

UNCLE SAM AND US

GLOBALIZATION,
NEOCONSERVATISM, AND
THE CANADIAN STATE

**STEPHEN
CLARKSON**

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and the Canadian State

Stephen Clarkson

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*This book on the state of the Canadian state
is dedicated to
Clare Margaret McCall Monahan
and to
Talía Chloë Clarkson Lewis
in the hope that it will be there for their generation
as it has been for their grandparents'*

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UNCLE SAM AND US

Globalization, Neoconservatism, and the Canadian State

1 Not Whether, but Which Canada Will Survive

'Stephen, will Canada survive?' a physicist friend of mine asked out of the blue as we drove back to Toronto after a summer concert at the Sharon Temple, that Quaker oasis of colonial beauty where music and nature can still be experienced in serene harmony. Although the bluntness of his question took me by surprise, such apocalyptic fears have been widespread ever since neoconservatism and trade liberalization sparked anxiety in the 1980s about globalization's perverse impact on Canada's political, economic, and social systems.

A Simple Question ...

Canadians like my friend are not alone in harbouring concerns about their state system's sustainability. Everywhere in the world people are experiencing high levels of anxiety about the social cohesion, economic performance, and political viability of their state structures in the wake of the dual strengthening of local neoconservatism and global trade governance. Even in the United States, which emerged from the Cold War as the world's undisputed 'hyper-power,' anger is rife about the country's loss of sovereignty to transnational corporations (even though most of them are American) and to global institutions' behaviour (although the United States has been instrumental in defining their structures and hosts many of them).

Throughout newly industrializing Asia, the devastating combination in 1997 of an exchange rate crisis and government austerity measures imposed by the International Monetary Fund (IMF) shook these countries' capacity to promote their own interests. In Latin America, market contagion provoked a run on Brazil's currency, which in turn

pushed neighbouring Argentina into a severe economic crisis that led to the government's calamitous default of 2002. In their far more stable context, the European Union's fifteen member states focused on a related debate about their governments' ability to sustain their domestic social policies, having entrusted to the European Central Bank much of their economic management.

Situated somewhere between these extremes of externally determined dysfunctionality and self-imposed truncation, Canadians at the beginning of the new millennium doubt that their political system can perform its expected functions in the wake of three radical changes associated with globalization: the landmark continental treaties the government of Canada implemented with the United States – the Canada-United States Free Trade Agreement (CUFTA) in 1989 and the North American Free Trade Agreement (NAFTA) in 1994 – and its subsequent entry the next year into the World Trade Organization (WTO) to which, by 2002, 143 other states belonged.

Several factors make it difficult for both citizens and experts to ascertain how much the new global governance constrains the Canadian state. A shift in the managerial paradigm of both elected politicians and their bureaucrats away from government activism makes it hard for scholars to determine whether a reduction in policy activity results from their fear of falling afoul of the new global rules or their belief that less government is better government. Such 'non-decision-making' is also notoriously resistant to empirical observation: outsiders can rarely tell to what extent NAFTA has inhibited state actions that might have been taken in its absence. Finally, Canadian governments may be renouncing such popular practices as supporting national enterprises not because of externally dictated constraints but because of a self-imposed determination to eliminate their budget deficits.

Canadians are aware that their federal and provincial governments and municipal administrations have made numerous efforts to rein in their activities. These include:

- *withdrawal* by Ottawa from social assistance, forestry management, manpower training, and other fields formally under provincial jurisdiction in which it had been active
- *downloading* of federal authority both to the provinces in fields of joint jurisdiction such as immigration and in overlapping areas such as environmental regulation and to Native band councils on land management

- *privatization* of federal and provincial crown corporations, which shrinks the public sector and diminishes governments' capacity to shape economic development
- *deregulating* economic sectors such as transportation and diminishing the rigour of such existing regulatory regimes as food inspection
- *cutting* government expenditures by reducing the coverage of programs such as unemployment insurance, education, and health care
- *downsizing* the federal, provincial, and municipal civil services, which then have trouble enforcing the regulations and administering the programs that remain nominally in force
- *offloading* the taxation burden from corporations to citizens in the form of consumption taxes and user fees

The starkest social effects of these political changes are obvious to the most casual observer who stumbles across a homeless person lying on a city sidewalk or has to pay a new airport tax when boarding a flight. Vital public institutions, such as the Canadian Broadcasting Corporation and the National Film Board, are now shadows of their former, robust selves. Telephone, electricity, and natural gas are no longer price-controlled services provided through a state-regulated monopoly. Crown corporations that helped constitute the state and its identity, such as Air Canada and Canadian National Railways, have been sold off and are run as private monopolies, nominally answerable to shareholders who are as likely as not American.

The country on which my friend, as a civic activist, environmentalist, and university professor, had projected his hopes and ideals indeed seemed finished. The Canada he loved was toast. So in asking whether the country would survive, he was implicitly begging a couple of other questions. Did these indicators of social and institutional degeneration result from *external* forces or from decisions made by *domestic* political actors? And were they reversible in the sense that the Canada of his dreams could re-emerge in reality?

Valid though these questions were, answers could not easily be found through reading the huge and contentious literature that has sprung up about the current state of the nation-state. To start with, there is confusion about the nature of the external forces to which states are now subjected. Since no one agrees even on the meaning of crucial terms, I would like to clarify how the three concepts of globalization, global governance, and globalism will be used in this book.

Globalization is, of course, the dominant buzzword of our times and bears a heavily determinist load. Voters are told that governments must cut budgets because the irresistible force of globalization requires fiscal austerity. But if we consider the basic claims – political, ideological, economic, social, environmental, cultural, and technological – made for the phenomenon, we can see that the novelty of globalization is quite relative.

- *Politically*, globalization is thought to be destabilizing existing centres of authority and security, with new power centres emerging at every level, from the local to the international.¹ This is not a new phenomenon. Since long before the term was coined, imperial powers have destabilized their colonies' political systems. But much of what is today called globalization is the product of decisions made by nation states, particularly the most powerful.² In the wake of the catastrophe of September 11, 2001, the United States has proven that the state system, if it wants to, can regain control by clamping down on terrorist organizations' use of global capital markets for money laundering.
- *Economically*, markets trade round the clock. Transnational corporations (TNCs) locate components of their production process wherever they can minimize their costs. Distribution systems are now organized on a global basis in order to recuperate the huge investments made to develop new high-tech products. It is nevertheless true that some TNCs have operated globally for decades, some for centuries.
- In *social relations*, globalization is restructuring the way in which people live and how they relate to each other. But societal transformation across vast distances has been proceeding since long before Europeans sailed to the New World in the fifteenth century.
- *Environmentally*, the fragile envelope that sustains plant and animal life on earth is under increasing strain, but threats to human survival from industrialization antedate the recent discovery of globalization and would continue even with lower levels of technological, cultural, and economic interconnectedness.
- In *cultural expression*, the production and diffusion of information and entertainment have become worldwide through the use of satellite transmission. Again, this reality is undeniable but needs to be put in the perspective of world religions, which were crossing the seven seas hundreds of years ago.

- *Technologically*, the computer and the internet have obviously accelerated information exchanges, but such fundamental breakthroughs as the telegraph and telephone had already created a universal society by the early twentieth century.

Any debate over globalization's novelty is bound to be sterile. Because it has become so, well, globally accepted, I want to use the word to stand for the current, post-Cold War phase of these political, economic, social, environmental, cultural, and technological trends.

Global governance. Long before the millennium, most European states had already experienced *transnational* governance through supranational continental institutions, which evolved fitfully in the years after 1945 into today's European Union. Canada had resisted formalized transnational governance until it implemented CUFTA in 1989. Continental governance including Mexico came a few years later with NAFTA, although this agreement's institutions were of doubtful effectiveness.

Globalization did bring one innovation in the 1990s whose importance no one should dismiss. The WTO is an institution of *global governance* that is both new and powerful. While it had deep roots in the half-century-old General Agreement on Tariffs and Trade (GATT), the World Trade Organization constituted a major development in *global governance* as an institution providing a mode of regulation for the current phase of globalized capital accumulation. The Canadian state's almost-simultaneous entry into both continental and global liberalizing regimes in 1994 and 1995 allows me to posit global governance after globalization as a second exogenous – or external – variable in my inquiry

Globalism. I use globalism to label the ideological corollary of globalization and global governance. Inspired and theorized by neoclassical economists, this paradigm maintains that a state's ability to protect its markets *ought to be* constrained. As the world economy then becomes more integrated, corporations can achieve the greatest economies of scale by operating on a worldwide basis, producing their goods and services at the lowest prices for the greatest benefit of consumers.³

As with the discourse on globalization, sceptics about globalism can validly object that this is not the first time that a doctrine has been universalized. A century ago, conservative *laissez-faire* was orthodoxy in

the industrial world's governing circles. Half a century later, a more progressive Keynesianism was the global ideology endorsed by elites throughout the capitalist world. For this reason, I term *neoconservative* globalism the policy paradigm that currently justifies and promotes globalization as necessary, beneficial, and desirable.

To identify neoconservative globalism as a universal ideology raises the danger of obscuring the role of *domestic* political actors. Neoconservative ideas are not imposed mechanically by the American Enterprise Institute, Harvard University's Department of Economics, or the *Wall Street Journal*, although U.S. think tanks and research faculties have articulated the attack on liberal Keynesianism, and corporate-controlled mass media have popularized these ideas to the general public. However, when Premiers Ralph Klein, Mike Harris, or Gordon Campbell took up this paradigm in Alberta, Ontario, and British Columbia, they were agents both of globalization and of domestic pressures. Depending on its political base, neoconservatism can be considered either an external or a domestic expression.

The adjective 'neoconservative' will also serve to distinguish the ideological system favouring globalization and its corresponding global governance from the ideas expressed by those individuals and groups who have awakened to realize that their jobs, their health, the quality of their environment, and certain other values they hold dear are affected, even threatened. Anti-globalization ideologies have mobilized citizens in waves to protest the policies, processes, and practices of globalization's institutional embodiments. In anti-globalist organizations, 'Seattle,' 'Washington,' 'Windsor,' 'Calgary,' 'Prague,' 'Quebec,' and 'Genoa' have become code names for voluble, visible, and globally televised demonstrations organized by various transnationally connected opposition networks against (respectively) the WTO, the World Bank, the Organization of American States, the World Petroleum Association, the IMF, the Free Trade Area of the Americas, and the Economic Summit. As with neoconservative globalism, populist globalism generates transnational solidarities while remaining rooted in domestic politics.

So far, this preliminary discussion has treated globalization, global governance, and neoconservative globalism as if they were independent variables and exogenous factors in the analysis. This is because this book's prime question is the extent to which these recent manifestations of ever-greater transnational integration have affected the

Canadian state. Readers can rightly object to this being too simple-minded an intellectual agenda. When we come to such questions as the nature of global governance or the role of Canadian direct investment abroad, we will see that Canada has not been entirely passive in the face of external forces. The following chapters analyse globalization as a double-edged phenomenon, something that happened to us as well as something that we have caused to happen.

Other problems citizens encounter in the globalization literature are inherent in social science itself, which cannot take for granted the *meaning* of the facts that bombard us. For instance, we may read that in 2000 Canada exported \$360 billion worth of goods to the United States and imported \$268 billion of U.S. goods. Presented as raw data, the mind-boggling magnitude of these figures escapes most of us. We may get a better feel for the importance of trade to the country's economic health when the exports are translated as 40 per cent of Canadian gross domestic product and the imports as 30 per cent. Only when we compare these proportions with those of other countries do we learn that the Canadian economy has become extraordinarily 'open.' When these Canada-U.S. trade numbers are presented as 85 per cent of Canada's total exports and 74 per cent of its imports for that year, we can see how overwhelmingly dependent Canada is on trade with one single economy. And when these figures are then compared to the levels that obtained just before CUFTA came into effect in 1988 – 74 per cent for exports and 66 per cent for imports – we see how far Canada's integration in the American economy has advanced under free trade.

Grasping the significance of a fact also involves making a judgment, and making a judgement invokes one's core values. Those who celebrate the *fact* of Canada's growing openness to foreign trade as a welcome increase in its international integration generally embrace a value system giving top priority to economic growth. They see Canada's continental integration as a passport to its global economic success. Those who bewail their country's growing economic dependence on the American market espouse values such as political autonomy, social equality, labour rights, and environmental sustainability. They tend to see Canadian integration in the American system as entrenching an unwelcome reliance on factors beyond national control.

Confusion over facts is linked to confusion over values. This appears in the globalization debate as an emotive element that is rife in many analysts' work. In June 2000, at a Harvard University conference on the

crisis of the multilateral trade system, even world-famous economists demonized 'them' – protesters at the WTO's meeting in Seattle the previous autumn – condemning them as either ignorant of elementary economics or outright demagogues, if not fascists.

An equally Manichean view of a world caught in a titanic struggle between the forces of evil (transnational capital and neoconservatives) and the forces of good (environmentalists, labour activists, and other representatives from civil society) permeates the non-governmental organizations (NGOs) leading the attack on globalization. Their publications rarely refer to the works of mainstream economists, just as neo-classical economists consistently ignore the publications of their critics.

This dialogue of the deaf extends to government's role in the economy. Neoconservatives start from the position that any interference in the economy by politicians is a mistake. Who governs least governs best. NGOs representing environmentalists, labour unions, or human rights activists also tend to distrust the state, because they see it as captured by neoconservatives, but they believe that better government policies should be part of the solution. They can point to some of the great success stories of the last half-century as those of interventionist states, both in Europe and in Asia, that created competitive advantage for their firms. Bombardier, BC Hydro, and Nortel in its former glory would not have become triumphs of Canadian capitalism without active state support.

My analysis takes the Keynesian welfare state that was developed under the prime ministerships of John Diefenbaker, Lester Pearson, and Pierre Trudeau from 1957 to 1984 as the standard against which to assess the neoconservative state that has been reconstituted by Prime Ministers Brian Mulroney and Jean Chrétien. In doing so I want to forswear both a nostalgia for what cannot be restored and a teleology that ascribes to the state certain roles that it *should* play.

If concerned men and women are understandably confused about the fate of their state, it is equally appropriate if they are sceptical about the policy solutions to which they are exposed, whether in thirty-second sound bites from TV commentators or thirty-page articles in learned journals. Citizens have been plied with a stream of these neoconservative panaceas. In the mid-1980s, free trade was the solution for Canada's productivity problem. The country took the plunge, but a decade later Canadians learned their economy's productivity was still in crisis. The new magic bullet became cutting corporate taxation levels in order to attract capital. Or reducing personal income

taxes to stem the brain drain. Or adopting the American dollar to stabilize the currency.

No one can deny the heavy element of subjectivity that pervades this discussion. What may be a half-full glass for one analyst who sees an impressively efficient healthcare system may be half empty for another who emphasizes the cracks that are appearing in the structure as the expensive and inefficient U.S. model looms large. Because of the highly emotional and even arbitrary bases on which many arguments about globalization are developed, I hope this book will offer readers thorough, solid information and a clear, if necessarily complex, analysis of the central issues in Canada's survival dossier.

... Deserves a Complex Answer

There is one simple answer that I chose not to put forward in response to my friend's simple query. I could have replied that of course Canada will survive if only because the United States would not want to annex it. Adding nine provinces to the American union, not to mention Quebec and the territories, would upset the delicate balance of power the Democrats and Republicans have achieved in the U.S. Congress. Canadians lean heavily towards the Democrats even in Alberta, the country's most conservative and American province. Accommodating 24 million people – Quebecers presumably would opt for independence rather than annexation – accustomed to state-supplied medical care would present the American polity with an immediate crisis.

But my friend's question was not about whether the geographical *space* now known as 'Canada' would survive. Obviously, it would remain on the map, stretching over a vast terrain from the American border all the way to the North Pole. The issue was in what form and with what content the political, juridical, economic, societal, and cultural entity we call Canada would continue to exist. This question in turn breaks down into two problems – one external, the other internal. The conundrum about outside forces has been on everyone's lips: was globalization causing Canada to lose control of its destiny? Also widespread as a public concern was whether the neoconservative governing paradigm has eviscerated the social achievements that have been integral to Canadians' sense of their national identity.

I am by no means the first social scientist to address the Canadian survival question. Some scholars have explicitly raised the spectre of Canada's dismantling.⁴ Others have poured scorn on this concern,