FROM FORDISM TO NEOCONSERVATISM: FREE TRADE AND CANADIAN INDUSTRIAL POLICY IN AN ERA OF GLOBALISM

by

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Nothing today affects the lives of people in countries throughout the industrialized and developing world as much as international trade. Nowhere is this more true than in Canada. Canada's involvement in international trade has a long history dating back to 1854 when it was a British colony.

As a major trading country, Canada has always adopted a pro-active industrial policy which has been largely responsible for its relative economic prosperity. But, with businesses now free to invest and divest under the terms of the CUFTA and the NAFTA, the most fundamental concerns for Canadians, in a borderless world, are what powers will the Canadian government have to shape industrial policy, and to what extent can Canada continue as a viable nation-state if it can no longer control its national economy? These are important concerns because, in world without borders, the adjustment process becomes more volatile and more difficult to manage.

The CUFTA and the NAFTA not only create the rules for conducting trade, but they also establish a set of new rules for the Canadian government that will diminish its power. As a member of a new North American trading bloc, Canada will find itself subject to a set of forces requiring analysis beyond participation in a conventional free trade area. Because many of the traditional levers of government will now be subject to external control imposed by these agreements, Canada will not be able to mount certain policies in the future that it has relied on in the past. This reality limits the pro-active role of the Canadian state to use policies and programmes for the country's immediate national development.

What this thesis attempts is an examination of the evolution of Canadian industrial policy, in effect, the transition from Fordism to Neoconservatism, and an assessment of Canada's future as a nation-state as it tries to find security and improved access in a free trade arrangement. Unless Canada takes steps to neutralize the asymmetry of power between itself and the United States through adjustment programmes, it is the contention of this thesis that its economic future is anything but stable.
ACKNOWLEDGEMENTS

Having worked in a foreign mission for the past ten years, and being sensitive to major hemispheric events, I have become keenly interested in the Canada-US Free Trade Agreement and the North American Free Trade Agreement. In an environment where hemispheric issues are topical, it was difficult for me, as a person who emigrated from the Eastern Caribbean, not to want to know more about a process that could culminate in a vast free trade and investment zone involving some countries in South America and the Caribbean.

In completing this thesis, I am especially indebted to my supervisor, Professor Garth Stevenson, who read each chapter as the work progressed and raised critical questions, enabling me to clarify my thinking as I moved through the various stages. His many editorial comments and suggestions guided my approach. Special thanks to professors Roberta Robb and Nicolas Baxter-Moore for their meticulous editing and helpful comments which greatly improved the way in which I expressed what I wanted to say.

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INTRODUCTION & THESIS OBJECTIVE

No other industrial policy in recent Canadian history has created more media attention and sharp political debate than the 1988 Canada-U.S. Free Trade Agreement (CUFTA), and its 1994 successor, the North American Free Trade Agreement (NAFTA), which includes Mexico as a third partner. This intense controversy is readily understood; after all, Canada's economic prosperity has depended to a large extent on the country's ability to regulate its industrial policy while pursuing trade opportunities with foreign countries. Canada is a major trading nation ranking 8th in the world in trading power although it is number 37 in terms of the world's population. A former Liberal Minister of International Trade, Roy MacLaren, calls attention to this fact by pointing out that one quarter of Canada's Gross Domestic Product (GDP) is derived from trade.¹

This thesis intends to argue that both the CUFTA and the NAFTA (the free trade agreement) have been the central forces driving Canada from a Fordist model of industrial development, based on the interventionist powers of the nation-state, to a Neoconservative model of industrial development, based on a broader free-market vision of the North American continent and the global market. Neoconservatives in Canada and the United States, and their

¹ Roy MacLaren "Towards a Free Trade Area of the Americas" in Bhupinder Liddar (ed) Diplomat & International Canada (Ottawa: Raddil Communications, March/April, 1995) p.5
counterparts in Mexico, desire a deregulated continental model of development as a means of restoring corporate profitability. In other words, the free trade agreements were designed to restructure North American industrial relations to suit corporate needs. The goal was to find an alternative model of industrial development that could replace the restrictions placed on corporations (transnationals and others) by the nation-state. By harmonizing and integrating Canadian industrial standards and institutions with those of its trading partners, Canada, much to its detriment as a nation-state, has been forced to acquiesce to continental market forces.

In constructing this argument, this thesis will adopt a combination of methods, namely historical, descriptive, analytical (deductive and inductive) and dialectic. The application of these methods and the predictions concerning the future of Canadian industrial development and of Canada as a nation-state lead to the conclusion that not only has the free trade agreement accelerated the process of transition from Fordism to Neoconservatism, but that Canada is also becoming a post-national state. In general terms, a post-national state is one in which a country faces a significant reduction in its ability to engage in everyday internal economic and industrial management.

The details of this argument will be revealed throughout the six chapters of the thesis. After a brief introduction which
defines the terms Fordism and Neoconservatism in a broad sense and discusses the CUFTA/NAFTA in general terms, chapter one provides an historical overview of attempts to establish free trade accords between Canada and the United States over the last one hundred years. Chapter two sets out Canada's regulation framework prior to 1988 and traces and analyzes the transformation from Fordism to Neoconservatism. Chapters three and four examine and analyze the direct impacts of free trade on the Canadian economy and labour market, specifically on the employment situation, incomes, and investment. Chapter five investigates the declining role of the Canadian state in industrial policy, and concludes that Canada is in danger of losing its nation-state status, becoming, instead, a post-national nation state, hobbled by a continental model of development. Finally, chapter six emphasizes the underlying conflicts in Canadian society and recommends that the federal government establish a new set of priorities if Canada is to continue as a viable nation-state.

The Canada-U.S. free trade agreement (CUFTA), which was passed in 1988, took effect on January 1, 1989. Initiated by the Mulroney Conservative government with the support of seven provinces, the CUFTA creates a tariff-free border for the flow of goods and services by 1999. The most important aspects of the CUFTA for public policy purposes are contained in chapters 18 and 19 of the agreement. The CUFTA entrenches mechanisms in those chapters that significantly institutionalize the overall Canada-U.S. decision
making relationship. First, chapter 18 establishes an overall trade dispute settlement mechanism, and requires that both countries give new forms of formal advance warnings on pending initiatives in several policy areas. Second, chapter 19 establishes a specific dispute panel to review procedural decisions regarding the application of trade remedies such as countervailing duties against alleged unfair subsidy activities deemed to confer distinct advantages on either country’s exports.²

Ratification of the North American Free Trade Agreement (NAFTA), with the inclusion of Mexico, has created the largest free trade area in the world, surpassing the European Community (EC) with respect to both population (385 million to 320 million) and combined gross domestic product (US$ 6.5 trillion compared to US$ 5.8 trillion).³ This agreement is the most comprehensive trade agreement ever concluded between neighbouring countries because it not only covers trade but is also perhaps the first agreement to include financial services and investment. Furthermore, this agreement is likely to be the initial building block of a much larger hemispheric agreement that could include some of the major countries of South and Latin America, and even some countries in


the Eastern Caribbean. The NAFTA accession clause is an important feature of the agreement, and represents an improvement over the CUFTA. The establishment of an accession clause means that it will not be necessary to re-negotiate the NAFTA whenever a new country wants to join.

Although in practice the NAFTA leaves most of the major provisions in the bilateral trade agreement (CUFTA) intact, including the general dispute resolution mechanism and special arrangements for countervailing and anti-dumping duties, from a public policy perspective, the NAFTA introduces an innovation in investment matters that accords national treatment to investors from NAFTA countries. This commitment to national treatment is an integral part of the North American Free Trade Agreement and stipulates that goods exported from one NAFTA country to another cannot be discriminated against on the basis of origin by either the federal or sub-national governments of the three partners. For example, none of the three countries may apply export taxes unless such taxes are also applied to domestic goods; however, there are some minor exceptions in the case of shortages of basic goods in Mexico. 4

The provisions in the CUFTA/NAFTA ensure that the agreement represents a quasi-constitutional mainstay in Canadian industrial policy; in other words, it effectively forms a North American economic constitution that profoundly constrains the Canadian state from acting in ways to which it had historically become accustomed. Moreover, because of the political divisiveness that accompanied its debate and implementation, the CUFTA/NAFTA has become a rallying point for the ongoing debate over those interests that favour a strong role for the state in industrial policy and those that place greater faith in free markets.

Now that the NAFTA/CUFTA has become a permanent fixture of Canadian industrial policy after the current Liberal government reneged on its campaign promise to renegotiate certain unfavourable aspects of the deal, it is important to situate the CUFTA/NAFTA within the broader development of which this agreement is a part. In Canada, this broader development includes the transformation from a Fordist model of industrial development, based on the regulatory powers of the nation-state, to a Neoconservative model of development, based on a broader vision of the North American Continent.

**Fordism:**
As a system of production, Fordism produced only one kind of product at a time for each assembly line. This limited firms in their ability to produce a wide range of products, or to respond
to sudden or unexpected changes in consumer demand. Fordism was also equated with mass production which relied on stable and predictable markets, long production runs, and relatively unskilled workers. Since profitability increased as the number of products increased, Fordism best suited industrialized countries where consumer purchasing was substantially greater than those of developing countries. In fact, in order to improve productivity and efficiency, Henry Ford, the inspiration for Fordism, argued that the minimum wage in industrialized countries had to be increased in order for workers to buy more than life's bare necessities.

Fordism was a curious blend of efficiency, waste, and rigidity. Under Fordism, the relationship between capital and labour was often antithetical, with narrowly trained workers doing repetitive tasks. This was generally considered a waste of valuable manpower. Mental labour was often rewarded with white collar jobs, but manual labour was usually undervalued and alienating. Furthermore, since the assembly-line operation was constantly upgraded to ensure that the greatest number of products was produced, workers were viewed as units of production rather than individuals capable of contributing to the work environment and the production process. The notion of viewing workers as units of production therefore acted as a disincentive to greater

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productivity. The principal drawback of Fordism, however, was the fragmentation and repetitive nature of the work process. This, in turn, led to high levels of worker alienation, worker turnover and absenteeism which ultimately resulted in strong worker resistance and low productivity. In the end, these problems and the cost of maintaining the welfare state prompted businesses to look for a new social and technological form of business organization in order to revive productivity and corporate profits.

A change in the political paradigm from about the mid-1970s, which was reflected in a shift to the political right (Neoconservatism), was a response to the economic crisis of Fordism. The new paradigm, which caused the eventual demise of Fordism, sought to promote individualism, competitiveness, entrepreneurship, and profitability over collective interests such as collective bargaining promoted by unions and the right to social assistance courtesy of the welfare state. While the term Fordism also describes the type of public policy that prevailed in Canada between 1945 and 1975, it is important to note that Fordism as a system of production began since the turn of the century.

**NEOCONSERVATISM:**

The most dominant paradigm that persists today is one that has been labelled Neoconservatism, or the "new right." Neoconservatism has an economic as well as a social dimension. From an economic perspective, neoconservatism is decidedly pro-market in
orientation, with an agenda that makes a priority of curtailing the interventionist powers of the state. This attack on the state has varied in intensity among different countries but, generally, it has entailed cuts to social spending, deregulation of certain businesses, privatization of state-owned companies, lower corporate taxes, monetarism, assaults on trade union rights, and an overall move towards unrestricted market competition as opposed to systematic state intervention. Neoconservatives advocate that governments should have not only a minimal role in the economy, but also in the social domain as well. They maintain that substantial government sponsorship and funding of social programmes and social regulations distort the market's operation. Neoconservatism also calls for reducing the size of government since bureaucracy and bureaucratization, in their most pejorative senses, are regarded as unfortunate by-products of big government supported by high taxes.

The neoconservative agenda came to prominence in the theory and practises of the Margaret Thatcher Conservatives in Great Britain and the Ronald Reagan Republicans in the United States. In Canada it was selectively borrowed and adapted by the Pierre Trudeau Liberals during their last two years in office, and, more comprehensively, by the Brian Mulroney Conservatives that followed. An important legacy of the Mulroney version of the neoconservative agenda is the CUFTA/NAFTA. To its critics, Neoconservatism represents a lack of concern for people who most need social
assistance from the state, while, to its supporters, it represents cherished democratic values such as freedom, including freedom from government interference in the marketplace.

Now that important areas of industrial policy have been constrained by the CUFTA/NAFTA, the hobbling of the Canadian state will likely accelerate under the neoconservative agenda. Far from strengthening Canada's capacity to continue controlling its industrial policy and economy, as will be discussed in the penultimate chapter, the free trade agreement entrenches some of the unfortunate consequences of continentalism. Yet, the CUFTA/NAFTA is not the first attempt by Canada and the United States to merge their economies.
CHAPTER 1

HISTORICAL OVERVIEW OF FREE TRADE

As indicated in the introduction, when Canada and the United States sat down to negotiate the CUFTA, it was not the first time that Canada had entered into free trade discussions with its southern neighbour. The free trade issue dates back to the mid nineteenth century when Lord Elgin, then Governor of British North America (BNA), negotiated a free trade agreement with the United States known as the Reciprocity Treaty of 1854-1866. The Reciprocity Treaty covered natural resources in that it allowed farm, forest, and fishery products from British North America, which was then a collection of colonies with separate governments (known today as provinces), to enter the United States, duty-free. In return, American fishermen were allowed certain fishing privileges in British North American waters.

The Reciprocity Treaty was important then because it marked a turning point in the economic and financial fortunes of British North America. In the years prior to the Treaty, British North America had been suffering from an economic downturn caused largely by shrinking markets and declining prices for natural resource

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6 Randall White Fur Trade to Free Trade: Putting the Canada-U.S. Trade Agreement in Historical Perspective (Toronto: Dunburn Press Ltd., 1988) p.45
products. Britain was once a secure market for these products because the British government used laws and tariffs to give trading advantages to those within the British Empire while discriminating against others. However, in the late 1840s, Britain adopted a policy of free trade, and the colonies, including British North America, lost their protected markets. Consequently, an economic depression in British North America followed.

The U.S. market had always been inviting to British North American businesses, but the United States maintained a system of tariffs to protect its producers from foreign competition. The Reciprocity Treaty thus dismantled the system of tariffs on natural resource products from British North America; in fact, it opened up a huge new market for British North America's key export products, and trade with the United States flourished. As a result, British North America enjoyed a period of sustained economic prosperity under Reciprocity.

Although trade flourished between the two countries because of Reciprocity, political relations did not. Political tensions developed between the United States and Great Britain during the American Civil War, and these tensions affected the economic relationship between the United States and British North America. American producers, who wanted to return to protective tariffs, played up the political problems and, in 1866, the United States
allowed the Reciprocity Treaty to lapse after its first term.\footnote{"The Canada-U.S. Free Trade Agreement: Background, Overview, and Perspective" (Toronto: Canadian Foundation for Economic Education, May, 1988). p.3}

During the twelve years of reciprocity, British North America had come to rely on the vast market to the south, but with the end of reciprocity, the British colonies lost a major market for their natural resource exports. With the United States market now less accessible, British North America became economically isolated.

Although the Reciprocity Treaty enjoyed a relatively brief life, it left several legacies. First, the Reciprocity era was widely considered to have brought good economic times for Canada. The Americans were alarmed by the fact that, for the most part, they were buying more Canadian products than they were selling to their neighbours. The unfavourable balance of payments problem that this created was played up by the American producers whose interests were hurt by the agreement from the onset. Second, like the Auto Pact which was negotiated about one hundred years later, the Reciprocity Treaty, which brought Canada much economic success, dealt with sectoral trade in that it covered only natural products. Third, the United States was somewhat hesitant to enter into a trade agreement that was initiated and promoted by Canada; in the
end, it was the Americans who cancelled it.®

Partly in response to the impending collapse of Reciprocity, the colonies of British North America began to talk about uniting for the purpose of trade. It was felt that a union of the colonies could bring about economic growth and stability, and make them less dependent on the businesses and governments of both Britain and the United States. After several years of discussion, the Dominion of Canada came into being on July 1, 1867. At that time, Canada consisted of Ontario, Quebec, Nova Scotia, and New Brunswick; the others that make up today's Canada joined Confederation later.

In order to establish an economic base for a unified Canada, Sir John A. Macdonald, Canada's first Prime Minister and head of the Conservative government, eventually introduced a set of nation-building industrial strategies for the country. These strategies, which were collectively known as the National Policy, ushered in a higher and more comprehensive system of tariffs to protect Canada's manufacturing industries which were just beginning to develop. Under the National Policy, Canada's manufacturing industries expanded as they enjoyed tariff protection against foreign imports. However, because of Canada's relatively small market and the lack of foreign competition, prices were often high,

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and in some cases, the quality of Canadian goods was poor. Accordingly, the National Policy came under increasing criticism from various interest groups including the Liberal opposition party of Wilfrid Laurier. By contrast, the Liberals supported the concept of "unrestricted reciprocity" with the United States, specifically free trade in both agricultural and manufactured goods; the belief was that free trade would provide more jobs and lower prices for Canadians. In response, Macdonald's Conservative government attacked the Liberal proposal as a step towards virtual union with the United States. The Conservatives argued that, in a free-trade environment, the United States would dominate and Canada would be relatively powerless to take action in its own interest.

During the late 1880s, Canadians debated reciprocity versus the National Policy until finally, in 1891, a bitter election was fought over the issue with Macdonald emerging the winner.\(^9\) He was generously supported by the business community which was the chief beneficiary of the protection provided by high tariffs.

For the next two decades, free trade with the United States was a dead issue until 1911 when Sir Wilfrid Laurier, by then Prime Minister, surprised the Canadian parliament by announcing that a new free trade agreement with the United States had been negotiated. In fact, the Reciprocity Agreement of 1911 was

\(^9\) White, op. cit. p. 72
negotiated behind closed doors during the fall of 1910. The Agreement of 1911 was particularly generous to Canada in that Canadian natural resource exports entered the U.S. virtually tariff-free while U.S. tariffs on Canadian manufactured exports were substantially reduced. However, most Canadian tariffs on manufactured goods from the U.S. remained; hence, even the Conservative opposition had little to complain about but, nonetheless, campaigned against it in the 1911 election.

Reciprocity in natural products, which was regarded as a boom for Western Canada, was also regarded as the catalyst that would eventually see the tariff protection against manufactured goods removed altogether. By 1911, Canada had become a thriving industrialized country with manufacturing centres that had first developed behind the protective tariffs of the National Policy. The initial attacks on the Reciprocity Treaty came from disillusioned Liberals spurred on by Clifford Sifton, Laurier's one-time minister of the interior who had left the Cabinet over the issue of Roman Catholic educational rights in Alberta and Saskatchewan. Further attacks came from eighteen Toronto-based businessmen who published a manifesto on February 20, 1911, arguing that Canada owed its prosperity to the National Policy, and that reciprocity would squander all the money invested in east-west transportation and communication lines by creating new north-south

10 Canadian Foundation for Economic Education, op. cit. p. 4
trade flows. Above all, the "Toronto Eighteen" claimed that unrestricted reciprocity threatened Canadian nationality. The fear that Canada would lose its sovereignty to the United States was given some legitimacy by U.S. government statements declaring that reciprocity was a first step to Canada joining the United States. Mainly because of the uncertainty and confusion over the potential for a loss of Canadian sovereignty and jobs, Laurier lost the 1911 election and free trade was once again not to be.

Apart from the trade agreements of 1935 and 1938, which amounted to tariff reductions rather than free trade, it was not until 1948 that a free trade pact with the United States was again seriously considered. This time, Liberal Prime Minister William Lyon Mackenzie King supported the concept of free trade and approved secret negotiations with the Americans. By 1948, Canada was running a large trade deficit with its neighbour, and King believed that free trade offered a solution to this problem. However, after the deal was negotiated, King was afraid that it was not a good one for Canada because the Canadian negotiators, he felt, had caved in too much to U.S. demands. King was also concerned about editorials in both Life and Time Magazines portraying free trade as a prelude to political integration. In fact, Life Magazine published an editorial calling for a customs union between

11 Granastein, op. cit. p.9
12 Canadian Foundation for Economic Education, op. cit. p.5
the two countries. The thought of a customs union frightened King because he realized that such an arrangement meant that Canada would be an unequal partner by having to adjust her tariffs to that of the United States. John Deutsch, the Canadian Director of the International Economic Relations Division of the Department of Finance at that time, privately told friends that "the price of a customs union with the U.S. is a loss of political independence in the sense that we would no longer be in effective control of our national policies."\(^\text{13}\) Even more politically damaging, King was afraid that the Conservative opposition would accuse him of selling out to the Americans; in the final analysis, King probably remembered what happened to Laurier in the 1911 elections and subsequently called off the deal. Once again, free trade was stalled.

After 1948, tariffs between Canada and the United States started to decrease gradually, thanks to negotiated agreements within the multilateral General Agreements on Tariffs and Trade (GATT). One of the primary objectives of this agreement, which was formed in the aftermath of World War II (1948), was to prevent a return to protectionism, and to gradually reduce barriers to world trade on a non-discriminatory basis.\(^\text{14}\) While the GATT, (now the World Trade Organization, or WTO), permits free trade areas and

\(^{13}\) Granastein, op. cit. p.23

\(^{14}\) Canadian Foundation for Economic Education, op. cit p.5
customs unions, its underlying philosophy was to encourage an open world trading system in which all countries enjoyed the same access to each other's markets.

By the mid-1960s, Canada became interested in certain areas of trade that offered sectoral advantages; nevertheless, it was not interested in a comprehensive free trade agreement with the United States. This interest by Canada culminated in June, 1964, in broad negotiations with the Americans on the entire North American auto market. Both the Americans and the Canadians agreed that free trade in motor vehicles and parts was in their joint interest; accordingly, the Auto Pact Agreement was signed in January of 1965.

The basic philosophy of the Auto Pact revolved around the concept that U.S. parent companies would purchase a certain number of vehicles from their Canadian subsidiaries, thus enabling the Canadian affiliates to specialize in certain models, resulting in a more efficient industry. As a consequence, trade in vehicles and parts expanded rapidly, making the auto sector the single largest sector in Canadian-American trade at the time, with half the trucks and cars made in Canada being sold in the United States. By 1967, investment in the Canadian auto industry was estimated at $500 million, with vehicle production increasing by 35 per cent, while employment in the industry increased by 27 per cent since 1965. However, during the 1970s, Canadians began to believe that the Auto
Pact was not working in their best interest when the balance in trade in auto parts swung sharply in favour of the United States after 1973, climbing to a deficit of $3 billion by 1979.\(^{15}\) The change in Canadian fortunes revealed that sectoral free trade had its advantages as well as its disadvantages. Nevertheless, the one thing that has been generally accepted over the years is that the Canadian auto industry might have languished without the Auto Pact.

During the 1960s and 1970s, anti-American sentiments became evident among some Canadians. Anti-Americanism stemmed in part from a growing sense of economic nationalism in Canada because the so-called "economic nationalists" became concerned about the Americanization of Canadian culture. They were also very disturbed about the amount of foreign investment in Canada, particularly U.S. investment. In a partial attempt to assuage these concerns, the Foreign Investment Review Agency, established in 1974, was designed to screen foreign takeovers of Canadian firms, and the National Energy Programme, which was launched in 1980, was a far-reaching policy adopted by the Trudeau government that tried to establish Canada's sovereignty in the energy sector. In the face of such nationalist policies, free trade with the United States was becoming a distant consideration for Canadians; in fact, during the 1970s and early 1980s, Prime Minister Pierre Trudeau was encouraging Canadian firms to diversify their trade links in order

\(^{15}\) Granastein, op. cit. pp.28-29
to become less dependent on trade with the United States.

By the early 1980s, the GATT had been partially successful in reducing tariff barriers around the world, and nearly 75 per cent of trade between Canada and the United States was tariff-free by the mid-1980s. However, the use of non-tariff barriers such as quotas and government purchasing polices that favour domestic producers over foreign producers was on the increase. Furthermore, the United States' trade position had deteriorated by the 1980s because the U.S. dollar had become overvalued relative to other currencies. This, in turn, made U.S. exports more expensive for foreign buyers while foreign imports became relatively cheap. As a result, the United States' use of quotas as a means of protecting domestic industries from foreign imports increased. This meant that some Canadian exports were affected by the use of non-tariff remedies. Yet, despite rising U.S. protectionism, Canadian exports to the United States were increasing rapidly at this time, and Canada's surplus with its trading partner was substantial. Nevertheless, Canadian exporters were becoming concerned about the growing number of Canada-U.S. trade disputes, for instance, the U.S. imposition of countervailing duties on Canadian cedar shakes, shingles, and pork. Rising concern in Canada about its trading relations with the United States regarding increasing incidents of U.S. protectionism, and worries about low productivity and a lack of competitiveness in much of Canada's manufacturing sector, together led to a revival of interest in free trade with the United
States, and subsequently with Mexico.

**SUMMARY/CONCLUSION:**

Over the years, the Canadian state has swung back and forth between its desire for more or less economic ties with the United States, and Canadians themselves have been fundamentally ambivalent about their relationship with their most important trading partner. However, because of Canada's desire to retain a decisive measure of industrial sovereignty that would be lost in a more extensive form of regional economic union, the idea of a continental free trade agreement has always seemed to be a radical departure. It was felt that any comprehensive free trade deal would prevent the federal government from making full use of the industrial instruments that allowed the country to grow in the first place.

For over a century, Canada has debated its trading relations with its most valued partner. Historically, discussions between the United States and Canada over reciprocity or sectoral free trade have intensified whenever economic times were bad. The 1854 Reciprocity Treaty rescued British North America from an economic downturn, and the 1911 Reciprocity Agreement was launched at a time when Canadian economic prosperity was coming to an end after a lengthy boom, while the 1935 and 1938 tariff reductions occurred in the gloom of the Depression. The trade negotiations of 1948 took place during a period of postwar dislocation, while the 1965 Auto Pact was initiated at a time when the Canadian auto industry
seemed to be in jeopardy of declining unless certain safeguards for Canadian auto products and workers were met. Similarly, Canada's interest in free trade by the mid-1980s had its roots in a shaky economy. With rising concerns over Canada's place in the global economy after a long history of resisting the notion of a comprehensive free trade agreement with the United States, not only is Canada currently committed to free trade with the U. S., but also with a third partner in Mexico.

The important question is not whether Canada should trade with the United States and Mexico; in fact, the three countries have been trading with one another for many decades, not to mention the fact that the U.S.is Canada's biggest export market and vice versa. The real issue is whether Canada should pursue a relatively independent industrial policy, or should acquiesce in a continental model controlled by market forces. The following chapter analyses Canada's Fordist mode of industrial development, and traces the evolution from Fordism to Neoconservatism.
CHAPTER 2

FROM FORDISM TO NEOCONSERVATISM

CANADA'S REGULATORY FRAMEWORK

Government regulation has been a central component of the state's expansion in the twentieth century. Regulation is part of the reality of modern capitalism, and stands in marked contrast to laissez-faire economics and free-market competition. In Canada, the extent of regulation is so broad that regulation is often regarded as encompassing virtually everything government does. However, authors, Schultz and Alexandroff offer a more precise definition of regulation that includes to important themes. First, regulation involves some sort of government restriction or constraint on the behaviour of businesses and individuals. Second, regulation involves the use of state coercion rather than incentives, with the proviso that regulated firms and individuals do not always object to such coercion.\(^{16}\) This definition distinguishes regulation from other forms of government intervention in the economy such as public spending and taxation; hence, regulation is just one of many instruments governments use to achieve certain goals. This chapter discusses Canada's economic and social regulations, and traces Canada's Fordist model of development from World War II to the early 1980s.

According to regulation theory, economic and industrial crises caused by either over production or under consumption should be a natural occurrence in capitalist societies. Yet, capitalism has experienced long periods when production coincided with society's consumption needs, thereby maintaining a level of predictable economic growth. Government's ability to intervene in economic and industrial matters has been credited with fostering greater confidence in economic success. The economic and industrial policies that influence both production and consumption not only ensure predictable growth and economic stability, they also constitute a regime of accumulation in capitalist societies. Maintaining a regime of accumulation depends on a particular set of strategies that constitute a mode of regulation. A regime of accumulation and a mode of regulation together form a mode of development such as the Fordist model.

Regulation of economic and industrial activity is one of the principal functions of governments in all industrialized countries, although it may vary in intensity from one country to another. In industrialized countries, the state has become an integral part of the system of production, distribution, and planning. A system of production needs to be managed, and this is done by governments overseeing and regulating the economic and social compromises made between the state, labour, and business.

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17 Christopher Merrett Free Trade: Neither Free Nor About Trade (Montreal: Black Rose Books, 1996). p.3
In Canada, the pervasiveness of regulation is readily apparent. An early study by the Economic Council of Canada revealed that there was hardly any area of industrial activity that was not regulated in some way. Businesses frequently complained about the additional work and costs that regulation imposes, yet some forms of regulation actually encourage or stabilize businesses. Regulation that affects industrial policy is commonly divided into two broad types, namely, economic regulation and social regulation.

**ECONOMIC REGULATION:**

Economic regulation is concerned primarily with regulating the market conditions under which businesses operate. One of the fundamental responsibilities of governments in any modern capitalist society is to provide an environment where businesses can continue to be profitable. By regulating key elements of the national economy, governments can achieve three important goals.

First, they can preserve the economic health and long-term viability of crucial sectors of the national economy by regulating the conditions of competition through price controls, and by adjusting the rate of return on investment. For example, government regulates the prices that certain businesses can charge their

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18 Brooks and Stritch, op. cit. p.331

19 Brooks and Stritch, op. cit. p.334
customers. This occurs in the telephone and cable television industries where companies have a monopoly, or enjoy dominant positions in the market. However, prices can also be regulated where competition exists as with gas companies. The National Energy Board, among other things, is mandated to regulate the tolls and tariffs that gas companies can charge. In most cases, price regulation is intended to prevent consumers from being exploited but, in some instances, price regulation can be used to protect and stabilize industries. For example, prior to deregulation, domestic airfare regulations served to prevent a price war in the airline industry.

Second, economic regulation also restricts the entry of certain industries into the marketplace. An example of this type of restriction would be new competitors coming into the broadcasting industry; in particular, radio and television stations cannot operate without a licence from the Canadian Radio-Television and Telecommunications Commission (CRTC). This restriction prevents the airways from being swamped by too many signals, and allows the CRTC to enforce certain standards such as a minimum amount of Canadian content in programming. However, government regulation must be exercised judiciously. Because increased costs in one industry can mean increased costs in another, government has the difficult task of reconciling the competing objectives and interests of different businesses. Ultimately, no government wants to jeopardize core industries, nor does any government want to
penalize businesses in general.

Third, government regulation can also place a limit on the quantity of goods produced through mechanisms such as quotas. The allocation of quotas in the fishing industry restrict the number and size of fish stocks and vessels, and the type of fishing gear that can be used. The principal aim of quotas in the fishing industry is to conserve fish stocks and to protect incomes by limiting competition. Similar types of restrictions are used to regulate some agricultural produce. For example, the Canadian Wheat Board is not only responsible for managing the supply of wheat, but also for protecting the incomes of wheat farmers. Since the supply of wheat varies depending on the harvest in a given year, prices will fluctuate widely. In order to limit competition and to stabilize farm incomes, the Wheat Board limits the supply of wheat through quotas. Marketing boards are also a response to situations where farmers operate under competitive conditions but sell to monopolistic or oligopolistic agencies. In such situations, the overall value of marketing boards is to strengthen the bargaining power of farmers and the agricultural industry.

**SOCIAL REGULATION:**

Social regulation is more recent in terms of industrial practices, and includes a mix of economic and social goals. For example, health and safety regulations include the protection of consumer goods, the transportation of hazardous substances, and safety in
the workplace. If left to regulate themselves, many businesses would ignore social concerns, especially if such concerns increase business costs. Social regulation often imposes additional costs on businesses either in the form of capital expenditure, increased labour costs, or the increased paperwork that new policies entail. However, public pressure or pressure from well-organized groups such as environmental groups and trade unions provide a strong incentive for social regulation, particularly in matters related to pollution and health and safety issues. Food processing companies, which are regulated under the Canadian Agricultural Products Standards Act, must conform to strict standards including sanitary conditions in processing plants, and rigorous standards of quality for food, especially fruit and vegetable produce, and packaging material as well.

In certain circumstances social regulation with an economic component can give companies a competitive edge, even if it imposes greater costs. For example, when the federal government was considering legislation to regulate hazardous products, the Canadian Manufacturers of Chemical Specialties Association (CMCSA) lobbied for stricter regulation on product labelling than the government officially proposed. Since the CMCSA was already operating under a voluntary code of labelling ethics, it realized that mandatory government regulation would put greater financial
costs on companies that were not CMCSA members.\textsuperscript{20}

Environmental regulation covers pollution of the air and water, land use, and resource depletion such as the destruction of forests. Environmental issues have developed an increasingly high political profile over the years, and have encouraged a trend towards stricter control over polluters. One of the chief advantages of environmental regulation is that it is often a relatively cheap way of satisfying public demands while gaining voter support. In many instances, most of the regulatory cost is borne by businesses; therefore, government can be seen to take the initiative in promoting desirable social policies without the burden of spending monies on new programmes or raising taxes to pay for such programmes. When this happens, governments often take the credit for satisfying public demands without paying the cost; hence, throughout the Fordist era, the political success of social regulation pushed Canadian governments toward an expansion of their interventionist role.

The dilemma for government in implementing social regulation lies in trying to satisfy business demands for lower costs while attempting to satisfy public demands for greater control. This situation is especially difficult when companies compete with each other globally and need that cost advantage. Accordingly, business

\textsuperscript{20} Ibid. p.339
opposition to social regulation can become intense, and governments inevitably come under pressure to create a level playing field by reducing the burden of regulation to competitive levels. At a time when capital is becoming internationally mobile, governments face the threat of businesses relocating to other jurisdictions where regulatory standards are lax and where the return on investments is much more favourable. Clearly, this type of threat must be taken into account when regulatory policies are being contemplated.

**FORDISM & THE CANADIAN LABOUR MARKET:**

For much of this century and the last one, Canada has generally followed the American lead in industrial development and labour relations. For the first three decades of this century, Canadian businesses emulated the Americans who adopted the scientific management principles of F.W. Taylor, and from World War II to the early 1980s, Canadian businesses embraced the Fordist model of industrial development. As indicated in the introduction, the Fordist industrial model of development in Canada, as elsewhere, operated mainly on a cycle of production and down-time; in other words, as markets became saturated, factories closed, but re-opened as soon as demand increased. Accordingly, the Fordist model required considerable state intervention in terms of providing a social safety net to maintain some minimal standard of material support for employees during down-time. State intervention was therefore considered crucial, not only in the social realm, but also for macroeconomic management which called for the state to
promote such things as stable employment, collective bargaining, and high wages for workers.\textsuperscript{21}

The Fordist model of industrial development and labour relations was first introduced by the Roosevelt Administration in the United States during the Great Depression. The circumstances of the Depression provided the basis for important changes in the relationship between business, the state, and labour. In 1932, Franklin Roosevelt, who campaigned on the promise of a "New Deal," was elected president of the United States. Roosevelt's New Deal was generally taken to symbolize the more interventionist role that the U.S. government was prepared to play in the marketplace. Throughout his election campaign, Roosevelt gave some evidence of his sympathy for organised labour by pledging assistance for the "forgotten men at the bottom of the pyramid."\textsuperscript{22} When Roosevelt was first elected to office, the U.S. economy could best be described as being in a deflationary spiral. This meant that for manufacturers to sell their goods, they often had to cut prices, then after selling their goods at reduced prices, they proceeded to slash wages in order to bring costs in line. It would therefore fall to Roosevelt with his New Deal to revive the U.S. economy and

\textsuperscript{21} Leo Panitch and Donald Swartz \textit{The Assault On Trade Union Freedom: From Wage Controls to Social Contract} (Toronto: Garamond Press, 1993). p.245

\textsuperscript{22} Frank Kehoe and Maurice Archer \textit{Canadian Industrial Relations} (Oakville: Twentieth Century Labour Publications, 1991). p.80
industrial policy by accomplishing through state intervention what Ford had hoped to achieve by wage increases alone.

Shortly after Roosevelt's inauguration, a great volume of legislation was promptly passed, much of it intended to get the U.S. economy moving again. Legislation creating public works projects such as the Tennessee Valley Authority was aimed at creating jobs for the unemployed. Other legislation was designed to end the downward spiral in prices by allowing employers to form associations which got together to exchange information on pricing. One of the more important pieces of legislation to be enacted was the 1933 National Industrial Recovery Act (NIRA). Section 7A of this Act guaranteed the right of employees to join unions of their choice and to bargain collectively with their employers.\textsuperscript{23}

Although the primary purpose of the NIRA was to put people back to work, it meant far more than that to the American labour movement. With some protection from the law, unions launched organizing and recruiting campaigns everywhere. However, union aspirations were dealt a severe blow when the NIRA was declared unconstitutional in 1935.

Canada's version of the New Deal was introduced by Prime Minister R.B. Bennett in a desperate attempt to fend off what appeared to be certain defeat in the 1935 federal elections. But,

\textsuperscript{23} Ibid. p.81
like their American counterpart, many of Bennett's reform measures were ruled unconstitutional by the courts. Despite this set back for labour in the U.S. and Canada, a new and significant deal for U.S. unions emerged in 1935 with the passage of the National Labour Relations Act, more commonly known as the Wagner Act. The provisions of section 7A of the NIRA were incorporated into this Act but, based on their experience with the NIRA, many employers doubted the validity of this new legislation, and refused either in spirit or practise to carry out its provisions. However, in April of 1937, the U.S. Supreme Court validated the Wagner Act, and labour secured the legal backing for further reforms in industrial relations.  

Under the Wagner Act, the U.S. National Labour Relations Board was required to investigate all complaints of unfair labour practices attributed to management. The Board was also empowered to prosecute companies and persons involved in unfair labour practices, and to supervise elections to determine which union should be certified as the official bargaining agent of each bargaining unit. At first, there was no mention in the Wagner Act of possible unfair labour practices committed by unions. As a result, unions had very much a free hand in recruiting new members, but the Taft-Hartley Act of 1947 permitted unions to be prosecuted for unfair labour practices. The Act also provided for a Federal

\[24\] Ibid. pp.80-81
Mediation and Conciliation Service Department (FMCS) which would supply mediation services on request.25

Several unions including the American Federation of Labour and the new, but rapidly growing, Congress of Industrial Organizations found the Wagner Act, with its principle of compulsory union recognition and mandatory bargaining rights, to be a decisive boost in their efforts to increase membership. This was especially so after the Act was upheld by the U.S. Supreme Court. Not surprisingly, trade unions in Canada, most of which were affiliated with U.S. organizations, soon began pressing for similar legislation at home. One important result of this pressure from organized labour in Canada was the preparation of a draft bill by the Trades and Labour Congress (TLC). Ultimately, this pressure resulted in many provincial legislatures eventually enacting Wagner type legislation, some of which were based on the TLC's draft bill.

World War II disrupted Canadian labour relations. Armed with powers under the 1914 War Measures Act, the federal government temporarily re-established its supremacy in labour relations. Hence, just after the war began in 1939, the Canadian government, by Order in Council, extended the coverage of the 1907 Industrial Disputes Investigations Act (IDIA) to all industries involved in the war effort. The IDIA covered all the resource industries such

25 Ibid. pp. 42-43
as fishing, farming, lumber, mining, as well as most of the manufacturing industries. However, by 1940, the government revealed its intention to adopt a new and more comprehensive labour relations policy that closely resembled the Wagner Act.

During the war, more supportive provincial labour legislation began appearing on the statute books; especially important was the Ontario Collective Bargaining Act of 1943. This Act went beyond the pre-war legislation enacted by other provinces by providing the mechanism for both administration and enforcement. With the passage of the Ontario Collective Bargaining Act, Ontario labour legislation was brought more in line with that of the United States, although many workers in Ontario were still subject to an extended wartime IDIA. In 1944, Ottawa suspended the Industrial Disputes Investigations Act and replaced it with new labour relations regulations officially known as "Order in Council-PC 1003." Towards the end of the war, many unions used the provisions of PC 1003 to nail down first contracts with employers. Nevertheless, it is important to remember that PC 1003 was a wartime measure which was due to expire at the end of the war when most of the responsibility for industrial relations would return to the provinces.

26 Ibid. p.44
As World War II came to an end in 1945, much remained unresolved about the future of industrial relations in Canada. Workers and employers waited anxiously while the federal government extended the life of PC 1003 and other emergency legislation for another two years into the "reconstruction" era, and the federal government waited to see if relations between capital and labour would stabilize before introducing new legislation. A lot was therefore at stake when massive strikes erupted in almost every major industry between 1945 and 1947, often involving thousands of workers, and, in a few cases, spanning the whole country. At the height of the labour disputes (1945 to 1946), strikers shut down the entire British Columbia logging industry, the Ontario rubber industry, the central Canadian ports, the Southam newspaper chain, the country's entire steel industry, and dozens of mass production plants.27 These disputes were highlighted by a lengthy strike at the Ford Motor Company in Windsor, Ontario. The Ford strike was the catalyst for post-war industrial unions to insist that employers guarantee their stability by requiring all workers to join unions, and to deduct union dues from each worker's pay packet. The arbitrator in this lengthy dispute, Justice Ivan Rand, devised a compromise solution that was eventually adopted by several other major industries. Under the Rand Formula, employees were not required to join unions, but were required to pay union dues since they benefitted from favourable terms of employment that unions

27 Craig Heron The Canadian Labour Movement: A Short History (Toronto: James Lorimer & Company, 1989). p.84
negotiated. This 'check-off system,' as it was called, gave unions a secure financial base that went a long way in ensuring their survival.

By 1948, the federal government recognized that, despite the wartime shift in the balance of power between capital and labour, the balance still remained in favour of capital. In many industrial centres, thousands of workers maintained mass picket lines for weeks; their employers had just as stubbornly refused to budge, hoping to do away with unions, or, at least, to weaken them severely. Under the pressure of industrial unrest, the federal government was therefore moved to merge the IDIA with PC 1003 to form an amended piece of legislation called the Industrial Relations and Dispute Investigations Act (IRDIA). The IRDIA was the single most important piece of labour legislation in the post-war period because it ensured that the gains made by labour during wartime were not lost as returning soldiers flooded the labour market. The state thus intervened decisively in the face of considerable resistance from many capitalists. The goal was to keep industrial conflict from overflowing into more serious industrial and political challenges to the existing social order.

Ibid. p.85
Ibid. p.86
The seeds planted by Canadian unions in the 1930s and 1940s were beginning to take root by the early 1950s, and continued to sprout until about the mid-1970s. Determined industrial workers were prepared to stand their ground in order to keep their achievements from being rolled back by employers, and to ensure a better life for themselves in post-war society. But there were some important differences by 1950. For example, each of the strikes was preceded by lengthy negotiations that were closely monitored and mediated by state officials, in sharp contrast to the earlier refusal of employers to talk with union representatives and the government's willingness to use force in order to curb labour militancy. These new developments formed a framework that helped to shape a modern type of unionism. Bureaucratic tendencies that had existed within the North American labour movement since the early nineteenth century now proliferated. Canadian unions were far more preoccupied with negotiating and administering contracts than mobilizing masses of workers as they had done in the 1930s and early 1940s. The most important skills for effective union leadership were not the ability to hold union rallies or to maintain picket lines, but to engage in closed-door, across-the-table negotiations with management.

The period 1950 to 1975 was a major watershed in the history of the Canadian labour movement and industrial relations. As mentioned earlier, before 1940, workers seldom overcame the stubborn resistance of employers, and were rarely successful in
convincing the state to intervene decisively on their behalf. The unusual circumstances of wartime gave unions an opportunity to recruit vastly more members, and to pose a serious enough industrial and political threat to force the state to enact new legislation providing for union recognition and compulsory collective bargaining. The general pattern paralleled that in the United States, but the timing was somewhat different. American workers had created a mass movement in the second half of the 1930s and entered the war with a more substantial organizational base that was expanded in the early 1940s. Their Canadian counterparts, on the other hand, remained ineffectively organized by the end of the 1930s and were just finding their feet by the end of the war.

FORDISM & KEYNESIANISM:
The great surge of new unionism was matched by the acceptance of what has been often referred to as Canada's second National Policy. This policy was forged by the Keynesian doctrine which created a widely acceptable economic, industrial, and social rationale for increased intervention by the state in capitalist economies. Keynesianism had at its core the premise that, in order to avoid destructive cycles of boom and bust in the economy, state interventionist policies were needed. This meant that it was critical for governments to control the fiscal instruments whereby they could influence the level of employment and economic activity through such policies as public spending and taxation.
The disastrous consequences of the Great Depression undermined the faith of many people, including economists, in the old orthodoxy of laissez-faire, and opened the way for a theory of the economic world that was not at odds with the Fordist model of industrial development. The importance of adopting Keynesian fiscal policy in Canada was to stabilize the business cycle and to ensure high levels of employment after the return of thousands of armed forces personnel; thus, Keynesian fiscal policy, adopted after the war, was, in effect, a stabilization policy. Prior to Keynesianism, the dominant view among economists was that the market was inherently stable and that market equilibrium was reached when demand matched supply. At this point, full employment was also possible.

The successful adoption of Keynesian fiscal policy also served the general interest of business by promoting the conditions for profitability. Some economists like John Kenneth Galbraith have argued that one of the most important aspects of Keynesianism in the post-war era was the decline in labour unrest, which provided the stable climate that encouraged more investment. Furthermore, social welfare polices geared to supplement the incomes of particular groups like families through family allowances, senior citizens through old age pensions, injured workers through workman compensation, and jobless individuals through unemployment insurance were among the most significant income maintenance programmes that comprised the planks of the welfare state.
Unemployment insurance (UI), which was a central pillar of Canada's social system, deserves special attention.

UNEMPLOYMENT INSURANCE:

Unemployment insurance, which began in 1943, was designed to protect workers against a loss of earnings caused by a loss of job, sickness, or maternity while avoiding the stigma of welfare. Since 1943, the UI programme has undergone radical changes, making it more generous by the 1970s. A 1981 Task Force Report revealed that UI benefits were the main source of income during the period of unemployment for almost two-thirds of claimants; as a result, 60 per cent of claimants did not have to cut their household expenses while 90 per cent were able to pay bills on time. The direct impact on the labour market was that only 25 per cent of claimants secured jobs at salaries below those paid in their previous jobs; therefore, unemployment insurance helped to avoid large wage sacrifices. However, some economists argue that avoiding large wage sacrifices impacts the economy negatively since UI serves as a disincentive to employment. They point out that since UI benefits reduce the cost of foregone wages, some claimants may be induced to quit their jobs more frequently, or to receive benefits longer than is necessary. As a consequence, this disincentive to find unemployment increases the unemployment rate. While there was always criticism of the Keynesian doctrine, the dominance of

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Keynesianism was not seriously challenged until the late 1970s and early 1980s.

**Fordism & the Trudeau Years:**

By 1970, it seemed that many Canadian workers never had it so good, and the early Trudeau years promised more of the same, albeit sold under the label of the "Just Society." The federal government had declared its commitment to steady employment and higher incomes. This commitment was aimed at avoiding or minimizing the cycles of severe boom and bust in the economy so that working-class living standards would not be unduly threatened. Yet, as many workers seemed to have found their feet, the earth was moving under them as the structures of capital accumulation were being reshaped once again.

For much of his early life, Pierre Trudeau was a staunch anti-nationalist. As a columnist in Quebec, he wrote anti-nationalist articles for the French language magazine—*Cite Libre*, which he helped to establish. However, as Prime Minister, Trudeau set in motion a series of overtly nationalistic industrial policies, all of which dealt with monitoring foreign investment in Canada.\(^{31}\)

First, in 1968, just before Trudeau became Prime Minister, the Canadian government published the *Report of the Task Force on the* 

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\(^{31}\) Merrett, op. cit. pp.67-68
Structure of Canadian Industry. This report, which was also known as the Watkins Report after its chairperson, a University of Toronto professor of economics and political science named Mel Watkins, recommended that an agency to screen foreign investment in Canada be created as well as a development corporation. The Canadian Development Corporation which emerged was responsible for offering incentives to Canadian entrepreneurs, and was also responsible for funnelling Canadian capital into domestically owned enterprises.

Second, a group of political strategists within the NDP, dubbed the "Waffle," published a manifesto in 1969 recommending that Canada follow the route of an independent socialist country. The manifesto, written by Jim Laxer and Mel Watkins, advocated nationalizing the means of production in Canada to more equitably distribute wealth to Canadians. The irony of this was that traditionally, Socialists were opposed to nationalist orthodoxy as a matter of principle. Earlier Socialists saw nationalism as an impediment to the development of international class consciousness. This tradition was reinforced by the fact that the major trade unions in Canada that were allied to the New Democratic Party were international in scope since they were branches of American unions. However, the Waffle, influenced by the anti-Americanism of the Vietnam War era and also by their admiration for the neo-nationalism of Quebec, broke decisively with this tradition.

Third, the Canadian government's Standing Committee on
External Affairs and National Defence issued its eleventh *Report of the Committee Respecting Canada-U.S. Relations* in 1970. Also known as the Wahn Report after its chairperson, this report recommended that the federal government limit the access of foreign transnational corporations (TNCs) to Canadian resources and corporations.

Fourth, in 1972, the Canadian government published perhaps the most comprehensive report on foreign investment in Canada at the time. The report titled *Foreign Direct Investment in Canada*, known also as the Gray Report, recommended that the federal government increase regulations governing foreign investment in order to reduce Canada's dependence on a foreign dominated, branch-plant economy. The report concluded that Canada was being dominated by an increasing number of "truncated firms" that did not carry out their own research, product development, or their strategic planning in Canada.\(^{32}\)

Finally, Mitchell Sharp, then Canada's secretary of state for external affairs, completed an evaluation of Canada's relations with the United States in the early 1970s. His findings were published in a 1972 report called *Canada-U.S. Relations: Options for the Future*. This report suggested that there were three main options that Canada could adopt in its relations with the United States. The first option was that Canada could maintain the status quo by

\(^{32}\) Ibid. pp.66-67
varying its policies between nationalism and continentalism as it had done for decades. The second option suggested that Canada abandon its nationalist pretensions and embrace the notion of closer integration with the United States. The third option recommended that Canada develop a more comprehensive industrial policy by increasing trade ties with other countries while reducing its economic dependence on the United States. The third option was based on the Fordist doctrine of promoting full employment, a guaranteed annual income, and increased government intervention in order to reclaim control of the Canadian economy. This option together with the other reports became the basis for much of the federal government's industrial policy in the 1970s and early 1980s. Paradoxically, Fordism was being reinforced in Canada at a time when conditions in the United States, Britain, and some other countries were beginning to deteriorate.33

One reason why unions in Canada fared better than their counterparts in the United States was the prominence of a social democratic party which enjoyed considerable popularity, especially in the West. The New Democratic Party (NDP) managed to protect many of the gains won by labour because even though the party never won a federal election, it has continued to exert much influence on the provincial scene. As recent as 1990, after years of neoconservative policies federally and provincially, the NDP was elected to office

33 Ibid. pp. 67-68
in Ontario which is generally regarded as Canada's industrial heartland. In the United State by contrast, labour could never rely on a pro-labour political party because even the Democratic Party is a brokerage party, some elements of which have a neo-conservative, pro-business bias. Without a pro-labour ally, the type of U.S. government commitment to unions that established the Wagner model in the 1930s began to weaken in the 1950s, and completely unravelled in the crisis of Fordism by the late 1970s.

Faced with a new climate of political and industrial nationalism in 1973, and supported by the NDP, Trudeau's minority Liberal government accepted the main recommendations of the Watkins and the Gray Reports to set up the Foreign Investment Review Agency (FIRA). Under FIRA, foreign investors had to demonstrate how they were going to help the Canadian economy to create more jobs, boost local procurement, promote exports, and how they intended to conduct research and development in Canada. In practice, FIRA could recommend to cabinet that proposed foreign investment be disallowed on the basis that it provided few significant benefits. FIRA therefore represented the first attempt at across-the-board regulation of direct foreign investment because previous restrictions were applied in specific strategic areas such as financial institutions, broadcasting, telecommunications, and uranium mining. However, FIRA became a target of simultaneous

34 Brooks and Stritch, op. cit. p.116
criticisms from different political directions; it was charged by business for being too restrictive while radical nationalists believed it was not restrictive enough.

Between 1974 and when it was disbanded in 1985, only about 7 per cent of the proposals reviewed by FIRA were rejected. Because of its low rejection rate, critics accused FIRA of being mainly a symbolic instrument, paying lip service to economic nationalism while doing little to block U.S. takeovers. Whatever the real impact of FIRA, the proportion of foreign ownership in Canada dropped from 37 percent in 1971 to 23.4 percent in 1985 which represented a bold attempt by the Canadian government to gain control over its industrial policy. FIRA also symbolized to Canadians that they could stand up to the demands of foreign capital by actually rejecting some external investments.

Perhaps the most controversial measure taken in reaction to foreign ownership of Canadian industry was the introduction in 1980 of the National Energy Programme (NEP). By discriminating in favour of domestic investors, the NEP was intended to increase the level of Canadian ownership in the foreign-dominated petroleum sector. The core of Trudeau's energy policy was built around purchasing the petroleum based subsidiaries of several foreign transnational companies including Petrofina of Belgium who sold oil, gas, and

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35 Ibid. p.116
coal in Canada, the American and French owned Hudson Bay Oil and Gas Company, and Gulf Oil of Canada which was a subsidiary of Gulf Oil in the United States.  

The rapid escalation of world oil prices engineered by the Organization of Petroleum Exporting Countries (OPEC) in the mid-1970s was the impetus for major changes in Canadian industrial policy. Trudeau felt that it was in Canada's best economic interest to convert oil rents, especially from resource rich provinces like Alberta, to build massive energy projects, to promote regional development, and to expand Canada's industrial base. But as the world price of petroleum levelled off and then dropped, Trudeau had to modify his nationalistic accumulation strategy. Although Fordist industrial development in Canada was clearly evident in the NEP, Fordism had begun coming apart a decade earlier in the United States.

THE DEMISE OF FORDISM IN CANADA:

Over the last fifteen years, several Western leaders have mounted attacks on a broad range of state interventionist policies. As indicated earlier, this assault was spearheaded by leading neoconservatives like Ronald Reagan, Margaret Thatcher, and Brian Mulroney. Their free-market strategies have become the nucleus of the neoconservative approach which is the heart and soul of a

36 Merrett, op. cit. p.68
broader global agenda imbedded in the free trade agreement. Neoconservatism is diametrically opposed to Fordism because the intent of Fordist government regulation and intervention in the marketplace differs explicitly from neoconservative laissez-faire economics and free-market theories.

A sense of crisis hovered over the North American economy by the late 1970s as the Fordist model of development was seriously challenged. In particular, it became especially difficult to explain the concurrent existence of increasing and persistent high unemployment and high rates of inflation which had been generally assumed under Keynesianism to have an inverse relationship to each other. In other words, if unemployment rose, it was expected that prices would decline as the purchasing power of consumers decreased. However, an unprecedented combination of rising unemployment and inflation (stagflation) was throwing the international economy into confusion. This combination of high unemployment and inflation cast doubt on the effectiveness of Keynesianism in regulating the economy, although some economists put much of the blame for the crisis in Fordism on the OPEC oil price increases of the early 1970s that devastated Western industries.

As Fordism faltered, the American economic empire began choking as global competitors such as West Germany (now Germany) and Japan set the new pace of capitalist growth. Of equal concern
was the impending alignment of an integrated Europe and the emergence of a powerful trading block, often referred to as Fortress Europe. Furthermore, ambitious Third World countries such as Mexico, Brazil, Taiwan, and South Korea were also emerging as major industrial competitors on the basis of cheap labour. A major criticism of the Fordist industrial model of development that started to surface was that mass production did not allow for innovation; hence, mass production provided everyone with the same product, thereby failing to meet the need for high quality, specialized goods. For example, large European firms such as Mercedez-Benz and BMW have long used a combination of mass production and traditional craft technologies to distinguish themselves as speciality producers. The slow approach by many North American companies in adopting a similar system of production led to a malaise in the American economy before the crisis reached Canada.

In 1980 Ronald Reagan was elected president of the United States replacing Jimmy Carter, who was blamed in part for being unable to spark economic growth in the face of the Fordist crisis. Although it should be noted that some deregulation and monetarism began while Carter was president, Reagan came to power on a

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sweeping platform of monetarism, deregulation, privatization, and an unfettered market. Meanwhile, Canada was regarded by neoconservatives as an obstacle in implementing the Reagan agenda. Both the FIRA and the NEP had caused considerable displeasure in Washington, and American transnational corporations complained to the new sympathetic Reagan Administration about Canadian restrictions on foreign investment. Undoubtedly, the Canadian government's interventionist, nationalist policies ran counter to Reagan's neoconservative free-market policy that formed the basis of his post-Fordist approach.

From 1981 onward, Trudeau's Fordist agenda came under intense pressure from the U.S. government, American corporate interests, and the American media. The *Wall Street Journal* and the *New York Times* ran articles denouncing Canada's energy and investment policies, while the U.S. Secretary of State, Alexander Haig, complained about Canada's protectionism.\textsuperscript{38} Ironically, Reagan believed that the solutions to the American economic malaise rested on increased protectionism at home while harassing other countries, especially Canada, into removing what the U.S. perceived as unfair trade barriers.

While the Trudeau government was attempting to maintain and even extend Fordism into the 1980s, the Canadian business community

\textsuperscript{38} Merrett, op. cit. p.70
was hostile to a host of market restrictions including corporate taxes, government regulations, powerful unions, high wages, and nationalist constraints on its continentalist aspirations. Trudeau's opponents in Canada, emboldened by American criticism, picked up the cause, and business lobby groups such as the Business Council on National Issues (BCNI) and corporate-influenced media like the *Globe and Mail* renewed their attack on Canada's Fordist model of development. They discredited the pursuit of Fordism as the recession intensified during early 1980s. It is worth noting that by using high interest rates to fight inflation, the Bank of Canada exacerbated the recession, and, in the end, made it more expensive for businesses to service loans or to invest in new plant and equipment. High interest rates only served to increase business bankruptcies and the unemployment rate. Faced with increasingly uncertain markets and stiffer global competition, Canadian businesses were beginning the desperate search for a new structure of capital accumulation that would guarantee them a secure place in the restructuring world economy. Businesses also believed that aggressive union demands put a squeeze on profits, resulting in much insecurity and uncertainty in business-planning. The "crime" attributed to organized labour was that of simply using the structure of collective bargaining that all parties accepted in good faith.

Constant pressure from the Americans and their Canadian counterparts paid off in 1982 when Trudeau first restricted the
freedom of government employees to strike. He also imposed a set of wage controls similar to those he imposed in 1975. Provincial governments of every political stripe followed with similar restraints on provincial workers. During this period, Trudeau also shuffled his cabinet and replaced the nationalist Herb Grey with the continentalist Edward Lumley as Minister of Industry, Trade, and Commerce. Moreover, Trudeau put one of his most talented ministers, Marc Lalonde, in charge of the ministry of finance so as to better respond to the needs of the business community. Lalonde, who was the chief architect of the NEP which was a basic tenet of Fordist development in Canada, was now asked to promote neoconservative policies. The appointment of Lalonde and Lumley to powerful cabinet positions signified that a decisive watershed had been crossed; Canada was shifting from a nationalist, Fordist model of development to a continentalist, neoconservative model. Policy statements from the BCNI were beginning to receive increasing attention from the Trudeau government including the recommendation that the federal government set up a commission to study the economy. It was clear from the final recommendations of the Macdonald Commission, which was asked by Trudeau to study the economy, that the priority had been given to business interests.

The Macdonald Commission catered to the neoconservative agenda by


40 Merrett, op. cit. p.71
recommending lower job related compensation and lower benchmarks for social assistance.

By promoting a pro-business environment, the Macdonald Commission was creating the conditions where businesses in Canada could more easily implement a post-Fordist, or neoconservative agenda. The strategy was to save money by cutting unemployment benefits, and, at the same time, to send a message to workers that conditions were getting worse for the unemployed so that workers should be content with their current employment situation because the Welfare State could no longer provide a satisfactory standard of living. By increasing a sense of insecurity in the labour market, it was argued that workers would be more willing to make concessions in order to hold on to their existing jobs. The problem was how to convince workers that their jobs were really at risk unless they accepted wage concessions and more flexible production techniques. The Macdonald Commission provided the answer when it recommended that Canada enter into a free trade agreement with the United States. Although Trudeau seemed resigned to accepting some neoconservative polices, he retired as prime minister before the Liberals were eventually voted out of office in 1984. One year after Trudeau's departure, both the NEP and the FIRA had disappeared; the NEP collapsed simultaneously with world oil prices while the FIRA was scrapped. Thereafter, the pace of Canada's march from Fordism to Neoconservatism accelerated as Brian Mulroney's Progressive Conservatives came to office with a definite
pro-business, pro-market agenda inherent in the free trade agreement.

**SUMMARY/CONCLUSION:**

The controversy over the appropriate amount of state intervention through regulation is, in effect, a debate over the appropriate role of the government in the economy, the labour market, and industrial policy, especially since many regulatory agencies are multi-functional, combining legislative, executive, and adjudicative functions in one body. The debate over government regulation is often caught in a political crossfire between neoconservatives, who call for less government intervention, and those who believe that regulation of the Fordist type is necessary to deal with the complexities of market and non-market aspects of the economy. For instance, there is growing concern by neoconservatives not only about the direct and indirect cost of government regulation, but also about the notion that regulations impose undue constraints on economic activity and economic efficiency. Once seen as a justifiable strategy for correcting market failures during the Fordist era, government regulation in a neoconservative age is seen as an inefficient and costly form of disguised protectionism.

While there are mounting attacks on government regulation today, continuing calls for new regulation or more intense levels of regulation are still being made by some interest groups. There
have been recurrent complaints from unions and environmentalists, for example, about the failure of government to enforce the provisions of certain regulations, and about the inadequacy of penalties for breaking regulatory standards, especially occupational health and safety in the workplace and environmental protection. Defenders of regulation argue that the market mechanism cannot take account of all the relevant values and interests in a complicated, interdependent economy since many of the values protected by regulation do not have a ready dollar-value.

The issue of whether there is too much, or not enough, regulation depends upon whose interest is at stake (business person or bureaucrat). Certain types of regulation are regarded as more intrusive than others, while others may be viewed more neutrally, or even positively. Although regulation is usually considered a distinctive form of government activity, there is little agreement between neoconservatives and those with Fordist tendencies about its essential nature in industrial policy.

The CUFTA/NAFTA was sold to Canadians as a mere free trade agreement, but, in reality, it is a comprehensive agreement for the economic integration of Canada with the United States and Mexico. Canada entered the negotiations with the often repeated warning from critics that its industrial base would be seriously eroded, and investments would move south of the border. Many critics felt that the most immediate effect of free trade would be
the accelerated de-industrialization of Canada; in other words, Canada would be transformed from a manufacturing economy to a warehouse economy.

Once negotiated and implemented, supporters of the deal argued that it would encourage the process of industrial adaptation and improved resource allocation. The prediction was that the most likely outcome of this process would be greater productivity, more investment, better wages, a lower employment rate, and generally, more prosperity for Canadians. Although it was acknowledged that jobs in declining (sunset) industries would be lost, it was argued that lost, low-wage jobs would be replaced by high-skilled, high wage jobs in high-tech (sunrise) industries. However, the question that must be addressed is how is Canada doing so far under free trade? The following two chapters analyse Canada's employment situation, evolving wage structure, and investment opportunities under free trade.
CHAPTER 3

THE IMPACT OF FREE TRADE ON JOBS & WAGES

Whether Canadians support or oppose free trade, most agree that economic adjustments are occurring under the CUFTA/NAFTA. Those who supported the agreement argued that the adjustments would be short-term and manageable because most tariffs have already been eliminated or reduced under the General Agreement of Tariffs and Trade (GATT), and that the CUFTA/NAFTA provides a lengthy period in which the remaining tariffs will be eliminated. This lengthy period, they claim, should ease the adjustment process. They further argued that free trade would promote positive economic growth, and although some workers would lose their jobs and be forced to find new ones, there would be plenty of new employment opportunities as productivity increased under the trade agreement. In fact, they predicted a healthy net increase in domestic employment. Moreover, free trade supporters expect that, in the long term, free trade will not only create more jobs, but will also result in better working conditions and higher paying jobs for Canadian workers as local industries benefit from the agreement.

By contrast, those who opposed the agreement contended that the agreement would lead to a massive net reduction in jobs. They argued that workers in protected industries such as textiles, footwear, and food processing would lose their jobs. Those who
opposed the deal also argued that the number and quality of jobs would decline as investors would view Canada as on the periphery of industrial activity and not an attractive location for manufacturing, research and development, high technology, or managerial excellence. Thus, according to opponents, free trade will be devastating to the Canadian workforce.

Throughout 1988, the year before the Canada-U.S. free trade agreement became operational, estimates of job creation in Canada varied widely. The Economic Council of Canada (ECC), for example, estimated that between 251,000 and 300,000 jobs would be created by the end of 1998. Informetrica Ltd., a private forecasting and information company, estimated that there would be a net increase of between 150,000 and 200,000 jobs over the same period. However, the Canadian Labour Congress (CLC), which opposed the trade deal, predicted that by 1998 as many as 800,000 workers would be displaced by free trade. The ECC's preliminary estimates put the number of displaced workers at 50,000 instead of 800,000.  

Many of the predictions regarding the exact impact of the CUFTA should be treated with caution. Predictions made by both freetraders and opponents were speculative at best because no economic model can accurately predict how industries will react under changing economic conditions. However, in order to assess how the Canadian workforce has been doing under free trade, this thesis is obliged

41 Canadian Foundation for Economic Education, op. cit. pp. 23-24
to rely on certain key data.

Before analyzing the data, it is important to acknowledge four caveats. The first thing that should be noted is that a job crisis existed in Canada before free trade. This crisis was due, in part, to the recession of 1981-82 and to the continuing improvement of labour-saving technology. Furthermore, the crisis was not confined to Canada; it was widespread, in varying degrees, throughout the industrialized world and developing countries. The second point is that a high Canadian dollar, designed to fight inflation, coupled with another recession between 1990-92, accounted for a subsequent surge of job losses in the early 1990s. Thirdly, it must be remembered that neither the CUFTA nor the NAFTA was intended to produce instant results. Some trade experts insisted that it would take at least five to ten years after the signing of the CUFTA before an adequate study could be undertaken to determine the impact on jobs and wages. Although some trends are yet to make their impact, after more than eight years of restructuring under the CUFTA, trends like downsizing and a downward pressure on wages are now becoming clear. The fourth caveat is that the recession of the early 1980s resulted in a growing number of temporary jobs. Particularly noticeable since the 1980s has been the growing number of individuals who work part-time because they are unable to find full-time employment.
Job losses in the manufacturing sector are particularly pivotal because of the spinoffs they generate in other sectors of the economy. Manufacturing jobs are important because their multiplier effect on the economy is between three to four times greater than that of service-sector jobs. Whereas one manufacturing job may spin off as many as three secondary jobs, a service-sector job may only generate one job. In fact, many service-sector jobs exist to provide information for or about the manufacturing sector.⁴²

The magnitude of the job loss crisis in the manufacturing sector since the CUFTA is revealed in data published by Statistics Canada. Data from Statistics Canada not only provide the broadest picture of the crisis, but are generally regarded as reliable and neutral. The data on job losses in manufacturing by industry show that, in many cases, the destruction was catastrophic, especially when it is realized that the manufacturing sector, which as a whole added 262,000 jobs (16%) between 1983 and 1988, went into a tailspin, losing one-fifth of its workforce (384,000 jobs) in the first three years of free trade (Jan.1989 to Jan.1992). Examples of substantial job losses include the food and beverage industry which lost 32,000 jobs (14.3%), the clothing industry which lost 34,000 jobs (35.3%), the pulp and paper industry which lost 14,000 jobs (11.7%), the printing and publishing business which lost

⁴² Merrett, op. cit. pp.170-171
28,000 jobs (19.7%), the furniture and fixtures industry which lost 22,000 jobs (34.4%), the automotive and automotive parts industry which lost 23,000 jobs, metal fabricating industries which lost 43,000 jobs (26.6%), and the primary metals industry which lost 18,000 jobs (18.2%).

Although the primary metals industry was losing jobs throughout the 1980s, the pace accelerated rapidly after 1988. The two major industries that created jobs during this period were the aircraft industry which generated only 1,000 jobs (+3.4%), and the petroleum and coal industry which accounted for 3,000 new jobs (+13.0%).

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44 Bruce Campbell and Andrew Jackson "Free Trade: Destroyer of Jobs" (Ottawa: Policy paper by the Canadian Centre for Policy Alternatives, 1993). p.5

45 Statistics Canada, op. cit. Table 1
<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Jobs Lost</th>
<th>Percentage of Jobs Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Beverages</td>
<td>-32,000</td>
<td>-14.3</td>
</tr>
<tr>
<td>Rubber and Plastic</td>
<td>-21,000</td>
<td>-27.5</td>
</tr>
<tr>
<td>Clothing</td>
<td>-34,000</td>
<td>-35.3</td>
</tr>
<tr>
<td>Textiles</td>
<td>-18,000</td>
<td>-28.2</td>
</tr>
<tr>
<td>Wood Industries</td>
<td>-36,000</td>
<td>-32.5</td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>-22,000</td>
<td>-34.4</td>
</tr>
<tr>
<td>Pulp and Paper</td>
<td>-14,000</td>
<td>-11.7</td>
</tr>
<tr>
<td>Printing and Publishing</td>
<td>-28,000</td>
<td>-19.7</td>
</tr>
<tr>
<td>Primary Metals (Iron and Steel; Smelting)</td>
<td>-18,000</td>
<td>-18.2</td>
</tr>
<tr>
<td>Metal Fabricating Industries</td>
<td>-43,000</td>
<td>-26.6</td>
</tr>
<tr>
<td>Machinery</td>
<td>-22,000</td>
<td>-22.3</td>
</tr>
<tr>
<td>Aircraft</td>
<td>+1,000</td>
<td>+3.4</td>
</tr>
<tr>
<td>Auto/Auto Parts</td>
<td>-23,000</td>
<td>-16.1</td>
</tr>
<tr>
<td>Electrical Products</td>
<td>-24,000</td>
<td>-19.2</td>
</tr>
<tr>
<td>Non-Metallic Mineral Products</td>
<td>-11,000</td>
<td>-21.3</td>
</tr>
<tr>
<td>Petroleum and Coal</td>
<td>+3,000</td>
<td>+13.0</td>
</tr>
<tr>
<td>Chemicals</td>
<td>-5,000</td>
<td>-5.6</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>-384,000</strong></td>
<td><strong>-20.5</strong></td>
</tr>
</tbody>
</table>

Source: Statistics Canada Catalogue #72-002- Employment, Earnings and Hours

*The totals include other miscellaneous sectors.
Although the manufacturing sector was hit the hardest, the service sector, where a large majority of Canadians were employed, also suffered net losses. To get a more comprehensive picture of what happened to jobs in this sector, this thesis examines the evidence contained in a 1993 Statistics Canada survey of selected businesses. The survey, which examined labour market activity between December 1988 and December 1992, revealed that the transportation industry (air, truck, railway and related services) lost 36,000 jobs (39.7%), the wholesale/retail trade lost 75,400 jobs (6.3%), while the accommodation and foodservices business saw 65,500 jobs disappear (9%). Surprisingly, even business services as a whole shed a net 9,400 jobs (2%) with the hardest hit being advertising services which lost 10,800 (34.3%), while the financial services sector made modest gains, creating 8,400 new jobs (1.8%).

What is most striking is that employment in all major private sector job categories was at best stagnant, and at worst reduced by a staggering one-third or more jobs. Only gains in major public service sectors kept the overall job situation from being much worse. For example, educational services created 67,100 jobs (7.9%), health and social services created 49,000 jobs (4.6%), while government administration added 32,400 jobs (4.9%).

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47 Ibid. Table 2
It is clear that despite some positive signs in a few sectors, the job creation numbers have been minuscule, and there is no impending sign of substantial job creation in an expanding high-technology knowledge sector. Again, Statistics Canada data from December 1988 to December 1992 bear this out. An assessment of nine major industries, that Statistics Canada described as belonging to the high technology knowledge sector, revealed that transportation equipment lost 27,100 jobs (12.2%), rubber and plastics lost a further 21,200 jobs (27.4%), the electronics industry lost 36,300 jobs (22.3%), the machinery industry lost 24,700 jobs (28.8%) while the chemical industry lost 7,000 jobs (7.8%). On the positive side, the pharmaceutical industry added 2,000 jobs (+19.5%), the accounting and bookkeeping services sector created 3,900 jobs (+9.3%), management consulting services added 13,000 jobs (+26.7%), while computer and related services were responsible for generating 7,800 additional jobs (+18.5%).

Although most of the evidence on job creation in the high-technology knowledge sector is clear, the picture is less clear in the pharmaceutical industry with respect to future job growth. For instance, exports doubled between 1989 and 1992, but so did imports. In fact, the pharmaceutical industry suffered a net

48 Statistics Canada, "Canadian Economic Observer" (Ottawa: Supply & Services, September, 1992) pp.4-9

49 Statistics Canada, op. cit. Table 2
deficit between 1989 and 1992.\textsuperscript{50} This suggests that the future of job growth in the pharmaceutical industry remains uncertain since theoretically, jobs are created when exports exceed imports (net exports). On the other hand, although exports of mechanical machinery grew slowly, Canada continued to have substantial trade deficits in the mechanical machinery industry amounting to more than $14 billion in 1992.\textsuperscript{51} What is even more disturbing is that according to U.S. International Trade Commission figures, resource exports from Canada rose by US$ 3 billion between 1988 and 1992, casting some doubt on the prediction that more value-added exports will occur under free trade. Meanwhile, a huge increase in U.S. manufactured imports turned a 1988 U.S. deficit of US$ 12.9 billion into a U.S. surplus of US$ 3.5 billion by 1992.\textsuperscript{52}

\textsuperscript{50} Campbell and Jackson, op. cit. 10

\textsuperscript{51} Ibid. p.10

\textsuperscript{52} Ibid. p.10
### TABLE 2


<table>
<thead>
<tr>
<th>Industry</th>
<th>Dec. 1988 000s</th>
<th>Dec. 1992 000s</th>
<th>Change 000s, 88-92</th>
<th>Change % 88-92</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logging and Forestry</td>
<td>60.1</td>
<td>52.2</td>
<td>-7.9</td>
<td>-13</td>
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<tr>
<td>Mining quarrying and oil wells</td>
<td>155.4</td>
<td>119</td>
<td>-36.4</td>
<td>-23.4</td>
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<tr>
<td>Manufacturing</td>
<td>1,932.2</td>
<td>1,542.4</td>
<td>-389.9</td>
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<td>Food</td>
<td>191.5</td>
<td>167.4</td>
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<td>-12.6</td>
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<td>Beverages</td>
<td>23.5</td>
<td>24.2</td>
<td>-8.3</td>
<td>-25.5</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>5.5</td>
<td>5.0</td>
<td>-0.5</td>
<td>-10</td>
</tr>
<tr>
<td>Plastic products</td>
<td>56.3</td>
<td>37.1</td>
<td>-19.2</td>
<td>-34.1</td>
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<tr>
<td>Leather and allied products</td>
<td>21.5</td>
<td>13.7</td>
<td>-7.8</td>
<td>-36.3</td>
</tr>
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<td>Primary textiles</td>
<td>23.4</td>
<td>18.1</td>
<td>-13.1</td>
<td>-23.2</td>
</tr>
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<td>Textile Products</td>
<td>32.7</td>
<td>25.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Clothing</td>
<td>119.9</td>
<td>72.4</td>
<td>47.5</td>
<td>-39.6</td>
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<td>Wood</td>
<td>117.7</td>
<td>90.3</td>
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<td>-23.3</td>
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<td>Furniture and fixtures</td>
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<td>43.5</td>
<td>-18.9</td>
<td>-30.1</td>
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<td>Paper and allied products</td>
<td>125.4</td>
<td>102.7</td>
<td>-22.7</td>
<td>-18</td>
</tr>
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<td>Printing, publishing and allied industries</td>
<td>143.8</td>
<td>129.8</td>
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<td>-9.7</td>
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<td>Primary metals</td>
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<td>78.0</td>
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<td>-22.2</td>
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<td>Primary steel</td>
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<td>Fabricated metal products</td>
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<td>Machinery</td>
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<tr>
<td>---------------------------------------</td>
<td>--------</td>
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<td>--------</td>
<td>--------</td>
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<td>Transportation equipment</td>
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<td>195.0</td>
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<td>Motor vehicles</td>
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<td>53.2</td>
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<td>+17.9</td>
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<td>Motor vehicle parts and accessories</td>
<td>88.8</td>
<td>71.1</td>
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<td>-20.0</td>
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<tr>
<td>Electrical and electronic products</td>
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<td>126.6</td>
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<td>-22.3</td>
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<td>Major appliances</td>
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<td>5.8</td>
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<td>-38.9</td>
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<td>Communication and other electronic equipment</td>
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<td>64.2</td>
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<tr>
<td>Office, store and business machines</td>
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<td>14.0</td>
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<td>-10.8</td>
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<tr>
<td>Non-metallic mineral products</td>
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<td>-27.8</td>
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<td>Refined petroleum and coal products</td>
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<td>Chemical and chemical products</td>
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<td>21.5</td>
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<tr>
<td>Construction</td>
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<td>350.5</td>
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<tr>
<td>Goods producing industries</td>
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<td>2,196.6</td>
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<td>Transportation, comm. and other utilities</td>
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<td>Transportation and storage</td>
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<td>431.4</td>
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<tr>
<td>Air Transportation</td>
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<td>53.3</td>
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<td>-19.6</td>
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<td>Truck transportation</td>
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<td>113.4</td>
<td>-18.3</td>
<td>-13.9</td>
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<td>Public passenger transit systems</td>
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<td>79.1</td>
<td>+10.3</td>
<td>+15.0</td>
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<td>Telecom, comm. and broadcasting</td>
<td>36.1</td>
<td>38.4</td>
<td>+2.3</td>
<td>+6.4</td>
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<td>Postal and courier service</td>
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<td>103.7</td>
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<td>Finance insurance and real estate</td>
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<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Finance and insurance</td>
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<td>469.7</td>
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<td>Service producing industries</td>
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<td>-7.9</td>
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<td>-------------------------------------------------------</td>
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<td>--------</td>
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<tr>
<td>Business services</td>
<td>487.4</td>
<td>478.0</td>
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<td>-2.0</td>
</tr>
<tr>
<td>Computer and related services</td>
<td>42.1</td>
<td>49.8</td>
<td>+7.8</td>
<td>+18.5</td>
</tr>
<tr>
<td>Accounting and bookkeeping services</td>
<td>41.8</td>
<td>45.7</td>
<td>+3.9</td>
<td>+9.3</td>
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<td>Advertising services</td>
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<td>20.7</td>
<td>-10.8</td>
<td>-34.3</td>
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<td>Arch. eng. and other scientific and technical services</td>
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<td>88.6</td>
<td>-1.3</td>
<td>-1.4</td>
</tr>
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<td>Offices of lawyers and notaries</td>
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<td>54.8</td>
<td>-6.5</td>
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<td>919.3</td>
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</tr>
<tr>
<td>Health and social services</td>
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<td>1,113.5</td>
<td>+49.0</td>
<td>+4.6</td>
</tr>
<tr>
<td>Accommodation, food &amp; beverages services</td>
<td>7.7</td>
<td>666.2</td>
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<td>-9.0</td>
</tr>
<tr>
<td>Federal administration (excl. military)</td>
<td>250.5</td>
<td>266.0</td>
<td>+32.4</td>
<td>+4.9</td>
</tr>
<tr>
<td>Provincial administration</td>
<td>221.4</td>
<td>225.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Local administration</td>
<td>191.6</td>
<td>204.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Service producing industries</td>
<td>7,609.8</td>
<td>7,576.3</td>
<td>-33.5</td>
<td>1</td>
</tr>
<tr>
<td>Industrial aggregate</td>
<td>10,339.4</td>
<td>9,772.9</td>
<td>-566.5</td>
<td>-5.5</td>
</tr>
</tbody>
</table>

Source: STATISTICS CANADA: EMPLOYMENT EARNINGS AND HOURS
Clearly, the cumulative job losses in the manufacturing sector is the single major reason why the unemployment rate in Canada skyrocketed from 7.5 per cent in 1989 to 11.3 per cent in 1992, and job losses during period have been disproportionately borne by that sector. In the 1981-82 recession, total employment in manufacturing fell by 13.6 per cent while total employment in the whole economy fell by only 5.5 per cent. In the 1990-92 recession, total employment in manufacturing fell by 17.9 per cent, while total employment in the whole economy fell by only 3.6 per cent. Moreover, manufacturing jobs returned relatively rapidly after the 1981-82 recession because most layoffs then were temporary rather than permanent. Statistics from the Ontario Department of Labour revealed that while one in five workers laid off in 1982 was due to permanent plant closures, the comparable figure during 1990-92 was three in five workers. In comparing both recessions, one major difference is clear; most of the workers who lost their jobs in the early 1980s either found new ones or were eventually rehired by the companies that laid them off in the first place because


55 Ibid. p.5
those companies did not close permanently. In fact, manufacturing employment began growing as soon as the economy as a whole started to grow, and 130,000 of the jobs lost in 1981-82 were regained by 1983.\textsuperscript{56} By contrast, manufacturing job losses continued through 1992,\textsuperscript{57} even after a modest recovery began.

\textsuperscript{56} Ibid. p.5

TABLE 3

Changes in Manufacturing Employment
September 1991-September 1992

<table>
<thead>
<tr>
<th>Industry</th>
<th>Change in Number of jobs</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Beverages</td>
<td>-400</td>
<td>-0.2</td>
</tr>
<tr>
<td>Rubber and Plastics</td>
<td>-19200</td>
<td>-25.8</td>
</tr>
<tr>
<td>Clothing</td>
<td>15100</td>
<td>-16.9</td>
</tr>
<tr>
<td>Textiles</td>
<td>-7100</td>
<td>-15.9</td>
</tr>
<tr>
<td>Wood</td>
<td>-800</td>
<td>-0.8</td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>-3200</td>
<td>-6.5</td>
</tr>
<tr>
<td>Pulp and Paper</td>
<td>-8300</td>
<td>-7.5</td>
</tr>
<tr>
<td>Printing and Publishing</td>
<td>-4400</td>
<td>-3.3</td>
</tr>
<tr>
<td>Primary Metals</td>
<td>-3000</td>
<td>-3.5</td>
</tr>
<tr>
<td>Fabricated Metal Products</td>
<td>-1500</td>
<td>-1.2</td>
</tr>
<tr>
<td>Machinery</td>
<td>-1100</td>
<td>-1.7</td>
</tr>
<tr>
<td>Aircraft/Aircraft Parts</td>
<td>-2500</td>
<td>-5.8</td>
</tr>
<tr>
<td>Motor Vehicles and Parts</td>
<td>-700</td>
<td>-0.5</td>
</tr>
<tr>
<td>Electrical Products</td>
<td>-2100</td>
<td>-1.6</td>
</tr>
<tr>
<td>Non Metallic Minerals</td>
<td>-1300</td>
<td>-2.8</td>
</tr>
<tr>
<td>Petroleum and Coal</td>
<td>-2700</td>
<td>-13.8</td>
</tr>
<tr>
<td>Chemicals</td>
<td>-1100</td>
<td>-1.3</td>
</tr>
<tr>
<td>Total</td>
<td>-67200</td>
<td>-4</td>
</tr>
</tbody>
</table>

Source: Statistics Canada Cat. 72-002

Employment, Earnings and Hours
Two other important indicators suggest that job losses in the Canadian economy cannot be dismissed as merely the result of the 1990-92 recession. First, over 150,000 manufacturing jobs disappeared before the formal onset of the recession. Second, the U.S. economy, by contrast, lost 6.3 per cent of its manufacturing sector during the period June, 1989, to October, 1991, which is about one-quarter of the decline in Canada's manufacturing sector. Moreover, while official unemployment in Canada rose from 7.5 per cent in December of 1989 to 11.3 per cent in December of 1992, the U.S. unemployment rate for the same period rose from 5.5 per cent to just 7.5 per cent. In 1993 and 1994 the gap between the U.S. and Canadian unemployment rate remained at 4.3 per cent, up by 0.5 per cent from 1992. The gap narrowed slightly in 1995 to 3.9 only to rise to 4.2 per cent by the end of 1996. Before the CUFTA, the gap between the U.S. and Canadian unemployment rate was much closer. Between 1976 and 1979 the gap between the U.S. and Canadian unemployment rate averaged 1.1 per

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59 Statistics Canada "Labour Market Economic Conditions" (Ottawa: Supply and Services for Office of Economic Policy, Ministry of Finance, Ont.) Table 4


cent and 2.08 per cent between 1980 and 1989.\textsuperscript{62}

\textsuperscript{62} Ibid. Cat. #71-001 & Series ID LSS 11-000-000
### TABLE 4
"Labor Market Economic Conditions"
(1989-1995) Canada

<table>
<thead>
<tr>
<th>Year</th>
<th>Labour Force</th>
<th>Employed</th>
<th>Unemployed</th>
<th>Unemployed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>14,151</td>
<td>13,086</td>
<td>1,065</td>
<td>7.5</td>
</tr>
<tr>
<td>1990</td>
<td>14,329</td>
<td>13,165</td>
<td>1,164</td>
<td>8.1</td>
</tr>
<tr>
<td>1991</td>
<td>14,408</td>
<td>12,916</td>
<td>1,492</td>
<td>10.4</td>
</tr>
<tr>
<td>1992</td>
<td>14,482</td>
<td>12,842</td>
<td>1,640</td>
<td>11.3</td>
</tr>
<tr>
<td>1993</td>
<td>14,663</td>
<td>13,015</td>
<td>1,649</td>
<td>11.2</td>
</tr>
<tr>
<td>1994</td>
<td>14,832</td>
<td>13,292</td>
<td>1,541</td>
<td>10.4</td>
</tr>
<tr>
<td>1995</td>
<td>14,928</td>
<td>13,506</td>
<td>1,422</td>
<td>9.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ontario</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
</tr>
<tr>
<td>1990</td>
</tr>
<tr>
<td>1991</td>
</tr>
<tr>
<td>1992</td>
</tr>
<tr>
<td>1993</td>
</tr>
<tr>
<td>1994</td>
</tr>
<tr>
<td>1995</td>
</tr>
</tbody>
</table>

Office of Economic Policy, Ministry of Finance, Ontario. 1996
On a more optimistic note, Sam Pougziouvise, Senior Associate with the Business Council on National Issues, in an interview with the author of this thesis, disclosed that 170,000 BCNI affiliated private-sector jobs (mostly in manufacturing) were created between 1994 and 1995, although recent data from Statistics Canada show that manufacturing industries in Canada employed 18 per cent fewer workers in the first half of 1996 than they did in 1989. A Statistics Canada survey of 5,000 companies also disclosed that the manufacturing sector reported more orders for exports in July of 1996 as compared to orders for exports in July of 1995, and that manufacturers recorded the lowest inventories of unsold stock in two quarters. Although this adds up to manufacturers being the most optimistic they have been in a year-and-a-half, this does not appear to be translating into jobs. For example, 76 per cent of those responding to the survey said they expected little change in their workforces, 12 per cent said that they would hire more staff, but the other 12 per cent anticipated cutting staff. It is not surprising therefore that the current feeble economic recovery, fuelled mainly by growth in exports, has been dubbed the "jobless recovery."

63 Sam Pougziouvise, interview with author on September, 27, 1996.
64 Gord McIntosh "Manufacturers see pickup in orders, but few new jobs" in The Toronto Star (August, 2, 1996). p.E-7
65 Ibid. p.E-7
66 Ibid. p.E-7
Mergers:

More mergers and foreign takeovers took place in Canada within the first six months of the CUFTA than at any time during the three years preceding the agreement. As mergers increased in preparation for the CUFTA, and continued throughout 1989 and 1990, there is reliable evidence to link corporate concentration and its concomitant job losses to free trade.

First, the Macdonald Commission which recommended that Canada join with the United States in a free trade agreement was one of the chief advocates of corporate concentration. The commission justified the need for more corporate concentration on the grounds that it makes for more efficient firms which are then better able to exploit economies of scale in a large continental market. Many experts agree with this argument and contend that only globally-oriented companies can successfully compete in international trade, and consolidation is one way of achieving international competitiveness. Calvin Goldman, director of Canada's federal Bureau of Competition Policy, supports this notion by confirming that increased mergers in Canada is part of a global trend that allows businesses to respond to increased international competition.67

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The unfortunate consequence of mergers for the Canadian workforce is that mergers translate into job losses. Layoffs are inevitable since merging companies cannot afford to duplicate many functions. Notable examples of free trade induced mergers and takeovers include Dominion Textiles, the Canadian textile giant that went on a merger spree in preparation for the CUFTA and again right after the agreement was passed. In 1989 Dominion Textiles took over WayneTex, a Virginia-based fabric manufacturer, and C.S. Brooks of New York, one of North America's largest bath towel producers. The Dominion Textiles mergers accounted for over 2,000 layoffs; many of these layoffs took place in Canada. Similarly, over 1,400 workers were laid off in the Molson's-Carling O'Keefe merger. In all, over 10,000 employees lost their jobs in mergers and takeovers in the early 1990s including employees of well known companies such as Gillette of Canada, GM Canada, Jarman Incorporated, Imperial Oil's takeover of Texaco, and the sale of Consolidated Bathurst to Stone Container Company of Chicago.

Second, mergers are directly linked to free trade because Canada's foreign investment review policy was dismantled and replaced by Article 1602 of the CUFTA. Article 1602 stipulates that the Canadian government can no longer screen or regulate American

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69 Merrett, op. cit. p.74
investment in Canada that is less than Can$ 150 million,\(^{70}\) while under NAFTA's investment provision, reviews have been phased out entirely. As well, under the NAFTA's national treatment provision, no Canadian government can discriminate against foreign investment because there is a new obligation to treat American and Mexican investors the same as Canadian investors (see appendix). As the investment threshold was lowered under free trade, foreign investors, protected by new rights, rushed in to take advantage of poorly performing Canadian firms which were by then undervalued. In the first year of free trade, 460 Canadian-controlled firms were taken over mainly by American corporate interests, while only 136 firms were taken over by Canadian interests. Between 1988 and 1990, a record 1,403 Canadian firms were taken over at a cost of Can$ 30.5 billion.\(^{71}\)

**IMPACT ON WAGES & INCOME DISTRIBUTION**

**WAGES:**

The impact on wages and income distribution under free trade is at least as important to workers as aggregate job loss. Perhaps the greatest danger to the Canadian labour force in adopting free trade is that it is encouraging Canadian firms to seek a low-wage solution to the challenge of global competition. Before and after

\(^{70}\) Brooks and Stritch, op. cit. p.117

the CUFTA was enacted, several government statements regarding the Canadian labour force have focused on the serious implications of the Canadian cost structure. These statements have complained that the cost structure is out of line with that of the United States, not to mention the cries from Canadian business leaders about the desperate need for a competitive cost structure that keeps wages under control.

Partly as a result of the growing concern over Canadian labour costs, temporary and part-time employees, who have been used in service industries for years, can now be found in many factories. Because most temporary and part-time workers are not unionized, they can be hired and dismissed according to a company's current needs. Besides enhancing the flexibility of a firm's workforce, temporary and part-time workers are paid considerably less on a pro-rated basis relative to full-time staff, and many receive only minimum wages. Even firms that are doing well opt for more overtime work by temporary employees instead of hiring permanent staff. The result has been that the number of full-time jobs in Canada stagnated at about 10.6 million between 1989 and 1994, but, during the same period, the number of part-time and temporary workers increased by 27 per cent from 1.9 million to 2.4 million.\(^2\)

Although part-time workers could be paid wages comparable to their productivity, many Canadians believe that the extensive use of non-

unionized, temporary workers, especially workers in manufacturing facilities, is one way that businesses circumvent the central Fordist tenet of workers having their wages tied to productivity.

An often repeated argument is one that has been advanced by free-trade advocates like former Conservative Trade Minister Michael Wilson. Wilson argued that Canadian workers should not worry about competing with low-wage Mexican workers in a free-trade environment because wages are only a small proportion of overall production costs. However, as will be discussed in chapter 4, if the relatively small differences in productivity and other benefits between Canadian provinces like Ontario and British Columbia and US states like New York and Washington State have brought about a significant shift in production and new investments in favour of the United States under CUFTA, then it is unreasonable to ask workers in Canada not to believe that free trade with Mexico will have an even greater adverse impact on wages.

Over time, intense competitive pressures and the threat of plant relocation and capital flight will likely pressure Canadian workers to accept lower wages, a trend that has already started to materialize. For example, General Motors of Canada (GM) used the threat of relocating to the U.S. to begin the process of

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73 "Briefing Notes on the North American Free Trade Agreement" (Ottawa: Submission paper by the Canadian Labour Congress, November, 1992). p.15
harmonizing the wages of GM workers in Canada with those of GM workers in the United States. Although, in theory, the Auto Pact is supposed to prevent the Big Three automakers from bidding down wages, GM told the Canadian Auto Workers Union (CAW) in 1991 that it would close its Oshawa facilities if the union was not prepared to make wage and other concessions.\(^4\) However, since 1991, the CAW, through determined and skillful bargaining, has been able to negotiate modest wage increases and other benefits for its members.

Similar threats were made by the management of Blue Bell of Canada and Electro-Wire Canada Incorporated. Blue Bell, a clothing manufacturer in Ontario, told its 165 unionized workers in 1990 that if they were not prepared to take an 18 per cent reduction in wages and benefits, the company would move production to the United States. On the other hand, Electro-Wire Canada Inc., an auto parts manufacturer which also operates plants in the United States and Mexico, pressured its workers, at its Owen Sound plant, into making wage concessions, and threatened to move production south of the border if the union and workers did not comply. The union representing the workers became so alarmed at the threat of relocation that it agreed to the wage concessions demanded by management.

\(^4\) Merrett, op. cit. p.179
In the quest to enhance corporate profitability, Mexico has become even more attractive for some corporations since the NAFTA was enacted. In 1994, after Northern Telecom moved much of the manufacturing operations from its Bramalea, Ontario, plant to Monterrey, Mexico, it claimed that open competition and survival dictate that the company locate its operations where costs are cheapest. According to a special report in *The Toronto Star* of 10 August 1996, Nortel, a profitable subsidiary of the Canadian telephone giant, currently pays some of its Mexican technicians between 200 and 235 pesos a week (Can$ 40.00 to $47.00). 75 Manuel Garcia, a local organizer for the independent Mexican union—Autonomous Workers Front (FAT), scoffs at these wages and complains that workers are being exploited. 76 In 1992 by contrast, Nortel paid workers Can$ 18.00 an hour for making components for switching systems in its Bramalea plant. 77 In all likelihood, the threats and actual production relocations would not have been made that easily unless the companies involved knew that, over the long term, they could serve the Canadian market from the U.S. or Mexico without having to face tariffs or non-tariff barriers. Under free trade, it is unlikely therefore that Canada can establish an industrial strategy based on demanding higher wages for its workers when the

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76 Ibid. p.A17

77 Tony Van Alphen "Whirlwind of Corporate Restructuring Leaves Families and Communities Unprotected" in *The Toronto Star* (August, 10, 1996). A17
evidence suggests that free trade represents a corporate-driven model of economic integration that encourages competition between Canadian, American, and Mexican workers for the lowest common denominator—wages. The entire industrial wage-setting mechanism, under the CUFTA/NAFTA, now has to incorporate wage pressures that are not merely local, but also global. This means that wages are much more vulnerable to competitive pressures than before. Although there are significant differences between the wage structure in Canada, the United States, and Mexico, especially between Canada on one hand and certain southern US states and Mexico on the other hand, the general direction of the wages of ordinary, mostly non-unionized workers is downwards.

INCOME DISTRIBUTION:

Apart from declining wages, the Canadian labour market is becoming characterized by an ever increasing polarization between workers with permanent, full-time, well paying jobs, and a rapidly expanding group of workers with insecure, poorly paid employment. This trend appears to have accelerated since free trade. In his book, *Making Canada Work*, free trade advocate and university professor John Crispo draws attention to the fact that workers in Canada have not seen their average real wages rise since 1975, while the salaries of corporate executives and managers have been rising over 5 per cent a year.\(^7\) This finding was supported by the

results of a Conference Board of Canada survey of the compensation packages of top executives in Canada. The survey revealed that between 1987 and 1990, the compensation packages of top executives grew 8 per cent on average per year in the manufacturing, banking, and diversified service industries, and by 8.5 per cent on average in the insurance industry. Among energy companies, however, compensation packages grew by a startling 16 per cent annually. These statistics reflect a continuation of the growing income disparity between managers and ordinary employees, and an acceleration of the process since the CUFTA.

A second comparison, this time between the top 20 per cent and the bottom 60 per cent of income earners, revealed that, among the "G 7" countries, Canada has the second largest gap (after the U.S.A.) between the earnings of the top corporate executives and average shop floor workers. Between 1987 and 1991, the top 20 per cent of Canadian income earners increased its share of the income pie by about 1.2 per cent per year, almost doubling its annual increase of 0.69 per cent for the period 1979 to 1987. By contrast, the bottom 60 per cent saw their share of the national income pie drop by 1.8 per cent per year between 1987 and 1991, which is about two and a half times faster than the rate at which they were losing their income share for the period 1979 to 1987 (0.74 per cent). What this means is that in 1991, the top 20 per cent of income

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79 Campbell and Jackson, op. cit. p.16
earners in Canada increased their share of the national income pie by $9.5 billion in relation to what they would have received if their share of the pie had remained at the 1987 level. The top 20 per cent gained at the expense of the bottom 60 per cent of Canadians who lost $12 billion in relation to what they would have received if their share of the national income pie had remained at the level indicated in 1987. 

Furthermore, a 1992 study by the Ontario Ministry of Labour confirmed that workers in the restructuring period since the CUFTA have not been moving from lower to higher skilled, high-wage jobs; instead, they have been moving in the opposite direction. After they were laid off in 1988, 22 per cent of workers in Canada were still unemployed in 1991. Those who managed to find jobs took a pay cut at an average reduction of $2,561 per year. In fact, real after-tax income for the average Canadian worker has fallen in every year of the 1990s up to now. The cumulative slide since 1989 amounted to 6 per cent by the end of 1995. In the final analysis, these figures reflect the overall conclusion that no worthwhile redistribution of income from high earners to middle and low income groups in Canada has taken place. In fact, the foregoing evidence

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80 Ibid. p.17

81 Ibid. p.15

82 Bruce Little, "Canada’s economy is poised to deliver several years of stellar growth without inflation" Report of Business Vol.13 No.7 (Toronto: Interweb Printing, January, 1997) p.19
indicates that the gap between the working rich and the working poor has accelerated in the free trade era. This negative redistribution of income in the free-trade era has occurred, in part, because workers in low-wage, declining industries have lost ground in relation to employees in higher-wage, expanding industries. While there are other factors that might contribute to this, at least part of it is attributable to the restructuring process.

**SUMMARY\CONCLUSION:**

So far, no one has been able to predict with any degree of accuracy what the long-term economic impact of free trade will be, partly because there are too many intangibles to be taken into account. Factors such as interest and exchange rates which have an enormous impact on the economy are, in turn, affected by a variety of internal and external factors including American interest rates, inflation, and a high Canadian dollar, all of which are difficult to predict. Other factors such as the extent to which investments will increase or decrease, or the extent to which Canadian industries will "gear up" production to compete in a continental market, all add to the speculation. Furthermore, there is uncertainty about whether Canadian companies will take the risk and "gear up" production in Canada, or whether they may believe that it is safer to do so in the larger U.S. market, and supply the entire North American market from there.
Despite the uncertainty, there has been considerable speculation from all quarters about the possible impact of free trade on employment and wages. Forecasts by supporters of the agreement rest on the assumption that a significant restructuring of Canadian production will occur, especially greater specialization (niche markets), larger plants, and greater economies of scale. This restructuring, they claim, will lead to productivity growth, more jobs, and better wages. But, this does not mean that Canadian companies are able, even if they are willing, to do this, especially small businesses with limited financial resources. Likewise, predictions by critics of free trade that thousands of jobs will be lost are also unreliable, but as political economist Duncan Cameron and labour market expert Hugh Mackenzie point out, it is relatively easier to identify Canadian manufacturing industries where jobs will be lost once tariff protection is removed,\footnote{Brooks and Stritch, op. cit. p. 395} and firms that supply goods and services to formerly protected industries will also experience significant job losses. The picture of a post-free trade Canadian economy is therefore unclear. What is clear so far, however, is that optimistic predictions of total net job increases have not materialized. Although examples of plant closures abound, it has been difficult to find examples of plant openings, and even rarer to find openings that involve major job creation. Moreover, Canadian job losses have been proportionally twice as great as
those in the United States, and the gap between the official Canadian and U.S. unemployment rate has widened steadily in the last couple of years, reaching a gap of 4.3 percentage points in 1994, up by 2 per cent from 1988. Clearly, the statistics suggest that a major structural change in the Canadian economy, upon which a cyclical process has been superimposed, has taken place. It is reasonable, therefore, to conclude that free trade is the largest structural shock that the Canadian economy has undergone in recent years, and it is this agreement that is playing a major role, if not a precisely quantifiable role in causing major job losses, dwindling wages, and unequal income distribution.

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Although major shifts in the pattern of investments in North America have occurred before the advent of free trade, and clearly will continue to take place, the implementation of the CUFTA/NAFTA and its enshrined investor's rights has made it not only easier for Canadian and foreign-owned companies operating in Canada to make new investments abroad, but has also facilitated the shift of capital investments from Canada to the United States and Mexico. Incidentally, the investment section of the CUFTA/NAFTA was a key U.S. demand because the Americans wanted further to reduce Canada's ability to screen American investment. The objective was to ensure that investment dollars would flow more freely across the respective borders. But, far from just enhancing capital mobility, the CUFTA/NAFTA has accelerated the outflow of investment capital from Canada.

From the outset, freetraders claimed that Canada would be able to attract more foreign investment as the regulations governing foreign investment were relaxed. They argued that the liberalization of foreign investment regulation would benefit Canada by encouraging more capital flows into the country resulting in significant job creation, increased productivity, and greater export capacity. As well, they believed that since the Canadian
dollar is worth less than the U.S. dollar, companies looking to set up businesses in North America would be attracted to Canada instead of the United States, knowing also that they could gain access to the huge U.S. market from Canada. It was also felt that the initial influx of foreign investment would encourage Canadians to invest in their own economy rather than in foreign countries.

On the other hand, anti-freetraders argued that Canada's reliance on foreign investment has been a negative feature of its economic development, and that encouraging more foreign investment, especially U.S. investment, was counterproductive. As will be discussed in chapter 5, criticism of too much foreign investment in Canada focused on the loss of industrial sovereignty and a systematic drain on the Canadian economy as interest payments and dividends are paid to foreign investors. However, since the implementation of free trade, the traditional criticism of foreign investment has been modified in light of what is taking place in Canada. For critics, the consequences of foreign capital flight from Canada, especially in the manufacturing sector, appear more serious than the consequences of allowing foreign capital into Canada. The reality is that both local and foreign firms are moving production and investments to regions like the southern United States (right-to-work-states) and northern Mexico (maquiladora region) where lower wages, less effective or non-existent unions, and weaker social and environmental standards exist. To assess this shift in Canadian investment to overseas locations, it is necessary
to examine both qualitative and quantitative evidence.

QUALITATIVE EVIDENCE:

In supporting the argument that the CUFTA/NAFTA is causing investment diversion from Canada, there is mounting circumstantial evidence to suggest that this is the case. First, a 1991 study by David Conklin, a professor from the University of Western Ontario, found that many corporate managers were re-evaluating strategies in the face of a single North American market, especially in areas where manufacturing costs in Canada significantly exceeded those in certain municipalities in the United States. Conklin's findings disclosed that some managers cited what they termed excessive production costs in Canada, and deemed Canada's cost structure a disincentive to invest. This has led to concerns about Canada's de-industrialization. In this context, a statement by an EMCO Ltd. executive is alarming. He declared that "there are a lot of things you can do less expensively in the U.S. Those things are working against the Canadian economy, and what I look at is lop-sided in regard to investment attractiveness." The EMCO Ltd. official continued by declaring that: "Some manufacturing companies have made a decision fairly easily after free trade to shut down Canadian activity and just use sales staff in the Canadian territory... Such a decision would not have been made five years ago. I think this kind of decision will benefit everyone except the
Canadian workforce," he concluded.

Second, a similar survey, conducted in 1992 for the Wall Street Journal involving 455 senior U.S. corporate executives, reported that about one-quarter of U.S. executives said that it was likely that they would make a capital investment in Canada in the next few years; this is significantly fewer than the 40 per cent targeting Mexico. This finding was supported by a survey of 190 senior U.S. executives conducted by Cleveland Consulting Associates. The executives believed by an overwhelming 71 per cent that Mexico would benefit the most from NAFTA, while 22 per cent felt the U.S. would benefit more. However, only 2 per cent felt Canada could be a winner.

Third, in a 1992 study for the Montreal Board of Trade, professor Kimon Valasakis of the University of Montreal interviewed 100 Canadian and foreign CEOs and concluded that not only the losers were closing their factories in Canada, but also those who were doing well. "All are packing their bags and moving to the United States and Mexico," he said. He felt the trend was

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85 David Conklin "The FTA and Ongoing Negotiations: Case Studies" (Study done for the Federal Department of Finance, January, 1991). p.15

86 Campbell and Jackson, op. cit. p.13

87 Ibid. p.14
likely to continue under NAFTA.\footnote{Ibid. p.14}

Fourth, the Conference Board of Canada also made an important contribution to this qualitative evidence. In a 1992 survey of major U.S. and Canadian-owned manufacturing and resource corporations, the Board observed that the CUFTA was a central factor in changing corporate restructuring practises, and it anticipated that this trend, particularly relocation to the U.S., would intensify under NAFTA. As one respondent from a U.S. subsidiary stated, "the driver in these changes will be free trade and the movement towards a single North American market. In the emerging free trade environment... there is a continual re-evaluation of the need to stay in Canada."\footnote{S Krajewski "Intra-Firm Trade and the New North American Business Dynamic" (Paper prepared for the Conference Board of Canada, September, 1992). p.7} In responding to the same survey, a respondent from Canada said that the CUFTA, in forcing his company to become more competitive, "is drawing investment away from the higher cost Canadian manufacturing sector to the U.S. market."\footnote{Ibid. p.7}

Finally, another 1992 survey from the American Management Association involving 200 of its US-owned companies, three quarters of which were in manufacturing and at the time still had facilities
in both Mexico and Canada, found that these U.S. companies had plans to expand employment in their Mexican operations by 13.7 per cent on average in the next three years, by 3.3 per cent in their U.S. operations, and only by 0.7 per cent in their Canadian operations. The survey also found that U.S. manufacturing companies planned to increase investment spending by 15.5 per cent in Mexico, by 3.7 per cent in the United States, and by less than 1 per cent in Canada until 1995. Only 16 per cent of companies with large Canadian affiliates planned to increase spending. Three U.S. respondents actually planned to shut down their Canadian operations.\footnote{Campbell and Jackson, op. cit. p.14}

**The Attraction of Mexico:**

Free trade supporters have made the somewhat misleading claim that the most important reason why Canada entered into free trade was to allow Canadian companies to better serve the U.S. and Mexican markets. However, this claim is disingenuous, especially in the case of Mexico. Mexico's attraction for Canadian manufacturers has never been Mexico's small consumer economy; it is the existence of low wages that is the big attraction. With a labour force of more than 30 million people and high unemployment, Mexican workers are prepared to work for a fraction of Canadian wages.\footnote{Jeff Faux and Thea Lea "The Effect of George Bush's NAFTA On American Workers: Ladder Up or Ladder Down?" (Washington: Policy paper by the Economic Policy Institute, 1992). p.10}
It is only logical, therefore, for Canadian corporations seeking to maximize profits to locate production where overall costs including wages per unit of output (unit labour costs), corporate taxes, and costs incurred in complying with environmental, health and safety regulations are lowest. In a real sense, a rationale for NAFTA is to facilitate investment shifts to Mexico. Mexico's attractiveness as an investment centre can be summarized in three main points.

First, multinationals have been reluctant to make huge long-term investments in Mexico in the past because of concerns about political instability. Specifically, multinationals feared the return of popular hostility to foreign investment and the threat of Mexican nationalization. But, NAFTA puts the rights of Canadian investors into an international treaty that future Mexican governments will find difficult to change. By codifying liberal trade and investment policies in a continental agreement, NAFTA is designed to increase the confidence of foreign investors in the Mexican economy.

Second, NAFTA encourages investment flows to Mexico by removing or weakening Mexico's remaining restrictive investment regulations. Mexico made critical concessions in the NAFTA negotiations by permitting foreign investment in politically
sensitive sectors like intellectual property and agriculture. 93 Furthermore, even though most tariffs between Mexico, Canada, and the United States had been reduced, or in some cases completely eliminated, since Mexico joined the GATT in 1986, many non-tariff barriers remained. NAFTA eliminates or reduces most of these barriers including the Multi-Fibre Arrangement which effectively placed a limit on textiles and apparel imported into the United States, except apparel manufactured from US-made yarn. 94 Now that restrictions on NAFTA-made apparel to the U.S. have been lifted in large measure, NAFTA will not only speed up the migration of labour-intensive operations like garment manufacturing to low-wage Mexico, it will also erode the competitive position of Canadian manufacturers who produce high quality clothing from duty-paid fabrics imported from non-NAFTA countries.

Third, NAFTA brings Mexico’s intellectual property laws in line with American and Canadian standards. Mexico’s past failure to protect patents and copyrights deterred important investment, especially investment by pharmaceutical and computer software companies which feared 'piracy' by Mexican firms. With Mexico’s intellectual property laws now approaching so-called first-world standards, there has been a move to serve the U.S. and Canadian

93 Ibid. p.12
94 CLC Submission, op. cit. p.30
markets from that country.\textsuperscript{95}

Those who dismissed the threat of Canadian investment relocating to Mexico made two errors. First, they believed that Mexican export industries are low-productivity sectors, and when productivity does increase, Mexican wages will rise automatically. Second, they failed to realize that while Mexican productivity averages just about one-seventh of Canadian productivity, a large and growing number of Mexican export facilities have quality and productivity levels as high as some of the best Canadian plants, even though wages remain at Third World levels, kept down by repressive labour policies and employer wage-fixing. For example, Ford's auto assembly plant in Hermosillo is considered to be among the most advanced and efficient plants on the continent.\textsuperscript{96} But, while Mexican productivity rose by 41 per cent between 1980 and 1992, the average manufacturing wage was only US$ 2.35 per hour in 1992, representing just 68 per cent of what it was in 1980. Even worse, in the border export zone (Maquiladora), wages averaged only US$ 1.15 per hour in 1992.\textsuperscript{97} This extraordinary wage to productivity gap is obviously a very attractive incentive for companies that are considering investing in Mexico. The anti-Fordist logic of wages lagging behind productivity is the logic of

\textsuperscript{95} Faux and Lee, op. cit. p.12

\textsuperscript{96} CLC Submission, op. cit. p.32

\textsuperscript{97} Harley Shaiken "Two Myths About Mexico" (California: Conference paper, August 22, 1993). p.ELS
NAFTA. In other words, investment in relatively labour-intensive manufacturing industries is most profitable in the low-cost environment of Mexico.

**QUANTITATIVE EVIDENCE:**

Concrete evidence of investment shifts from Canada is visible in the dismantling of the foreign owned subsidiary (branch-plant) sector. For instance, the Ontario Ministry of Labour reported that there were 580 permanent closures of major operations in Canada between January 1989 and August 1993. Manufacturing facilities accounted for 452 of the 580 permanent closures with close to half being foreign owned.\(^98\) Many of the 580 firms closed their operations in Canada to relocate to Mexico and the southern United States, areas generally considered to have lower wages, weak unionization, and less stringent environmental, health and safety standards. The closures in Canada during this period accounted for 65 per cent of layoffs compared to less than one-quarter of layoffs during the 1981-1982 recession.\(^99\)

Another crucial piece of quantitative evidence indicates that Japanese investment in Canada is drying up, and that the CUFTA/NAFTA is mainly responsible. According to figures from the Japanese Ministry of Finance, direct Japanese investment in Canada

\(^98\) Campbell and Jackson, op. cit. p.13

\(^99\) Ibid. p.13
jumped from $700 million in 1987-88 to $1.4 billion in 1989, but declined to $300 million by 1992.\textsuperscript{100} One report found that only one new Japanese company began operations in Canada in 1991 compared to 17 per year on average in the late 1980s. According to Susumu Eto, president of Mitsubishi, "when Japanese investment rushed into Canada in the late 1980s, there was general optimism that the free trade agreement would bring real free trade across the border. This illusion burst when it was proved that the one-sided protectionist action by the U.S. suddenly changed the basic precondition of business activities here in Canada."\textsuperscript{101} Eto concluded that there is a growing trend of thought that Mexico may be the place to invest in North America.

In August 1992, a \textit{Wall Street Journal Report} revealed that since the free trade agreement went into effect, between 400 and 700 Canadian companies have set up in Buffalo, New York.\textsuperscript{102} In the 1980s, Buffalo started losing many jobs when industries like Bethlehem Steel closed. Ever since, Buffalo has been aggressively recruiting new industries. The CUFTA has made this task considerably easier and more rewarding. The Greater Buffalo Chamber of Commerce and the Buffalo Enterprise Development Corporation are among some of the organizations that have aggressively recruited

\textsuperscript{100} Ibid. p.14

\textsuperscript{101} Susumu Eto "Canadian industry has lost its attraction to foreign investors" in \textit{The Toronto Star} (April 2, 1993). p.A-27

\textsuperscript{102} \textit{The Wall Street Journal} (September 21, 1992) p.22
Canadian investment since the CUFTA began. In addition, New York State has established a business office in Toronto to deal with inquiries from Canadian businesses that are interested in moving investment to the Buffalo area. In attracting investment from Canada, government officials from Buffalo and New York State have co-ordinated their efforts by offering a package of business incentives including employee retraining programmes, seven-year property tax deferments, and lower taxes and wages. By the end of 1991, 91 Canadian companies either relocated to or expanded production into the Buffalo area because of persistent recruitment drives.103

Another round of free trade-inspired recruitment drives took place soon after Mike Harcourt's New Democratic Party replaced the Social Credit Party as British Columbia's new government. In an attempt to regain some ground for unions which was lost during the Social Credit era, the New Democrats initiated some reforms including measures to make union organizing easier, and legislation to raise the corporate capital investment tax. These reforms prompted many businesses to leave British Columbia and to relocate to Washington State. David Bell, director of the Fourth Corner Economic Development Group (FCEDG) in Bellingham, Washington, has been travelling to British Columbia to conduct seminars aimed at attracting Canadian manufacturers to Bellingham and the surrounding

103 Merrett, op. cit. pp. 183-186
Whatcom County. When Bell took over this government development agency in 1990, only 17 Canadian companies were operating in Whatcom County. By 1993, there were over 100 Canadian companies in Whatcom County which by then represented Can$ 82 million in investments. Bell believes that free trade has been responsible for these successful recruitment drives. He said that under free trade, the elimination of tariffs has permitted these Canadian firms to move production to Whatcom County where they can still serve their Canadian customers while enjoying the low-wage, low-tax advantages of that part of the United States.

When asked why American firms are not relocating to Canada, the manager of The State Development Agency of Illinois remarked that Canadian wages and unions act as disincentives to American manufacturers. This remark was corroborated by Richard Freeman of Harvard University's National Bureau of Economic Research who conducted a study for the Economic Council of Canada. Freeman concluded that American firms serving the Canadian market would be more likely to locate production in the United States to avoid Canadian unions.

Not only workers, but unions and governments, are powerless

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104 Ibid. p.183
105 Ibid. p.186
to stop the outflow of Canadian investments. In many instances, free trade has also permitted businesses to break strikes with impunity when unions do not acquiesce to corporate demands. Relocating investment is one of the most effective corporate strategies used against unions and governments in the free trade era. The following letter sent to 26 legally striking workers at the Hartz Canada plant in St. Thomas, Ontario, illustrates this point.

As a result of the passage of the free-trade agreement, we now have the opportunity of sourcing products in the U.S. without incurring any duty. In the event of a work stoppage...replenishment stock will be provided by Hartz U.S. Once products are sourced outside our St. Thomas facility, the likelihood of these products returning here after the work stoppage is very remote.\(^{107}\)

As the workers continued to strike, Hartz simply moved production to the United States. In such an environment, it is clear to see what can happen to investments when unions and governments do not make concessions demanded by corporations.

In a sense, free trade has worked to prevent Canadian governments from taking measures to stop the flight of capital, specifically in the fishing industry. Because of free trade's impact on the Canadian fishing industry, a significant amount of fish-processing has moved from Canada to U.S. border-states. As a conservation measure, Canada placed a long-term ban on the export of unprocessed fish. This ban was to guarantee more job

\(^{107}\) Merrett, op. cit. p.181
opportunities for Canadians in the fishing industry as value-added processing became a key factor in the industry's survival. However, under the GATT, the United States launched a complaint primarily because the fish-processing plants in the State of Washington and New England wanted to process Canadian fish. The GATT resolution panel ruled in favour of the Americans declaring that it was illegal for Canada to impose an outright ban on unprocessed fish. At the same time, the GATT panel also ruled that Canada could impose an export tax on unprocessed fish which had virtually the same effect as the ban. However, article 394 of the CUFTA changed this ruling by forbidding the imposition of any tax, duties, or other charges on exports that are not similarly levied on products sold to domestic consumers. As a consequence, up to 25 per cent of Canada's fish is shipped to U.S. plants unprocessed. The impact of this CUFTA provision is that substantial investments and over 900 fish processing jobs have moved from Nova Scotia to Maine and Massachusetts.\footnote{108}

Perhaps the most comprehensive evidence of investment diversion concerns overall equity investment flows. Between 1989 and 1993, Statistics Canada reported a net $13.6 billion private equity investment outflow.\footnote{109} This statistic stands in stark

\footnote{108} Ibid. p.186

\footnote{109} CCPA Monitor, op. cit. p.10
contrast to an earlier study done by the Canada West Foundation which found that investments in Canada were up 6 to 7 per cent in the first 22 months of the CUFTA.\textsuperscript{110} Sam Pougziouvise of the Bushiness Council on National Issues was also very optimistic about the prospects of his organization's members since free trade. He said that "investment intentions among his members are high and will continue to exist." He pointed out that in 1995 affiliates generated a total of $15 billion in retained earnings,\textsuperscript{111} but as Table 5 shows, there was a significant amount of Canadian investment in U.S. businesses as compared to U.S. investment in Canadian businesses in just the first three years of the CUFTA.

\textsuperscript{110} Patrick Luciani What Canadians Believe But Shouldn't About Their Economy (Toronto: Addison-Wesley Publishers Ltd., 1993). p.59

\textsuperscript{111} Sam Pougziouvise, interview with author on Sept. 27, 1996.
<table>
<thead>
<tr>
<th>Year</th>
<th>Canadian Investment in U.S. Businesses</th>
<th>U.S. Investment in Canadian Businesses</th>
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<tr>
<td>1989</td>
<td>$6.2 billion</td>
<td>1989 $3.8 billion</td>
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<td>1990</td>
<td>$4.0 billion</td>
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<td>1991</td>
<td>$5.7 billion</td>
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<td>Total</td>
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(Investment is direct investment plus purchases of shares.)

Source: Statistics Canada Cat. 67-001 - Canada's Balance of International Payments - 1st quarter 1992, Table 15 and 16
SUMMARY\CONCLUSION:
Both qualitative and quantitative evidence cast serious doubt on the claim that free trade will lead to a significant inflow of new foreign investment into Canada. On the contrary, the evidence indicates that free trade has actually accelerated the process of disinvestment in Canada as Canadian subsidiaries of U.S. companies and other foreign and local companies either close or scale back their operations in Canada with the aim of becoming more cost competitive in the United States and Mexico. The gradual elimination of tariffs and higher labour costs, relative to American and Mexican labour costs, have conspired to greatly reduce the incentive to locate manufacturing facilities in Canada. This makes Canada generally unattractive as a location for real capital investment in a deregulated continental economy.

Although the debate over foreign investment and its costs and benefits for Canada continues, many critics of foreign investment have come to accept that it should not be opposed in every instance, especially in instances when economic times are hard and many depressed regions are in dire need of economic assistance. However, under free trade, they regard the unrestricted, deregulated, free movement of capital across national borders as mainly responsible for weakening the federal government's ability to use the potential benefits of certain foreign investments to enhance Canada's economic development. As will be discussed in the
next chapter, certain provisions inherent in the free trade agreement such as national treatment regulations and rules prohibiting performance requirements have robbed the Canadian government of the use of some traditional tools needed to benefit fully from foreign investment. The main inflow of foreign capital to Canada seems to be in the form of financial flows which generally do not enhance domestic output and employment.\textsuperscript{112}

\textsuperscript{112} Jim Stanford "Investment" in Duncan Cameron and Mel Watkins (eds) \textit{Canada Under Free Trade} (Toronto: James Lorimer & Company Ltd. 1993). p.165
CHAPTER 5

THE DECLINING ROLE OF THE CANADIAN STATE IN INDUSTRIAL POLICY

As discussed in chapter 1, the debate over free trade with the United States has a long history dating back to the mid 19th. century. The issue all along has been much more than whether to allow the unimpeded flow of goods and services across the Canada-U.S. border. One of the key concerns has always been whether comprehensive economic integration with the United States would lead to a loss of Canadian industrial sovereignty. Since Confederation, the Canadian state has been the centre of industrial policy, partly because Canada needed to establish an integrated national economy in a vast country with a widely dispersed, small population, and partly because, as a late industrializing country, it had to compete with more established industrialized countries like Great Britain and the United States.

Under John A. Macdonald’s National Policy, the Canadian state sponsored the Canadian Pacific Railway which enhanced 'east-west' trade in defiance of the continental appeal of 'north-south' trade. Later, other state enterprises such as public broadcasting and a national airline were all aimed at enhancing industrial development and economic integration. Protective tariffs, which were the
cornerstone of Canada's industrial strategy under the National Policy, were put in place to encourage the growth of indigenous industries, and to reduce Canada's reliance on imported goods, especially American imports. The National Policy also promoted regional specialization, with Western Canada emerging as the main producer of staples like wheat, barley, and forest products, Central Canada becoming the country's manufacturing centre, and Eastern Canada maturing into the major fish-producing region.

Although the National Policy was challenged by the Laurier government, and survived a brief flirtation with free trade, it survived intact long enough not only to protect Canada's fledgling industries, but also to help bind the country together politically. Ironically, the National Policy and its high tariffs, which were designed to integrate an east-west economy and protect Canadian industry from outside competition, had the effect of inducing American TNCs to jump the tariff wall and to set up businesses in Canada. During the first half of this century, Canada moved from formal colonial status as a privileged Dominion in the old British Empire to a formally independent status, albeit heavily dependent on direct American investment. Political scientist Leo Panitch sees the latter position as a dependent status in a new kind of imperialism with unparalleled American ownership of the Canadian
economy. Throughout the Fordist era, the federal government continued to maintain a powerful legitimization function while pursuing vital trading relations with its southern neighbour and the rest of the world. The interventionist and positive power of the state guided much of this function, enabling the Canadian state to chart a relatively independent course in industrial policy relative to that of the United States. Such activism has been typical of industrial successes like Germany, Sweden, and Japan. However, as a result of the economic crisis of the late 1970s/early 1980s that signalled the end of the Fordist era, and the subsequent implementation of the CUFTA/NAFTA, the Canadian state has partially abandoned its legitimization role. Instead, with its fixation on capital accumulation, the Canadian state has become increasingly tied to a continentalist model of development which has foreclosed the use of some traditional policy instruments on which Canadian industry has come to depend. Canada's post-war history of industrial development has been one of trying to lessen dependence on the export of raw and minimally processed materials. To this end, the state used a variety of mechanisms such as performance requirements, regulating foreign investment and natural resources, protective tariffs, managed trade, and granting regionally-oriented subsidies, all of which are now weakened or rendered impossible by

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113 Leo Panitch "Globalization, Democracy and State" (Kingston: An occasional paper- text of guest lecture, Department of Political Studies, Queen's University). p.29
the CUFTA/NAFTA.

Until the early 1980s, the state endeavoured to influence all aspects of industrial development. For instance, Ottawa played a leading role in developing indigenous industrial strategies by introducing performance requirements for foreign investment through regulatory agencies such as the Foreign Investment Review Agency, and by using the Auto Pact's domestic content requirement to revitalize an ailing automotive industry. The Canadian state also nurtured the transportation industry by granting subsidies to public enterprises such as the Canadian National Railways (CNR) and Air Canada. Similarly, considerable effort was made to support core industries like forestry, agriculture, mining, and energy. To ensure the security of indigenous natural resources, the Canadian state introduced protectionist policies such as the National Energy Programme. As discussed in chapter 2, underpinning these calculated policies was a framework that recognized unions as the legitimate representatives of workers. This Fordist framework also enabled industrial relations to be negotiated between capital and labour under parameters set by the state.

In the 1988 debate over the free trade agreement, many Canadian nationalists expressed the view that the tools available to the federal government for developing and protecting local industries would be severely limited. They pointed out that the interventionist role of the state would be regarded by
neoconservatives as undue interference with the market in this post-Fordist era and, with the market now organized on a continental scale, many industrial institutions and policies would become obsolete.\footnote{114}

Of particular concern to nationalists and concerned citizens are provisions in the free trade agreement which call for 'national treatment.' As discussed earlier, national treatment ensures that the federal government cannot discriminate against U.S. and Mexican investment. Under the national treatment provision, such investments enjoy the same privileges and benefits as domestic investment, which many concerned persons interpret to mean that future Canadian governments will be prevented from implementing policies that favour Canadian producers and suppliers, even if American or Mexican competition causes economic injury.

On the other hand, some CUFTA/NAFTA supporters believe that the surrender of market sovereignty is inevitable in international treaty making, and that the economic benefits flowing from agreements like the CUFTA/NAFTA make giving up some sovereignty worthwhile. For example, in 1993, Professor John Crispo told the Ontario Government's Cabinet Committee on the North American Free Trade Agreement that:

'A very real chestnut raised by opponents of NAFTA

pertains to the threat it raises to our sovereignty. Realistically, such a threat is posed by every international commitment which Canada undertakes. That's the price of living in a highly interdependent global village in which cooperating arrangements are going to become the norm in more and more spheres. The only question to be asked and answered is whether the sovereignty Canada has to yield under an FTA, NAFTA, GATT, or any other international treaty is worth it."

Although joining any international agreement implies a surrender of some sovereignty, the real merit of a trade agreement is whether its advantages outweigh its disadvantages. By this test, the constraints placed on the federal government to act in its own industrial and economic interest lead to the conclusion that the CUFTA/NAFTA is the central force contributing to the diminishing role of the state in industrial policy, and to the accelerating process of transition from Fordism to Neoconservatism. Unfortunately, the pervasiveness of foreign investment in the Canadian economy has intensified these constraints.

**Foreign Investment in Canada:**

The high level of foreign ownership in the Canadian economy has been a source of major concern during the Fordist era. In 1974 the federal government established the Foreign Investment Review Agency to review foreign takeovers of Canadian companies with assets of over $250,000. When FIRA was scrapped in 1985 by the Conservative government and replaced by a new agency called Investment Canada, the threshold for reviewing takeovers was raised to $5 million.

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115 Ibid. p.30
Under the CUFTA, however, the threshold for reviewing direct U.S. investment has been raised to $150 million while the threshold for indirect investment has been abolished altogether. These changes mean that only acquisitions of very large Canadian companies will be subject to review under the CUFTA. It has been estimated that approximately 80 per cent of all acquisitions that were previously subject to review are now exempted. By reducing the restrictions on U.S. takeovers, the CUFTA has made Canadian companies more vulnerable to American leveraged buy-out experts who have been eyeing Canadian companies for some time. One major factor that has facilitated these leveraged buy-outs is the fact that Canadian stocks have generally been undervalued compared to American stocks.

Between 1985 and 1989, Investment Canada reviewed 651 foreign acquisitions valued at $55 billion; that agency approved every one. This opened the way not only for a resurgence of U.S. investment in Canada, but more importantly, it could also lead to greater reliance on one source of direct foreign investment since other countries will still be subject to pre-existing thresholds. In effect, American businesses now have greater freedom to move capital around with fewer restrictions, and as Mel Watkins notes, this freedom strengthens the hand of business in bargaining with labour and the state. The threat of relocating investments is a

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116 Brooks and Stritch, op. cit. p.396
117 Ibid. p.117
lever that businesses can always use, and indeed have used in wage negotiations with unions as well as in lobbying Ottawa for more favourable investment policies.\textsuperscript{118} Let us now turn to a discussion of four major areas of industrial policy related to specific industries that have either been weakened or rendered obsolete by the free trade agreement.

\textbf{The Automotive Industry under Free Trade:}

The success of Canada's automobile industry lies in the Canada-U.S. Auto Pact which established a series of Canadian value-added safeguards while protecting Canadian jobs and promoting efficiency in automobile production in Canada. As efficiency increased, productivity rose, and auto exports to the U.S. grew dramatically. By 1988, automotive exports to the U.S. comprised 7 per cent of Canada's GDP.\textsuperscript{119} It is not surprising therefore that one of the fears expressed by some Canadians and the Canadian Auto Workers' Union during the free trade negotiations was whether the Auto Pact would be adversely affected, especially the safeguards. Under the Auto Pact, the Big Three auto makers in Canada are required to meet the production-to-sales ratio which stipulates that for every car imported from their parent company in the United States, one car must be produced locally, and all cars produced in Canada must have at least 60 per cent Canadian content. Failure to meet this

\textsuperscript{118} Ibid. p.396

\textsuperscript{119} Merrett, op. cit. p. 107
production-to-sales ratio and minimum content rule would result in a 9.2 per cent punitive surcharge on automobiles from the United States. However, although the safeguards still exist on paper and are nominally still in force, under the CUFTA, the punitive tariff is being gradually phased out and should be completely eliminated by 1998. As the 9.2 per cent punitive tariff is being phased out, Canada is losing its most important weapon for enforcing the terms of this Fordist agreement. In practice, Canada is dispensing with an instrument of industrial policy that enforces compliance and, instead, is putting unconditional faith in the free market with fewer real conditions being imposed on American automakers.

What the loss of this punitive surcharge means for Canada is that should Canadian production costs rise as a result of either a strengthening Canadian dollar or wage increases, then Chrysler, General Motors, or Ford (the Big Three) may conclude that it is more profitable to relocate some production to lower-wage locations in the United States or Mexico. Before the CUFTA, this threat to relocate was less plausible because the 9.2 per cent surcharge could have been applied if the safeguards were violated, and companies could be heavily penalized. The decision by Mack Trucks to move production from Ontario to the U.S. is an example of a company that will still enjoy access to the Canadian market without

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120 Brooks and Stritch, op. cit. p.398
running the risk of being penalized by a punitive tariff. Furthermore, during the NAFTA negotiations, the Americans wanted tighter rules of national origin which ultimately pressured Canada to agree to raise the North American content rule from 50 per cent to 62.5 per cent in the case of light vehicles, engines, and transmissions, and 60 per cent for other auto goods.\(^{121}\) This latest change penalizes Japanese automakers that assemble vehicles in Canada but that use a smaller percentage of domestic parts. Although this could mean that more Canadian parts will be used by Japanese manufacturers in the future, the more likely outcome is that the Japanese and other foreign automakers will find it less attractive to set up manufacturing plants in Canada, and will instead seek out low-wage regions in the U.S. and Mexico. Another disincentive for foreign automakers under the NAFTA is that Canada gave up the right to offer import-duty waivers to non-North American manufacturers. This represents a further weakening of the safeguards and a distinct disincentive to offshore car makers to establish production facilities in Canada.\(^{122}\)

Although the "Big Three" automakers enjoy greater freedom under the free trade agreement, industrial strategies that can enforce safeguards have been weakened, and the vulnerability of labour has been exposed. At the same time, restrictions against

\(^{121}\) Final Report- Ontario Government, op. cit. p.23

\(^{122}\) Brooks and Stritch, op. cit. p.399
non-North American manufacturers have been tightened, and many of the incentives for foreign car makers have been eliminated. Clearly, the impact of the CUFTA/NAFTA has been the loss of the federal government's ability to implement an appropriate industrial policy in this important sector. In the end, the changes to the Auto Pact's provisions only serve to enhance the power and freedom of the Big Three automakers over foreign competitors, labour unions, and the Canadian state.

**ENERGY UNDER FREE TRADE:**

International trade in energy was already subject to some regulation under the GATT (now WTO), but the CUFTA's energy provisions put restrictions on the Canadian government in two important ways that the GATT did not. First, under Article 903 of the CUFTA, Ottawa is prohibited from imposing export taxes on energy products unless the same charges are levied on domestically consumed products. Second, under Article 904, Canada guarantees the United States a supply of crude oil, gas, and electricity in the same proportion domestic consumers enjoy, even if there is an energy shortage in Canada. In practice, Canada has an obligation to supply the U.S. with the same proportion of energy as was supplied in the three years prior to the shortage. Canadians are particularly concerned about this provision because Ontario and Quebec, Canada's industrial heartland, have many resource-based

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123 Ibid. p.396
industries dependent on secure energy supplies. In effect, Canada has lost its ability to supply its domestic industry on a priority basis.

The major drawback of Articles 903 and 904 is that they make federal government control of the energy sector more difficult, especially in adopting the nationalistic type of policies introduced by Pierre Trudeau. When world prices soared in the Trudeau era, the federal government stepped in to regulate domestic prices, and to give domestic consumers a break. Under the CUFTA, Ottawa can only do this if it is prepared to offer the Americans the same cheap prices. This proportional sharing arrangement can be interpreted to mean that the Canadian government would be subsidizing American consumers if energy prices rose, a situation that would prevent Canadian firms from having a comparative advantage when competing against large U.S. energy-consuming industries. Alternatively, the Canadian government could adopt a free-market, 'hands off' approach and allow energy prices to rise to world levels. While this laissez-faire strategy would increase profits and benefit the large oil companies, most of which are American owned, it could impose severe costs on Canadian consumers. For instance, according to Thomas Gunton, an inability to regulate energy prices during the last decade would have cost Canadians $93 billion more to purchase natural gas and oil.\textsuperscript{124} By eliminating

\textsuperscript{124} Ibid. p.397
discriminatory pricing policies, should energy prices skyrocket in the future, Canada may very well be caught in a dilemma of its own creation because the federal government will no longer be allowed to impose a higher price for exported energy than domestic energy, or to use cheap energy to assist Canadian industry. Although Canada is exempted from a U.S. embargo on the export of crude oil from Alaska's North Slope, this does not appear to be a major concession because most Canadian refineries are neither equipped to process nor interested in processing heavy-grade Alaskan oil.\textsuperscript{125}

Mexico's exemption from NAFTA's proportionality sharing clause on energy has only served to underscore Canada's loss of industrial sovereignty in the energy sector. Throughout the NAFTA negotiations, Mexico fought to retain its ability to limit its energy exports while Canada did not. Mexico skilfully argued on constitutional grounds that its energy sector should remain a state monopoly.\textsuperscript{126} Many have argued that this important advantage that Mexico has over Canada demonstrates that Mexico, unlike Canada, was not prepared to sign a free trade agreement at any cost.

\textbf{THE WHEAT INDUSTRY & FREE TRADE:}

The dispute settlement mechanism has not helped to end the so-called "wheat war" between Canada and the United States, nor has

\footnotesize{\textsuperscript{125} Ibid. p.398}

\footnotesize{\textsuperscript{126} Final Report- Government of Ontario, op. cit. p.26}
it helped to lessen the downward pressure on wheat prices forced by the U.S. Export Enhancement Programme.\textsuperscript{127} Canadian durum wheat exports to the U.S. surged in 1993 and 1994 due in large measure to the destruction of U.S. crops by floods. This led to quantitative import restrictions on Canadian wheat and an investigation of the Canadian Wheat Board by U.S. trade officials to determine whether the Board's marketing system acts as a subsidy. The Canadian position has always been that the Wheat Board does not subsidize wheat exports; it simply markets western Canadian wheat and returns the profits to the wheat growers. The reason why the Wheat Board has been a favourite target of the Americans is because it impedes the access of U.S. transnationals to the western wheat market.

After much posturing and threats to start a trade war, the U.S. government succeeded in doing what it wanted to do in the first place; it signed a one year agreement with the Canadian government in 1994 that capped wheat exports to the U.S. at 1.5 million tonnes.\textsuperscript{128} In effect, the Canadian government gave in to U.S. pressure to limit wheat exports despite findings confirming that the Wheat Board does not subsidize Canadian wheat exports. Although the agreement stipulates that a "blue ribbon" commission should be set up to examine grain marketing in both countries, and that no further punitive action should be pursued by the U.S. in

\textsuperscript{127} CCPA Monitor, op. cit. p.12

\textsuperscript{128} Robert Russo "Wheat trade row with U.S. revives" in The Toronto Star (Toronto: September 18, 1996) p.F1
the interim, the U.S. government has warned that it will be closely watching Canadian wheat exports to the United States, threatening to renew a trade war between the two countries if it appears likely that disruption of the U.S. market will occur. This means that the Canadian Wheat Board will be subjected to scrutiny by the U.S. government. In addition to the United States government, the Alberta government would love to see the Wheat Board disbanded in favour of a neoconservative, deregulated free-market approach to marketing western Canadian wheat. The danger to the Canadian economy from this type of U.S. scrutiny is that despite the provisions in the CUFTA/NATA, the U.S. is prepared to use its trade laws to restrict wheat imports. Moreover, American trade laws define trade injuries and subsidies so broadly that import restrictions and countervailing duties can be applied virtually any time Canadian wheat producers threaten to compete successfully with their American counterparts.

**THE FORESTRY INDUSTRY & FREE TRADE:**

For some time, Canadian forest producers have been one of the prime targets in the increasing number of trade disputes between Canada and the United States. As the world's largest producer of forest products, Canada has been repeatedly challenged by American trade remedy laws, prior to, and after, the free trade agreement. In 1986 the U.S. International Trade Commission (ITC) accused the Canadian

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129 Ibid. p. F1
government of subsidizing softwood lumber exports by charging its logging companies low fees for cutting trees on public lands. According to the Americans, low "stumpage fees" constituted an unfair advantage to Canadian softwood-lumber exporters. In retaliation, the ITC threatened to levy a 15 per cent surcharge on all softwood exports from Canada. However, the Canadian government acquiesced to American threats by levying its own 15 per cent export tax on softwood lumber destined for the United States. As a result, between 1986 and 1991, the Canadian share of softwood lumber in the U.S. market dropped from 35 per cent to 27 per cent. In 1991, the then minister of finance, Don Mazankowski, announced that Canadian softwood producers would no longer have to pay the export tax because the Canadian dollar had revalued by 15 per cent against the American dollar since 1986. Angered by this unilateral decision on the part of the Canadian government, the Americans exerted more pressure by asking Canadian producers to post a 14.48 per cent provisional bond on softwood-lumber exports while they investigated the charge of unfair subsidization.131

After an investigation clouded by much scepticism, the ITC concluded that Canada was still an unfair trader and imposed a 6.51 per cent countervailing duty on all Canadian softwood-lumber exports. However, in a move that many analysts regard as coercive,

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130 Merrett, op. cit. p.102

131 Ibid. p.102
the ITC decided that Canadian lumber exporters could avoid paying any countervailing duties if they agreed to harmonize their forest management and tree-cutting system with that of the U.S. Under the U.S. system, logging companies bid for timber cutting rights while under the Canadian system companies pay set rates for the wood they cut, thus avoiding the U.S. competitive practice of bidding at auctions. Besides, Canada banned the export of uncut logs to ensure that the Canadian economy benefits from value-added processing. Yet, the United States maintained that in order for Canada to avoid paying countervailing duties, it would not only have to adopt the American-style bidding system, but Canada would also have to abolish the ban on uncut logs or face another 6.51 per cent levy. In the end, Canada appealed the U.S. levies to the bi-lateral dispute settlement panel which ruled in favour of Canada in July of 1993.132

Supporters of free trade have used the Canadian victory in the softwood-lumber dispute to demonstrate to critics that the dispute settlement mechanism works. However, many critics claim that a more realistic explanation is that the CUFTA has failed Canadian producers because it does not provide a clear definition of what constitutes a subsidy. Without a subsidy code, they believe that Canada has paid a high price in the wake of U.S. trade sanctions. Court costs for appeals in the softwood-lumber dispute rose to over

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132 Ibid. p.103
$10 million Canadian dollars. Nevertheless, this figure is insignificant compared to the damage done to hundreds of small lumber communities which have been devastated by bankruptcies and the accompanying job losses. Mike Robertson, Deputy Director, Trade and Remedies Division at External Affairs and International Trade, Ottawa, explained in an interview that, while the CUFTA gave no clear definition on the subsidy issue, under the NAFTA the definition of a subsidy is clearly defined in the World Trade Organization's rules. Robertson confirmed that the area of immediate concern is being able to negotiate greater discipline on the question of anti-dumping. However, the fact that the United States has consistently ignored WTO rules in preference to its own trade-remedy laws is of major concern to Canada.

The case of the softwood-lumber dispute suggests that Canada was not being punished for unfair trading practices as such; instead, the aim was to use U.S. coercive trade remedies as part of a strategy to open the Canadian forest industry to American logging companies. For years, the Americans have been trying to get access to Canadian uncut logs so that they can bolster their slumping forest industry which has suffered from mismanagement for a long time. By winning this battle the Canadian forest industry, which has experienced one of the worst cases of trade harassment

133 Ibid. p.103

134 Mike Robertson, interview with author on August, 26, 1996.
under the CUFTA, managed to avoid a blatant attempt by the U.S. to grab Canadian forest resources. Nevertheless, there is nothing to suggest that trade disputes will become any more manageable, or that U.S. trade harassment of this or any other industry will cease in the future. Although Canada may eventually win a panel decision, the time and expense involved can be exorbitant and damaging to any industry.

SOCIAL PROGRAMMES:

One of the things that the various cases of U.S. trade harassment have revealed is that if Canada is to avoid future trade disputes with the United States, Canadian governments will have to be careful in providing assistance to industries and to persons hurt by free trade. One key social programme where there has been considerable downward pressure to harmonize with the American scheme has been Canada's Unemployment Insurance programme, a central pillar of Canada's Fordist social security system.

Soaring unemployment due to technology changes and the 1990-92 recession, as well as extensive labour market restructuring in the free trade era, has meant a greater reliance on unemployment insurance for many unemployed Canadians. But, at a time when the need for unemployment insurance increased, the federal government launched an attack on the scheme. With the passage in 1990 of the Conservative government's Bill C-21, the Unemployment Insurance programme began to unravel. For example, Bill C-21 raised the
eligibility requirement, lowered benefit rates, and increased the penalties for workers who quit their jobs without "just cause," and for workers dismissed for misconduct. This set the direction for further amendments. In 1994 the Liberal government increased the time from 10 to 12 weeks that persons must work before they are entitled to receive UI benefits. The government also shortened the benefit period from 52 to 40 weeks, and lowered the benefit rate from 57 per cent to 55 per cent of earnings.\footnote{Department of Finance \textit{The Budget in Brief} (Ottawa: Supply and Services, February 22, 1994). p. 10} As a consequence of these changes to the UI programme, fewer than 50 per cent of all unemployed workers presently receive UI benefits compared to 87 per cent of unemployed workers in April of 1990.\footnote{"Alternative Federal Budget 1996" (Ottawa: Framework document prepared by the Canadian Centre for Policy Alternatives). p.30}

Although the federal government promised a free trade adjustment programme in 1988, it was never implemented; instead, monies in the Unemployment Insurance scheme were diverted from income support to training, and UI premiums were increased substantially to make the programme self-financing. Besides, amendments to the scheme have eliminated federal contributions since only workers and employers now support the programme. To make up the funding shortfall, workers' contributions have increased from $1.95 to $2.25 for every $100 of insurable earnings. Similarly, employers' contributions have increased from $2.73 to
$3.15 for every $100 of workers' earnings.\textsuperscript{137} With these amendments in effect, Canadian UI reforms in the 1990s have mirrored those undertaken by the United States in the 1980s.

Prior to the CUFTA, the differences between the Canadian and the U.S. unemployment schemes were substantial. For instance, in 1987, 70 per cent of unemployed Canadians received 60 per cent of their former wages while 32 per cent of unemployed American workers received benefits covering only 35 per cent of their former wages.\textsuperscript{138} By comparison, some European countries are even more generous. For example, France provides benefits equal to 50 per cent of lost earnings for up to two years while Germany pays 66 per cent of normal wages for up to 18 months, and 58 per cent for an unlimited period after the first 18 months.\textsuperscript{139}

More fundamentally, amendments to Bill C-21 have dismantled the cornerstone of Fordist labour relations which was designed to minimize the financial hardship on workers who lost their jobs. Under Fordism, the federal government's eligibility rules were not this restrictive, but with the current changes, the pressure to find employment is more intense than ever since UI benefits are no longer capable of meeting normal everyday expenses. As a

\textsuperscript{137} Merrett, op. cit. p.164

\textsuperscript{138} Ibid. p.163

\textsuperscript{139} Faux and Lee, op. cit. p.23
consequence, the Canadian labour market has become acutely competitive as workers compete with one another for fewer jobs while companies use the threat of relocating production to squeeze further wage concessions from workers. Yet, Canadian companies have been asking to have their UI contributions further reduced from the amounts specified.

All this said, how does UI reform relate to free trade? A former minister of employment in the Mulroney government, Barbara McDougall, linked UI reforms to free trade when she opened debate to amend Bill C-21. During debate in the House of Commons on June 6, 1989, she said that: "Privatization, deregulation, tax reform, free trade, are all parts of the same agenda [as UI reform] for revitalizing the Canadian economy to meet the requirements of increased globalization of markets and rapid technology change." Ultimately, unemployment insurance and free trade have helped to eliminate Fordist tendencies in the Canadian labour market. Workers are more likely now to accept wage concessions and some technology changes than risk unemployment, knowing that UI benefits are barely able to provide a sustainable lifestyle. Ironically, Canadian workers are faced with a situation where UI benefits are being cut just when they are most needed.

Assuming that the North American Free Trade Agreement is permanent, and there is little reason to believe it will not be at this stage, the challenge is not only to get the U.S. to agree to what constitutes a subsidy, but also to learn some lessons from other countries that are going through a similar process. In this regard, a brief examination of the experience of the European Community (EC) during its metamorphosis to a single market is quite instructive in coming to terms with continental economic integration.

LESSONS FROM THE EUROPEAN COMMUNITY

No serious critic of free trade is prepared to argue that cancelling or abrogating the CUFTA/NAFTA will bring back the lost jobs and the closed plants, nor should anyone claim that the manufacturing sector was in great shape before the agreement was signed. The key point is that Canada needs an active industrial policy to build up its manufacturing and productive capacity, and to create skilled, well paying, highly productive jobs. In this regard, some important lessons can be learned from the European Community. The issue is not that the CUFTA/NAFTA should be, or can be, turned into the EC agreement, but that a different agenda should be brought to bear when it comes to economic integration with the United States and Mexico.
The principle underlying the EC's activist labour-market approach is that good trade adjustment policies are neither optional nor do they constitute charity; instead, they must be part of a strategy to turn things around. In contrast to the CUFTA/NAFTA which is designed to rapidly remove all remaining tariffs on goods and barriers to the flow of capital and services across North American borders, the EC integration model, particularly the progress towards a single market, was slow and gradual, and therefore sensitive to the disparities of income and social circumstances between member countries.\textsuperscript{141} For example, in 1986, nearly 30 years after the initial formation of the EC, the Europeans were still making fundamental changes. The Single European Act of 1986 (SEA) added a new dimension to the inaugural Treaty of Rome of 1957. As will be explained later, provisions in the SEA commit the EC to reducing the disparities between member countries and to redressing regional imbalances within the Community. Attention is also given to improving working conditions, especially health and safety regulations. Furthermore, in the drive towards a single market in 1992, the European Commission introduced a Charter of Social Rights in 1989 to ensure that trade liberalization would be accompanied by fair and equitable wages, and that training for workers would be widespread throughout the Community. These amendments to the original Treaty gave the Europeans several years to contemplate the

\textsuperscript{141} Faux and Lee, op. cit. p.1
impact of the integration process and to raise concerns about the likely impact of a single market. In this context, the EC is committed to achieving integration without unduly penalizing workers. By contrast, the U.S. "fast track" approach in negotiating the CUFTA resulted in an agreement which was completed in less than two years. In fact, negotiations started in the Spring of 1986 and were completed by the Fall of 1987. Although the extent of economic integration between Canada and the United States, prior to the CUFTA, has been considerable in many sectors, the "fast track" approach meant that the Canadian public, unlike its European counterparts, had much less time to consider the wider social and economic implications of the agreement before it became law. Instead of highlighting polices that deal with regional disparities, wages, and training, the CUFTA has been largely silent on these issues.

Another key impediment of the CUFTA/NAFTA is that it restricts the ability of the federal government to carry out broad policies that make a significant contribution to protecting local industry. For instance, provincial liquor boards in Canada promoted domestic wine by marking up the price of imported wine and by using listing practices that favour domestic wine over imported wine. However, the CUFTA eliminated price markups and discriminatory listing practices by provincial liquor boards in 1995. What this means for Canada in the first place is that U.S. wines will now be competing with Canadian wines on an equal footing. But the more damaging
aspect is that as interprovincial barriers to trade continue, and as the sale of Canadian wines between the provinces continues to be impeded, California wines could very well receive preferential access to much of the Canadian market over Ontario wines. Not only could California wines be easily available in the Canadian marketplace but, as tariffs between Canada and the United States are eventually eliminated, local grape growers may yet lose much of their business to California vineyards as Canadian wineries switch to cheaper Californian grapes. Furthermore, Canada also agreed to end the requirement that U.S. liquor, imported in bulk, be blended with Canadian liquor. This is potentially damaging to the Canadian liquor industry because the U.S. has a considerable cost advantage in the production of white spirits such as rum, vodka, and gin.  

Similarly, performance requirements have been widely used in Canada to pursue a range of industrial policy objectives. For instance, foreign capital was channelled into certain sectors of the economy so as to encourage balanced long-term development. As well, foreign investment was routed to certain economically depressed regions of the country, either through regulation or subsidies. As such, these performance requirements served as a sort of regional development policy.  

\(^{142}\) Canadian Foundation For Economic Education, op. cit. p.28  

\(^{143}\) Stanford, op. cit. p.166
spinoffs from foreign investments, foreign investors have not only been required to use a certain amount of local material in their manufacturing operations, but they have also been forced to transfer a certain proportion of their technology, either directly through shared knowledge of the production process and patents, or indirectly through in-house training for local employees.¹⁴⁴ A combination of these measures has been applied in the auto and the oil and gas industries in Canada, especially the obligation to utilize a certain amount of Canadian content as well as the responsibility to hire a specific share of Canadians for some of the best paying jobs in the industry. In Sweden and Germany there is a requirement to hire a certain number of nationals as local directors.

By restricting the type of measures just described, the NAFTA makes it difficult, if not impossible, for Canada to influence the nature and style of foreign investment. Without the ability to fully regulate foreign investment, the federal government will be less able to ensure that investment is balanced across regions and industries. As a result, the economy is less able to generate the local spinoffs that would otherwise benefit Canada. Ironically, by eliminating performance requirements, free trade prevents future implementation of an Auto-Pact-type agreement which was designed to guarantee jobs in Canada and to increase local production in a

¹⁴⁴ Ibid. p. 166
core industry.

The European Community, in contrast to North America, has seen the wisdom of managing trade and industrial development rather than leaving everything to market forces. The European Community respects the right of member countries to implement some form of industrial policy including support to industries for worker training, innovation, research and development, and for purposes of economic and regional development. For example, some EC-wide industrial policies such as co-operative aerospace and information technology have been established. Through the establishment of Airbus Industrie, this European consortium has been able to secure 30 per cent of the global market for civilian aircraft.\(^{145}\) For Airbus Industrie, forward planning between government and the private sector was critical to its success.

Since the establishment of Airbus Industrie in 1970, the governments of the Federal Republic of Germany, France, Spain, and Britain have invested almost $9 billion in the consortium. While the Europeans claimed that the funds came from long-term, interest bearing loans, Airbus Industrie's competitors, Boeing and McDonnell Douglas, insisted that little, if any, of the money has actually been repaid. As a result, the American aircraft manufacturing giants charge that Airbus Industrie can profitably market a jet for

\(^{145}\) James Laxer False God: How the Globalization Myth has Impoverished Canada (Toronto: Lester Publishing Ltd. 1993). p.128
$35 to $40 million while the true cost is $10 to $20 million more. The Airbus Industrie case illustrates the ways in which European governments and the EC itself are prepared to intervene to ensure European success in critical areas of the market against Japanese and Americans competition.

In contrast to North America, European Community industrial policies have been partly influenced by one key impulse; the impulse not to trust the market fully, particularly in key sectors where the industrial policies of foreign governments are a concern and concerns about social and regional equity. Powerful forces and traditions in Europe have resisted the idea of an unrestrained market economy and society. The presence of corporatism in countries like Austria and Sweden, statism in France, and social democracy in places like Germany and Spain have overlapped in their commitment to government intervention to ensure fairness in the market and to promote long-term development which the market, in its short-run bias, often ignores.

Of importance to the Europeans is a gradual transformation of society through parliamentary means, and to the partnership of the state with business and labour in promoting economic growth. In fact, European parliamentarians have brought forward industrial-strategy proposals to offset the drive towards a single market.

Those who favour an industrial strategy have introduced a number of principles. These principles include large scale increases in regional-development funds to ensure that poorer European countries are not disadvantaged by the drive to a single market; the strengthening of Europe's anti-dumping code to ensure that the EC is not invaded by factories in which only final assembly occurs and in which there is no technology transfer to EC countries; and the elaboration of the social charter to ensure minimum wages, worker benefits, and social programmes that restrict the movement of industries from high-wage regions, where social programmes are strongly entrenched, to low-wage regions where such programmes are much more minimal.\textsuperscript{147}

As the EC agreement has shown, a free trade agreement should not be fully implemented until certain programmes are well in place; in a more homogeneous North America, these programmes could be implemented at a much faster pace. Pursuit of these policies is not incompatible with trade regulated by international rules under the World Trade Organization. There is no doubt that trade between Canada, the United States, and Mexico can be mutually beneficial provided that the pattern of trade is sensitive to the needs of national development in all three countries. However, both the CUFTA and the NAFTA deprive Canadian governments of the key tools necessary for active industrial strategies, thereby fundamentally

\textsuperscript{147} Ibid. p.147
tilting the balance in the wrong direction.

The need to invest in the Canadian labour force should go beyond programmes for workers displaced by free trade, however. The federal government also needs to take responsibility for spearheading meaningful job creation strategies, not 'work fare.' While training workers for the labour market is essential, it does not guarantee that the jobs will be there when needed. Canada therefore should be looking towards the future, and towards a new kind of economy and labour market. One example of the broader vision for Canada, if it is to absorb the shock of the free trade agreement, is the creation of programmes that generate jobs related to commercial technologies that meet national needs such as high speed rail, high definition television, hydro-power technology, bio-technology, and high-tech communication systems related to the 'Internet.' In an interview, Angela Linton, Membership and Administrative Assistant with The Council of Canadians, said that her organization "does not believe that it is a credible strategy for the federal government to leave job creation entirely to the private sector." She also said: "My organization believes that it is evident by the many failed attempts that this strategy does not work." She summarized her organization's views by saying: "We believe that the federal government must take responsibility for job creation."148 The following summary of some differences between

148 Angela Linton, interview with author on August, 22, 1996.
industrial strategy in Canada and Europe emphasizes Canada's declining role in industrial policy.

EDUCATION & TRAINING:
Far from rising to meet the challenge of global competition, there has been no serious planning on the part of either the Liberal government or the former Conservative government to estimate the potential extent of dislocation of jobs in the economy and to develop educational and training programmes so that workers are able to make the transition from standardized jobs to high-skilled jobs. Therefore, one absolute requirement for a free trade agreement should be a credible and comprehensive strategy for worker training and education, and a commitment to fully fund such a strategy as the Germans have been doing. In order to prepare students for the workforce who are not interested in a university education, Germany has established a system for students to earn technical and professional certificates modelled on apprenticeship programmes.\textsuperscript{149}

Oddly enough, the Canadian government seems to have planned for free-trade adjustment programmes for corporations, but not for workers, even though in 1988 the former Conservative government promised a substantial free trade adjustment programme for

\textsuperscript{149} Faux and Lee, op. cit. p.25
workers. In fact, the Canadian government initially planned to spend twenty seven million Canadian dollars between 1993 and 1997 to help Canadian businesses adapt to the North American Free Trade Agreement. It also planned to establish a Canadian Business Centre in Mexico City to teach Canadian managers how to profit from NAFTA. Without a skilled, educated, and adaptable labour force, Canada will find it virtually impossible to compete globally for anything else but mass-produced standardized goods that generate increasingly lower wages. However, even these low-wage jobs will be lost to Mexico eventually.

**SOCIAL DIMENSION:**

While social adjustment assistance might not have been a part of NAFTA’s trilateral negotiations, an adjustment assistance package for Canadians should have the same formal weight and commitment as the agreement itself. If not, political pressure for reducing the deficit and holding the line on taxes will squeeze out funding for social adjustment programmes.

One way in which several European governments have attempted to place their economies onto a high-wage, high value-added path has been to shut off the low-wage option by setting a relatively high minimum wage, by regulating plant closings, and by legislating

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150 Final Report- Government of Ontario, op. cit. p.16
151 Merrett, op. cit. p.162
livable pensions and unemployment compensation benefits.\textsuperscript{152} These policies have forced companies to seek productivity improvements through investments in modern equipment, new technology, and more interactive labour-management relations. The Vice President of the German Trade Union Confederation warned that: "In the absence of social rules of the game, the battle of European Community-wide competition would be fought on the backs of workers."\textsuperscript{153} However, the CUFTA/NAFTA takes Canada in the wrong direction by opening the door for corporations to seek the low wage solution, thereby making the need for investment in the labour force unnecessary. While this low-wage approach may add to corporate profits in the short term, low wages are a disincentive to productivity and will ultimately undermine the competitiveness of Canadian firms. Given their preference for the low-wage approach, it is ironic that the federal and provincial governments appear so concerned about Canadian productivity.

In responding to the social challenges the EU poses, the Europeans have attempted to build a two-tier social dimension into their process of economic integration. First, the Social Charter establishes that trade should not be based on a process whereby poorer countries follow low-wage, laxly regulated policies in order to increase exports. The Social Charter, which was readily adopted

\textsuperscript{152} Faux and Lee, op. cit. p.22

\textsuperscript{153} Ibid. p.23
by eleven of the twelve EC countries, Britain being the lone exception, demonstrates that mainstream political parties in Europe, both Christian and Social Democrats, share the belief that the market needs to be regulated if social equity is to be achieved. Second, structural funds are provided to help redistribute resources within the European Community to poorer countries, regions, and disadvantaged groups. The structural funds have two components. The regional fund provides financing to help narrow the gap between the level of infrastructure in the poorer and more developed EC countries, and the social fund is used to finance things like youth unemployment.\(^{154}\) In Canada, youth unemployment is a serious problem with one in five young persons unemployed and without hope.\(^{155}\) At the individual firm or industry level in the European Community, employee and employer organizations can apply for these funds when they need financing for a particular project such as job creation for youths.\(^{156}\)

These policies have not yet been accepted by our federal governments. If, for example, reducing youth unemployment is a concern, the Europeans have not been content with enacting a broad free trade agreement and waiting a few years for the employment

\(^{154}\) Ibid. p.23


\(^{156}\) Faux and Lee, op. cit. p.23
situation to improve. In contrast to the federal governments that have been in power in Canada since free trade, the Europeans' attitude toward free trade has been more pragmatic; they have written specific enforceable standards into EC-wide law in areas of greatest concern. This makes existing European laws in the areas of health care, youth development, worker training, and adjustment assistance much more extensive than comparable Canadian laws.\textsuperscript{157}

This higher European 'baseline' makes the task of adapting their individual economies to the needs of increased economic integration much easier than is the case in North America.

\textbf{IS CANADA BECOMING A POST-NATIONAL STATE?}

Throughout the Fordist era, a principal responsibility of nation-states was protecting their populations from the harmful consequences of periodic downturns in the economy. This meant that businesses and investment decisions were subjected to public scrutiny and regulation. Faced with unexpected difficulties, nation-states could invoke emergency measures to protect their economies from short-term problems which arose during normal business cycles. However, this is no longer the basis on which some governments and the private sector operate. More than ever, governments want to act like private corporations while corporations have acquired the power and status of the states that

\textsuperscript{157} Ibid. p.23
they wish to replace. The charge that corporations make is that the nation-state can no longer satisfy the accumulation needs of businesses, especially transnational corporations. The main concern of transnational corporations, in seeking the best returns on investment, is to search for expanding markets where market forces dominate, and where most regulated industries can be exposed to new competition. For them, the logic of efficiency and high profits dictates where investments take place. In other words, the neoconservative agenda requires less of a national industrial strategy and more of a free-market approach.

In the 1960s and 1970s, it was considered natural for Canada to look outwards as barriers to trade fell worldwide under the GATT. This outward-looking approach was not considered radical because a well managed economy stood a good chance of making gains in foreign markets, provided that there were indigenous companies robust enough to compete and gain market shares abroad. Hence, the pursuit of export opportunities was just part of a Canadian industrial growth model, but not the growth model itself since between 70 and 75 per cent of Canada's GDP is considered non-trade. What was especially appealing during this period was that countries, with very different industrial and economic goals, did not fear being pressured into harmonizing their economies with others that had different priorities. However, with the implementation of the free trade agreement, Canada is becoming a post-national state, increasingly tied to a continental model of
development that accepts an asymmetrical relationship as the price for economic survival.

A "post-national state" is said to be a territorial entity with two main characteristics; first, a weak national economy and, second, the diminishing ability of the state to engage in internal industrial and economic management.\textsuperscript{158} Since much has been said already about the diminishing role of the Canadian state in implementing and regulating industrial policy, the focus of the next segment will explore some of the characteristics of a weak national economy. Because of its reduced managerial role in industrial matters under the CUFTA/NAFTA, it appears that the function that the federal government is most capable of performing is maintaining a trade-friendly environment which requires a commitment to open markets, regardless of the costs or consequences. Inherent in this paradigm shift is the reality that industrial relations are no longer employment-friendly; instead, the new paradigm has become a powerful incentive to cut the workforce. 'Full employment' was a priority under the Fordist development model, but this is no longer true. Deficit reduction, cost competitiveness, downsizing, deregulation and privatization are the principal objectives of this new paradigm. Paradoxically, fiscal restraint and spending cuts to social programmes are now

\textsuperscript{158} Daniel Drache "States, Trade Blocks and Free Trade in the Post-National Era." (Toronto: York University, Conference paper, March, 1993). p.4
regarded as signs of moving towards a healthy economy. The debates over the federal budget provide the spectacle of the Liberal government joining the Reform Party by climbing onto the bandwagon of deficit reduction and a balanced budget. Moreover, government and opposition compete by advocating deeper spending cuts which are doing nothing to relieve high unemployment or to improve ordinary wages. Jeff Rubin, chief economist with CIBC Wood Gundy Securities Inc., estimates that about 470,000 jobless Canadians would be working today if the provincial and federal governments were not so focused on deficit-fighting.\(^{159}\)

**A WEAK INDIGENOUS ECONOMY & FOREIGN INVESTMENT:**

With its predominantly branch-plant industrial base, Canada is losing ground to industrial growth poles in the southern U.S. and northern Mexico. No manufacturing sector is secure. This underlines the importance of having strong indigenous industries and a prudent, pro-active state so that long-term stability, industrial planning, and economic restructuring become a reality. For example, under the guidance of the Ministry of International Trade and Industry, the Japanese based their industrial model on close collaboration between the state and the corporate sector. At the same time, they overcame their shortage of raw material and established their industries in stages. In the late 1950s the Japanese concentrated on building their heavy industry. In the

1960s they broke into the global car market in a big way, followed in the 1970s and 1980s by the phenomenal breakthrough in high technology which has made Japan the world leader in computer-assisted production. Control of national industrial policy is therefore crucial in building local industries that can hold their own in global markets. According to Professor Michael Porter of Harvard University, "nations gain a competitive advantage in industries where home demand gives companies a clearer or earlier picture of the emerging needs of buyers rather than waiting on signals from foreign competitors."\(^{160}\)

Over the last two decades, some Canadian-owned companies such as Northern Telecom, Bombardier, and Dominion Textiles have become global competitors. But these Canadian giants, with the recent exception of Bombardier, are now producing less in Canada; as a result, they now employ fewer workers. For example, during the 1980s, 65 per cent of Northern Telecom’s revenues came from its American operations, but fifteen years earlier two-thirds of the company’s output was produced in Canada.\(^{161}\) Employment has also followed a similar pattern. Northern Telecom’s shutdown of its Bramalea plant in 1995 resulted in the net loss of 180 manufacturing jobs. The loss of these jobs is in addition to the 2,600 jobs lost in Canada since the company began its worldwide

\(^{160}\) Drache, "States, Trade Blocs and Free Trade in the Post-National Era," op. cit. p. 21

\(^{161}\) Drache and Gertler, op. cit. p.12
restructuring programme in 1993.\textsuperscript{162} It is anticipated that future employment growth, for Northern Telecom, will occur in Mexico and China as expansions take place in those countries.

Canadian-owned industries face a troubled future. They are in danger of losing their national identity because it appears that Canadian transnational corporations do not mind being regarded as American transnational firms, once relocating to the U.S. brings the highest profits. Yet, despite the relative success of the three Canadian giants just mentioned, many Canadian industries are too weak to go global. Besides, small Canadian firms are at a substantial disadvantage in competing directly with much larger American firms that enjoy economies of scale. It has been widely rumoured that the recent demise of Canada's Consumers' Distributing has been as a direct result of competition from the American giant, Wal-Mart. Furthermore, under strong U.S. pressure, a potential threat to Canada's agricultural industry has already taken place following attacks on Canada's supply management system. At the same time, the American government's sovereign capacity to control its economy has been hardly affected.

Certain policies demonstrate that American governments are committed to protecting core industries from what they perceive as

\footnote{\textsuperscript{162} Telecommunications Industry, Ontario. "Final move in Nortel shakeup creates global HQ closing plant in Brampton." \textit{The Financial Post} (Toronto: June 14, 1995). pp. 1-2}
unfair trade practices by other countries. To this end, the U.S. has pioneered what can only be described as targeted relief programmes, or unabashed protectionist measures, designed to protect the jobs and industries of trade-battered communities.\textsuperscript{163} The U.S. also uses a range of other instruments such as special tax breaks and low-interest loans to minimize the dislocation caused by competition. An example of this is the U.S. Department of Defence's plan which many observers believe is the precursor of a more sophisticated industrial policy. The Department of Defence has organized a cartel of micro-chip producers in apparent violation of American anti-trust laws, citing national security as the reason for its dramatic intervention in the arms industry.\textsuperscript{164}

The asymmetry of this trading relationship is further troubling. First, neither the CUFTA nor the NAFTA seems to inhibit the United States from addressing its industrial problems. For instance, if the United States wants to close its market to Canadian or Mexican commodities, it does not feel obligated to examine the free trade agreement before deciding whether any protectionist measure it takes is contrary to the intent or spirit of free trade. This was clearly demonstrated in the case of softwood lumber. However, if Ottawa tries to take similar measures, the U.S. will play hardball with its principal trading partner.

\textsuperscript{163} Drache and Gertler, op. cit. p.10

\textsuperscript{164} Ibid. pp.10-11
because the free trade agreement does not have the teeth to force Washington to amend its trade practices and to stop harassing Canadian exporters. Yet, the agreement has enough muscle to prevent Ottawa from tackling issues that are structural, such as providing domestic industries with cheaper energy. The resulting uncertainty brought about by arbitrary U.S. action restricts the kinds of programmes Canada can mount. The fear is that any Canadian industrial measure can be scrutinized by U.S. trade officials and deemed potentially injurious to the U.S. economy, and therefore subject to the lengthy and costly trade dispute mechanism.

**The Problem of Branch-Plants:**

With capital increasingly free to move across national borders, foreign investment is potentially threatening to Canada. The Macdonald Commission which studied the Canadian economy prior to the CUFTA disagreed with this view and argued instead that foreign direct investment allowed the Canadian economy to achieve levels of industrial development not otherwise possible. But, findings from a wide range of U.S. studies summarized by I. Litvak and C. Maule in their book, *The Canadian Multinationals*, suggest that one of the main reasons the United States set up plants in several countries, including Canada, was to pre-empt non-U.S. competition. Such findings suggest that foreign transnationals may have inhibited Canadian entrepreneurship and industrial development to

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165 Brooks and Stritch, op. cit. p.119
a considerable extent. Furthermore, the dominance of foreign transnationals can discourage independent Canadian entrepreneurship as large American firms, for example, buy out indigenous entrepreneurs who then become employees of transnationals. The Canadian entrepreneur seems powerless to challenge predatory buy-outs by American and other foreign transnationals. The argument that the presence and the dominance of branch-plants in Canada are detrimental to the Canadian economy and Canadian entrepreneurship seems to have some credibility on several grounds.

First, two-thirds of all foreign subsidiaries do not export anything from Canada. Most of these affiliates were established specifically to supply the Canadian market; as such, they are not designed to be globally competitive. In fact, these subsidiaries are prevented from selling abroad because their exports would either compete with those of the parent company or with subsidiaries of the parent company based in other countries. Not only is the export capacity of Canadian subsidiaries restricted, but their efficiency is also curtailed because they are unable to take advantage of economies of scale.

Second, branch-plants are neither innovative nor technologically driven. They rarely carry out much meaningful research and development in Canada because transnationals generally

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Drache and Gertler, op. cit. p.13
conduct these functions where the head offices are located. Consequently, Canadian branch-plants have to rely on imported technology. This only serves as a disincentive to the development of the Canadian scientific and technological sector. But for many American corporations, these branch-plants play an important role by buying machinery, sub-components, and sub-assemblies from their parent companies. According to American estimates, 75 per cent of U.S. exports to the three hundred largest corporations in Canada originate from the demand generated by Canadian subsidiaries.\textsuperscript{167}

In an interview, Denis Gauthier, Director General, Micro-Economic Policy Analysis, Industry Canada, confirmed that Canada spends less on research and development as a proportion of GDP than many of its competitors. This he said partly reflects Canada's economic structure and high degree of foreign ownership. But, in today's economy, Gauthier believes that it is equally or perhaps more important to be able to acquire and diffuse knowledge to produce commercially successful products and processes, although knowledge creation, he admits, is an important component of the innovation process. In explaining Canada's innovative strategy, the Director General said that: "Industry Canada is making every effort to help businesses become more innovative, for example, it recently launched the Science and Technology Review which will help businesses to apply and commercialize science and technology to

\textsuperscript{167} Ibid. p.13
create economic growth and jobs." This recent focus on innovation means that, in a real sense, branch-plants have acted as a constraint on local industries being able to build up Canada's technological and innovative capacities.

Third, head offices perform the bulk of support services which further erodes the economic benefit to Canada. In addition, branch-plants are blamed for draining capital from the Canadian economy by repatriating profits to their parent companies abroad. Business analyst David Crane notes that, between 1986 and 1991, foreign-owned subsidiaries in Canada transferred $35.6 billion in dividends and interest payments to their parent firms outside Canada. The situation is further exacerbated by the artificial increase in the prices of goods bought by Canadian subsidiaries from parent companies or from subsidiaries in other countries. This high artificial transfer-pricing occurs when subsidiaries want to reduce the profits made in Canada so that they can reduce their corporate tax burden. Moreover, because intra-firm trading is so prevalent in Canada, there is the persistent threat of inflationary price movements that are externally induced. Since intra-firm pricing is not regulated, a major source of inflationary pressures

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168 Denis Gauthier, Director General, Micro-Economic Policy Analysis, Industry Canada. Interview with author on 9 September, 1996.

in Canada results from the non-competitive buying policy practised by branch-plant companies. In 1980 R.S. Letourneau, in a report for the Conference Board of Canada, argued that more than 40 per cent of Canada’s inflation had its origin outside the country.\textsuperscript{170} Inflation results in higher interest rates which only serve to make borrowing monies for investing in plant and equipment more expensive, thereby further dampening any impetus for local investments.

Fourth, foreign-owned subsidiaries may be more responsive to foreign laws than to Canadian legislation. Foreign laws may require subsidiaries to behave in a certain way even if their actions contravene Canadian legislation. For example, U.S. parent companies can force their Canadian subsidiaries to comply with American laws, knowing that they are contrary to Canadian legislation. An American law which infringes on Canadian economic sovereignty is the Trading with the Enemy Act which allows the U.S. president to prohibit American firms from trading with certain countries. This law has been used to restrict exports to selected communist countries, even though Canada and these countries have no export restrictions.\textsuperscript{171} The Helms-Burton Bill, which is being used by the United States to punish certain Canadian companies that trade with Cuba, comes close to the provisions in the Trading with the Enemy Act. Whether Canada can

\begin{footnotesize}
\begin{enumerate}
\item Drache and Glasbeek, op. cit. p.20
\item Brooks and Stritch, op. cit. p.119
\end{enumerate}
\end{footnotesize}
successfully challenge the Helms-Burton Bill under NAFTA is highly speculative.

In the final analysis, Canada's survival as a nation-state will depend on its skill in retaining sufficient control of its national economy by insisting on a mode of regulation that responds not just to the need of capital accumulation, but to the needs of nationhood as well. To do this, it must have a range of measures and strategies from which to choose in order to counter U.S. legislation and trade harassment policies. While each country has different priorities, one thing should be clear; Canada cannot afford to give more than it is getting, nor can it afford to leave its industries completely unprotected against market forces. Without prudent, timely state-intervention, markets can perform poorly and the adjustment costs can be disastrous. Consequently, given the traditional definition of a nation-state, and recognizing the forces already at work in this country, Canada faces a fundamental challenge if it is to retain its nation-state status.
CHAPTER 6

CONCLUSION

The North American Free Trade Agreement (CUFTA/NAFTA) reflects the underlying conflict in Canadian industrial relations referred to at the beginning of this thesis. On one side are the interests of the corporate elite to be globally competitive, to optimize profits, and to survive and grow unhindered by government regulation. On the other side are the interests of average Canadians to enjoy decent jobs, better wages, and improved living standards. In the middle is the state which Canadians believe has the power to make decisions about vital questions of industrial policy. But as James Laxer observes, "today that notion [of an interventionist state], which is so central to our existence as a democratic society, is disappearing."\(^{172}\) The issue therefore is which of the two interests comes first? In a democratic society, the answer is clear. The standard of living and the well-being of Canadians must be given priority. Corporate interests must ultimately conform to the broader public interest if Canada is to be a significant global player and a desirable place to live and work. For this and other reasons, Canada needs a new set of priorities, one in which all the modern conditions of democratic politics are present.

\(^{172}\) Laxer, op. cit. pp.116-117
By nature, free trade agreements and free investment flows cause disruption and dislocation as economies adjust to new sources of production and attempt to find their niches. By easing the process of change, and by protecting workers and industries from the worst effects of this disruption, an appropriate, proactive industrial policy makes change for the better possible. For instance, the French government coped with the trade adjustment problem in its coal mine industry by diverting $1.5 billion to worker-retraining and income maintenance-programmes after 75,000 jobs were phased out in Alsace and Lorraine beginning in 1975. By contrast, when the British government decided to close its coal pits in 1991, thereby putting 30,000 miners out of work, Britain made no provisions for addressing the real cost of adjustment. Not surprisingly, John Major's Conservative government was forced to back down on its mine closing scheme when the country was threatened with massive public protests. The lesson for Canada is that the complexities of the labour adjustment process caused by free trade must be confronted and managed by state intervention.

Over the long term, failure to invest in and to educate the Canadian workforce, to create high skilled, high-wage jobs and, most importantly, to have an appropriate interventionist industrial policy will disadvantage Canadian producers and workers when competing with the Americans, the Europeans, and the Japanese in

173 Drache, "States, Trade Blocs and Free Trade." op. cit. p.10
manufacturing and supplying customized, high quality goods and services. At the same time, Canadians will be equally disadvantaged when competing with low-wage Asian and Mexican producers in markets for standardized, price-competitive goods. Canada will not win any contest based on cutting wages, nor is it in its long term interest to be in such a contest. So far, the results of this experience have been discouraging. Streamlining the Canadian workforce and investment diversion have killed private-sector jobs and choked growth. Wage controls and wage roll-backs have contributed to the steady decline in wages, weak consumer demand, and increased poverty. Increased privatization and deregulation have only accelerated the growing gap between the rich and the poor by further concentrating wealth in the hands of a few. Finally, attacks on social programmes have meant a further erosion of social services, income support programmes, and public sector jobs.

The important lesson to be learnt, however, is that our federal government cannot leave matters to market forces alone to build our manufacturing industries and productive capacity. What is needed are policies that call for more value-added processing to Canadian natural resources before they are exported, and policies that encourage Canadian companies to produce and to purchase more of their machinery and equipment and other needs in Canada. In short, what Canada needs is a strong indigenous industrial grid, and managed trade agreements like the old Auto Pact which gave Canadians the opportunity to participate in
international trade while protecting domestic jobs and wages. These policies are significantly weakened by the terms and conditions of the current free trade agreement which is driven purely by market forces, and that is why there is need for a more balanced approach to industrial policy in Canada.

In a globalized economy, the role of the Canadian state has to be re-evaluated. This thesis contends that it is essential for Canada to act in its best economic interest and to be more assertive in controlling more of the tools needed to shape its industrial policy, chart its economic future, and create a fairer society. The underlying fear that Canada taking assertive action in its best economic interest will somehow offend the Americans and start a serious trade war is misplaced. Although Canada is far more dependent on trade with the U.S. than the U.S. is reliant on trade with Canada, nevertheless, Canada is not an inconsequential trading partner; in fact, it is the United States' best customer. Canada's 30 million consumers buy almost the same dollar value of US exports as the European Community's 320 million consumers. Canada also buys more from the U.S. than Japan's 122 million consumers do.\(^{174}\) Furthermore, during the 1980s, American exports to Canada grew twice as fast as American exports to the rest of the world,\(^ {175}\) besides, millions of Americans work in industries that rely on


\(^{175}\) Ibid. p.213
trade with Canada.

Ultimately, the need in Canada is for an industrial policy that promotes balanced development rather than a narrowly focused hemispheric order that is leading to a competitive race to the bottom, accelerated by the North American Free Trade Agreement and its corporate-centred neoconservative agenda. One of the most critical and urgent questions that has to be addressed, if Canada is to be a strong nation-state, is whether the country can move into the twenty-first century without a comprehensive industrial strategy while the rest of the world and "big business" plan and prioritize.
Rules of Origin in the CUFTA/NAFTA are important because only goods classified as having been produced in either Canada, Mexico, or the United States can qualify for duty-free entry into each other's market. Other goods, incorporating raw materials or components from countries other than the free trade partners, can also qualify for free trade treatment if the final products have been sufficiently changed from their original state in a free trade member-country. In most cases, goods must have a certain percentage (50 per cent or more) of their manufacturing cost take place in a member-country to qualify.\(^{176}\) What this means is that goods should have a significant amount of either Mexican, Canadian, or American value-added to qualify for duty-free treatment. Goods imported in bulk and simply repackaged and labelled in any of the three countries do not qualify for duty-free treatment. The three countries will continue to apply their existing tariffs and trade rules to products that do not meet the required North American content criterion.

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\(^{176}\) Canadian Foundation for Economic Education, op. cit p. 9
ELIMINATING BARRIERS:

One of the major objectives of the agreement is not only the elimination of tariffs on goods being traded between the three countries, but also the elimination of non-tariff barriers. For example, the agreement forbids restricting the quantity of specific exports except in strictly defined circumstances. As a result, neither Canada, the United States, nor Mexico will be allowed to limit exports from the other partners as a means of counteracting the effects of tariff elimination.

Another set of non-tariff barriers that has caused much concern is technical barriers to trade that exist because of differences in regulations governing such things as health and safety standards and the environment. Each government has agreed to avoid using standards which cause unnecessary obstacles to trade. For example, the Canadian government can continue to require bilingual labelling on imported goods as long as both domestic and imported goods meet the same standards. In the longer term, the three governments have agreed to make their standards more compatible in order to prevent not only obstacles to trade, but also to reduce export costs that are incurred because of having to meet foreign standards.\(^{177}\)

\[^{177}\] External Affairs and International Trade, Canada. NAFTA: What's it All About (Ottawa: Supply & Services, 1993). p.28
The objective of the investment provisions in the free trade agreement is to ensure that investment dollars flow freely across the borders of member-countries, and that investors are treated fairly and predictably in all three countries. Some key provisions relating to investment in the agreement include, (i) the obligation to provide national treatment to foreign investors so that they will be subject to the same rules as domestic investors, and (ii) a relaxation of the rules on acquiring existing businesses.

The national treatment provisions of the North American Free Trade Agreement stipulate that, once goods have been imported into either of the three countries, they cannot be subjected to discriminatory trade practices. These provisions prevent the use of internal discriminatory measures such as sales taxes, or health and safety standards that favour domestic goods over imported commodities. In other words, sales and excise taxes cannot be higher on imported goods than on domestic goods, neither can standards be more rigorous on imported goods than on domestic products.\(^\text{178}\)

In the past, investment related regulations in Canada have been used to ensure that foreign investors provided the local economy with certain benefits. For example, a foreign manufacturer

\(^{178}\) Ibid. p.61
may have been required to use a certain amount of locally produced goods and services in the manufacturing process, or may have been asked to undertake a certain amount of research and development in Canada. However, except for certain performance requirements related to subsidies and government procurement, local requirements will no longer be permitted unless they apply equally to all three countries. These specific details in the investment provisions of the agreement are significant because Canada has agreed to liberalize its foreign investment review procedures, and to provide equal treatment to U.S., Mexican, and local investors.

**DISPUTE SETTLEMENT:**

In the event of trade disputes between the three countries, the CUFTA/NAFTA allows for various dispute settlement mechanisms. These mechanisms are intended to give member-countries an equal voice by referring trade-disputes to objective panels of experts. Before the CUFTA/NAFTA, Canadian exporters were subjected to costly trade disputes, notably, in the cases of softwood lumber and cedar shakes. One of Canada's key objectives in entering the free trade negotiations was to find a better and less costly way of resolving trade disputes in order to ensure ongoing access for Canadian exports to the U.S. and Mexican markets. However, in dealing with general disputes, the agreement stipulates that each country must notify its other partners if it plans to take any action that might
affect the smooth operation of the agreement.\textsuperscript{179} Hence, each country will be accountable to its partners for actions taken that might affect trade between them.

\textsuperscript{179} Ibid. p.28
### Selected Plant Closures & Production Relocations: Jan 1989 June 1992, Ontario

<table>
<thead>
<tr>
<th>Company Ownership</th>
<th>Community</th>
<th>Products</th>
<th>Relocation</th>
<th>Job Losses</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allied-Signal Canada Inc. (US)</td>
<td>Mississauga; London</td>
<td>brake parts</td>
<td>Charlotte, NC</td>
<td>670</td>
<td>Feb. 1992</td>
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<tr>
<td>Amerock Inc. (US)</td>
<td>Meaford</td>
<td>household cabinet hardware</td>
<td>Chicago, IL</td>
<td>140</td>
<td>Sept. 1990</td>
</tr>
<tr>
<td>Andrew Malcolm Furniture</td>
<td>Listowel</td>
<td>furniture</td>
<td>Atlanta, GA</td>
<td>137</td>
<td>Jun. 1990</td>
</tr>
<tr>
<td>Arnold Manufacturing</td>
<td>Windsor</td>
<td>restaurant furnishings</td>
<td>Louisville, KY</td>
<td>100</td>
<td>-</td>
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<tr>
<td>B.F. Goodrich Tires (US)</td>
<td>Kitchener</td>
<td>tires</td>
<td>Cleveland OH</td>
<td>70</td>
<td>1991</td>
</tr>
<tr>
<td>Ball Packaging Products Inc.</td>
<td>Simcoe</td>
<td>paint cans</td>
<td>Philadelphia PA</td>
<td>210</td>
<td>Jan. 1991</td>
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<td>BASF (US &amp; Germany)</td>
<td>Cornwall</td>
<td>chemicals</td>
<td>NJ: Germany</td>
<td>250</td>
<td>Jan. 1990</td>
</tr>
<tr>
<td>BASF Coatings &amp; Inks Canada (US&amp;Ger)</td>
<td>Toronto</td>
<td>liquid inks/ container coatings</td>
<td>Ohio</td>
<td>60</td>
<td>Dec. 1990</td>
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<td>Beckman Industrial Corp (US)</td>
<td>Toronto</td>
<td>electronic temperature, voltage components</td>
<td>Fullerton, CA</td>
<td>80</td>
<td>April 1990</td>
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<tr>
<td>Bendix Corp. (US)</td>
<td>Collingwood</td>
<td>seatbelts</td>
<td>Alabama, Mexico</td>
<td>459</td>
<td>April 1990</td>
</tr>
<tr>
<td>Bilt-Rite Upholstr. Co. LTD.</td>
<td>Toronto</td>
<td>furniture manufacturing</td>
<td>Bauhaus</td>
<td>450</td>
<td>Mar. 1990</td>
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<td>Company/Ownership</td>
<td>Community</td>
<td>Products</td>
<td>Relocation</td>
<td>Job Losses</td>
<td>Date</td>
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<td>Borden Co. Ltd. (US)</td>
<td>Ingersoll</td>
<td>dairy products</td>
<td>NY</td>
<td>79</td>
<td>Nov. 1991</td>
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<tr>
<td>Burlington Carpets (US)</td>
<td>Brampton</td>
<td>carpets</td>
<td>Georgia, Virginia</td>
<td>450</td>
<td>May 1990</td>
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<td>C&amp;D Charter Power Systems</td>
<td>Perth</td>
<td>Industrial batteries, chargers, power systems</td>
<td>US</td>
<td>120</td>
<td>April 1992</td>
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<td>Canadian Coleman (US)</td>
<td>Etobicoke</td>
<td>camping equipment, heating</td>
<td>Kansas, Texas</td>
<td>214</td>
<td>1991</td>
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<td>Carter Automotive (US)</td>
<td>Bramalea</td>
<td>auto parts</td>
<td>Lafayette, TN</td>
<td>230</td>
<td>?</td>
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<tr>
<td>Caterpillar of Canada Ltd. (US)</td>
<td>Brampton</td>
<td>tractors</td>
<td>Raleigh, NC: Peoria, IL</td>
<td>430</td>
<td>April 1991</td>
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<tr>
<td>Celanese Canada Inc. Hoechst(Ger)</td>
<td>Millhaven</td>
<td>heavy decitex industrial yarn</td>
<td>Mexico</td>
<td>160</td>
<td>April 1992</td>
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<tr>
<td>Clevite Elastomer (US)</td>
<td>St. Thomas</td>
<td>auto parts, shock absorbers</td>
<td>Napoleon. Oh</td>
<td>50</td>
<td>1991</td>
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<tr>
<td>Colgate-Palmolive (Canada)</td>
<td>Toronto</td>
<td>cleaners, toothpaste detergents</td>
<td>US</td>
<td>250</td>
<td>Sept. 1991</td>
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<td>Commander Electrical Equip. Inc.</td>
<td>Scarborough</td>
<td>electrical equipment</td>
<td>Jackson, MS</td>
<td>175 to 190</td>
<td>Mar. 1991</td>
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<tr>
<td>Cooper Canada</td>
<td>Rexdale</td>
<td>sports eqipment</td>
<td>US/Mexico</td>
<td>600</td>
<td>Oct. 1990</td>
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<tr>
<td>Croydon</td>
<td>Cambridge</td>
<td>furniture</td>
<td>Chicago,IL</td>
<td>360</td>
<td>1991</td>
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<td>D.G.Trim</td>
<td>Petrolia</td>
<td>door panels, auto parts</td>
<td>Kentucky</td>
<td>32</td>
<td>Jan. 1989</td>
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<td>Company/Ow</td>
<td>Community</td>
<td>Products</td>
<td>Relocation</td>
<td>Job Losses</td>
<td>Date</td>
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<tr>
<td>Dixon Ticonderoga Inc.</td>
<td>Newmarket</td>
<td>pens, typewriter correction fluid</td>
<td>Versailles MO Deer Lake, PA: Actonvale, PQ.</td>
<td>60</td>
<td>June 1990</td>
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<tr>
<td>Dylex Ltd.</td>
<td>Toronto</td>
<td>garment manufacturing</td>
<td>New Jersey</td>
<td>45</td>
<td>Nov. 1991</td>
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<tr>
<td>Echlin Canada (US)</td>
<td>Rexdale</td>
<td>auto parts</td>
<td>US plants</td>
<td>100</td>
<td>Mar. 1989</td>
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<tr>
<td>Electro Porcelain/Leviton (US)</td>
<td>Waterloo</td>
<td>lamps, fixtures, appliance receptacles</td>
<td>US/Mexico</td>
<td>200</td>
<td>?</td>
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<td>Emblematic Jewelry Product.</td>
<td>Rodney</td>
<td>lapel pins</td>
<td>Mexico</td>
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<td>Fedders Inc.</td>
<td>Orangeville</td>
<td>air conditioners</td>
<td>New Jersey</td>
<td>140</td>
<td>Nov. 1990</td>
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<td>Ford (US)</td>
<td>Windsor</td>
<td>engines</td>
<td>Mexico</td>
<td>900</td>
<td>?</td>
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<tr>
<td>Ford (US)</td>
<td>St. Thomas</td>
<td>auto parts</td>
<td>Mexico</td>
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<td>1991</td>
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<td>Freedland Industries</td>
<td>Kingsville</td>
<td>auto parts</td>
<td>Dearborn, MI</td>
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<td>Mar. 1989</td>
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<td>Freudener Nonwovens</td>
<td>Cornwall</td>
<td>textiles</td>
<td>NJ, Massachusetts</td>
<td>57</td>
<td>July 1991</td>
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<tr>
<td>Friskies Pet Products (US)</td>
<td>Mississauga</td>
<td>pet food</td>
<td>US</td>
<td>121</td>
<td>Sept. 1990</td>
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<td>Galtaco</td>
<td>Paris, Orillia, Brantford</td>
<td>auto parts</td>
<td>Grand Rapids, MI; Dover, Greenfield, TN</td>
<td>400</td>
<td>?</td>
</tr>
<tr>
<td>General Tire Cda. Ltd. (US/Ger)</td>
<td>Barrie</td>
<td>radial and tire trucks, replacements</td>
<td>Mount Vernon, IL; Mayfield, KY; Charlotte, NC</td>
<td>950</td>
<td>July 1991</td>
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<td>Company/Ow</td>
<td>Community</td>
<td>Products</td>
<td>Relocation</td>
<td>Job Losses</td>
<td>Date</td>
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<tr>
<td>General Motors of Cda. Ltd. (US)</td>
<td>Windsor</td>
<td>auto trim</td>
<td>Findlay, OH</td>
<td>255</td>
<td>June 1990</td>
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<td>Gilles Mill (US)</td>
<td>Breaside</td>
<td>pine lumber</td>
<td>Chicago, IL</td>
<td>103</td>
<td>May 1992</td>
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<tr>
<td>Glidden Paints Cda. (UK)</td>
<td>Bramalea</td>
<td>paint</td>
<td>Boucherville, PQ; US</td>
<td>90</td>
<td>April 1990</td>
</tr>
<tr>
<td>Greb Inc.</td>
<td>Kitchener</td>
<td>workboots and casual footwear</td>
<td>Quebec; US; Asia</td>
<td>230</td>
<td>Nov. 1990</td>
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<tr>
<td>Harding Carpets</td>
<td>Brantford</td>
<td>carpets</td>
<td>Tennessee</td>
<td>470</td>
<td>Oct. 1990</td>
</tr>
<tr>
<td>Hartz Cda. (US)</td>
<td>St. Thomas</td>
<td>pet foods</td>
<td>US</td>
<td>26</td>
<td>1991</td>
</tr>
<tr>
<td>Havard Industries (US)</td>
<td>Whitby</td>
<td>car mirrors</td>
<td>Tennessee</td>
<td>150</td>
<td>July 1990</td>
</tr>
<tr>
<td>Industrial Part Coaters</td>
<td>Windsor</td>
<td>metal plating</td>
<td>Buffalo, NY</td>
<td>50</td>
<td>April 1991</td>
</tr>
<tr>
<td>Inglis (US)</td>
<td>Toronto</td>
<td>major appliances</td>
<td>Clyde, OH</td>
<td>650</td>
<td>1991</td>
</tr>
<tr>
<td>Inglis Ltd. (US)</td>
<td>Mississauga</td>
<td>refrigerators</td>
<td>Evansville, IN</td>
<td>350</td>
<td>Jan. 1991</td>
</tr>
<tr>
<td>ITW Shakeproof (US)</td>
<td>Mississauga</td>
<td>Fasteners manufacturing</td>
<td>Tennessee</td>
<td>45</td>
<td>July 1989</td>
</tr>
<tr>
<td>J.H. Warsh Ltd. (US)</td>
<td>Toronto</td>
<td>garment designer, sportswear</td>
<td>?</td>
<td>30</td>
<td>Dec 1990</td>
</tr>
<tr>
<td>Company/Ownership</td>
<td>Community</td>
<td>Products</td>
<td>Relocation</td>
<td>Job Losses</td>
<td>Date</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------</td>
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</tr>
<tr>
<td>(US)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outboard Marine</td>
<td>Peterborough</td>
<td>electric motors</td>
<td>US; Mexico, Belgium, HK</td>
<td>290</td>
<td>-</td>
</tr>
<tr>
<td>Peerless Carpet Corp.</td>
<td>Toronto</td>
<td>carpet mill</td>
<td>Acton Vale, Que; Georgia</td>
<td>155</td>
<td>May 1990</td>
</tr>
<tr>
<td>Phil Carry</td>
<td>North York</td>
<td>garment manufacturing</td>
<td>-</td>
<td>300</td>
<td>Nov. 1990</td>
</tr>
<tr>
<td>Robertshaw Controls Cda Inc. (US)</td>
<td>Toronto</td>
<td>temperature &amp; Industrial products</td>
<td>Texas</td>
<td>150</td>
<td>Oct. 1990</td>
</tr>
<tr>
<td>Rubbersett Co. Cda. (US)</td>
<td>Gravenhurst</td>
<td>paint brushes &amp; rollers</td>
<td>Ohio, Maryland</td>
<td>100</td>
<td>April 1992</td>
</tr>
<tr>
<td>Schlegel (US)</td>
<td>Burlington</td>
<td>auto parts, weather stripping</td>
<td>Tennessee; Oklahoma</td>
<td>104</td>
<td>1991</td>
</tr>
<tr>
<td>Scholl Plough, Mabelline</td>
<td>Burlington</td>
<td>cosmetics</td>
<td>Little Rock AR</td>
<td>78</td>
<td>1991</td>
</tr>
<tr>
<td>Company/Ownership</td>
<td>Community</td>
<td>Products</td>
<td>Relocation</td>
<td>Job Losses</td>
<td>Date</td>
</tr>
<tr>
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</tr>
<tr>
<td>Sheller-Globe of Cda Ltd. (US)</td>
<td>Kingsville</td>
<td>steering wheel covers</td>
<td>Mexico</td>
<td>419</td>
<td>April 1990</td>
</tr>
<tr>
<td>Sklar-Peppler</td>
<td>Hanover</td>
<td>furniture</td>
<td>Mississipi</td>
<td>42</td>
<td>-</td>
</tr>
<tr>
<td>Square D Cda. (US)</td>
<td>Stratford</td>
<td>electrical panels; industrial safety switches</td>
<td>Lexington, KY</td>
<td>140</td>
<td>Dec. 1990</td>
</tr>
<tr>
<td>Standard Products (US)</td>
<td>Etobicoke</td>
<td>auto trim</td>
<td>South Carolina</td>
<td>121</td>
<td>April 1992</td>
</tr>
<tr>
<td>Star Suspension Industries (US)</td>
<td>Mississauga</td>
<td>fasteners</td>
<td>US</td>
<td>32</td>
<td>-</td>
</tr>
<tr>
<td>Steel Fabricating &amp; Welding Co</td>
<td>Dundas</td>
<td>steel products</td>
<td>Abingdon, VA</td>
<td>23</td>
<td>March 1992</td>
</tr>
<tr>
<td>Sterling Drug (US)</td>
<td>Aurora</td>
<td>pharmaceuticals</td>
<td>US; Puerto Rico</td>
<td>180</td>
<td>1991</td>
</tr>
<tr>
<td>Steven Controls</td>
<td>Pembroke</td>
<td>thermostats</td>
<td>Norwalk, OH</td>
<td>49</td>
<td>-</td>
</tr>
<tr>
<td>Sunar-Hauseman (US)</td>
<td>Waterloo</td>
<td>office furniture</td>
<td>Holland; Michigan</td>
<td>280</td>
<td>1991</td>
</tr>
<tr>
<td>Suncor (US)</td>
<td>Toronto</td>
<td>blending and packaging oil &amp; lubricants</td>
<td>US</td>
<td>86</td>
<td>Sept. 1990</td>
</tr>
<tr>
<td>Superior Performance Products (US)</td>
<td>Newmarket</td>
<td>cast aluminum road wheels</td>
<td>Arkansas; Kansas</td>
<td>150</td>
<td>Dec. 1990</td>
</tr>
<tr>
<td>T.A.G. Inc.</td>
<td>Cambridge, London, Woodstock</td>
<td>clothing</td>
<td>US</td>
<td>1,250</td>
<td>-</td>
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<tr>
<td>Company/Owning</td>
<td>Community</td>
<td>Products</td>
<td>Relocation</td>
<td>Job Losses</td>
<td>Date</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------</td>
<td>---------------------------------------------------------------------------</td>
<td>---------------------</td>
<td>------------</td>
<td>----------</td>
</tr>
<tr>
<td>ThomsonTrans. Co.</td>
<td>London</td>
<td>trucking</td>
<td>Detroit, MI</td>
<td>250</td>
<td>-</td>
</tr>
<tr>
<td>TRW Cda Inc.</td>
<td>Penetang</td>
<td>seat assembly</td>
<td>-</td>
<td>400</td>
<td>Feb 1992</td>
</tr>
<tr>
<td>TRW</td>
<td>Penetang</td>
<td>seat belts</td>
<td>Mexico</td>
<td>194</td>
<td>Oct 1992</td>
</tr>
<tr>
<td>Uniroyal Goodrich (France)</td>
<td>Kitchener</td>
<td>tires</td>
<td>US, Mexico</td>
<td>1,000</td>
<td>Jan 1992</td>
</tr>
<tr>
<td>Vogue Bra Cda.</td>
<td>Cambridge</td>
<td>women's underwear</td>
<td>Mexico</td>
<td>50</td>
<td>Aug. 1992</td>
</tr>
<tr>
<td>Warnaco Activewear Cda. Ltd; Speedo (US)</td>
<td>Carleton Place</td>
<td>swimwear</td>
<td>Kentucky</td>
<td>70</td>
<td>April 1990</td>
</tr>
<tr>
<td>Wayne Cda. (US)</td>
<td>Windsor</td>
<td>bus manufacturer</td>
<td>Richmond, IN</td>
<td>145</td>
<td>March 1990</td>
</tr>
<tr>
<td>WCI Cda Inc. (US; Sweden)</td>
<td>Cambridge</td>
<td>washers, dryers; refrigerators</td>
<td>Webster City IA; St. Cloud, MN</td>
<td>325</td>
<td>Aug. 1990</td>
</tr>
<tr>
<td>Wilton Grove Bendix</td>
<td>London</td>
<td>auto parts</td>
<td>Kentucky, North Carolina, Mexico</td>
<td>46</td>
<td>?</td>
</tr>
<tr>
<td>Woodbridge Foam (US)</td>
<td>Tilbury</td>
<td>auto parts</td>
<td>Romulus, MI</td>
<td>140</td>
<td>?</td>
</tr>
</tbody>
</table>

Source: CANADIAN CENTRE FOR POLICY ALTERNATIVE
Prepared By - Theresa Healy
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**INTERVIEWS:**


Mike Robertson, Deputy Director, Trade and Remedies Division, External Affairs and International Trade. Interview with author on August 26, 1996.

Denis Gauthier, Director General, Micro-Economic Policy Analysis, Industry Canada. Interview with author on September 9, 1996.

Jim Stanford, Economist with the Canadian Auto Workers' Union. Interview with author on December 9, 1996.