry in Quebec and Ontario as well, but British Columbia's forestry sector is a shadow of what it had been a few decades ago. Not all of the decline can be blamed on the American's resistance to free trade in

softwood lumber; more of the decline is due to sagging real prices and the age and inefficiency of many of British Columbia's older lumber mills. However, the never-ending battles between Canadian and American producers have certainly not helped.

The wheat market has been another disappointment under NAFTA. Exports of wheat to the US are constantly under challenge by the US farming states. They view the existence of the Canadian Wheat Board (CWB) as an unfair subsidy for Canadian farmers. Without the single-desk, monopolistic selling powers of the CWB, they argue, Canadian farmers would not receive guaranteed prices for their wheat and barley. The problems created by the CWB as a challenge to free trade have almost been as contentious as the domestic debate about the CWB itself.

A third major disappointment of the trade deal came in 2003 with the Mad Cow crisis. Within hours of the announcement that Mad Cow disease had been identified in an Alberta animal, the US slammed shut the border to live cattle and frozen beef — both of which are enormous export products from western Canada (particularly Alberta). It took years before the border was re-opened, and even today it remains limited to certain items and a source of constant concern for Canadian ranchers.

In all of these resource-based trade battles, the disappointment does not stem from the fact that disruptions to trade still exist, but rather that they have exposed America's true enthusiasm for free trade: that is, tepid at best.

A few years ago, an American television news program carried a story about international trade in garlic. A certain region of California had long been the dominant source of garlic in the US, but trade with Vietnam was suddenly knocking the socks off the California producers. The Vietnamese garlic was bigger, better and, most of all, much cheaper. It was quickly capturing a majority share of the US consumer market.

As with all economic players who suddenly find their livelihood in peril, there was a tremendous call for tariffs against the imported garlic. The news crew interviewed a garlic farmer in the region, and the comment made was to the effect: "I'm all for free markets and free trade, but in this case, we need to look after American farmers first."

In other words, we like the idea of free markets and free enterprise, unless it doesn't work for us. And really, it is not that unusual or outlandish a statement to make. Protectionism is alive and well in all economies — Europe, Australia, Japan and, yes, Canada, too. It is only natural and expected that when an economic sector is feeling vulnerable, there is push-back against the foreign competition.

It is not so much the protectionist sentiment in the US that disappoints, but rather the fact that the FTA/NAFTA has been unable to trump that sentiment. At the centre of the disappointment lies the incapacity of sovereign governments to accept the supremacy of trade agreements. The US certainly doesn't like that position and fights it at every turn. No one is getting wealthy off these endless trade disputes but lawyers.

Another important element of the free trade debate and deal with the US is the impetus it provided for inter-provincial free trade. After the FTA was signed, it seemed (even if it was more perception than reality) that it was easier for Canadians to do business with the Americans than it was to do business with other Canadians. One popular anecdote was that the only way to buy Moosehead Beer (which was brewed in Atlantic Canada) was to go to the States to buy it.

The lunacy of such barriers to domestic enterprise eventually result-

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ed in the signing of the 1994 Agreement on Internal Trade (AIT), which was supported very strongly by Alberta under then-Premier Ralph Klein. Unlike the FTA/NAFTA, the AIT sought primarily to reduce the non-tariff barriers to trade that prevented the free flow of goods and services across provincial boundaries. Especially bothersome and inefficient were those regulations that prevented labour mobility from province to province, such as with provincial licensing requirements of certain trades people, legal professionals, etc.

But if the FTA/NAFTA had resulted in some disappointment from a logistical standpoint, the AIT was equally disappointing (if not even more so). The AIT was signed by all 12 premiers and territorial leaders at the time, but there was very little enforcement mechanism to go along with it. The leaders all shook hands, a lot of photos were taken, everyone went back to their respective legislatures and more or less ignored the agreement.

Some things did improve under the AIT, such as the increased flow of trade in beer and wine. But many things did not. To this day, restrictions against the import of coloured margarine into Quebec remain a real bone of contention among Prairie canola and oil seed processors. It is nothing more than a non-tariff barrier to trade that runs counter to the AIT and all that it was trying to achieve.

After 12 years of being overwhelmed by the success of the AIT, two provinces decided to get serious

about interprovincial trade: Alberta and British Columbia. In 2006, they agreed on their own, bilateral Trade, Investment, and Labour Mobility Agreement (TILMA). Unlike the AIT, the TILMA has some strong enforcement mechanisms, including a provision that allows a company to sue the government of the other province if it feels it is not being allowed perfectly free access to the market in that jurisdiction.

(The true "teeth" in this provision, though, remain untested. At a presentation I was giving on the TILMA in

British Columbia, I mentioned the provision for a company to take legal action as a sign that this agreement has some enforcement behind it. One very skeptical gentleman in the audience, a small business owner, said, "Yah, as if I have the financial clout to sue the government of Alberta! Sure!" His point was well made.)

The TILMA came into effect in April 2007, and within two years all

APEC summits, the G8 meetings and larger talks for integrating free trade across the developing world. No one in Canada is seriously proposing that the NAFTA be ripped up and forgotten. At the very most, some are advocating that the whole deal be re-negotiated.

With the FTA, the West wanted economic gains and it got them. Securing access to those huge, lucra-

tioned was perhaps naïve and idealistic — a market spanning the continent with no impediments to trade. All for one and one for all! What we got was a trade deal with a lot of loopholes, caveats, exceptions and special concessions. We also found that the US, that bastion of free enterprise and unfettered markets, was actually just as protectionist as most places on earth. When the FTA/NAFTA didn't give them the result they wanted, they fought it.

**While the FTA never was perfect, it also yielded a bit of an unexpected side result: the vision for free trade at home. The barriers to interprovincial trade became embarrassingly silly in the light of a trade deal with the US and Mexico. The Agreement on Internal Trade, for all its own warts and shortcomings, owes a good deal of its existence to the FTA/NAFTA that preceded it. The Alberta-BC TILMA is the next natural step in the evolution of true free trade among the provinces.**

aspects of the agreement will be in place. It has certainly raised some eyebrows across the country as it creates a free-trade, free-labour mobility area second in size only to Ontario. If the economists are right, the efficiency and economic gains from the TILMA would boost the GDP in the two provinces by billions of dollars. If it catches on and other provinces join the TILMA, the gains could be even greater.

**T**wenty years into free trade with the Americans, western Canada has without question gained economically. Exports in our most important sectors have increased, become more efficient and created much more wealth for Westerners had no agreement been in place. Adding Mexico to the mix in the 1990s added just a bit more icing onto the cake, too.

The nationalistic predictions and arguments against the trade deal — the collapse of medicare, the death of Canadian identity, and so on — all seem a bit laughable now. And while these economic nationalists are still making the same dire predictions, they tend now to focus their efforts on the World Trade Organization, the

tive markets the US in effect cut the apron strings of the resource-based West with the industrial-based East. Trade has increased north-south at a greater pace than east-west (although interprovincial trade has expanded in absolute terms as well). It was the final death knell to the National Policy of Sir John A. Macdonald, which, while so well intended, had come to be strongly resented in the West.

It is difficult to say whether the greater political clout that the West now enjoys (at least greater relative to what it had been previously) was the *result* of the FTA or the *reason* for the FTA. It is likely both, a bit of chicken-and-egg. The economic and political rise of western Canada had started long before FTA. Witness Alberta's Peter Lougheed staring down the federal government over energy resources in the late 1970s. The 1987 FTA, which was strongly supported by Alberta and the west in general, was part of that continuous path of political muscle-flexing.

The West's disappointment over the FTA/NAFTA reflects the practical realities of trading with the largest economy on earth. What we envi-

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In the final analysis, the FTA/NAFTA has helped give western Canada the economic and political confidence it needs to succeed on the global stage. Not everything about the deal has worked out smoothly for the West, but the bumps in the road are all part of the challenge. Seeking augmented trade arrangements and business relations with the economic super-powers of the future — Japan? China? Brazil? Russia? the EU? — will call on our experiences and lessons learned through the FTA/NAFTA. Canada's federal government and the western provincial governments need to apply these lessons now, lest we be left behind on the global trading dance floor.

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