

Canada and Globalisation: Catching a Wave or Being Swept Aside?

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I. Introduction

The latest phase of globalisation, dating from the mid-1980s, has transformed policy debate in many countries with the distinctions between domestic and international policy arenas increasingly blurred. Policies in many areas, from finance to immigration and from education to the environment, are all influenced by the discourse of globalisation. These policy debates do not, however, occur in a vacuum; they continue to be shaped by national histories. In the next section, I therefore outline the historical context which shapes contemporary debates on globalisation in Canada. With this as background, sections III and IV analyse two specific policy areas where responses to globalisation have been required. The first policy area is how to respond to the volatility of international capital flows which has characterised the past decade and the second considers responses to increasing economic insecurity. In both these case studies, responses to globalisation by governments, policy think tanks and by civil society organisations will be considered. A conclusion is provided in the final section.

II. The Historical Context: Staples, Continentalism and National Policies

Canada has long been integrated into the international economy. European expansion into Canada, premised on the desire to find the elusive northwest passage to the Orient, first established this part of North America as a staple producing economy. A staple economy, defined by the great University of Toronto economist Harold Innis, as an economy dependent upon the export of natural resources, was integrally linked to the international marketplace and subject to its disciplines and volatilities. As a trading nation, Canada has always had a keen interest in securing export markets and has been continually influenced by the external environment whether it be the mercantilist policies of the European powers of the 17th and 18th centuries or the debates over regionalisation and globalisation in the late 20th Century. Canada has also been integrated into the world's leading capital markets, and has made extensive use of the bond markets of London and the equity markets of New York. For example, as early as 1857, the Bank of Montreal was the largest institutional player in the New York money market.²⁾ Furthermore, Canada has attracted large inflows of foreign direct investment

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²⁾ See Hammond, "Banking in Canada Before Confederation, 1792-1867," in Easterbrook, W., and Watkins, M., (eds.), *Approaches to Canadian Economic History*, Ottawa: Carleton University Press, 1991.

to its natural resource and manufacturing industries. Canada also participated in the late 19th century phase of globalisation not only through its integration into trade and capital markets but also by being a major destination for international labour migration after the mid-1890s.

While Canada has, as a staple economy, always been highly dependent on world markets, it has also been part of a *continental* economy. For example, the opening up of the Prairies in the 1890s owed as much to the extension of continental agriculture and the exhaustion of vacant land in the U.S., as it did to government policies aimed at achieving this end.³⁾ Continentalism has also been fostered at various points in Canada's history through trade policy. Pre-confederation Canada entered into the Reciprocity Treaty with the U.S. during 1854-66 which placed most trade with the U.S. on a tariff-free basis. A free trade agreement was reached in 1911 only for the government to be defeated by protectionist opponents in the election called in the wake of the agreement. The 1965 Auto Pact led to the continental restructuring of the North American automobile industry albeit under a system of managed trade. Most recently, the Canada-U.S. Free Trade Agreement (CUSFTA) in 1989 and its extension to include Mexico under the NAFTA in 1993 have ushered in a new phase of continental integration. Today, the U.S. accounts for the vast majority of Canada's exports, accounting for 81 per cent in 1996, and 67 per cent of the stock of foreign direct investment in Canada in 1995 (at Can\$ 168 billion) was from the U.S. The path of continental integration, especially through trade policy, has not been a smooth one however. The Reciprocity Treaty of 1854, for example, owed as much to the reaction to the end of Britain's era of mercantilist policies and her conversion to free trade as it did to a desire for closer integration with the U.S. Protectionism in the U.S. has also led Canada to look elsewhere for its trading partners. For example, Canada's reaction to the protectionist Smoot-Hawley Tariff Act in the U.S. in 1930 was to support a new system of imperial preferences at the 1932 Imperial Economic Conference held in Ottawa. However, the constraints on continental integration were also more fundamental than this and reflect the requirements of a country seeking to define itself economically and politically.

Canada's history is one of distinct periods of "nation building," a process which stressed east-west political and economic union across the northern part of North America rather than economic integration through north-south flows. East-west economic links were forged through the construction of the transcontinental railway in the 1880s and the trans-Canada highway in the late 1940s. While the set of policies introduced in the decades after Canadian Confederation in 1867 are typically referred to as "National Policy,"⁴⁾ Canada's modern economic history also contains examples of nationalist economic policies designed to foster Canadian ownership and control of Canadian resources and to overcome Canada's branch plant

³⁾ See Norrie, K., "The National Policy and the Rate of Prairie Settlement: A Review" in Watkins, M., and Grant, H., (eds.), *Canadian Economic History: Classic and Contemporary Approaches*, Ottawa: Carleton University Press, 1993.

⁴⁾ This set of policies consisted of immigration policy, land policy, railways, tariffs and fiscal arrangements.

status with the United States. The restrictions on foreign direct investment (through the Foreign Direct Investment Review Agency) and the National Energy Program of the 1970s provide perhaps the best examples of this. This resistance to continentalism has meant that Canada has forged an economic as well as political union. As a measure of this, Helliwell has shown that Canadian provinces are 12-20 times more likely to trade in goods with other provinces as they are with U.S. states of similar size and distance, and over 40 times more likely for trade in services; economically, the border does matter.⁵⁾

The border matters not only in terms of determining the size of trade flows, but also in terms of institutional structures. In many ways, Canada is institutionally a member of the Anglo-American school of capitalism, perhaps unsurprisingly as befits a neighbour of the United States and a former colony of Britain. Thus, the decentralised nature of economic decision-making follows the Anglo-American version of contemporary capitalism as distinct from the more corporatist arrangements which typify the northern European version and the statist arrangements which characterise East Asian capitalism. Ideologically, too, the Thatcher/Reagan neoliberalism of the 1980s found favour with the Mulroney government in Canada and, albeit with less ideological fanfare, the subsequent Chretien Liberals. Just as the Thatcher/Reagan era revolutionised economic thinking in Britain and the U.S. and departed from the post-war Keynesian consensus, so the Mulroney/Chretien era has similarly departed from the Pearson/Trudeau vision.

And yet, despite Canada's close allegiance to the Anglo-American model, Canadian nationalism has also sought to distance itself from these countries, especially the U.S. The belief in the efficacy of government has a much higher degree of resonance in Canada than with the almost pathological distrust of government which periodically seizes the U.S. body politic and the more extensive welfare state, in particular, has been a defining characteristic of Canada. Thus, the Canada Health Act of 1948 and the establishment of Medicare in 1968 created a universal health care system and this, together with an historically more generous system of social insurance, are seen as defining Canadian institutions and which distinguish Canada from the U.S. This is perhaps a relatively recent phenomenon because the welfare state is largely a post-war phenomenon and, indeed, Canada was one of the last industrialised countries to develop a welfare state system. Certainly the antecedents of the welfare state go back to the 1930s but the differences between Canada and the U.S. were much less then (and Canada had no equivalent of the "New Deal") and the extent of the welfare state, in the fields of health, education and income support expanded greatly in the 1950s and, especially, the 1960s.⁶⁾

The desire for national identity is found not only in the realm of domestic economic institutions but can also be seen in foreign policy. Canada has sought to utilise its "middle power"

⁵⁾ See Helliwell, J., "Globalization: Myths, Facts and Consequences", Benefactors Lecture 2000, CD Howe Institute, 23 October 2000.

⁶⁾ As well as the Canada Health Act and Medicare mentioned above, also important are the Canada Pension Plan (1965), Canada Student Loans Act (1964) and the extension in the coverage of Unemployment Insurance in 1971.

status to differentiate herself from her southern superpower neighbour. Thus, Canada has contributed more prominently to international peace keeping operations and has shown greater support, at least at the level of rhetoric, for developing countries whether individually (such as Cuba) or collectively where Canada's position as a natural resource exporter provided her with some level of affinity with primary producing developing countries.

Canada's economic history can be seen as one of balancing the external orientation of a staple economy, and the opportunities created by the proximity to the world's largest industrial economy, with the requirements of the political and economic autonomy needed to construct and develop an independent nation state pursuing its own values and establishing its own identity. Debates during the latest phase of globalisation can, in some important respects, be seen as continuations of this historical balancing act. In the contemporary period, therefore, pro-globalists argue that globalisation offers opportunities for a small trade-dependent country like Canada to more fully benefit from liberalised markets and from the flow of technology and capital across international borders. If Canada can adapt its institutions then the benefits of globalisation, in terms of higher living standards, will be realised. And it is the increased income derived from globalisation which will permit Canadians to continue to maintain, albeit in altered form, the types of social programs which they regard as important. Policies should therefore be adopted which enable Canada to catch the wave of globalisation. For opponents, however, the forces of globalisation threaten to sweep aside Canadian's identity and values, to lead to the integration of the economy on a continental and global scale with a subsequent loss of Canadian control and erosion of institutions, such as social programs and universal health care, which distinguish Canada from her southern neighbour. In short, the forces of globalisation are feared to be leading to an erosion of democracy, the transfer of power to corporate elites and to domination by the United States.

In order to explore these contemporary debates more fully, I will examine two case studies. The first concerns responses to one of the most important features of the latest phase of globalisation, namely, international capital mobility and volatility. The second concerns the impact of globalisation on economic insecurity, a topic which has particular relevance for one of the domestic institutions which I have identified as being of particular importance to Canadians, namely, the welfare state. The analysis will consider responses by governments, academics and think tanks, and policy oriented organisations in civil society.

III. Responding to Volatility in International Capital Markets

One of the most prominent features of the globalisation of the past decade has been the increase in the volume of short term capital flows. Accompanying these increased flows has been increased volatility in exchange rates and periodic financial crises. These crises have included the crisis which affected some European countries in 1992, the Mexican peso crisis in 1994, and the Asian financial crisis of 1997 which later spread to Russia and Brazil. In this section, Canada's response to international financial instability, and particularly the Asian financial crisis, will be examined.

The impact of the Asian crisis on the Canadian economy was relatively modest in terms of the direct trade effects. Canada's exports to East Asia account for only three per cent of Canada's GDP and the collapse of Asian markets had some effect, particularly for the economy of British Columbia which is much more Asia-oriented in its trade than other provinces in Canada, but the overall direct trade effects were modest. However, there were a number of important indirect effects one of which was weakening international commodity prices, a central concern for a country which still relies on natural resources for 40 per cent of its exports. However, as the Senate Standing Committee on Foreign Affairs noted "the Canadian dollar... has perhaps been the real victim of the deepening Asian financial and economic crisis."⁷⁾ The Canadian dollar fell by 7 per cent against the U.S. dollar (and by 5 per cent on a trade-weighted basis) in the year from July 1997 and fell to its lowest level against the US dollar in its 140 year history. As investors engaged in a "flight to quality" in the face of the international economic uncertainty caused by the financial crisis, they increasingly abandoned the Canadian dollar, and its natural resource based economy, and sought its more illustrious U.S. counterpart.

As in many countries, the economic effects of currency depreciation are magnified by the sense of a loss of national pride which accompanies such depreciations. The slide in the value of the dollar to an historic low therefore contributed to public interest in the debate that the financial crisis spawned in two areas, namely, what should be done about international capital movements and, secondly, should Canada retain its own currency.

The causes of the Asian financial crisis are open to dispute.⁸⁾ To some, the crisis was a rational response to emerging problems of bank supervision, corporate governance, and moral hazard in Asian financial systems. These causes were popularised under the catchy title of "crony capitalism." For others, the crisis occurred in economies which were fundamentally sound, as indicated by continuing low risk premia by risk-rating agencies right up to the onset of the crisis as well as by the forecasts of international financial institutions such as the IMF. The crisis represented irrational, speculative behaviour on the part of foreign investors acting in herd-like fashion. The mounting current account deficits of some Asian countries has also been identified as a trigger for the crisis, and the cause of the deficits attributed to currency mis-alignments between the major economies, especially between the U.S. dollar and the yen. A multitude of factors have therefore been identified as causes of the financial crisis. Which reforms should be placed on the post-crisis agenda to build a "new international financial architecture" depends, therefore, on which factors are held to be most responsible for the crisis in the first place.

As Eichengreen has noted, "reforming the international financial architecture is a game that any number can play."⁹⁾ Canada has been one player. The official response of the

⁷⁾ Standing Senate Committee on Foreign Affairs, "Crisis in Asia: Implications for the Region, Canada, and the World," Ottawa: The Senate, December 1998. p. 61.

⁸⁾ For review see MacLean, B., Bowles, P., and Croci, O., "East Asian Crises and Regional Economic Integration," in Rugman, A., and Boyd, G., (eds.), *Deepening Integration in the Pacific Economies*, Aldershot: Edward Elgar, 1998, pp. 19-54.

Canadian government to the crisis has been to recommend the following set of international reforms. Canada's six point proposal can be summarized as arguing for:

1. Increased economic growth;
2. Ensuring sound fundamentals (e.g. sound monetary and fiscal policies);
3. Regulation of capital flows;
4. Increased role of private creditors in assuming risk;
5. Meeting the needs of the poorest countries;
6. Strengthening national financial systems and international financial supervision.

The official response to financial crises and increasing international capital mobility has therefore relied a smorgasbord approach which seeks to improve the regulation of financial institutions, improve macroeconomic policies and include the private sector as participants in the solutions to crises. Thus, the official position favours limited action on a number of fronts and, as such, indicates multiple causes of financial crises. The array of measures are not particularly imaginative. They indicate a concern for the distributional consequences of financial crises by ensuring that international investors share some of the adjustment costs of crises and by arguing that developing countries' concerns should also be considered. The policy response seeks to avoid the triumphalism which accompanied many U.S. responses to the Asian crisis but nevertheless also emphasizes the need for improved financial regulation in Asian countries.¹⁰

Civil society organisations, however, have been much more focused in their assessment of the causes of the financial crises. For them, international speculative capital movements are the primary cause and require a bolder response in terms of regulating such movements through mechanisms such as a tax on international financial transactions, the so-called "Tobin tax." The Tobin tax was initially briefly raised as a policy option by Canadian Finance Minister, Paul Martin, prior to the 1995 G7 Summit held in Halifax, Canada and in the wake of the Mexican peso crisis. A few months prior to this Summit, a broad coalition of church, labour and development NGOs formed the Halifax Initiative designed to pressure the Summit to discuss reform of the international financial institutions and to reduce Third World debt. The Initiative took up the idea of the Tobin tax as a mechanism to reduce international speculation and to argue that the proceeds of the tax should be used for international development-related projects; taxing international speculators to promote global social justice proved a popular formula.

The Initiative campaigned for the Tobin tax, held briefing sessions for MPs and gathered public support through a letter writing campaign. A resolution in support of such a tax was introduced to the Canadian House of Commons as a Private Members motion by a sympathetic

⁹ Eichengreen, B., *Toward A New International Financial Architecture: A Practical Post-Asia Agenda*, Washington D.C.: Institute for International Economics, 1999, p. 79.

¹⁰ See Alan Greenspan, "The Ascendance of Market Capitalism," Speech to the Annual Convention of the American Society of Newspaper Editors, Washington D.C., 2 April 1998, for an example of American triumphalism.

member of the NDP, the main social democratic party in Canada. The motion, which stated "That in the opinion of the House, the government should enact a tax on financial transactions in concert with the international community," was passed in March 1999 by a vote of 164-83, making the Canadian Parliament the first in the world to support an international tax on short-term capital movements. Implementation and further promotion of the Tobin tax remains, however, on the official back burner and has met with opposition from powerful constituents such as the Bank of Canada and the Finance Department which remain opposed to the tax largely on the grounds of practicality. Nevertheless, civil society organisations have been successful in defining a response to globalisation, and in mobilising support for it, which is significantly more critical of the processes of globalisation than that found in official policy.

Tangentially, it is evident that this conclusion is also supported by an analysis of the opposition to the MAI. Here again, while the official position was favourable to the MAI, although with increasing reservations as public awareness and concerns over its content were slowly released, NGO groups in Canada played significant roles in the public campaign both nationally and internationally against the MAI. As Laxer has noted, the text of the MAI was first made public by the Council for Canadians, a nationalist NGO in Canada.¹¹⁾ It led much of the popular support against the MAI, and in doing so drew upon its experience in the free trade debate. Indeed, the implications of the investor rights clauses in the NAFTA, the so-called Chapter 11, were used by the Council to highlight the threat posed by the MAI to national sovereignty. As Laxer explains, the Council of Canadians was able to build support among European opponents of the MAI by using the example of the Ethynol case in which a U.S. multinational sued the Canadian government over its refusal to allow the gasoline-additive MMT.¹²⁾ But while an international coalition of NGOs was clearly in evidence to defeat the MAI, Laxer argues that the primary site of opposition was national; information was shared internationally but most NGO activity was based on pressuring their own governments not to support the MAI.¹³⁾

Thus, the defeat of the MAI was not a victory for "global civil society" but for nationally based NGOs, in which the Council of Canadians played a prominent role. A similar observation could also be made about NGO support for the Tobin tax. The Halifax Initiative has networked with organisations sharing similar aims in other countries (such as ATTAC in France). However, their attention has still been focused on national governments and similar motions to that passed in the Canadian Parliament have been introduced in a number of other countries and failed by only 6 votes in the European Parliament. Thus, civil society opposition remains to a considerable extent nationally based, a focus which has met with some success in Canada. Attention is now shifting to the GATS and this is emerging as the latest battleground for Canadian NGOs in pressuring their government to resist rules designed to further

¹¹⁾ See Laxer, G., "The Movement the Dare Not Speak its Name: The Return of Left Nationalism/Internationalism," mimeograph, 2000.

¹²⁾ Laxer, *op. cit.*

¹³⁾ Laxer, *op. cit.*

globalisation.

To return to the main theme of responding to international financial crises, a second response to the Asian financial crisis has been to raise the question of whether Canada should maintain its own currency. In contrast to the Tobin tax debate which involved civil society organisations, this debate has mainly occurred between academics and policy analysts. The debate surfaced in 1998 following the secular decline of the Canadian dollar against the U.S. dollar, the depreciation to a 140-year low in 1998, the popularity of "dollarisation" among many Latin American countries and the coincidental launching of the euro. All of these factors served to focus attention on exchange rate options and led to the debate over the desirability of Canada joining a movement for a North American Monetary Unit (NAMU). The proposal was made by authors associated with two independent, right-oriented think tanks, the C.D. Howe Institute and the Fraser Institute.¹⁴⁾

Courchene and Harris, writing for the C.D. Howe Institute, argued that exchange rate misalignments are common and that exchange rate flexibility has come at the cost of volatility. Such volatility, they argue, encourages investment in other countries rather than in Canada. Furthermore, the current weakness of the Canadian dollar encourages firms to seek solace in a declining dollar to maintain competitiveness rather than making the investments that would raise productivity. Hence they argue that a fixed exchange rate regime would be preferable for Canada. A fixed regime could be achieved in several ways. Of the possible options the one preferred by Courchene and Harris is that of the adoption of a common North American currency. They argue that within the context of Canada's high and increasing trade and investment integration with the United States, greater exchange rate stability with the U.S. is a desirable goal. The transactions costs of international trade would be lowest with the adoption of a single currency. Dollarisation would give all of the benefits to the U.S. and the entire costs would be borne by Canada, in terms of the loss of seigniorage and the loss of any policy control, whereas a common currency might preserve some role for Canadian input. In view of the perceived rush to dollarize among some Latin American countries (Argentina, Mexico, El Salvador), Courchene and Harris further argue that Canada should actively enter the policy debate now for fear that the dollarisation bandwagon may subsequently foreclose any chance of inducing the U.S. to consider a common currency for the region.

This position has been dismissed in official policy making circles and there appears to be little enthusiasm for this among government Ministers. Nevertheless, the debate has served to raise interesting issues with respect to globalisation and its continental manifestation in North America. Firstly, it is the volatility of the Canadian dollar and the instability of exchange rates which appears to have accompanied international financial liberalisation which lies

¹⁴⁾ See Courchene, T., and Harris, R., "From Fixing to Monetary Union: Options for North American Currency Integration," C.D. Howe Institute Commentary 127, June 1999 and Grubel, H., "The Case for the Amero: The Economics and Politics of a North American Monetary Union," Critical Issues Bulletin (Fraser Institute), 1999.

in part behind the desire to return to greater exchange rate rigidity. In many countries, this has been accompanied by a consideration of currency boards and dollarisation as ways of achieving this greater certainty and, importantly, credibility. The case for dollarisation or a common currency in Canada is less driven by concerns with credibility but more on the basis of reducing transactions costs in the face of increasing trade and investment integration with the U.S. Even so, both the credibility and the transactions costs arguments suggest that increasing trade and capital mobility lead to greater institutional convergence, in this case with respect to monetary institutions. That is, the processes of integration do not lead to a stable equilibria but require increasingly wider adaptation of domestic institutions to the logic of globalisation.

It is precisely this tendency which concerns the opponents of globalisation and of greater Americanisation of the Canadian economy. While Courchene and Harris suggest that returning to a fixed exchange rate regime need not imply any change in Canada's social programs since the latter were largely developed in the 1950s and 1960s when Canada also maintained fixed exchange rates this misses the point. In the Bretton Woods era of the 1960s, fixed exchange rates were accompanied by capital controls which enabled national governments to retain significant policy autonomy. An early 21st century common currency with liberalised capital flows would provide any Canadian government with no such policy autonomy and the integration of the continental economy would indeed likely be increasingly matched by the integration of the social policies.

IV. Responding to Increasing Economic Insecurity

Globalisation has been accompanied by changing forms of "insecurity." For example, international society is increasingly recognised as being subject to new forms of "insecurity" arising from the processes of globalisation. While countries have actively facilitated the flows of goods and capital across international borders they have simultaneously become alarmed by the permeability of those same borders to flows of drugs, money laundering operations, illegal migration and communicable diseases. Combatting these phenomena has therefore become a part of foreign policy in the era of globalisation. This has been recognised at official level in Canada as the Department of Foreign Affairs and International Trade responds to the changed environment with a greater recognition of "human security" issues in its policy formulation.

Globalisation has not only affected security in these ways, but has also increased the economic insecurity of national populations. The technological imperatives of globalisation, associated with the shift to post-Fordist production methods, have been associated with the need for "labour market flexibility." This flexibility has typically been achieved by increasing the ratio of casual to permanent workers, by contracting out services, by increasing part-time work, the feminisation of the labour force and, in general, by restructuring labour markets in such ways that individuals have less job, and hence income, security. This increase in economic insecurity during the contemporary phase of globalisation has been acknowledged by many commentators. For example, Osberg and Sharpe argue for a new Index of Well-Being as being a

better indicator of welfare than per capita GDP and include as one of four equally weighted components in the index, measures of "insecurity."¹⁵⁾

Institutional responses to economic insecurity at the state level have, in the 20th century, focussed on the development of the welfare state. Faced with the economic insecurity of the 1930s, the post-war response of industrialised countries was a set of programs in the areas of health, income support and education known as the welfare state — society's collective insurance policy. As indicated in section II of this paper, the welfare state in Canada not only met this economic function but also had a political rationale. The welfare state is viewed as a unifying feature of Canada as a nation, its redistributive functions serving to lessen regional inequities and promote social cohesion, an important differentiating feature from the United States and a rallying point for those seeking to persuade Quebecers of the benefits of the Canadian federation. The welfare state is, we are told, a part of the very fabric of Canada.

Nevertheless, it is widely recognised that the welfare state has been in a period of crisis during the 1990s. Some of this can be explained by domestic factors. For example, difficulties of the welfare state during this period can be partly attributed to the deficit and debt reduction program undertaken by the government in the 1990s. The Chretien Liberals came to power in 1993 faced with a large budget deficit and a debt/GDP ratio in excess of 60 per cent. The government spending cuts introduced to address these problems significantly reduced the transfers to the Provinces for funding health, education and welfare services. These cuts reduced public spending (as a percentage of GDP) to its lowest level in over thirty years. The fiscal situation has now been reversed with government budget surpluses being the order of the day. However, the damage had already been done and one explanation for the crisis in the welfare state and deteriorating social outcomes in Canada could therefore be found in the government's response to fiscal imbalances. Demographic changes may also be responsible account for some problems; in particular, the health care system is under strain as a result of a combination of an aging population, expensive new technologies and skilled labour shortages.

However, it is also possible that a major, or less strongly a contributing, factor to the crisis of the welfare state is globalisation. At a general level, it has been argued that countries with more extensive welfare state systems are, as a result of the forces of global competition, forced to cut back their systems to the level of their competitors. This general hypothesis is summarised by Dharam Ghai, Director of UNRISD, as follows: "Global economic integration, within a free market context, now poses new challenges for the welfare state. The virtually instantaneous mobility of capital in unregulated markets seriously affects the capacity of governments to regulate national economies; competition for capital and markets increases pressures to adopt a low wage strategy, including a reduction in the cost of social benefits and weakening labour standards; and the twin goals of maintaining acceptable levels of employment and defending the principles of equity and solidarity seem increasingly incompatible."¹⁶⁾

¹⁵⁾ See Osberg, L., and Sharpe, A., "International Comparisons of Trends in Economic Well-Being," mimeograph, January, 2000.

The fear of pressures of a “race to the bottom” are evident in Canada at the general level and have also focussed more sharply on the effects of continental economic integration. The opponents of globalisation fear that increased economic integration with the U.S. will lead to U.S. social outcomes. Certainly there has been considerable concern in Canada that the Canada-U.S. Free Trade Agreement, and the subsequent NAFTA, would result in downward pressure being put on Canada’s social programs, even though social programs, as such, were excluded from both trade agreements. A number of processes were identified which might lead to this result. Firstly, if Canada establishes social programs and related taxes that raised the costs of production above those in the United States, then it is argued that investment will move to the U.S., Canadian business will demand lower taxes, and Canadian governments will have to reduce their welfare spending. One recent manifestation of this has been the increasing calls for personal tax cuts for high income earners to prevent a “brain drain” to the U.S.; Canadian governments are argued to have less tax autonomy than before in an era of highly mobile skilled workers. Secondly, if Canada established programs and tax policies that lowered the costs of production by socialising costs that are paid by employers in the U.S., then these could be interpreted in the U.S. as subsidies and therefore subject to countervail and other trade action.¹⁷⁾ In both cases, downward harmonisation would result.

Whether this position is accepted or not, the argument has retained force since social outcomes in Canada over the 1990s looked increasingly similar to those found in the U.S. In both Canada and the U.S., income inequality has increased during the 1980s and 1990s, a reversal of the trends of the 1960s and 1970s.¹⁸⁾ Income inequality levels are still lower in Canada than in the U.S., a result which is largely due to greater income transfers in Canada, but social polarization is unmistakably taking place. Poverty rates in Canadian provinces are similar to those found in some U.S. states.¹⁹⁾ The Canadian health care system is fraying around the edges and the emergence of private, fee paying medical clinics have led to public debate over the trend towards a “two-tier, American style” health system.

The opponents of globalisation have therefore sought to restrain globalising initiatives in the name of protecting Canadian social programs and, by implication, the democratic right to choose different national institutional arrangements from other countries. The pro-globalists, in contrast, argue that the crisis of the welfare state is a result of the failure to adapt to new

¹⁶⁾ Ghai, D., Preface to *After the Golden Age: The Future of the Welfare State in the New Global Order*, by G. Esping-Anderson, Occasional Paper No. 7, World Summit for Social Development, Geneva: UNRISD, 1994, p.i.

¹⁷⁾ Of relevance here is the Softwood Lumber Agreement, an agreement which limits the export of Canadian lumber to the U.S. The rationale for this, at least in U.S. eyes, is that Canada’s system of public ownership of forest land provides Canadian forestry companies with an unfair trade advantage.

¹⁸⁾ See MacPhail, F., “What Caused Earnings Inequality to Increase in Canada in the 1980s?” *Cambridge Journal of Economics*, March 2000, 24, 2, pp. 153-175.

¹⁹⁾ See Osberg, L., “Poverty in Canada and the USA: Measurement, Trends, and Implications,” *Canadian Journal of Economics*, November 2000, 33, 4, pp. 847-877.

economic “realities.” That is, it is argued that the operations of the global economy have fundamentally changed the nature of the Canadian economy and that the welfare state needs to be restructured to meet these new conditions. Brown summarizes the pro-globalists’ position thus: “in their view, the social contract must change to complement the nature of the economy on which it rests. In other words, the welfare state should complement the underlying structure of the economy, and should not — and probably cannot — be used in the long run merely to offset fundamental changes happening there... [they] believe that the old social contract has been rendered obsolete by global events beyond the control of any national government. Canada’s current dilemmas result partly from the social contract’s sluggishness in adapting to the new globalized economy.”²⁰⁾

The welfare state, it is argued, by increasing rigidities in the labour market, has slowed down the adjustment of the economy required by globalization and a more extensive international division of labour. Such ‘adjustment gradualism’ is regarded as harmful as it has led to higher adjustment costs and induced hysteresis in labour markets. The welfare state as it now exists was designed to serve economic and social structures which are no longer relevant and the “crisis of welfare state” is therefore a crisis due, in large part, to the failure of the welfare state to adapt sufficiently quickly.²¹⁾ The welfare state, therefore, needs to be reconstituted on a more flexible, less expensive, and less universal basis in which the microeconomic efficiency of social policy receives increased emphasis.

Faced with these debates, the policy responses have been mixed. There remains debate about the extent to which social policies are constrained by globalisation, and even when this accepted, the desired policy response often differs. Social programs in Canada are determined by the decisions of both federal and provincial governments and hence responses have differed between provinces. The Ontario and Alberta provincial governments have adopted the policies most consistent with the pro-globalist position while British Columbia has been the furthest in the anti-globalist camp. Nevertheless, some generalisations are possible. In the field of health care, there is a wide acceptance of the need and the ability to maintain a universal health care system and one which differs from that on offer in the U.S. In the area of education, support for training and post-secondary education in order to compete in the global economy has been accompanied by an increasing tendency to allow post-secondary institutions to charge market-based fees and there is now a wide variation in fee structures both within and between institutions. In the area of income support, the extent and generosity of the coverage have both been substantially reduced during the 1990s and, as McBride has argued, changes to employment laws, unemployment insurance regulations and labour market deregulation have

²⁰⁾ Brown, D., Economic Change and New Social Policies in Watson, W., Richards, J., and Brown, D., (eds.), *The Case for Change: Reinventing the Welfare State*, Toronto: C.D. Howe Institute, 1994, pp. 116–117.

²¹⁾ In this respect, Canada is seen as suffering from “Eurosclerosis” — the term coined by critics of the European welfare state to denote the effects that it has had on causing high levels of unemployment and labour market rigidities.

resulted in “permanent insecurity” for many workers.²²⁾ In some important ways, therefore, the welfare state which arose in the 1950s and 1960s in Canada and which formed an important component of the ‘national policy’ of those decades, has been significantly changed in the 1990s with perhaps the universal health care system remaining, at least for now, as the one part of the welfare state which purports to show the continued relevance of “national differences.”

V. Conclusions

The Canadian context for analysing responses to globalisation requires an appreciation of Canada’s long standing integration into the international trading system. As a staple economy, Canada has long relied on international markets for its exports of natural resources and on international capital inflows in the form of borrowing and foreign direct investment. At the same time, Canada has also long been part of a continental economy, sometimes fostered by trade policy sometimes not. Throughout this history, Canada has also sought to balance this outward-orientation and continental integration with national autonomy, control and, indeed, identity. These opposing forces have often clashed and the current phase of globalisation can be seen as yet one more example. The pro-globalists believe that a small, open economy such as Canada has much to gain from globalisation; the opponents believe that Canada has much to lose in terms of national autonomy and institutions from further global integration. The case studies provided in the sections above dealing with responses to international capital volatility and responses to increased economic insecurity, served to illustrate these two opposing positions.

The two case studies also served to highlight the variety of sources of response to globalisation, from official circles to policy think tanks to civil society. As such, the case studies therefore served to indicate the vitality of the debate over globalisation in Canada. This has been a noticeable feature of the 1990s, a feature attributable not only to the long history of such debates in Canada but also because of the specific impact of the Canada-U.S. Free Trade Agreement in the late 1980s. Canada entered the latest of phase of globalisation with a very public debate (and a national election) on the free trade agreement. In some ways, it may seem peculiar to seamlessly equate a regional trade deal with globalisation. After all, much of the debate in policy making circles in the early 1990s was precisely around the hypothesis that regional trade agreements would detract from multilateral and globalising forces. In Canada, this has been taken into account but the arguments of both supporters and opponents of free trade has been that the CUSFTA and the NAFTA are consistent with a process of globalisation. For pro-globalists, the CUSFTA and NAFTA were seen as stepping stones to global trade liberalisation. For, anti-globalists, the ideology of freeing the flow of capital and tying the hands of governments which underpinned the CUSFTA, represented a form of “continental globalisation”.

²²⁾ McBride, S., “Towards Permanent Insecurity: The Social Impact of Unemployment,” *Journal of Canadian Studies*, Summer 1999, 34, 2, pp. 13–31.

An important part of the Canadian context for analysing the responses to globalisation, therefore, is that debate on the implications of economic integration was high on the public agenda in the late 1980s and continued through the following decade. The responses to globalisation have therefore come from a number of sources; to look only at official responses is to miss an important part of the picture. Indeed, to use the concepts highlighted by the two case studies, it is in general the case that corporations and elites are attracted to the “mobility” — of goods, services, information and high paying jobs-offered by globalisation while citizens, civil society organisations and workers are more concerned with “security” — of income, of democratic institutions and of national identity — which globalisation threatens to diminish. Given these different priorities, it is therefore no surprise that we observe multiple responses.

〈Summary〉

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Canada has long been integrated into the international economy. Canada's history is one of seeking to reconcile the tensions between a staple economy, the opportunities provided by a border with the world's largest economy, and the requirements of nation building and national policy autonomy. These historical tensions are shown to be relevant in analysing the contemporary debates arising from the latest phase of globalisation. Two particular debates are analysed using the categories developed in the historical discussion. These two debates are those concerning the future of the Canadian dollar and that over the sources and implications of rising economic insecurity. For pro-globalists, Canadian interests are viewed as being best served by rapid integration into the continental and global economies. Anti-globalists, in contrast, regard such integration as undermining national institutions and policy autonomy.