

Zip Locking North America:

Can Canada Survive Continental Integration?

Since September 11 many Canadians have been revisiting their attitudes towards our relationship with our powerful southern neighbour. Demands from the United States regarding anti-terrorist measures have led to new laws in Canada that many find draconian and unnecessary. Many have also worried about Canada's uncritical involvement in the war in Afghanistan - an undeclared war, and one whose objectives and length Canada has had no influence over. The accidental killing of four Canadian soldiers and the wounding of eight others brought this questioning of our relationship with the U.S. to a level not seen for many years.

Yet, even were it not for the events of September 11 in the United States, and the "friendly fire" incident aftermath, an assessment of that relationship is long overdue. The relationship between our country and the United States has fundamentally changed since we signed the Canada-U.S. Free Trade Agreement (FTA), and there has never been an officially sponsored forum to examine how those changes have affected Canada, Canadians and Canadian communities.

Obviously, because of our proximity to the largest military and economic power in the world, our relationship with the United States is unlike any other. We are not talking about an equivalence to Canada-Austria relations or even Canada-Britain relations.

Our relationship with the United States is clearly Canada's singular, defining international relationship. A fundamental shift in the relationship with Austria would go virtually unnoticed in both countries. Any fundamental shift in the relationship with the United States will by definition have an enormous impact on virtually every aspect of Canadian life - economic, political, social, cultural - and on Canada's relationship with the rest of the world.

To fully comprehend the current nature of our relationship with the United States, we need to go back briefly to the 1930s and the post-war period, a unique period in Canadian history, characterized by what has been called a social contract. That contract was effectively negotiated with government and business through the struggle of ordinary citizens, union members, and farmers demanding democracy, and social and economic justice, during the hard times of the Depression. In the immediate pre-war period and following the war, the more visionary among Canadian business and government leaders realized that if they didn't allow for change, there would be continued and growing social unrest and disruption. Such unrest, when prolonged, would have been bad for business and investment. As a result, Canada's leaders decided that democracy - and the fruits of democracy - would be accepted as a normal and legitimate cost of governing and doing business.

The leaders of successive Canadian governments accepted the legalization of unions, the advent of labour standards and safe working conditions, workers' compensation and employment insurance (EI), and other measures empowering labour. Almost everyone saw the benefit of public education, various regulatory regimes and, eventually, public medicare. It was a period of enhanced nation-building and to an extraordinary degree everyone was in it together. The nation-state was still the dominant institution of the era around the world.

This extraordinary period in Canada's market-based democracy reinforced what had already been an identifiable and distinct Canadian project - distinct, that is, both in itself and in contrast to the United States. The very nature of the national project - driven by an explicit series of "National Policy" initiatives - demanded a distinct approach. Our size, our small population, the powerful north-south tug of the growing colossus on our border, all demanded of our political leadership a "sharing for survival" model of nation-building. The United States, whose political culture was formed in an intense expression of property rights and what Canadian philosopher C.B. MacPherson called "possessive individualism," chose a radically different path. Theirs was, and is, ". . . the society and

politics of choice, the society and politics of competition, the society and politics of the market" (C.B. MacPherson, *The Real World of Democracy*, Anansi Press, 1992, p. 6).

As much out of necessity as for philosophic reasons, Canada chose a model that emphasized co-operation, for only through co-operation could a small nation on the northern half of the North American continent survive as a sovereign entity. While this determination to establish an east-west economic nexus obviously served major economic interests in Canada, it was even more clearly reflected in Canadian culture and society. Canada became a more communitarian culture, where citizens and political parties of all stripes chose to do many things collectively - communicating with each other, selling our grain on the world market, providing health care for our citizens. In contrast to the American "survival of the fittest," Canada displayed a highly practical model that, to serve the interests of both individuals and community, focused on survival of the collective. And that survival was always sought in the context of the ever-present danger of being absorbed or overwhelmed by our powerful and aggressive southern neighbour.

As Canada's national project related to the market economy, the co-operative model had the inevitable effect of mitigating the harsher inequities of a purely market model. Class differences, while still present in the marketplace, were moderated by the relatively generous and universal social, education and health programs. The post-war period established, as the core of our democracy and political culture, certain social standards for all Canadians, which came to be seen as a right of citizenship. The many facets of the nation-building of the first century of Canada's history reflected the expectations that Canadians had of all their governments, regardless of which political party was in power.

The Canadian business community supported the welfare state, and the implied communitarian model of the nation, throughout the post-war period, through the 1950s and into the 1960s. Then, in the late 1960s, profits began to decline seriously, just as democracy and the power - and expectations - of ordinary citizens actually reached their

peak. Movements of women, aboriginals, students, poor people and anti-war activists joined strong labour organizations and began to achieve real success in expanded social programs and wealth redistribution.

The economic situation precipitated by the oil crisis of 1973 and the floating of the U.S. dollar prompted a concerted effort by the Canadian business community to undo the Canadian welfare state and realign with the more market-friendly political environment of the United States. A new economic elite emerged from the most powerful Canadian corporations and the equally powerful American branch plant corporations. This new elite, represented by the Business Council on National Issues (BCNI), saw its future not in the domestic economy but in the global economy - that is, the American economy. The social contract expired; the deal was off. Full integration into the U.S. economy was the effective, if not the explicitly stated, objective of this new corporate direction.

The new consensus that emerged from this process came to be known as the Washington Consensus, in deference to those corporate leaders in the United States who were its principal architects. That new consensus, to be pursued by all the developed Western democracies, consisted of four separate but connected political and economic initiatives: free trade, deregulation, privatization and the downsizing of the welfare state. On these four policy pillars, the developed world would restructure their own economies. More importantly, they would work through the international agencies they effectively controlled - the IMF, the World Bank and the General Agreement on Tariffs and Trade (the GATT, later to become the World Trade Organization) - to fundamentally restructure the global economy.

The corporate and political elite in Canada gradually accepted all of the premises of the Washington Consensus. Corporate lobby groups such as the Business Council on National Issues and the Canadian Manufacturers' Association, business-funded think tanks such as the C.D. Howe Institute and the Fraser Institute, the corporate-owned media, and political parties from the Conservatives and Liberals to the Reform Party all leapt onto the neo-liberal bandwagon. In the most determined and intensive effort at

social and political engineering in Canada's history, virtually the entire elite in Canada decided on their own that Canada should be transformed, remade in the image of the marketplace - in short, Americanized.

For the purposes of examining the current state of Canada-U.S. relations, let us consider the most important of these four pillars of neo-liberal economic transformation, the free trade imperative. The Canada-U.S. Free Trade Agreement (FTA) was the very first example of the kind of free trade the Washington Consensus architects had in mind. Canada was to be the "guinea pig" in this bold new experiment in enhancing the mobility of capital and downsizing democracy. The FTA, while cast as an agreement about cross-border trade and the reduction of tariffs, was in fact much more than that. It was, in effect, a constitution designed to protect corporate property rights. It was effectively a constitution because, as a treaty, its laws prevailed whenever they came into conflict with the domestic laws of the countries signing the agreement.

Accepting the Washington Consensus' imperatives inevitably meant making major changes in our relationship with the United States. There are five areas in which this paradigm shift in public policy - the abandonment of the post-war consensus in favour of a free market approach - have profoundly changed Canada, and continue to change it. These five areas are (1) the economy, (2) social and cultural institutions, (3) natural resources and the environment, (4) foreign policy and Canada's peacekeeping tradition, and (5) sovereignty and democracy.

1. The Economy

Since the signing of the Canada-U.S. Free Trade Agreement (FTA), Canada's economic life has become deeply integrated into a newly developed North American economy dominated and directed by U.S. corporate and government interests. The results of this integration are now clear. As critics predicted, the free flow of capital without government regulation has resulted in job losses - 276,000 high-paying industrial jobs have been lost - and we are now even more dependent on the American economy as a destination of our exports and therefore less able to direct our own economy.

Economic growth in the 10-plus years of free trade has been the worst since the 1930s. Following the deregulation imperative of free trade, we have abandoned the tools of industrial development that brought us the auto industry and deliberately pursued policies that weaken the domestic economy in the interests of trade. By pursuing trade with a low Canadian dollar we have exposed Canadian industry to the most extensive and prolonged sell-off of Canadian assets in our history.

The results of this for ordinary working Canadians have been the longest period of stagnation in standard of living levels in the country's history, a dramatic erosion of social programs and protection for workers, extreme levels of economic insecurity for millions of workers and their families, and a loss of democratic control by citizens over the future of their communities. All of these economic facts can be traced primarily to the FTA and the North American Free Trade Agreement (NAFTA). The nature of those binding and legal agreements prevents us from reconsidering our options.

The Free Trade Agreement with the United States (and later, NAFTA) was signed because, promised its promoters, it would give us unrestricted access to the U.S. economy, it would result in "more and better" jobs, and, owing to the huge growth in the economy, tax revenues would rise and we would have more money, not less, for social programs. Canada, said the free trade supporters in the great 1988 debate, was good enough to compete with the best anywhere in the world, including the Americans. Those who warned against the deal were weak-willed and had no faith in Canada. That was the promise and the response to the critics.

The reality has been just the opposite for working Canadians. Virtually every promise that was made has failed to happen. The much-vaunted guaranteed access to the U.S. economy is still a fantasy - the United States was allowed to keep all of its trade remedy laws and the authority to pass new trade remedy laws whenever they choose. Canada has already faced trade sanctions or the threat of them for exports of wheat, dairy, potatoes, magazines and softwood lumber. The softwood lumber case alone has

devastated a \$10 billion Canadian industry. The Canadian economy and Canadian sovereignty have been weakened, not strengthened, as a result of the FTA and NAFTA.

Critics of the free trade initiative in Canada have consistently stated that free trade was, in fact, not primarily about trade. The vast majority (over 90 per cent) of goods flowing to the United States before 1989 were already duty-free and most others had very small duties placed on them. The purpose of free trade with the United States was to restructure the economy to more fully integrate it with the U.S. economy, something that at least one supporter of free trade now candidly acknowledges. "[F]ree trade agreements are designed to force adjustments on our societies," said Donald Johnston, former Liberal government minister and head of the Organization for Economic Cooperation and Development (OECD) (*NAFTA at Seven: Its Impact on Workers in All Three Nations*, p. 20; see below). What is the free trade record with respect to the Canadian economy? It is worth quoting at length one of the few academic studies to have assessed the impact of NAFTA on the Canadian economy:

Trade with the U.S. has expanded dramatically during these 12 years. Exports are now equivalent to 40% of gross domestic product, up from 25% in 1989. (More than half of Canadian manufacturing output now flows south of the border, and Canadian producers account for less than half of domestic demand). This north-south trade boom has been mirrored by a relative decline in trade within Canada. Trade has also become more concentrated with the U.S. - from 74% to 85% of exports - and less concentrated with the rest of the world.

- Growth performance in the 1990s was worse than in any other decade of the last century except the 1930s. Average per capita income fell steadily in the first seven years of the decade and only regained 1989 levels by 1999. By comparison, per capita income in the U.S. grew 14% during this period.
- Canada has become a noticeably more unequal society in the free trade era. Real incomes declined for the large majority of Canadians in the 1990s; they

increased only for the top fifth. Employment became more insecure and the social safety net frayed.

- While productivity has grown - rapidly in some sectors - wages have not, a trend mirroring the de-linking that has taken place in the U.S. But the overall productivity gap with the U.S. has not narrowed as free trade proponents predicted; rather, it has widened recently.
- Successive waves of corporate restructuring - bankruptcies, mergers, takeovers, and downsizing - have been accompanied by public sector restructuring - downsizing, deregulation, privatization, and offloading of state responsibilities. Public sector spending and employment have declined sharply, and publicly owned enterprises in strategic sectors such as energy and transportation have been transferred en masse to the private sector.
- Between 1989 and 1997, 870,700 export jobs were created in Canada, but during the same period 1,147,100 jobs were destroyed by imports. Thus, Canada's trade boom resulted in a net destruction of 276,000 jobs.

(NAFTA at Seven: Its Impact on Workers in All Three Nations, study by the Canadian Centre for Policy Alternatives and the Economic Policy Institute, 2001, p. 20)

That is the record of free trade for Canada, and it demonstrates that our new free-trade-era relationship with the United States has significantly weakened the Canadian economy, has harmed the interests and the standard of living of 80 per cent of Canadians relative to their position pre-free trade, and has allowed productivity to decline rather than increase relative to the United States. None of this was supposed to happen.

There are other facts that should be brought to bear in examining and re-assessing the Canada-U.S. relationship vis-à-vis free trade. While trade between Canada and the United States has increased, the extent to which NAFTA has contributed to that increase has been exaggerated by proponents. An Industry Canada study released in

June 2001 concluded that the free trade agreements accounted for just 9 per cent of the increased trade with the United States in the past 10 years. "The buoyant U.S. economy and the depreciation of the dollar were mainly responsible for the dramatic increase in Canadian exports to the U.S." Whatever we have sacrificed - as we will see in this report - in order to "force adjustments" on our society, the economic benefits have been negligible.

Productivity, referred to above, has also fared badly in the new era. The NAFTA was supposed to increase productivity in the new industries promoted by the agreement and by the new investment. But productivity overall in Canada rose only 9 per cent over the period 1994 to 2000 and 26 per cent in manufacturing other than automobiles. But in the auto sector - the result of Canada's only "managed" trade agreement, the Auto Pact - productivity increased 80 per cent between 1991 and 1998. Canada's overall trade surplus in goods in 1999 was \$34 billion, with the auto industry accounting for \$20.24 billion, or 60 per cent of the total. Much of the rest was accounted for by huge increases in energy exports.

Foreign Direct Investment

Another area in which Canada was supposed to make huge gains as a result of opening up our economy to the United States was in foreign direct investment (FDI). But Canada has actually suffered because of the increase in FDI. In 1998 the Investment Review Division of Industry Canada prepared a report on FDI in Canada. In 1997, FDI reached \$21.2 billion, the second highest on record. But according to the study, fully 97.5 per cent of that total was devoted to acquisitions of Canadian companies. A paltry 2.5 per cent went to new, productive, job-creating investment - a mere \$530 million.

On balance it is almost certain that the net job creation figure as a result of FDI was negative, as most acquisitions result in some degree of downsizing of the acquired company in order to pay for the cost of borrowing. And 1997 was not an aberration. On average, between 1985 and 1997, 93.4 per cent of FDI has gone to acquisitions; that is, corporate take-overs of Canadian companies. The rate has actually accelerated since

1997 due to the federal government's decision to stop defending the Canadian dollar. The most recent figures show that 96.5 per cent of FDI was used to take over Canadian companies between 1985 and 2001. With the decline of the Canadian dollar, our companies are even less expensive now than they were before 1997.

The trend towards fewer head offices in Canada has many negative consequences and the impact is felt by shareholders, small and medium-sized Canadian suppliers to large corporations, employees of those firms, and the Government of Canada, which loses hundreds of millions of dollars in revenue every year because of foreign ownership.

In his new book, *The Vanishing Country: Is It Too Late to Save Canada?*, to be published in October, 2002, by McClelland & Stewart Ltd. Mel Hurtig examines the impact of foreign ownership of Canada's economy. Part of that impact is the fact that more and more decisions are made in the United States, in contrast to a time when foreign-owned companies actually had Canadian directors and Canadian major shareholders. In the mid-1980s, about half the major United States corporations in Canada were 100 per cent US-owned, and two-thirds of these corporations had no Canadian shareholders. Ten years later, nearly 85 per cent had no Canadian shareholders.

Hurtig's research shows that foreign control of head offices has generally become more intrusive and extensive in the past 15 years. Corporate functions once undertaken in Canada by Canadians are now performed by absentee managers. This means not only that Canada has no influence over decisions about Canadian operations, but also that Canadian companies are being managed according to the harsher culture of American capitalism.

One of the major consequences of foreign ownership is that transfer pricing (declaring profits where the tax burden is lowest) has resulted in suppressed profit levels in Canadian subsidiaries. According to Hurtig, "In February 1995 Ford Canada's former president sent a blistering letter to the new president saying that its US parent's transfer pricing policy was suppressing profits at the Canadian subsidiary." Because many big

foreign corporations are now 100 per cent foreign-owned, the parent company does not have to worry about Canadian shareholders complaining about low profits showing up in Canada.

Lower profits in Canadian subsidiaries also mean dramatically lower corporate tax revenues for Canada. Transfer pricing is the fastest-growing taxation specialty in Canada. The objective is to ensure that taxes paid in Canada are as low as possible. Yet the Canadian government, while dramatically lowering the corporate tax rate, is virtually doing nothing about this huge revenue loss based on illegal accounting practices. In just one case they have examined, the case of Coca-Cola, the potential lost revenue could be as high as \$100 million.

Those getting increasingly alarmed about the disappearance of Canadian head offices include several public figures who were the most prominent promoters of free trade in the free trade debate of 1988. Former Alberta premier Peter Lougheed stated in late 1999: "People will fall from their chairs to hear me say this but maybe right now we need to return to the Foreign Investment Review Agency. We need to be more interventionist; the passive approach isn't working. If the present trend continues, we are going to look at our country in 3 years and say 'What have we got left?'" (Hurtig). Donald MacDonald, who authored the Royal Commission report recommending free trade, told Hurtig, "The number of Canadian-headed enterprises is diminishing. I am worried but I don't know what to do." Even Tom d'Aquino, the head of the former Business Council on National Issues, has publicly expressed concern over the loss of Canadian head offices.

Ray Protti, president of the Canadian Bankers Association, speaking to the Canadian Club in Chicago in the fall of 2001, said:

An independent self-confident nation requires a dynamic economy, and dynamism requires not just subsidiaries but head offices. No country can resign itself to a national glass ceiling, one in which people are prevented from achieving their full potential, research and development are conducted elsewhere, spinoff industries are undermined and the tax base is steadily diminished.

The impact of foreign ownership, says Hurtig, has been to "hollow out" the Canadian economy:

Canada is now in 30th place in the UN list of high development countries when it comes to high technology exports as a percentage of total goods exports. In terms of patents awarded to residents on a comparative population basis, Canada now stands 20th on the list of the top 37 technology leaders and potential leaders In the UN list of high human development countries Canada is 15th in terms of research and development expenditures as a percentage of GNP, and 20th in business spending on R&D as a total of R&D expenditures. When it comes to the number of scientists and engineers in R&D per 100,000 people Canada is down in 14th place.

Lastly, Canada suffers from the fact that foreign-owned companies buy parts and components off-shore, leading to a huge loss of jobs and more lost government revenue. According to Hurtig, foreign firms operating inside Canada on average purchase 3 times as many parts, components and services off-shore as similar sized Canadian companies. . . . In 1993 an OECD study showed that the ratio of foreign parts and components in manufacturing in the US was 13%, in Japan was 7% and in Canada it was 50% and is probably much higher today.

As well, this pattern distorts the actual trade picture with the United States, as nearly 70% of foreign trade by U.S. corporations in Canada consists of purchases from and sales to the parent company.

If our efforts to increase trade and investment have failed to deliver the promised goods, we have in the meantime done enormous damage to the domestic economy in the process of restructuring it to enhance trade. Since the signing of the free trade agreement Canada has undergone the most profound "structural adjustment" since the Keynesian post-war economic boom. For over 10 years we have been restructuring Canada's economy on the basis of a single-minded preoccupation with becoming "internationally competitive."

In order to become internationally competitive the federal government has attacked the domestic economy and the standard of living of most Canadians. Examine the federal government's policy initiatives of the past 10 to 15 years and you will have trouble finding a single important policy designed to strengthen the domestic economy. When the United States goes into recession we will find that our robust domestic economy, which historically provided a cushion against falling exports, has been severely eroded.

A key part of making Canada competitive was a whole range of actions aimed at "labour flexibility" - a euphemism for reducing the power of workers. The 1970s with its resurgent labour movement and rising expectations made an indelible impression on corporate leaders. Reducing labour power was subsequently accomplished by two decades of downward pressure on wages and job restructuring in the private sector, and deep cuts to government programs that provided the security of a social wage.

But while this strategy accomplished its corporate goals - 20 years of wage stagnation and less militant unions - it also weakened domestic demand. That demand now rests precariously on the highest personal debt in the country's history and a savings rate near zero. We have also eroded the automatic stabilizers that helped us through past downturns - social programs such as welfare and employment insurance that kicked in with income support just when families and communities were "feeling the pinch."

In the 1970s minimum wages in every province but one provided the working poor with a living standard above the poverty line. Today every province has allowed its minimum wage to decline to the point where not one meets that standard. It is adults and families who suffer, not the mythical teenager living at home - 61 per cent of minimum wage earners are adults.

Ottawa's abandonment of the Canada Assistance Plan, which provided national standards for social assistance, has led not just to unequal programs but to declining benefits everywhere. Most U.S. states now provide more generous welfare benefits than even the most generous Canadian provinces. The same is now also true of Canada's Employment Insurance (EI) scheme, which provides (much reduced) benefits

to fewer than 40 per cent of those who pay into it. Our system is now more parsimonious than the American program.

The final assault was former Finance Minister Paul Martin's tax cuts. It is true that tax cuts can provide stimulus to the economy - but these tax cuts are a poor example. According to the Canadian Centre for Policy Alternatives, Martin's tax reforms have allowed 77 per cent of the tax cut benefits to go to those earning over \$65,000 and just 4 per cent to go to those earning less than \$30,000. The bottom 5 per cent of income earners will get an extra \$8 a year to spend. This is not economic stimulus - it is a further transfer of wealth from the poor to the rich based on the supply-side theory that the rich will invest. But just who will invest in an economy in a downturn?

The federal government has severely weakened our automatic stabilizers in an effort to reduce costs and have an equal "free trade" playing field with the United States. Contrary to the image that Canada is a more caring society, a recent OECD study revealed that Canada is now spending just 18.9 per cent of GDP on social programs, compared to the U.S. level of 21.8 per cent - 15 per cent less (*Net Social Expenditure*, 2nd edition, Labour Market and Social Policy, Occasional Papers No. 52, OECD, Paris, August 2001). This slashing of services has accomplished nothing in terms of our competitiveness and, as with so many other policies, is ideologically driven by the free trade imperative. While Canadian governments have transformed the country in order to accomplish increased trade with the United States, they have, in doing so, missed out on the growth of trade with Asian countries, according to an analysis by the Bank of Canada. "Canada has lost considerable ground in the two markets that experienced the strongest expansion before the Asian crisis: the major East Asian emerging economies and the rest of the world." Strong growth is now resuming in these markets. Canada's share of the Japanese and European Union markets also "shrank significantly" in this period.

Canada has proven to be zealous to the point of being irrational in its pursuit of free trade. One of the most controversial issues in the WTO is agricultural subsidies. Both

the European Union and the United States spend billions on such subsidies to their farmers, driving down the prices of commodities such as wheat. Canada has argued for the phasing out of such subsidies but all signs suggest this will not happen soon. Yet despite these indications, Canada has all but eliminated subsidies to Canadian farmers in a strategy dubbed "trading naked" - dropping all subsidies in the hope that other countries will follow suit. None have, and the Canadian policy has helped drive tens of thousands of farmers off the land.

The Canadian government, which we might have thought had learned valuable lessons from this disastrous free trade record, is right now expending an enormous amount of energy and resources pursuing two other very broad trade agreements - the Free Trade Area of the Americas and agreements under the umbrella of the World Trade Organization, particularly the General Agreement on Trade in Services (GATS). In both these forums, Canada is aggressively pursuing services agreements that will open up our most vital public services to widespread privatization and radical deregulation. The benefits are so marginal that even when the Department of Foreign Affairs and International Trade holds consultations with business, it has to actively seek participants or hire consultants to go out and solicit support for their trade agenda.

The Final Insult: Adopting the U.S. Dollar

There is now considerable talk about taking economic integration with the United States one step further by having Canada simply "adopt" the U.S. dollar. The impetus for this proposal comes from the most powerful corporations in Canada - the members of the Canadian Council of Chief Executives (formerly the BCNI), the same big business lobby that pushed hard for free trade and spent millions promoting it during the 1988 election. Business-funded think tanks like the C.D. Howe Institute, as well as bank economists, have also sent up trial balloons. Even John Manley, when he was Minister of Industry, invited economist Tom Courchene to address an Industry Canada seminar, at which Courchene suggested we should get rid of the Canadian dollar.

Ironically, this group of huge companies - nearly a third of them US-owned - support the move to the U.S. dollar. The principal reason for this is that many of the manufacturing businesses in Canada must import their capital machinery from the United States at U.S. dollar prices but with Canadian dollars. This is also true of the extremely powerful energy sector, which is capital-intensive and purchases virtually all of its oil drilling equipment from the United States. While manufacturers can export into the United States at an advantage, on balance many would prefer to simply deal exclusively in the American currency.

But the reason the Canadian dollar is so low is that despite all the claims about Canadian companies being able to compete with their U.S. counterparts, the reality has proven very different. In order to create some kind of sustained economic growth in this country, Ottawa stopped defending the Canadian dollar in 1997, allowing it to find its "natural" level in the marketplace. In three short years it went down to 62 cents.

As we have seen, Canada has already abandoned many of the policy tools that it once used to define and nurture a distinctly Canadian economy. We no longer even talk about an industrial policy; the Auto Pact was found in violation of the WTO, calling into question whether we can ever again use a managed trade agreement to enhance a sector of our economy; we have weakened our automatic stabilizers, become increasingly dependent on trade with the United States and cannot take advantage of strong growth in other global markets; the federal government's fiscal policy consists of tax cuts to high-income earners and an excessive dedication of surplus revenue to paying down the debt.

Adopting the U.S. dollar would remove perhaps the last strong economic policy tool left in the government's tool kit. By adopting the U.S. dollar Canada would completely abandon the power of the Bank of Canada to set interest rates. This power is one of the most effective in terms of any country's ability to steer its own economy. We would be at the mercy of the U.S. federal reserve in terms of setting interest rates.

Promoters of the idea would have Canadians imagine that the adoption of the dollar would be similar to the adoption of the Euro in Europe. But nothing could be further from the truth. The European model involves independent states - none of them dominant - sharing decision making about a common currency. The United States would never agree to a common currency nor even a voice for Canada in determining interest rates. The U.S. economy is nearly 12 times the size of Canada's economy. As former bank economist and now Liberal Cabinet minister John McCallum has stated, "Canada is free to give up national sovereignty in favour of a 'common currency' and 'harmonized' North American policies, but we get little if any influence over those continental policies in return." The parallel for Canada is not the Euro, but the adoption of the dollar by Argentina, which is in a state of chaos precisely because it has lost effective control over its currency and its monetary policy. The argument that Canadian living standards have fallen behind those in the United States because of the weak Canadian dollar do not stand up to scrutiny. Much of what is imported into Canada from the United States is actually produced off-shore and pricing does not reflect the differential between the two dollars. Overproduction of goods in the United States has also resulted in "dumping" into Canada at below cost, which is why few Canadians notice a large barrier to purchasing American goods.

The drop in Canada's living standards relative to the United States has more to do with the dreadful record of job creation and economic growth in general since the early 1990s when the Bank of Canada's obsession with inflation, and its protection of the high dollar, severely damaged growth in the economy - damage that has not been fully overcome to this day.

There are strong arguments for suggesting it is the U.S. dollar that is *overvalued* rather than the Canadian dollar that is undervalued. Indeed, some of the most powerful corporations in the United States, represented by the Business Round Table (the United States equivalent of the BCNI/CCCE), have been vigorously lobbying the Bush administration to allow the U.S. dollar to weaken so that they can compete with Europeans and the Japanese. Canada would be well advised to wait for the U.S. dollar

to weaken before giving up its last effective economic policy tool in return for extremely dubious benefits.

2. Social and Cultural Institutions

Canada's culture and social norms have been changing rapidly since the federal government of Brian Mulroney decided to take what he called a "leap of faith" in signing the Free Trade Agreement with the United States. Canada's well-documented and highly valued communitarian culture is becoming more and more like the contrasting society to the south. Our governments, with the support of our corporate media, increasingly stress the "value" of competition; social programs and income distribution that emphasize the value of equality have been eroded; and Canadians find themselves in a dog-eat-dog world they never asked for and in most cases do not want.

After a decade of rapid integration with the United States and the harmonization of public policy with that country, Canada is experiencing the fastest and most dramatic increases in social and economic inequality in its history. The severe erosion of programs such as unemployment/employment insurance (UI/EI), social assistance and income redistribution, and the erosion of our progressive tax system have systematically changed the relationship between individual citizens and their community - because government is a reflection of community. As citizens perceive government as less relevant, we feel less commitment to the collective that is neighbourhood, community and country.

Economic integration with the United States is changing our very definition and conception of culture and therefore our sense of who we are. In the United States, culture is seen as a commodity no different from any other commodity - it is equated with entertainment in the marketplace. Canada's efforts to promote our unique identity and reflect it to ourselves confront increased burdens as the United States watches over any "unfair subsidies" to our so-called "cultural industries." As we become integrated with the most powerful example of consumer society in the world, we face the threat of

commodification of our cultural traditions and their gradual assimilation into the American entertainment industry.

Our relationship with ourselves has been dramatically affected by the changes that have been made to our relationship with the United States. Our communitarian culture has been seriously eroded by economic and social policies that harmonize our public policies with those of the United States. In large part a country's identity is represented by the public policies the government (the agency of community) enacts. These policies are not neutral in relation to the culture of the country. While Canadians may not - and many do not - agree with the changes wrought by free trade, they must live and work in the atmosphere that has been created for them.

Consequently, as services decline, Canadians become more individualistic, paying for services they used to receive from government and seeing government as less relevant to them and their families, neighbourhoods and country. That also means they become less attached to their neighbourhoods and their country - as they receive less from their community they feel less committed to it. This has an impact on voluntarism (now at record low levels), attitudes towards the poor and towards immigrants, and willingness to pay taxes.

Social programs reflect our communitarian culture. Yet successive Canadian governments have been so eager to "compete" with the United States and create a level playing field that we are now spending just 18.9 per cent of GDP on social programs compared with the U.S. level of 21.8 per cent - 15 per cent less. Most Canadians would be shocked to know these figures, as they take pride in the "fact" that Canada is a more caring, tolerant and thoughtful culture than its American counterpart. Our social safety net has been shredded in the interests of our trading relationship with the United States, leaving Canada's most vulnerable citizens at ever greater risk. Decreases in health and education spending result in increased out-of-pocket costs to low-income families, thereby increasing inequality in Canadian society.

Health and education spending are key aspects in the decade's long effort to reverse generational poverty and marginalization. Low-cost access to higher education led in the 1970s and 1980s to some of the highest university graduation rates in the Western developed world and to one of the most highly educated workforces anywhere. The notion that restricting postsecondary education to only those who can afford it somehow makes us more "competitive" economically in a global "knowledge" economy defies common sense.

The near obsession with the objective of "competitiveness" - competitiveness principally with the United States - has undermined Canadian families' security and even threatens their health. New, aggressive business practices such as the preoccupation with "downsizing" as a solution to declines in revenue, combined with the gutting of the UI/EI system, have had the effect of associating work with unprecedented levels of personal stress.

Growing Inequality and Class Division

By the end of the 1990s there were unequivocal, indeed dramatic, signs of growing social and economic inequality and class division in Canada. This inequality was meticulously documented in *The Growing Gap: A Report on the Growing Inequality between the Rich and Poor in Canada* by Armine Yalnizian in 1997. In 1973, at the height of the post-war social contract era, the wealthier 10 per cent of Canadians with children under 18 received 21 times the income of the poorest 10 per cent. By 1996 the wealthiest 10 per cent received 314 times the income of the poorest 10 per cent. This gap developed most dramatically in the 1990s. In 1989, when free trade began, the average market income of the lowest 10 per cent of income earners was \$4,000 a year. By 1996 that figure had fallen to less than \$500.

While the poor were getting dramatically poorer, the middle class was slowly disappearing. "In 1973, 60 per cent of the families with children under 18 earned between \$24,500 and \$65,000 (in 1996 dollars). By 1996 that middle class had shrunk: only 44 per cent of families with dependent children made between \$24,500 and

\$65,000. More and more families are now forced to rely on two incomes." Two-thirds of mothers with children under three are in the labour force compared to one-third a generation ago. In other words, a few people are becoming richer and a lot of people are becoming poorer.

Aside from the difficulties this entails for those becoming poorer, the disappearance of the middle class spells serious difficulties for the Canadian domestic economy. It is middle-class spending - on houses, big-ticket consumables, high-end services - that provides much of the growth and stability in developed nations. As well, it is the middle class that provides most of the creative energy, talent and social imagination so critical to defining the nation. Denying that class the opportunity to play its historic role inevitably leaves Canada weaker and more vulnerable to U.S. influence and power.

The impoverishment of Canadian families in the market economy has had a disproportionate impact on children. Since 1989, when free trade began and when Parliament voted to eradicate child poverty by 2000, the number of poor children has grown by 60 per cent and the number of children living in families earning less than \$20,000 has increased by 65 per cent. The result is that our country has the dubious distinction of being ranked 17th out of 23 industrialized countries in addressing the issue of child poverty.

At the other end of the social scale, the wealthy in Canada have increased their share of the economic pie at an unprecedented rate. According to a Statistics Canada study released in March 2001, the top 20 per cent of families saw their net worth increase 39 per cent to \$403,500 between 1984 and 1999. But there was virtually no change for families in the lowest 20 per cent. In the 1990s, the number of millionaires in Canada tripled. Corporate CEO salaries increased, on average, 15 per cent a year throughout the 1990s. In a single year, 1999, compensation for the 100 highest-paid CEOs increased by 112 per cent. Increases in executive compensation were recorded regardless of how well the companies in question did. While this exercise in self-aggrandizement was taking place, working Canadians saw their pay increase by an

average of 2 per cent a year, less than inflation in most years, which means that income for the vast majority of Canadians has been stagnant since the free trade deal took effect.

At the same time, governments implemented policies that reduced the "social wage" - the social programs and income redistribution measures that historically evened out income inequality. Neo-liberal policies promised greater prosperity for everyone and it was argued that a generous social wage was no longer necessary. As we have seen, UI/EI and welfare have been slashed. As well, the Family Allowance has been eliminated and not a single government now provides new social housing. The erosion of medicare and huge increases in tuition fees have also had a negative impact on social equality in Canada. In fact, ordinary Canadian workers have lost on both fronts. The promised market-based prosperity never materialized and working people also lost on social programs, resulting in greatly increased inequality. None of this retreat into a new social Darwinism has had any positive effect on our productivity or our competitiveness; it represents little more than an ideological exercise undertaken at great cost to individuals, families and communities. We compete economically with the United States - and we are clearly losing in this competition - by mimicking their "lean and mean" social norms rather than doing things differently. This is just one more result of creating a free trade level playing field.

It is important to note that, as with other aspects of Canadian life affected by our new relationship with the United States, this impoverishment of our commitment to fairness, equality and community has been accomplished without any mandate, electoral or moral, from the people of Canada. The free trade, free market imperative has simply spread like a virus through all aspects of Canadian life as the inexorable logic of economic integration works its way through Canadian society.

While the Canadian government has made some efforts to defend and promote Canadian cultural traditions and institutions, the signing of the FTA and NAFTA have put these at risk in the long term.

Our culture is who we are, how we define ourselves; it is what keeps an otherwise unwieldy country, bilingual and with a small population dispersed over huge territory, together. For Canadians, whether anglophone or francophone, culture is not just entertainment. Yet our economic integration with the United States puts us in the position of having to resist the harmonization of our understanding of culture with the American view that culture is simply the entertainment industry. This tension will not go away, and the threat of trade sanctions hangs over every decision the federal government (and provincial governments) might contemplate to strengthen our cultural institutions, agencies and arts communities. This is the famous chill effect: anticipating a possible or probable American complaint, those making public policy become instinctively cautious. Programs and protective regulations that might otherwise - in the pre free trade era - have been implemented routinely are now examined carefully to see if they might offend the trade agreements we have signed with the United States.

The United States took an extremely hard line with Canada on the issue of protecting Canadian magazines from the practice of dumping nominally Canadian editions of U.S. magazines into our market. The American action was not so much a genuine concern about access to our magazine market, which Americans completely dominate in any case. It was about aggressively attacking any effort, anywhere in the world, to protect indigenous culture. To the United States, "culture" is a barrier to trade that prevents its huge and politically influential entertainment industry from selling American products and American consumerism to the world. No example of enhancing such culture, and therefore strengthening trade barriers, will go unnoticed in U.S. trade and political circles.

The threat to our culture includes the threat to our democratic political culture. In the past 10 years newspaper ownership has become increasingly concentrated; recently it has been further concentrated in the hands of one of the largest owners of television stations in the country. This is the new era of total commodification, in which no institution is seen to have any value beyond its value as a commercial asset. Numerous studies in Canada, and conventional wisdom virtually everywhere, have commented on

the negative impact on democratic culture of too highly concentrated media ownership. Yet in Canada in the past 10 years that concentration has reached levels not reached in any other developed Western democracy. Our governments now judge this issue strictly on commercial and competitive grounds, a perspective that finds its roots in the imperatives of the Washington Consensus.

3. Natural Resources and the Environment

When Canada signed the FTA and NAFTA it agreed to do what literally no other country in the world has ever agreed to. It agreed to give up, forever (barring the abrogation of the trade agreements themselves) the legislative and regulatory authority to protect and conserve the country's energy resources for its own needs. In effect, we have completely abandoned that part of our national sovereignty that allowed us to determine our energy policy based on the current and future needs of Canadian consumers - both individual and industrial. It is perhaps the most stunning and dramatic example of the abandonment of the national interest by any government in the history of Canada.

But it is not just oil and gas that has been affected by our free trade relationship with the United States. The free trade imperative is now threatening to force deregulation of electricity as well. Our water is threatened by provisions in NAFTA that define water as a "good" and therefore tradable, opening up the possibility that U.S. water shortages will be met by the diversion of Canadian rivers.

Despite the principle of free trade, our lumber producers have been hit with billions of dollars in punitive duties because the powerful American lumber lobby does not like the competition. The favoured solution, one the United States seems determined to impose, will mean a massive increase in the export of raw logs - threatening both jobs and the conservation of our forests.

Canada's environment is increasingly threatened by the nearly total integration of the North American economy. Canada's ability to meet the requirements of environmental treaties has already been seriously compromised by a NAFTA case that successfully

challenged our attempt to halt the crossborder movement of toxic waste. Since the signing of the free trade agreement the federal government has attempted to pass just two new pieces of environmental legislation. Both failed the free trade test and were, in effect, overturned by the provisions of NAFTA. It is impossible to know how many other pieces of legislation were considered by the government but rejected. The chill effect - declining to pass legislation for fear it will attract a costly NAFTA or WTO challenge - has crippled Canada's ability to pass laws and regulations to protect its own environment.

One of the most notorious chapters of the original free trade agreement was the Mulroney government's willingness to give effective control over Canada's energy resources, and the pricing of those resources, to the United States. Indeed, there was strong evidence even then that the principal driving force for the deal in the United States was an anticipated long-term energy supply crisis. A 1985 Congressional report stated that Canada's natural gas regulatory system, designed to meet Canada's national interests, was "a direct restriction on American rights to Canadian gas." Access to Canadian gas supplies was, said the report, a point of national security.

Energy - Opening the Taps

The energy provisions of the FTA and NAFTA mean that Canadians and their federal government no longer have any effective control over their energy resource - its price, its conservation - nor any ability to guarantee a supply for Canadian consumers. As resource economist Larry Pratt of the Parkland Institute in Edmonton states:

NAFTA rules out the energy policy instruments that Canadian governments used in the past: different prices for domestic and export users; export taxes; restrictions on export supplies; and incentives favouring Canadianization. All such initiatives by our governments would make them liable to costly suits by foreign investors under NAFTA's infamous Chapter 11. As a former chairman of the National Energy Board remarked: "We have a continental energy market. We do not have a continental energy policy." (Larry Pratt, *Energy: Free Trade and the Price We Paid*, Parkland Institute, 2001, p. 12)

When Canadians last year experienced huge price increases for natural gas, the culprit was easy to find: the nearly insatiable demand for gas in the United States, which is now moving to replace oil and coal with natural gas in the generation of electricity. So even though there is an enormous surplus of gas in Canada relative to Canadian needs, the price for the natural gas consumed here is determined in the United States. A continental energy market is in effect a U.S. market because demand there is over 10 times as great as it is in Canada .

In the event that there is a shortage of gas for Canadian use, the federal government's hands are tied by a provision in NAFTA called "proportional sharing." This provision means that Canada must guarantee to the U.S. market the same percentage of Canadian production regardless of Canadian needs - in perpetuity. Even if Canadians or Canadian industries are facing a shortage, we can never reduce the proportion of our total production that goes to the U.S. market. The enormous demand for natural gas in the United States has meant that the export portion of our production increased from 25 per cent in the early 1990s to 60 per cent today. Because the United States is increasingly turning to natural gas to generate electricity, that percentage is expected to reach 80 per cent of our production in another decade. Canada, surely uniquely in the world, agreed that it can no longer "refuse to issue a license or revoke or change a license for the exportation to the United States of energy goods," even in the interests of conservation or environmental protection.

This total surrender of sovereignty (Mexico refused to sign a similar provision when it signed NAFTA, and maintains control over its energy resources) affects not only individual consumers; it also affects Canadian industries. The skyrocketing prices for natural gas mean that high-energy-using Canadian companies, which once enjoyed a huge competitive advantage over the United States, now face a disadvantage. Industrial energy costs are higher because of our colder climate, companies have to pay made in USA prices, and they also pay the GST while American companies do not.

This provision in NAFTA locks Canada into an energy-intensive, continental strategy that contradicts our stated commitment to the principles of the Kyoto Accord, renders conservation impossible, and in effect gives virtually complete control over our energy policy to (mostly American) corporations.

What has happened to natural gas will soon happen to electricity. The deregulation disasters that hit both California and Alberta last year will very soon be forced on all electricity producers. The United States, with Canada's support, is currently negotiating an expanded services agreement at the WTO. It is clear that the Americans intend to press with all their might for new WTO rules deregulating energy markets. They are proposing "Nondiscriminatory third party access to and interconnection with energy networks and grids, where they are dominated by government entities or dominant suppliers" (World Trade Organization, Council for Trade in Services Special Session, Communication from the United States). In other words, the California model applied worldwide.

Much of this deregulation initiative is driven simply by ideology. The energy crisis drove many companies to the edge of bankruptcy in Alberta. Dan Macnamara of the Industrial Power Consumers Association in Alberta said at the time: "For some of my members it is catastrophic. These new price levels are downright scary." But most corporate leaders, loyal to the ideology they have adopted as an article of faith, have said little about the disaster awaiting them in the future.

Electricity and gas are critical elements in the functioning of any economy. If you list all the factors that contribute to competitiveness and to economic stability, predictable energy prices rank high on the list. Yet Canada is actively pursuing policies that deliberately create price volatility and sell out our energy heritage for all time.

Selling Out Our Fresh Water Heritage

We have already lost control of our natural gas resource, hydro is close behind, and our supplies of fresh water will very likely be next. The United States is on the verge of a

water crisis. Despite some efforts at conservation in recent decades, the country still is a profligate user and waster of water, and its main aquifers are being depleted at far greater rates than they can be replenished. It is just a matter of time before the United States turns its attention to Canada's river systems.

Before the free trade agreements we signed with the United States, there would have been nothing obligating Canada to export its fresh water to the United States. But free trade agreements have the effect of commodifying everything. Their whole rationale is trade - in goods, services, "culture" - whatever can be bought and sold. Chapter 3 of NAFTA establishes obligations regarding the trade in goods. Using the General Agreement on Tariffs and Trade (GATT) definition of a "good" which clearly lists "waters, including natural or artificial waters or aerated waters," NAFTA adds in an explanatory note that "ordinary natural water of all kinds (other than sea water) is included."

There is no doubt that under NAFTA, water is a commodity, a good to be traded. And despite the Canadian government's belated recognition of this fact, its efforts to extricate itself from the trap it willingly entered in signing NAFTA are not reassuring. Once any province decides to export it, water will become a resource as defined by NAFTA and will have the same provisions applied to it as energy does.

Article 315 is the "proportionality" clause, under which a government of a NAFTA country cannot reduce or restrict the export of a resource to another NAFTA country once the export flow has been established. Article 309 states that "no party may adopt or maintain any prohibition or restriction on the exportation or sale for export of any good destined for the territory of another party," and this provision includes a ban on export taxes. This means that if the export of water were to commence between NAFTA countries, the tap couldn't be turned off.

The impetus in the United States for negotiating the Canada-U.S. Free Trade Agreement was a looming energy shortage. It was serious enough for a Congressional study to recommend that it be defined as a question of national security. There is every

reason to believe that a similar crisis in the supply of fresh, clean water could be seen in a similar light. Even without the trade agreements with the United States, resisting the pressure and threats of the American superpower would have been difficult. With those agreements in place as they currently stand, it may well be impossible.

It is not only the issue of bulk water exports and the diversion of rivers that Canada could find imposed by free trade agreements. The treatment and delivery of water at the municipal level is now under the scrutiny of another trade agreement, the General Agreement on Trade in Services (GATS), a multinational agreement that even its authors describe as reaching further into the area of domestic laws and regulations than any other agreement in history. Its provisions will be copied into the Free Trade Area of the Americas (FTAA) agreement as well.

The GATS explicitly targets domestic regulatory regimes governing the provision of services to ensure that they do not put unnecessary barriers in the way of private corporations wishing to provide competitive services. If the current regime in the GATS comes into force in 2005, at the end of current negotiations, countries and all their levels of government would have to demonstrate to the satisfaction of the WTO that any new regulation was actually necessary.

Specifically, the criterion they are working on would require regulations governing services to be the "least trade restrictive" possible. The Canadian government's contribution (the most radically liberalizing of any WTO member) to creating this new regime is a paper on the GATS and regulation describing federal guidelines that would oblige regulators to demonstrate that:

- a problem exists;
- government intervention can be justified;
- regulation is the best alternative;
- the benefits of regulation outweigh the costs;
- no unnecessary regulatory burden is imposed;
- impacts on the economy are minimized;

- information and administrative requirements are "limited to what is absolutely necessary and they impose the least possible cost" on the service provider.

In short, our own federal government is proposing a set of criteria that every municipal government would have to meet in order to implement regulations on a wide range of water services - sewer services, treatment services, treatment of waste water, construction of water pipes, construction of waterways, groundwater assessment, irrigation, dams and many more. In fact Canada is going even further, suggesting that foreign interests be given "opportunity for comment" when amending regulations, and that governments be required to "give consideration to such comments."

Municipalities are acutely aware of how difficult it would be to ever regulate these services under such onerous conditions. It is for this reason that the Federation of Canadian Municipalities has demanded that local government be completely excluded from the provisions of the GATS agreement. The federal government has refused to consider such an exclusion.

Environmental Protection under NAFTA

Since the beginning of the debate over free trade, critics have been warning about the potential impact on the environment. Those warnings were dismissed out of hand by officials in the trade department but in fact have been borne out in the past few years by several NAFTA Chapter 11 challenges to environmental law. This now notorious chapter has been used to overturn a ban on a potential neurotoxin, MMT, when the manufacturer took Canada before a NAFTA dispute panel. Canada settled before the panel could rule, anticipating a loss, and paid Ethyl Corporation US\$13 million in damages and apologized for impugning its product. It also repealed the ban.

In the S.D. Myers NAFTA case, Canada was effectively barred from complying with an important environmental treaty, the Basel Convention, banning the shipping of toxic wastes across borders. The U.S. waste disposal company sued Canada for halting the

flow of toxic waste to its plant, thereby denying it expected revenue and profit. S.D. Myers won, even though at the time the United States itself prohibited the import of toxic waste.

In the most recent NAFTA case, Canada's efforts to ban a known carcinogen is being challenged. Lindane, a pesticide used on canola crops, is banned in the United States. But in the arcane world of free trade, the U.S. manufacturer can sue Canada for banning it, and is doing so - seeking \$150 million for lost business and a reversal of the ban.

NAFTA Is Accelerating Environmental Degradation

Now the NAFTA body, the Commission for Environmental Cooperation, has released a report, *The North American Mosaic: The State of the Environment Report*, which raises serious questions about the direct impact of increased and unregulated trade on the environment. The report concludes:

On balance, we have an evergrowing ecological footprint. North Americans, mainly US and Canadian citizens, typically use more energy and natural resources, and generate more wastes than citizens of other countries. The health of an environment that sustains 394 million people and an economy worth nine trillion US dollars a year is at risk. . . . North Americans are faced with the paradox that many activities on which the North American economy is based impoverish the environment on which our wellbeing ultimately depends.

For this body, often criticized as being overly cautious in its approach and tied too closely to the NAFTA partner governments, to make such a strong and unequivocal declaration suggests just how seriously the environment has deteriorated in the eight years since NAFTA was signed. These are some of its key findings:

- Our high dependence on burning non-renewable fossil fuels for energy - coal, oil and natural gas - releases large quantities of pollutants that contaminate the air we breathe and change the atmosphere in ways that affect our climate.
- Urban air quality trends, particularly in the transportation sector, are disturbing - more people, in bigger cars, driving longer distances, burning greater amounts of fossil fuels, contributing to climate change, smog, acid rain and toxic pollution.
- Despite bans or strong controls on some harmful substances, such as DDT and polychlorinated biphenyls, there is still too much pollution being released into the environment.
- North America's natural forests continue to decline. Replacing oldgrowth forests with monoculture tree farms leads to ecosystems that are more susceptible to insect and fungi damage.
- Agriculture has become heavily dependent on machinery, chemicals and irrigation, and agribusiness is now introducing genetically modified products.
- The precipitous decline in the stocks of a number of fish species has led to serious reductions or even collapses in a number of fisheries.

The report, in language very much like that of free trade's environmental critics, likens the planet's assets to a bank account: "By `spending' natural capital without replenishing it, or by damaging processes and living systems that cannot be fixed by technology, we are living off our capital rather than the interest."

It may be worth noting that the staff of the Commission are not trade experts nor trade lawyers. When they examined the impact of a trade regime that aims to eliminate as much regulation as possible and encourage trade for the sake only of trade, they came to similar conclusions that environmentalists and ordinary citizens have come to. That is, to subordinate all other public policy objectives to the trade imperative is simply bad policy. But to consider all those other public policy objectives as hostile to trade, and therefore as barriers to be removed whenever possible, is fundamentally perverse and at odds with the rational conduct of human affairs.

4. Foreign Policy and Canada's Peacekeeping Tradition

For decades Canada occupied a unique and often very difficult terrain in the international field. A small country by population standards and dwarfed by the American colossus on its border, Canada nonetheless wielded the influence of a middle power much larger than its size would have suggested.

Under the influence of both Lester Pearson and Pierre Trudeau, we were seen by developing countries and other smaller powers as a voice of internationalism and multilateralism. We often championed human rights and took a leading role in the boycott of the apartheid regime in South Africa. Canada's foreign aid was generous and the Canadian International Development Agency (CIDA) had a reputation for taking a genuine interest in development issues. It was not just an agency promoting Canadian industry and foreign trade.

To be sure, Canada was very closely tied to the United States economically and was a part of NORAD and NATO militarily. While we were always allies with the United States, Canada had a degree of economic independence that allowed it some leeway in terms of an independent foreign policy. Since the 1960s Canada developed and maintained a reputation for being a nation committed to peacekeeping, indeed defined the modern notion of that international role.

The past 13 years of the new free trade relationship with the United States, in which Canada's commitment to free-market policies of economic globalization has increased, have witnessed a fundamental shift in Canada's foreign policy and its peacekeeping tradition. Canada had soldiers fighting in an undeclared war and the Canadian command had absolutely no say in directing them. They were not peacekeepers; they were not even Canadian soldiers. They were, in effect, American conscripts.

Canada's generous foreign aid policy has been replaced by a diminished contribution to developing nations and an extremely aggressive trade policy that mimics that of the United States and is in complete support of the structural adjustment policies of the IMF

and the World Bank. CIDA is now a shameless promoter of Canadian industry - including the nuclear industry - and has tarnished its reputation as a development agency. Canada, partly through deliberate policy shifts and partly because it feels it cannot risk offending what is now its almost exclusive trading partner, has become little more than an echo of American foreign policy interests. And that is the way the world, which once admired Canada precisely for its independence and imagination, now sees us.

Since successive Canadian governments embraced the policy of free trade with the United States, they have locked the country into a process of slow but inexorable integration with that country. As critics - and The Council of Canadians was pre-eminent among them - said at the time, free trade was not primarily about trade. It did and does have to do with economic integration and the freeing up of capital to make decisions increasingly free from government "interference" - that is, from laws, regulations, social priorities and human rights considerations.

What we are seeing now is the unmistakable truth of those warnings being played out. In our increasing dependence on the United States economically, in our preoccupation - our near obsession, in fact - with trade, we have put all our eggs in the American basket. This does not just restrict our flexibility on economic, fiscal and trade matters. There is good evidence to show that our trade relationship with the United States has also dramatically reduced our flexibility in virtually every other area of public policy. Not the least of these are our foreign policy and our military policy.

So long as the United States followed a policy of respecting and promoting multilateralism, this lack of flexibility on Canada's part was not apparent. U.S. policy on many fronts was not dramatically different from that which Canada would pursue in its own national interest, determined by both philosophical and practical considerations. But the advent of free trade and economic integration and the disintegration of the Soviet Union happened almost simultaneously. The result has been an increasing trend

towards unilateralism on the part of the United States, the only remaining superpower in the world.

That unilateralism is now being powerfully demonstrated in the U.S. policy following the terrorist attacks on New York and Washington. Canada has demonstrated that it has no thoughtful, independent response to this dangerous trend in U.S. policy. It started with the Gulf War, when Canada casually abandoned its peacekeeping role for a war-fighting role in a conflict outside the legal structure and authority of the United Nations. It was a stark example of American interventionism and unilateralism, which Canada simply accepted as normal. That first step in following the U.S. lead for fear of upsetting our dominant trading partner has led, today, to a far more alarming situation.

There is powerful evidence that the Canadian government only very recently came to the conclusion that it could not entertain the idea of any kind of independent foreign policy. In the post-September 11 world of Canada-U.S. relations we have become a virtual carbon copy of U.S. foreign policy and U.S. imperial interests. We have tightened border and refugee rules, after arguing convincingly that we did not need to. The federal government has begun harmonizing our visa and immigration policies with that of the United States, despite promises that it would not do so. Ottawa has passed some of the most draconian "anti-terrorist" legislation - Bills C35 and C36 - ever seen in the Commonwealth, trampling human rights and civil liberties in the transparent effort to demonstrate to the United States that we are "loyal." No other reasons can be convincingly made, as Canada has all the necessary laws and regulations and police capacity to deal with any terrorist threat. The Liberal government is so eager to please the United States that not only does it humiliate itself, it puts men and women of the Canadian military at risk. It sent troops to Afghanistan with an absolute minimum of thoughtfulness and strategic thinking. In the Gulf War, at least Canada maintained some semblance of independence. In the current situation we have simply handed over our troops to the United States without any contingency planning or decisions about where we might draw the line on the actions that might be required of them by an increasingly unilateralist American policy.

We have already come dangerously close to saying that there are no limits to what we will allow the United States to do with our troops. In order to justify handing over Taliban and al-Qaeda prisoners to the United States, which many experts believe makes us a party to violations of the Geneva Convention on prisoners of war, former Defence Minister Arthur Eggleton has gone so far as to suggest that the 1949 Geneva Conventions are outdated.

This is a stunning suggestion to come from a Canadian Cabinet minister, and raises the question of what might happen to Canadian soldiers captured in some future conflict. If our soldiers' own defence minister thinks the Geneva Convention is outdated, why should those who capture our soldiers, either in Afghanistan or in some future conflict, be bothered to obey them? But beyond the protection of our own soldiers, we are a civilized society, and how we treat prisoners is primarily a question of our values as a people and not about whether or not the Taliban and al-Qaeda "deserve" good treatment. What other international standards is Canada prepared to jettison in the cause of supporting American unilateralism? Is our devotion to the United States so powerful that it requires that we abandon not just the safety of our own soldiers but also our values as a nation?

We try to imagine what policy positions Canada in a different era might have put forward in the aftermath of September 11. To be sure, a call for an effective fight against terrorism and increased vigilance to do so would have been part of that policy, as it should be. But Canada for years had another policy principle guiding its attitude towards the world, one that encompassed the notions of social and economic justice. And while no one is drawing a direct line between the fanatical al-Qaeda network and its terrorist attacks, many around the world, including our allies in Europe, are saying that increasing poverty and inequality throughout the world are creating the well of despair, hopelessness and resentment that terrorists can draw on.

Addressing that despair and powerlessness is surely a part of the long-term fight against terrorism. If you dry up the well of despair, there is nothing for the terrorists to

draw on; there are no young men so resentful and angry that they would rather die as martyrs than live with no hope. Yet Canada has said almost nothing about the root causes of terrorism in the Middle East and elsewhere. This is the case in spite of the fact that our government knows that half the world's population is surviving on less than \$2 a day, with a fifth surviving on half of that. Thirty thousand children are dying utterly needless deaths every day. In developing countries, as well as within developed countries, inequality is growing at a frightening rate with no prospect of slowing down.

Yet if the Canadian government does comment on this appalling situation, it does so with the prescription of more of the same failed policies: more IMF and World Bank "restructuring," more "free trade," more privatization and downsizing of social programs, including public education - in short, more of the failed and punitive Washington Consensus formula. This is despite the massive amount of evidence, from these very institutions and others, that the despair and hopelessness that are at the root of terrorism and violence are caused precisely by the Washington Consensus formula. It is absolutely certain that continuing with that formula will create more despair, not less.

Canada has reached the point where virtually its only foreign policy initiative is trade, and this is reflected in the name of the trade department: the Department of Foreign Affairs and International Trade. All of Canada's other foreign policy objectives have been subsumed in its preoccupation with trade. If there is any doubt that our now unquestioning support for the U.S. policy towards Afghanistan and its policy of "war without end" is rooted in our trade relationship with the United States, one has only to examine the Canadian government's statements regarding the softwood lumber dispute. International Trade Minister Pettigrew stated on February 1, 2002 , "I think the Bush administration has taken good notice of Canada's loyalty to the cause of fighting terrorism and I think it will have dividends" in terms of solving the softwood lumber dispute (*The Globe and Mail*, February 1, 2002).

In short, having committed ourselves completely to serving the U.S. market, having become totally dependent on that market for 87 per cent of our exports and unable to

solve a \$10 billion trade dispute even with a free trade agreement, our federal government felt obliged to give unquestioning support to the U.S. war effort.

A week later the United States refused to put forward new proposals on the softwood dispute and Canada was obliged to cancel scheduled talks. This foreign relations humiliation is a harbinger of our future. Not only did we sign a lopsided free trade deal and fail to get access to the U.S. lumber market, we now abandon 35 years of peacekeeping, join an ill-considered war effort - and still get nothing in return. These are the ultimate fruits of abandoning the post-war social contract and embracing free trade: we have placed our foreign policy in a US-made straitjacket.

In the most immediate sense, this foreign policy straitjacket undermines our influence in the Arab/Muslim world. But the impact goes much further than just our relations with Arab and Muslim countries. The effect is to have no bargaining power whatever with the United States. While Canada realistically cannot have a foreign policy at great odds with the United States, by marching with them in lockstep on so many important issues we establish expectations that we will always do so. The United States has always treated Canada as a small country and, under the current Bush administration, that treatment has been even more dismissive. It is clear that the United States no longer believes they have to maintain any kind of quid pro quo with Canada.

The federal government has demonstrated that Canada will support U.S. positions no matter what - a trend that began with the signing of the free trade agreement. This approach does not enhance our ability to influence the United States in ways that strengthen our interests; rather, it weakens our ability. In addition, it weakens our position vis-à-vis other middle powers and developing countries as we are increasingly seen as a mere echo of the United States on a whole range of important international issues. As a result, Canada is no longer trusted as a friend of smaller nations and developing countries, a position it enjoyed for nearly three decades. The Canadian government's behaviour is mirrored by the reprehensible behaviour of some prominent Canadian corporations, such as Talisman Oil and the Barrick Gold mining company,

which have been severely criticized for human rights violations and for their contempt for environmental standards. The federal government has done nothing to encourage these corporations to change their behaviour.

Canada's support of the United States on military and other foreign policy issues does not leave Canada simply neutral in its relationship with other nations. As those nations become alarmed and resistant to the United States, Canada could easily find itself isolated in a world increasingly critical of the unilateralism of the United States. In early February, Chris Patten, the EU Commissioner in charge of Europe's international relations, levelled an unprecedented attack on American foreign policy and Bush's reference to the "Axis of Evil" (referring to Iran, Iraq and North Korea). He accused the Bush administration of an "absolutist and simplistic" attitude towards the rest of the world. Yet Canada has said nothing about this approach and as a result is in danger of seeing its status as an influential middle power eroded.

Analysts have suggested that the Bush administration has a strategy of waging permanent war against terrorism, having raised the number of "terrorists" from a dozen or so initially suspected, to 20,000 a few months later, to 100,000 located in over 60 nations, still later. This unilateral escalation of the terrorist problem has grave consequences for Canada as it continues to offer "complete support" in America's "war."

The United States will assign an additional \$48 billion in next year's military budget and a staggering \$2 trillion over five years. Canada, desperately struggling to maintain health and social spending, will inevitably be expected to provide massive increases to its military as well, if it maintains a position of supporting the U.S. war on terrorism. Canada's uncritical stance on the new U.S. unilateralism will mean not only skewed spending priorities, but also a serious erosion of our sovereignty. This has been made clear in the U.S. initiative to establish a single continental defence structure. The Canadian government has already held secret meetings with the United States that could lead to the complete loss of Canada's independent military, with all branches of the Canadian Armed Forces taking orders from a joint command deep in Colorado's

Cheyenne Mountain. Yet the Prime Minister has stated that Canadians will be informed of such a plan only once it has been fully developed. He told the House of Commons, "If ever there is an agreement, obviously we will inform the House of this, and it will necessarily lead to a debate and, perhaps, legislation." By then, of course, it will be virtually impossible to make changes.

According to defence analyst David Rudd, with the Canadian Institute of Strategic Studies, "What's happening here could involve a sea change in Canada's defence policy and foreign policy" (Steven Chase and Krista Foss, "Joint defence talks come under fire," *The Globe and Mail*, Wednesday, January 30, 2002). Canada's ability to take an independent stand on issues from nuclear weapons to landmine deployment - not to mention spending levels - would be compromised if the government accepts a more integrated continental defence force. Equally important, military threats to Canada are very small, a fact that suggests the federal government should worry less about attacks against its territory and more about defending its sovereignty. That requires a military that is separate from the United States. Indeed, as we become increasingly integrated with the United States economically, the importance of maintaining the independence of our other institutions - cultural, political, legal and military - becomes even greater. While Canada cannot ignore its proximity to the United States and its historical relationship with that country, the government seems to have no thoughtful plan on how to maintain flexibility and influence in this new and rapidly evolving global paradigm.

Beyond the implications of the war on terrorism, there are other foreign policy issues that are further isolating Canada from the rest of the world and undermining its previous reputation. Canada's embrace of free trade as a singular national policy has led it to positions in international forums that were never anticipated at the time of the signing of the Canada-U.S. Free Trade Agreement. What appeared at first as a bilateral and then, with NAFTA, as a trilateral agreement has become a policy screen affecting a broad range of policies, including those touching the environment, intellectual property rights and development assistance. These policy areas, which used to be determined by

moral, political, social and economic considerations, are now singularly determined by the trade imperative.

None of this dramatic change has ever been the subject of a political debate in Canada, nor of public hearings or even parliamentary debate. It has taken place gradually, imperceptibly, over a period of years, without the knowledge of the public nor even the legitimacy of a genuine policy discussion within the civil service. Nonetheless, Canada is now seen by developing countries as an extremely aggressive proponent of so-called free trade and the opening up of their economies.

In three areas where Canada has in the past played a role independent from that of the United States - access to drugs, food security and protection of the environment - it now has a firmly established record of siding more and more with the United States. Last fall it was one of just five countries at the WTO ministerial meetings in Qatar vowing to block an African declaration that would ensure that poor countries can take "measures to protect public health" such as using cheaper generic drugs to deal with the AIDS epidemic. The patent protection treaty that Canada was defending is the antithesis of the "free trade" the WTO says it stands for. It is globally enforced protectionism for the world's most powerful drug companies. Millions will die because of its provisions. Yet Canada took a more aggressive stand even than the United States.

Canada has been backtracking on the Kyoto Accords on reducing greenhouse gases, in lockstep again with the United States, which has refused outright to sign. The U.S. attitude, refusing to co-operate on a whole range of global issues while demanding of others that they support its war policy ("You're either with us or against us"), has rightly infuriated other G7 and European countries. It has been called multilateralism *a la carte* - choosing in the most crude manner when to co-operate and when not to, exclusively on the basis of narrow self-interest. But while other developed countries have criticized the United States for this hypocrisy, Canada has meekly accepted it as the price of not annoying its almost singular trading partner. Again, it is worth imagining how we might

have responded differently had we pursued a policy of balancing our trade relationships amongst more partners, particularly the European Union.

Canada is a member of a group of countries, including the United States, Australia, Argentina, Chile and Uruguay, that is blocking a 150-nation consensus on the need to deal with the implications for biodiversity, food security and health posed by genetically engineered seeds. According to Michelle Swenarchuk of the Canadian Environmental Law Association, Canada's goal was to prevent international regulation of food and feed. We parroted the U.S. line and even *spoke for* the United States on some topics. The Canadian negotiators, just as the end was in sight, almost derailed the protocol by holding out into the middle of the night. As one Asian delegate said to me "Canada used to be such a positive influence. What has happened?" (Interview with the author, 2001)

What has happened? Canada's new relationship with the United States, cast in the original free trade agreement and rooted in the free market imperative of the Washington Consensus, has profoundly changed our entire foreign policy and often puts us at odds with the majority of countries in the world. Our pursuit of this free trade imperative and the market philosophy it reflects has turned Canada into a bully.

In the run-up to the ministerial meeting of the WTO, Canada and the other members of the so-called Quad countries - the United States, the EU and Japan - demonstrated that they had learned their lesson from Seattle. They abandoned any pretence of democracy and fairness in dealing with the weaker developing countries. Brute intimidation was the name of the game before and during the talks in Qatar. The Quad met in Mexico in August and in Singapore the month before the November ministerial meeting, and cobbled together the draft declaration presented to the 142 WTO members just prior to the talks.

On October 31, 2001 WTO Director General, Mike Moore, and WTO General Council Chair, Stuart Harbinson, simply declared, with the full support of Canada, that they would not revise their draft to indicate the opposing views of other delegations. The draft read as if there was consensus, yet developing countries were even more opposed to a

new round than they were in Seattle. Delegates from these countries reported that the bullying and intimidation during the meetings were unprecedented. Canada was identified as playing a key role in these tactics. Canada and the other G7 countries got their new trade round - but at what price for Canada?

5. Sovereignty and Democracy

In the period following the Second World War nation-states were still recognized as the key agencies for achieving social and economic progress, even though competition between states was identified as having the potential for causing terrible military conflict. The United Nations was formed, as were the International Monetary Fund and the World Bank, to ensure that such global conflicts would never occur again. It was recognized that national sovereignty was a two-edged sword - a force for democracy but also a potential threat to peace.

In the three decades that followed, Canada used both sovereignty and the democracy that it facilitated wisely and well. But in the context of the new imperatives of the Washington Consensus, both sovereignty and democracy have suffered. Economic globalization has demanded of nations that they give up those aspects of sovereignty that allow for democracy. A nation's ability to regulate and guide economic development and the actions of capital are key to a nation's well-being in a free market system.

The signing of the FTA and NAFTA has fundamentally altered Canada's sovereignty and its democracy. In order for Canada to create a "level playing field" with the United States it has systematically gutted its social programs, its progressive tax system, its commitment to industrial development, and its laws and regulations empowering workers vis-à-vis capital.

In order to accomplish this free trade objective, the federal and provincial governments and other political institutions have gone to great lengths to lower Canadians' expectations of democratic governance. Using scare tactics regarding the large deficits of the early 1990s, the deliberate mischaracterization of government employees, huge

cuts to health and education budgets, and a relentless campaign to promote tax cuts, governments at all levels have convinced many Canadians that their values can no longer be reflected in government policy.

It is not an exaggeration to suggest that as a result of this campaign, and the cuts to government services, democracy in Canada is in crisis. Unprecedented levels of cynicism and anger towards government and political parties have led to the lowest voter turn-outs in the country's history.

The denigration of Canadian political institutions and democracy has been accompanied by a growing and alarming disregard for civil liberties and human rights in this country. Nowhere is the link between globalization and trade and the downsizing of democracy more obvious. It was symbolized in the historic APEC conference in Vancouver in 1999, where Canada placed severe restrictions on the freedoms of its own citizens in order to placate one of the world's most notorious and murderous dictators, Indonesia's President Suharto.

The standard set at APEC, despite the subsequent criticism of the government, turns out to have been a precedent. In response to the terrorist attacks of September 11, the Government of Canada has passed draconian legislation that has received severe criticisms from civil liberties experts. Again, the measures can be traced directly to Canada's preoccupation with not offending our largest trading partner. In effect, our approach to civil liberties and democracy is being determined by the free-trade and free-market imperative.

Indisputably, Canada has seen its sovereignty severely eroded in pursuing the free trade imperative as aggressively as it has. Even proponents accept that signing such powerful trade and investment agreements entails a loss of sovereignty. Proponents simply suggest that the losses are worth the gains achieved. But as we have seen, the gains are largely illusory. We have given up sovereignty and gained virtually nothing in return. Indeed, it seems irrefutable that we have lost a great deal even in those areas that proponents said would be enhanced.

Pursuing such a free trade relationship with the United States implies an acceptance of the notion that the nation-state is in decline. Brian Mulroney, while he was still prime minister, went so far as to suggest that the nation-state was virtually "irrelevant." The irony of saying this while signing a sweeping trade deal with the most powerful nation-state on earth is apparently lost on our political leaders in Ottawa. The "partner" we signed the deal with certainly does not believe that the U.S. nation-state is irrelevant, but is quite prepared to accept such a declaration from Canada if it is to its own advantage to do so.

But the issue of sovereignty is closely tied to that of democracy, and Canadian democracy has suffered in tandem with the decline of Canadian sovereignty. How can the decline of Canadian democracy be related to our current relationship with the United States? It has to do with the earlier reference to the need to create a "level playing field." Critics of free trade argued from the very beginning of the debate that any level playing field created through free trade would be the American playing field. The imbalance of power assured that result. This is now irrefutable and is recognized even by proponents of free trade, such as John McCallum: "Canada can achieve 'North American policy harmonization' only by copying existing U.S. policies, whether we're talking about taxes, regulations, external tariffs, immigration policy, or social policies" (John McCallum, "Adopt the greenback? Never! Keep the change, Uncle Sam," *The Globe and Mail*, Monday, May 14, 2001).

That is exactly what Canada has done - copied U.S. policies - since signing the FTA in 1989. But to do so, consecutive governments in Ottawa have had to run roughshod over Canadian values and Canadian expectations of their governments. The effort to harmonize downward required a feat of social engineering worthy of a country that calls itself a democracy. For the past 13 years and more, Canadians have been pummeled by the corporate media, corporate think tanks, academics and political leaders, opposition parties, the IMF, the World Bank and foreign commentators into believing that we are living beyond our means and that the past days of "spending like drunken

soldiers" are over (a favourite phrase of the CCCE's Tom d'Aquino, President and Chief Executive of the Canadian Council of Chief Executives).

Heralding the end of the post-war social contract in Canada, former Prime Minister Pierre Trudeau stated in 1977: "A large part of my message as a politician is to say: we have to put an end to rising expectations." Just how government and the corporations designing the new elite consensus set out to accomplish this is not widely discussed.

The first assault on Canadians' expectations was in some ways the most effective. It was contained in a phrase that was repeated so often during the free trade debate and the GST fight that it became an acronym: TINA, which stands for There Is No Alternative. The media, Brian Mulroney, and dozens of other right-wing politicians, business think tanks, academics - all repeated this phrase so often that it gradually became conventional wisdom.

The next phase of the campaign was directed at the deficit. It was relentless and continuous over a period of almost five years. The debt was a national "crisis." If we didn't solve it we would hit the "debt wall." Of course there is no such thing as a "debt wall" and the bond-rating companies rated Canada's debt very highly throughout this whole period. There was no mention of the fact that Canada had a higher debt - on the basis of its ability to pay it off - after World War II than before. You could go through all the newspapers from 1946 to 1960 and you would not find a single headline about a "debt crisis" because there wasn't one then and there wasn't one in 1990. A Stats Can study revealed that 94 per cent of the debt up to 1991 was due to a fall in revenue and huge interest charges.

The deficit campaign used a technique known as "creating a useful crisis." The argument was simple: people won't accept radical changes to government services unless there is a crisis. Create a "useful crisis" and people will feel duty-bound to make sacrifices to resolve it. And that is exactly what happened. Enormous cuts to medicare - inconceivable in the late 1980s - were made by Paul Martin in 1994-95, and there was hardly a word of protest from Canadians, in spite of the fact that the vast majority still

felt that medicare was the most valued social program in Canada, indeed that it was the most important defining characteristic of the country. But they had been "softened up" with five years of media hysteria about the deficit, and they had come to believe that they had to sacrifice for the good of the country.

The next phase of the counter-revolution was the assault on the public service. In story after story they were referred to as "bureaucrats" even if those in the story were rank-and-file government workers. People who worked for government were portrayed as overpaid, under-worked, lazy, inefficient and over-privileged - basking in luxury jobs while everyone else suffered. The goal here was to drive a wedge between citizens and those who provided them with the services they needed - health, education, garbage collection. Government jobs were portrayed as not being "real" jobs.

The next stage of this campaign to lower expectations brought the genuine problems that result from making huge cuts to public services. If you cut billions of dollars from health care and education, those services will inevitably erode, despite the heroic efforts of doctors, nurses, other health professionals, teachers and education workers. People begin to have less faith in the public services they use. And even though they may make the connection between eroded services and funding cuts, at the psychological level, where the propaganda is directed, they become vulnerable to the message that there is a "crisis" and that everything connected with government is somehow bad - unresponsive, inefficient, just not working. People begin to feel even more disconnected from a government that, even before the cuts, may have seemed remote.

Coming hard on the heels of this erosion of public confidence in public services is the arrival on the scene of private service providers. The marketplace is portrayed in the media and by pro-business politicians as the paragon of efficiency, effectiveness and cost-saving. Private service providers are ready and willing to move in where public services have failed or where the cost to government is prohibitive. The most prominent of these approaches is the public-private partnership in which

private corporations are virtually and sometimes literally guaranteed a minimum return on investment, something the marketplace would never offer.

The final assault on high public expectations of government is tax cuts, and this campaign by governments at all levels is well under way. The message is: the product - government - is no good, so we will give the customers their money back. Tax cuts have the effect of locking in all the huge social spending cuts that have already been made. Democracy is expensive. It has to have the revenue to pay for the things that people say they want. It's simple: if we don't have the revenue we cannot have democracy - at least we cannot have the fruits of democracy that Canadians demanded in the post-war period and came to expect.

The campaign to lower Canadians' expectations has been remarkably successful. For even though poll after poll demonstrates that Canadians' values have not changed appreciably since the late 1970s - that they believe governments should provide medicare and public education, and should alleviate child poverty, create jobs and protect the environment - their voting behaviour and other polls reveal that they no longer expect government to provide these things. Canadians are voting on the basis of their (lowered) expectations, not their values.

For Canada to achieve harmonization with the United States in terms of health care, social policies, tax structures and other policies, government leaders had to create the political conditions necessary for those policies to be lowered to the level existing in the United States. This was not accomplished by a national debate about why this was being done. It was accomplished by government and corporate propaganda. The fact that Canada is now 50 per cent wealthier in terms of GDP per capita than it was in 1980, when the campaign to lower expectations slowly began, is never mentioned.

Much of the trend in government "downsizing" and tax cuts has been imposed on Canadians who have never called for such measures. Even after years of lobbying by the corporate media, the majority of Canadians consistently place tax cuts below increased spending on health, education and child poverty when asked what to do with

budget surpluses. The most recent example of the application of the Washington Consensus free-market model is the government of British Columbia. Enormous cuts to a wide variety of programs, the breaking of legal labour agreements, the abandonment of the poor and defenceless, huge cuts to health and education - all representing the breaking of specific promises in the last election - are the order of the day. The B.C. example is one of the most ferociously anti-democratic programs the country has ever seen. Yet it is the logical extension of the denigration of democracy and disregard for citizens that have been displayed by nearly every government in Canada since the mid-1980s.

The result of this cynical process is a growing cynicism on the part of citizens, demonstrated in a dramatic decline in voter turn-out in many elections. People simply no longer have faith in their democracy. We are now at voter turn-out levels barely above those of the United States at the national level and in several provinces. This is a crisis in democracy, but ironically reflects the objective of the original architects of the Washington Consensus and their conclusion that there was an "excess of democracy" and too-high expectations.

The downsizing of democracy, and the accompanying denigration of the egalitarian welfare state of the post-war period, does not stop there. There has been an erosion of democratic rights and a weakening of democratic institutions. The casual violation of civil liberties in the treatment of anti-globalization demonstrators at APEC and in Quebec City is an indication of one thing: our foreign policy has led us to a policy prescription that asserts that protecting dictators from seeing or hearing dissent on the streets is more important than allowing citizens to exercise their democratic rights. This is what embracing global economics means for our political culture - a casual but deliberate degrading and discounting of democracy. What is "normal" and "acceptable" in terms of human rights, civil liberties and democracy is being continuously re-defined downward.

Getting Canada Back on the Right Path

The rapid Americanization of Canada's institutions and political culture demands both long-term and immediate action.

First, as a long-term response, the Government of Canada should establish an independent inquiry into the current state and future options regarding Canada-U.S. relations. Its mandate would be to examine in detail the state of Canada-U.S. relations and to make detailed recommendations for public policies that will strengthen the Canadian nation-state. The deterioration of Canada - the crisis in our democracy, the dramatic and increasing gap between rich and poor, the rapid loss of Canada's industrial base to U.S. buy-outs, our increasing integration into the U.S. security apparatus and foreign policy interests - has taken place without any debate in Parliament nor indeed in any organized public forum. The situation cries out for a full national debate involving as many Canadians as possible and held in as many forums as possible.

Second, our assessment of the overwhelming evidence suggests that, even preceding such a national debate, Canada must slow and begin to reverse the free trade juggernaut that is transforming our country in ways that were never intended and never mandated to any government. Canada requires an immediate and radical restructuring of the Department of Foreign Affairs and International Trade (DFAIT) to ensure that social, cultural, environmental and domestic economic policy goals and objectives are given primary status in Canada's trade and investment negotiations with other countries. Trade policy, never intended to be the single guiding principle of Canada's public policies, must be filtered through the lens of social, health and other policies critical to Canada's well-being, rather than dominating these policies.

Third, Canada's domestic economy has been severely damaged by the abandonment of policy tools that have been used in the past to guide and facilitate it. The Canadian government, in co-operation with provincial and territorial governments, must revisit the role of the domestic economy in Canada's well-being and in the standard of living of

Canadian workers. It is crucial that the Canadian government recognize the value of universal medicare, publicly funded post-secondary education institutions, and other public agencies in enhancing Canada's competitiveness in the global economy. That means a reversal of the past 10 years of severe cuts to these important programs. It is also critical that the federal and provincial governments place an immediate moratorium on any further tax cuts until the impacts of the huge cuts already made are fully understood.

Fourth, Canada must immediately seek out other partners in foreign policy initiatives to enhance and preserve the principles of multilateralism and internationalism. The world is entering a dangerous phase, marked by increased U.S. unilateralism and aggressiveness. The government has shown some signs of resisting the American pressure to, as the U.S. president simplistically put it, "be with us or against us." Canada has a unique if difficult role to play in re-establishing some semblance of rationality in global affairs. It must stand against U.S. unilateralism in international forums and remind our U.S. neighbour of its pledge, made by Secretary of State Colin Powell: "We have to go after poverty, we have to go after despair, we have to go after hopelessness. . . . We also have to put hope back in the hearts of people." To date that pledge is unrealized. New U.S. spending on foreign aid and other programs promoting democracy and education totals \$314 million, while the military has been given an increase of \$48 billion. Canada is well placed to influence the United States to make good on its commitment by taking the lead in addressing that despair. The Canadian government should publicly acknowledge the deep connection between terrorism and despair, and in this context commit to returning to its former level of foreign aid.

Lastly, the Government of Canada must undertake a review of the state of civil liberties in this country. The critical assessment of the federal government's actions by Judge Hughes' APEC Inquiry must be taken seriously. The government must also re-examine the draconian legislation passed in the extraordinary period following the September 11 terrorist attack on the United States - legislation passed largely to appease the American government. In the current, less heated atmosphere, the government has the

opportunity to reflect on the many voices from civil society - and within Parliament - that warned of the potential impact of Bills C35 and C36 on Canada's democratic traditions and the rights of citizens to engage in political activity.

At no other time in Canadian history has our country gone through such wrenching and fundamental change on so many fronts without a democratic mandate to do so. Governments at all levels, but led by the federal government, have implemented far-reaching public policy changes without ever having presented these to citizens in election campaigns. Most, if not all, of these changes have been made in the name of free trade and other imperatives of the Washington Consensus: privatization, deregulation and the downsizing of social programs. Not only were Canadians not forewarned about these policy changes, they were promised that economic reform would, in fact, allow Canada to enhance the lives of Canadians and their communities.

The spectacular failure of these economic reforms to deliver on their promise represents an enormous betrayal of trust on the part of government in Canada. That betrayal - that violation of the spirit of democracy - is demonstrated in the shocking level of voter turnout in elections across the country, but particularly at the federal level, where barely 50 per cent of voting-age Canadians think that participating in their democracy is even relevant.

Only by giving Canadians a genuine opportunity to engage in a dialogue about their country and its future direction can this alarming erosion of democratic participation and the resulting decline of the nation be halted and eventually reversed. The federal government must act on this crisis or stand accused of calculated neglect and even of designing the crisis.