

PRO

By ALLAN SHAPIRO

Shapiro is a professor in York's Department of Economics.

"The free trade debate cannot sink any lower," I thought. "The anti-free traders are predicting everything but the plague for Canada if we adopt free trade." I was wrong! On Saturday night in a debate on the agreement my anti-free trade opponent predicted that, should the agreement go through, we would have private American-owned blood banks distributing AIDS-contaminated blood in Canada! Surely it is time to set aside the hysteria and examine the case on its merits.

Free trade means the removal of barriers to trade. At its narrowest this means the removal of tariff barriers between countries. Today it has come to mean the removal of non-tariff barriers as well. After the Second World War, most nations realized that mutual tariff walls around countries impoverished all countries, as well as contributed to a preference for military competition rather than economic competition. The General Agreement on Tariffs and Trade (GATT) was adopted in 1947 and world tariff reduction has proceeded steadily. The GATT provides for bi-national tariff reduction treaties and the Free Trade Agreement (FTA) has been designed to be consistent with GATT. For a full appreciation of the FTA one has to keep GATT constantly in sight.

Unfortunately as tariff barriers came down, national governments, under pressure to maintain employment in inefficient uncompetitive industries, began to erect non-tariff barriers to trade. These include countervail (temporary quotas or duties against foreign goods deemed to threaten domestic industry — applied in a politically biased fashion in the USA), and anti-dumping laws (laws against foreign suppliers selling goods in a country at prices below their domestic costs of production). The situation Canada finds itself in today is that while it has over the last 45 years eliminated or reduced to almost insignificant levels most of its tariffs with the United States, the USA has resorted more and more to the use of politically structured non-tariff barriers to discourage the import of Canadian goods. The American laws with respect to NTB's are not unusual and not inconsistent with GATT, but their application has been incredibly distorted by the pressures that American industries have been able to apply to American decision makers.

What are the benefits Canada may expect to reap from free trade in the broader sense of removal of all barriers to trade, including NTB's? Much public discussion has focussed solely on tariff removal. But Canadian-US tariffs are already very low on average: 4.5 percent against US goods and 2.8 percent against Canadian goods. And the remaining tariffs are likely to be virtually eliminated in any case under GATT auspices by the turn of the century. It is the non-tariff barriers which prevent us from obtaining the benefits set out below.

With all tariff and non-tariff barriers removed, Canadian producers will be able to specialize more in the production of goods in which they have a comparative advantage. This means longer production runs and less individual product diversification (the Auto-Pact manifests this perfectly). With the economies of scale arising out of longer production runs, we should expect higher productivity, higher employment, higher real wages, and higher incomes generally. Almost all economic studies confirm these benefits. The employment effects may not

be as great as one might expect because of our strong belief in Canada in paying people to stay in areas where there is little prospect of employment. In my opinion, the major benefits will be in terms of the quality of and remuneration for jobs, rather than in the quantity of jobs. Also, as Canadian producers reap productivity gains, we may expect relatively lower prices for domestically produced goods as well as lower prices for imports. Trade is usually mutually advantageous, and the Americans are also expected to reap benefits. Evidence from other free trade agreements, customs unions, and common markets, however, is that invariably the smaller partner gains the most.

There will be benefits in relation to our trade with third countries as well. The greater efficiency obtained by producing for a market of a quarter of a billion people will help us compete more effectively in selling our goods to Europe and Asia. This may prove very important if the European Community turns from the elimination in 1992 of all internal barriers to trade to the erection of still greater barriers to outsiders.

One should not undervalue the prospective benefits to Canada from the elimination of trade barriers. Approximately 30 per cent of our national income is generated by selling goods and services to foreigners, and most of these goods and services (over 91 per cent of manufactured end products) go to Americans. Reasonable improvements in productivity can prove exceptionally beneficial over time for the real incomes of Canadians.

Article 401 requires the eventual removal of all tariffs between the two countries. Some tariffs are to be removed immediately, some in five years, and the rest, those protecting the least efficient industries, in 10 years.

Will the adjustment costs arising out of removing the protection from inefficient industries be enormous? No respectable studies indicate this. It is difficult to understand how Canada can have eliminated about 80 per cent of its tariffs over the last 45 years without dire consequences but will now suffer catastrophic results from the elimination of the few that remain. Given the 10 year phase out period and half-reasonable retraining and other adjustment policies, the costs should be low. Yes: some people over the 10 year period will lose their jobs.

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FREE TRADE

Campaign coverage of deal epitomizes media's deficiencies

By ROBERT EVERETT

Mr. Everett teaches Mass Media and Politics in the Department of Political Science at York.

Although the final, decisive poll remains to be taken, it is not too early to reflect on lessons already learned from the current election campaign. Signs indicate that another less-than-edifying political exercise is now concluding.

Some surprises have emerged. Pollsters were astonished by the mid-campaign surge in the fortunes of the Liberal Party. Never had voter surveys detected a swing of such dramatic dimensions. Until subsequent polls confirmed initial findings, poll-takers feared for their professional credibility. With a sharp upturn for the Conservatives at the outset of the campaign, a second major movement was also uncharacteristic, indeed unprecedented. Under the special influence of the debates, vote volatility has assumed arresting proportions.

Voting behaviour specialists eagerly anticipated this year's results for two reasons. The previous federal election hinted at the makings of a profound realignment of Quebec's partisan orientation. The virtual Tory sweep of the province went against the grain of a long Liberal-dominated history. But was this conversion a simple anomaly, evidence of Quebec's preference for home grown leaders regardless of ideology, or an authentic, adding repudiation of traditional attachments? Monday's results will provide more food for thought.

A number of observers, not least Ed Broadbent, believed they could read portents of the New Democratic Party's long-sought break-through in Parliament. Broadbent's durable popularity and the party's occasionally lofty standings inspired great expectations. Although regional variations still bode well for the NDP (especially in British Columbia), party support has been settling near customary levels of voter sympathy. Any gains are likely to be progressive rather than explosive.

Inevitably, the role of the mass media will loom large in all analyses of the campaign's outcome. Politicians and party strategists will naturally be tempted to blame the press for any disappointments they suffer. They will be right to criticize the media, but for the wrong reasons. Evaluations of the press should not be confined to speculation about impact upon personal triumphs or defeats. Something more fundamental has been at stake: the health of Canadian democracy.

The media have a vital responsibility in the political system, one that is only sharpened at crucial intervals such as campaigns. They are charged with providing a full, fair account of salient issues and alternative platforms, without suspending their own judgements.

It is, to be sure, a delicate balance. The foremost requirement in ensuring that this task is accomplished is sensitivity to the position they occupy. Parties will adopt strategies that are best suited to prevailing media practices. Consequently, conscious appreciation of the manner in which they condition campaign tactics is imperative. Journalists cannot pose as neutral ciphers when the nature of reporting indelibly stamps the political process.

If the media demonstrate an appetite for conflict, controversy, charm, or colour the parties will lay out a banquet spread to satisfy every craving. Need a sound-bite to chew on? Here's another morsel off the shelf of stock

phrases. While journalists are snacking on these treats, however, the flavour and substance of politics is often missed.

This is not to contend that media control campaign agendas. Just the opposite is true. Conventional parties (those represented in Parliament, but particularly the two oldest ones) exert almost unchallenged authority over what is read, seen, and heard of the campaign. Once they have tumbled to the ways of the media, it is relatively easy for party strategists to dictate the flow of information. For their part the media gladly forsake independence in return for a steady, secure stream of leader-initiated events.

As a result, the debate is narrowly defined and participation is severely constricted. Coverage of this election has expanded to some extent. Nevertheless, contributions from experts outside the leading parties, interest group representatives and other candidates have been infrequent and limited. Journalists themselves have grown more emboldened. Tabloid-style commentary is not uncommon, even among reporters accompanying leaders as they roam the country. Yet few stray from the boundaries set by media fascination with performance and process.

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Perhaps nothing illustrates these deficiencies so well as the emergence of free trade as the definitive issue of the campaign.

Conservatives have been taken aback by this emphasis. They should not have been. Canadian relations with the United States have always evoked passions or understandable caution. A good deal of Canadian public policy reflects tensions inherent in the relationship. Opposition to free trade has certainly not been confined to "Toronto literatti," a pet target of John Crosbie. It is widely distributed and grounded in a host of concerns.

In response, the Conservatives have insisted that there are no passages in the pact itself that imperil Canadian sovereignty or the integrity of social programmes. This, of course, precisely misses the point. Words on the printed page have not aroused these fears. It is the spirit behind the initiative, the timing and the character of the sponsoring Government that has galvanized opponents. A "simple commercial document" would not have triggered alarms unless it was viewed as part of comprehensive economic strategy by a Cabinet with broader ambitions.

Although the media have often neglected this factor, many people understand free trade as an extension of domestic policies. Parties in opposition to the FTA have adjusted accordingly. Michael Wilson has lately com-

plained that others are playing on the fears of the elderly, for example. To him they are "one of the most defenseless groups" in Canadian society. How quickly he seems to have forgotten the reaction following attempts to de-index pensions! Pensioners showed just how resourceful they can be when their interests are placed at risk. They also constitute an impressive bloc of voters. Similar dynamics have developed whenever free trade has been linked, directly or by implication, with domestic programmes.

Polls and informal samples suggest that the public remains confused about the free trade issue, especially the pact's effects on employment, investment, and productivity. This seems inconceivable in the face of so much coverage devoted to the subject. Every possible angle has been exploited and, in something of a departure, a wide array of experts has been trooped before the public. Economists who have not been commissioned to write an article for the press must have difficulty looking colleagues in the eye.

Beyond the daunting length of the treaty, there are a variety of reasons for the state of the public mind. Free trade's benefits cannot be confidently predicted, even by advocates. At its most sophisticated, the debate is still

speculative. Two consequences appear to have followed from this aspect. First of all, crystal-ball gazing has distracted from tangible differences between contending parties. Secondly, the vacuum has invited politicians to indulge in exaggerated partisan impulses.

But to make real sense of this year's campaign it has proven necessary to acquire fluency in spinnish, the language spoken by spin-doctors and journalists. As if in anticipation of freer trade with the Americans, mysterious spinnish slang has crept into Canadian journalism from across the border.

It goes without saying that "spin-doctor" is a pejorative term, used to describe a person who attempts to put a favourable gloss on events for the benefit of journalists. Although practitioners of the art set out to manipulate, reporters are unable to resist the lively, albeit raucous copy they serve up.

One thing spin-doctors look for is a knock-out punch. This happens when a candidate lands a blow so devastating that an adversary's campaign is destroyed. Why seasoned parliamentary debaters should be vulnerable to them is not clear. Nevertheless, Turner's fumbling of Mulrony's patronage charges was alleged to be 1984's knock-out punch. Conventional wisdom holds that none was delivered this time around.

By GEORGE FALLIS

Fallis is a professor in York's Department of Economics.

To some the Free Trade Agreement (FTA) is simply a commercial deal which begins and ends with trade. To others it is a far-reaching document which will alter our national character, fragment and destroy the country. Just what is this FTA? What will be its effects? Why has it provoked such intense, emotional reaction? I will try to answer these questions and to set out what economics can and cannot contribute to deciding whether the Agreement is good for Canada.

The FTA runs to over 300 pages, with many individual provisions dealing with specific industries or trade practices, and any summary cannot capture its complexity. Nevertheless, a rough sketch must be made. The FTA has two basic thrusts. One removes some trade impediments: phasing out all remaining tariffs on goods over a 10 year period, relaxing investment review, removing some barriers to trade in services, especially financial services, and making small gains in liberalizing government procurement. But, interestingly many existing subsidies, protections and special arrangements remain. The thrust of rolling back existing provisions is really not that dramatic. However, the second thrust of the FTA is more open-ended.

The spirit of the Agreement is to renounce the use of many policy instruments in the future; it is to curtail further government interventions into the economy. The FTA has been aptly labelled an "economic constitution": it is a constitution which limits the role of government. And the United States will now be involved in our choices about our government's role. The United States is accorded national treatment in Canada — its firms will be treated as Canadian. In future Canada must notify the United States of any measure which might materially affect the operation of the FTA and a Canada-United States Trade Commission will analyze the measure, rule whether it affects the Agreement and even move it to binding arbitration. And finally, the FTA commits the parties to harmonizing standards and to developing more effective rules and disciplines regarding government subsidies.

The striking exception to the thrust of renouncement is

A donnybrook of sorts did occur. In what was universally called an "electrifying" exchange by the media, Mulrony and Turner engaged in a raucous dispute over each other's patriotism. Many Canadians, it should be pointed out, found the confrontation pathetic, laughable, and distasteful. Meanwhile Broadbent was purportedly "squeezed-out." This impression is not shared by NDP supporters. Moreover, there is no justification for the media to maintain that the debates' primary utility in guiding voting decisions rests on journalistic perceptions of leader performance.

If not a knock-out punch, perhaps there was a gaffe? A gaffe is (to borrow the media's use of sports metaphors) an unforced error that severely tarnishes a leader's image. It is also over-rated. By most accounts, the occupant of the Oval Office has fewer brain cells than jelly beans. Ronald Reagan does enjoy the unshakable loyalty of right-wing Republicans by virtue of his ideological stance. The media and public, to an appreciable extent, have been won over by the President's amiable disposition and America-first convictions. His blunders are therefore generously overlooked.

The relaxation of standards by which Reagan is measured as a leader has possibly been replicated in Canada. At any rate, the Prime Minister did commit an extraordinary error that was conveniently ignored by the bulk of the press. You will recall this moment during the second debate. Broadbent pointed out that many advocacy groups were not enamoured of the Government's child care legislation. Mulrony scoffed at their "expertise," boasting that he had consulted women in his cabinet. This slip has not rebounded to apparent disadvantage in the campaign. But it will undoubtedly complicate relations with the same interest groups should Mulrony form the next government.

The media equivalent of a spin-doctor is a pundit. A pundit is a senior journalist who is adept at furnishing answers to anything.

Pundits have expressed alarm at the negative tone of the campaign. Rather like school children endlessly repeating their first naughty word, commentators are appalled by the mud being slung. John A. Macdonald and his contemporaries must be chortling. Throughout their tightly controlled campaign itineraries, leaders surface almost exclusively at partisan gatherings. Their job is to exhort the faithful, countering the effects of canvass fatigue, slammed doors, and disheartening polls. Enthusiasm is not whipped up by lines like "Well, we'll probably lose, but that's all right, the other parties are better than us anyway." The innocents of the press gallery are offended by the rough and tumble. They might as easily ignore it, and invest the extra time in examining party manifestos.

In many ways the election campaign of 1988 has been unique. Free trade's ultimate domination of the agenda has few historical parallels, and they are lodged deep within Canadians' political memory.

It may be the case that some voters will take this opportunity to declare who they think is "lying" about free trade. The question of truthfulness has wider implications. Once again, mass media coverage of the campaign has concealed as much as it has revealed, and offered an incomplete picture of the political process.

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anti-dumping and countervail law. Canada is still subject to US law, we are subject to the omnibus trade bill and the US can still pass new countervail laws. And we have not escaped the politicized aspects of the countervail. The new tribunal replaces US courts (which were not accused of political distortion); the tribunal only deals with appeals against a final duty determination by the US International Trade Commission. It was this initial stage where the politics of trade harassment operated and will still operate.

What will be the effects of the FTA? Forecasts, even by the strongest supporters of the Agreement, suggest an increase in real Gross National Expenditure (GNE) of about 2.5 per cent and a net increase of 250,000 jobs after 10 years. And even these predictions require an assumption of an extraordinary increase in manufacturing productivity. This increase is simply assumed; it does not flow out of the logic of the model. Many studies show much smaller gains, even losses. The economic gains from the deal are very small.

But perhaps Canadian national income would decline significantly in the absence of the FTA because of US protectionism and trade harassment. Evidence suggests that this is not true. The Economic Council of Canada forecast a decline of 0.2 per cent in GNE under a no FTA-trade harassment scenario. The surge in US protectionism is already waning and is embodied in the omnibus trade bill to which we are already subject. The regulations on auto trade would likely change without the FTA but these changes are already embodied in the FTA. And the worry about protectionism shows a misunderstanding of the politics of trade. The US trade deficit creates protectionist forces, but at the same time it creates free trade forces. The US realizes it will need to run trade surpluses in the future and that this is best pursued in the long-run by free trade. Protectionism manifests itself at the level of the Congressional district, free trade at the presidential level, and the executive branch controls much of international trade policy. The next few years will see a continuation of a balance. The US will pursue free trade but not hesitate to protect selectively many industries on many occasions.

Paradoxically, the FTA will probably increase US trade harassment during the next five to seven years when a new set of rules regarding subsidies and countervail are negotiated. Every US interest group will have an incentive to launch a countervail case to dramatize its claim that a Canadian government programme is an unfair subsidy.

In evaluating the small gains in national income, which likely would result from the FTA, a number of points must be made. First, recent developments in international trade theory have demonstrated that free trade is not always the best economic policy; numerous papers now demonstrate how "managed trade" may be a better policy than free trade. A quotation from a literature survey by a leading international trade theorist reveals this startling change. "If there were an Economists' Creed, it would surely contain the affirmations 'I advocate the principle of comparative advantage' and 'I advocate free trade'... Yet the case for free trade is more in doubt than at any time since the 1817 publication of Ricardo's Principles of Political Economy." Second, even when economic analysis reveals there are gains in national income from a policy, economics cannot tell us whether on balance the policy is a good thing. Some people will gain and some

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THE FUTURE GREAT REPUBLIC.

The Annexation of the Dominion of Canada Would Add Twenty-seven States and Territories.



This map appeared in the Dec. 1, 1888, issue of the New York World