

Canada at the Crossroads

introducing changes, but we wouldn't make changes without considering what it might do to the flow of labour and capital between countries.

EXCAL: *Would free trade affect our political sovereignty?*

DALY: It would make no significant difference.

EXCAL: *What about more political decisions, for example, foreign policy?*

DALY: We would still have the opportunity to make recommendations to the US on (certain) issues. We recognized communist China earlier, we recognized Cuba earlier. On a number of instances we have taken different positions than the US and I think most of the time with domestic support within Canada . . .

Just because you would have free trade you would still continue to have our own defensive forces. There are common policies (with the US) with respect to NORAD, that Canada willingly undertook—and I think wisely. We would be sitting ducks if we tried to defend the North without any forces, without any facilities to identify any incoming aircraft or what have you.

I don't think (free trade) would have any serious inhibiting factor on our foreign policy. It hasn't handicapped the Europeans from having difference on foreign policy.

EXCAL: *Assuming a comprehensive agreement is obtained, Canada will have to undergo most of the necessary adjustment in its industries and labour force. If the US then decided to abrogate the treaty, the impact would be quite traumatic for Canada. Can we ensure that this will not happen?*

DALY: In terms of implications on the economic side, there's no question that Canada would have to make relatively more adjustments. We would get (as a percentage of GNP) much bigger gains than the US. For example, (from) the estimates that Wonnacott and Wonnacott and Greg Harris have made, it would end up that the potential gains would be five percent of GNP, and the reason for that is that the ratio of exports to GNP is much larger for Canada than for the US, so Canada has much bigger gains to make. That also means that we have greater adjustments and greater risks on the economic side once free trade has been implemented.

Let me deal with the negotiations between Canada and the US in a general way . . . When I was with the federal government, working for (the Ministry of) Trade and Commerce and I was down in Washington people outside the government would quite often say "Canada is so small that in any negotiation (with the US) we just don't have any real clout." The people in Washington (and) in international agencies say that isn't the way it works at all. The reason is that in Canada civil servants stay in a particular department or with the government for an extended period of time, and they, similar to the British system, have a great deal of knowledge about the United States; they have a tremendous degree of expertise. In the United States all the senior people turn over with each (new) Administration. Something like 1,000 senior people hand in their resignations each time a President changes, even if it's the same party, and the new President will accept a high percentage of those so the people (at) the senior level will not have had that much experience with the Government. There's also more to-ing and fro-ing of civil servants with universities in the US than in Canada. There is really only a handful of us who have left the federal government and went into the universities over the last 20 years in Canada.

The issues Canadians are going to negotiate are often central issues for Canada so (they) have put in a tremendous amount of work preparing the documentation. They are well briefed, they're knowledgeable and the issues are so important for Canada that they will be prepared to spend a tremendous amount of time in the negotiations. The Americans have less experience, and while the US (accounts for) 70 to 80 percent of our trade, it's only 20 percent of their trade and the issues relating to Canada are never as important to the US people as they are to the Canadian. So in fact, we get a high proportion of our points of view accepted; we just wear them down.

This is tremendously important in practice (and) yet that isn't the way it's generally perceived by the critics (of free trade). They just



DON DALY: *Daly after nearly forty years working on trade issues is a strong proponent of negotiating a free trade agreement with the United States.*

say that what the US wants that's what they're going to get. Well, that isn't the way it works at all. The Americans say it's the other way around. These are the Americans who have had a good deal of experience with the government. This is clearly a point of view that you haven't heard before this is well documented. It's not well written up in the academic literature but in terms of knowledgeable civil servants, they would all agree with my interpretation on how it works in practice.

EXCAL: *Free trade is the hot topic in Canada right now but it seems that its profile in the US is not very high. Do Americans care about it; is it a non-issue?*

DALY: I've been at three major conferences in the last 18 months and it's been on the program at two of the three. Clearly, the whole issue is an awful lot more important to Canada. Basically it's quite simple; our (ratio of) trade to GNP is 30 percent compared to 10 percent in the US. The proportion of (Canadian) trade with the US is 80 percent of our total world trade whereas their proportion (with Canada) is 20 percent of their (world) trade. So the whole trade issue is just not as important to them as it is to us. Some of the other things that they have on their agenda are relations with the Middle East, or OPEC, or US tax reform. It's just a number of issues that are higher on their agenda than ours. Even though it is less important for them, the President and the Administration, as a matter of principle, are very much in favour of freer markets and freer trade . . . there is a deeper commitment . . . (to the issue of policy) than in Canada.

There are clearly protectionist elements in some US States and industries, but it is primarily directed against Japan and developing countries that have wages 10 to 15 percent of US levels. Their concerns are much more in relation to those countries than with Canada. So

there really isn't any Anti-Canada position in the United States.

I remember one American putting it that "if it was just a matter of talking about free trade with Canada, all the people on that key committee (in the Senate) would have been in favour of it. If it was a question of how much authority and responsibility we should give to President Reagan, we would have been against President Reagan." Our difficulty is that we were getting caught on some of the byplay between Republicans and Democrats, primarily in relation to Reagan. And the close vote on the free trade proposal came about because of the attitudes to Reagan rather than the attitudes to Canada.

EXCAL: *Is free trade a dead issue as some have commented?*

DALY: Oh I would say that it is very much alive. Now it isn't currently getting the press and as I understand it the labour unions are going to launch a major offensive against it in September but certainly the business groups and the majority of the academics who have worked on it are in favour of it. The noise that Ontario made initially wasn't so much against free trade as an attempt to get a part of the action . . . or to increase their bargaining power to have some participation from the provinces, which they now have achieved. Certainly, as I hear it, you don't have the same degree of strong reservations now from the deputy minister and the senior staff at the (Ministry of) Industry and Trade in the province as you did a year ago. There's been less public criticism from Peterson and the Ontario Government in the last six months than when they announced those studies back in November of last year.

EXCAL: *History shows that Americans set up businesses in Canada only to avoid the high*

tariffs of Sir John MacDonal's National Policy. As a result, many have argued that a free trade agreement will likely induce US firms to serve the Canadian market from their home base. Is this scenario a possibility?

DALY: There's no basis for the assessment that subsidiaries would pull out. What happens is that subsidiaries specialize and then they export the smaller range of products they do to the US. This is what happened in autos—we've ended up with far more employment and a smaller trade deficit in automotive parts and autos and trucks than we ever had as long as we continue to be a high cost producer. There's not a single US company that has pulled out because of the free trade in the auto pact.

EXCAL: *So, do you consider the Auto Pact an example of free trade?*

DALY: Yes—granted agreements have been written in; this is what Bob White (the president of the Canadian Automotive Workers union) keeps saying as well as the NDP—but what's been happening is that the Canadian companies have been doing substantially more than was ever written in the agreement, and the analysis . . . like I'm outlining, predicted that this would be what happened, that we would wind up with a smaller net trade deficit in autos with free trade than we had before . . . (Canada) has ended up with a higher proportion of total North American employment than we would have had before. Why White is so against free trade in other areas when it's been so beneficial in the auto sector, I have no understanding of.

EXCAL: *Many have commented that no one can really be sure about the benefits of free trade, saying that it is a 'leap of faith,' as Donald Macdonald, the head of the Royal Commission, once remarked. Is free trade a 'leap of faith'?*

DALY: Now Donald Macdonald initially started off as a nationalist. He was surprised at the degree of support free trade got in the hearings and it led to a change in his thinking . . . He made that phrase 'leap of faith' during the stages where the report was still being drafted.

I would read it that there is a lot more rationale and justification than that phrase would suggest. Now it does require adjustments on the Canadian side—no doubt about that—but we have a pretty clear indication on how those adjustments can be made, who has to make them, and if those adjustments are made, the beneficial effects that would flow from them. So I think there is an awful lot more underpinning for the free trade philosophy than that phrase would suggest.

EXCAL: *Are we going to get free trade?*

DALY: If we blow it this time, we won't get another chance for half a century . . . I would say that there's far more public support and more underlying research and rationale and better understanding of free trade than we've ever had. (But) we can still blow it. It could be blown in the US by continued slow growth and protectionist measures and higher priority of other issues. It could be blown by the degree of opposition within Canada . . . But I certainly hope we can make it come off this time. It's come up before in terms of Canadian-American discussions (in the mid 1800s, during the 1911 election campaign and in the late 1940s) . . . but this time I think it has a better chance than in the other periods but it's by no means signed, sealed and delivered.

EXCAL: *What will happen if we don't get free trade?*

DALY: I think we'll continue to have the problems of slow growth, high unemployment, a falling share of world trade manufactured products, plant closures, corporate bankruptcies and a lot of problems. (There will also be) lower real incomes than in the US, high prices of manufactured parts for the consumer, and you always get a lot more social conflict and conflict between the federal government and the provinces in periods of slow growth than in periods of active growth. So it has repercussions for the whole economic and social fabric.

NEXT WEEK: DANIEL DRACHE AND THE OPPOSING VIEW