

Free Trade and Social Policy Reform: The Hidden Dimension?

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Current debates in Canada about the merits or shortcomings of free trade have been framed in a number of different ways. Both the Canada-U.S. Free Trade Agreement (CUSFTA) and the North American Free Trade Agreement (NAFTA) have been addressed and assessed in terms of job creation or loss, the possibility of increased environmental degradation, and the potential threats to political and cultural sovereignty.

Despite all the seemingly disparate claims and arguments that are made, however, the free trade debate has at its base a fight between essentially two competing visions of the Canadian economy. On the one hand, there are those who oppose free trade and argue for a strong national industrial policy that commits the state to policies of full employment, national instruments of accumulation (i.e. Crown Corporations), demand-side management, and universal welfare rights. On the other hand, proponents of free trade see the proper role of state policy as promoting market innovation, enhancing structural competitiveness through supply-side intervention, and subordinating welfare policy to the demands of the 'free' market (see Jessop, 1993: 9).

Given the contours of this debate, one of the more intriguing questions about the issue of free trade is how the current agreements will affect the

development and implementation of social welfare policy under a regime committed to the dominance of the free market. Indeed, the uncertain future of Canada's social programs—family allowances, old age security, public pensions, Medicare, education, and social assistance—was a central concern during the CUSFTA and NAFTA discussions. In my current research, I argue that free trade has three detrimental impacts on Canada's social welfare policy. First, free trade encourages a shift from 'universal' to 'selective' or 'residual' social programs, thus undermining any real social commitment to the redistribution of wealth and income. Second, free trade encourages 'policy harmonization,' thus threatening to reduce Canada's social programs to American and Mexican levels. Finally, trade agreements bind the nation-state, both directly and indirectly, from pursuing social policies that may be interpreted as restricting access to markets or as discouraging profit-making. Recent changes to the definition of poverty, cutbacks to Medicare, and proposals aimed at replacing Canada's social safety net with wage supplement programs illustrate the degree to which the ideological underpinnings of free trade have already dramatically altered social policy in Canada.

THE IDEOLOGY OF FREE TRADE: ITS ORIGINS AND GROWTH

The present rush toward continental 'free trade' represents the culmination of over two decades of debate on developmental strategies for the Canadian economy. Briefly, the origin of this debate can be traced to the economic crisis confronting all Western capitalist economies in the mid 1970s. Rising inflation coupled with increasing levels of unemployment produced a phenomenon of 'stagflation' that threatened to stall the growth engine of the West. In Canada, as in other countries, this challenge was most commonly addressed by two different prescriptions for the future. One, drawing upon the tradition of Keynesianism, argued that the solution to Canada's economic woes lay with increased state intervention. Proponents of this view argued that the state needed to play a more active role in promoting scientific research and development in order to boost a declining manufacturing sector. This argument was advanced by a number of academics and think-tanks, such as

the Science Council of Canada, and taken up by elements of the Left, the labour movement, and English Canadian nationalists who believed that a national industrial strategy would help reduce American corporate power (Brodie, 1989:176-177).

A very different vision of economic development, however, was put forth by an increasingly powerful coalition of neo-liberal think-tanks and influential elements of the business community (see Richardson, 1992:321-322). These actors argued that the post-war policies of Keynesian economics and welfarism had produced a mammoth and cumbersome state bureaucracy that was choking off private investment and growth. To alleviate this problem, the size and activities of the state needed to be scaled down and the control of the economy returned to the allegedly more efficient private sector. These neo-liberal economic views were translated into electoral victories in the United States and in Britain (Brodie, 1989:177).

Free trade has been from the start a key component of neo-liberal economic philosophy. In fact, the idea itself stems from the work of the classical economist, David Ricardo, who in the early Nineteenth Century developed the 'Law of Comparative Advantage.' Briefly, Ricardo believed that with free trade between nations, all countries would prosper as each began to specialize in an area of production in which it held a competitive advantage over the others. Rather than trying to produce everything for itself, the nation which is best suited to produce a certain product, because of some natural or other advantage, should specialize in the production of that product and export the surplus. For example, Ricardo suggested that because of its climate and soil, Portugal would excel at the production of grapes and wine. On the other hand, because of its industrial infrastructure, Britain could excel at textile manufacturing (Watkins, 1992:93-94; McGaughey, 1992:36).¹

According to classical liberal economists, the only way that the real 'benefits' of free trade could be realized is if the protectionist and interventionist tendencies of the state could be curtailed. That is, free trade abroad needed to be balanced by a policy of *laissez-faire* economics at home. Lurking inside of arguments for free trade, as Watkins (1992:94) convincingly argues,

is the ideology of the New Right, an ideology that advocates deregulation, privatization, and cutbacks to social spending.

The emergence and dominance of this economic vision has forced a dramatic restructuring of the Canadian state and social policy over the past 20 years. Throughout the 1970s, for example, Canada pursued an aggressive nation-building approach with respect to economic and social policy. The Trudeau government introduced such programs as FIRA (Foreign Investment Review Agency), the National Energy Plan (1973), and the Canadian Development Corporation. These programs and agencies were designed to channel national capital into Canadian-owned corporations and reduce foreign control over the nation's economy (Clarkson, 1991:107). During this period, the state also pursued an ambitious policy aimed at strengthening social welfare programs; the development of Medicare as well as progressive reforms to old age security, unemployment insurance, and the Canada Pension Plan underlined the state's commitment to universality.

136 However, during this period of nation-building, Canadian capital had been consolidating and continentalizing at a rapid pace. Canadian banks, real estate corporations, and media industries were particularly successful in expanding their reach into the United States and abroad.² Canada's corporate powers thus had little need or patience for the 'protectionist' and 'interventionist' Canadian state. Instead, they wanted fewer rules and regulations so that they could further extend their reach into the global market (Clarkson, 1991:115-116; Richardson, 1992:316; Deblock and Rioux, 1993:27-28).

Such structural changes in Canada's political economy, coupled with an aggressive lobby-campaign launched by the Business Council on National Issues (BCNI), led to the signing of the Canada-U.S. Free Trade Agreement (CUSFTA) in 1987. Almost immediately after the agreement's ratification, the number of plant shut-downs, layoffs, and corporate mergers rose at an alarming rate. Public opinion remained firmly against the deal, yet by 1990 the Conservative government was entering yet another round of free trade negotiations, this time a trilateral deal with Mexico and the United States.

It is clear that free trade is about much more than trade only—it is a wide-sweeping prescription for the creation of a society modeled strictly on the ‘laws’ of laissez-faire economics. Indeed, the discourse of ‘free trade,’ much like the discourse of ‘free markets,’ is inextricably attached to a long and complex intellectual tradition of individualism, and specifically to the rights of individual investors and entrepreneurs to move their capital around as they see fit (Marchak, 1989). Free trade, moreover, is clearly presented in terms of national competitive advantage, and thus draws upon vulgar chauvinisms and crude forms of patriotism.

There are other deeper supporting cultural conditions to the social vision offered by proponents of free trade. Free trade is a high risk economic program and is thus easily presented in masculine terms of aggression (‘capturing markets’) and conflict (‘beating the competition’). It is also a mode of assessing odds and determining outcomes, like gambling and sport spectacles—activities that underline its masculine bias. Free trade, like the vision of ‘community’ offered by classical economists, is the brutal world where relations of competition and domination prevail, a world in which nations and people are in perpetual conflict and struggle with one another (see Hartsock, 1983:38-40).

Given that free trade, as it is proposed by neo-liberal economists, represents such a sweeping social vision, it is clear that its influence will extend throughout all elements of society. In particular, the ideology of free trade threatens to drastically alter the role the Canadian state plays in the economic well-being of its citizens. By submitting ourselves to the ‘law’ of comparative advantage, we may be unwillingly subverting the very social programs and services that Canadians have fought hard to achieve. Indeed, one of the first ‘victims’ of free trade may be the very notion of universality itself.

FREE TRADE AND 'UNIVERSALITY': TOWARD A POLICY OF RESIDUALISM?

Universality has clearly been one of the most cherished principles in Canada's modest system of social security. It is a principle that sees social welfare as a citizenship right by which all members of the nation, regardless of income or market power, are entitled to certain goods and services such as health care and education. This vision, however, is clearly jeopardized by the ideology and practice of free trade.

Free trade is part of a neo-liberal package that favours principles of 'selectivity' and 'residualism' in social welfare policy. Such principles affirm the centrality of the family and private institutions in aiding those who have an inadequate income. 'Selective' public relief should only be the last resort after all other private avenues of support have been exhausted. In this manner, as Muszynski (1992:8-9) notes, a residual approach to social policy reinforces the belief that it is the market that is responsible for allocating social rewards. The market will reward those who have the motivation and desire to work and will punish those who 'choose' to remain idle. Social policy, according to advocates of this position, must reinforce the 'justice' of the market by ensuring that the recipient of social assistance is kept as motivated as possible to enter the labour market. Welfare programs can secure this only if they have long qualifying periods, long waiting periods, low benefit payments, or are administratively stigmatizing.

A commitment to 'universalism,' on the other hand, paints a very different picture of the capitalist marketplace. Universal social programs represent an attempt to provide a collective response to counter what is recognized as the inherent instability of the marketplace. From this perspective, it is assumed that the market is not 'just,' that it necessarily creates winners and losers, and that the responsibility for those who fail in the market is something to be shared by all of society. While residualism thus defines the objective of social policy in terms of temporarily alleviating poverty, universalism sees social policy goals more broadly in terms of building a sense of community through the redistribution of wealth and power. There-

fore, while universalism may concede that markets are important mechanisms for the allocation of wealth, other criteria such as need, rights, age, residence, and citizenship are also seen as legitimate bases for the distribution of wealth and power (Muszynski, 1992:9-10).

The nature of free trade agreements, however, is such that increasing pressure is applied to the state to shift its social policy agenda away from universalism and toward residualism. Unrestricted competitive pressures between nations force the state to protect domestic capital by lowering the 'tax burden' on businesses. Government spending on universal social programs, therefore, comes to be seen as a threat to Canada's ability to compete in the continental marketplace. As such, pressures are applied to revamp or cut existing social programs and replace them with policies that are more cost-efficient, that induce people back into the labour force, and that target benefits only to those 'truly' in need.

These policies have been aggressively pursued by the Canadian state since the signing of CUSFTA and NAFTA. The former Conservative government ended the universal Family Allowance Program and withdrew all federal support from social housing projects. New qualifying conditions have been attached to the Unemployment Insurance program that seriously undermine its universal accessibility. Social assistance has also been seriously eroded by limitations placed upon the amount of federal money transferred to the provinces (Swanson, 1993:12).

Nowhere has the shift from universalism to residualism been more apparent than in the attempts to re-define poverty to include fewer, and ostensibly 'more needy,' people. Drawing upon the work of Christopher Sarlo, the former House of Commons committee on poverty recommended that the poverty line be 're-adjusted'—in one quick stroke, the number of Canadians living before the poverty line could be reduced by as much as 90 per cent (Murphy, 1993:19). Underlying this desire to re-define poverty is the thinly veiled belief that too many Canadians who do not really require benefits are receiving social assistance.

By identifying the 'deserving poor,' the state is able to justify cuts and reforms to the social welfare system, reforms that threaten the principle of universality. As such, universal social programs are being turned into selective and residual programs, all in the name of cutting government expenditures in order to lessen the 'tax burden' of transnational businesses.

FREE TRADE AND SOCIAL POLICY HARMONIZATION: WHITHER MEDICARE?

A related danger inherent within free trade is that competitive pressures may force Canada to 'harmonize' its social policies with those of the United States and Mexico. Unrestricted free trade may compel the Canadian state to reduce social programs in order to 'match' its policies with that of its trading partners (Hum, 1988:25-26; Drover, 1988:49-50). In the process, social programs such as Medicare may be revamped in such a way as to mirror systems south of the border.

140 While the issue of 'policy harmonization' amongst free-trading nations remains the subject of much debate, recent evidence suggests that there is indeed a linkage between trade liberalization and social policy harmonization (see Drover, 1988). Under free trade agreements, nation-states struggle to create, at the very least, a 'level-playing field' so that domestic capital is not encouraged to move to areas where wages are lower, environmental standards less strict, labour policies more anti-union, and taxes lower. This situation thus creates a downward pressure on social policy as a country like Canada is forced to compete with the United States and Mexico where programs are much more pro-business.

In Canada, recent changes in the health-care system reflect the real dangers of policy harmonization. Since the signing of the CUSFTA, health-care workers have seen an increase in layoffs, privatization, and the contracting-out of services, while the public has witnessed hospital closures, cuts in services and the elimination of many procedures from public health insurance plans. The federal government has slashed health-care funding in an effort to

cut its deficit, and 'user-fees' have been introduced by several provincial governments (Fuller, 1993:16-17).

Policy harmonization in the area of health-care means that Canada may be moving to a multi-tiered American-style system in which some services will be privatized, some doctors will opt-out, and user fees will be the norm. Private specialized clinics already exist in Alberta and it may not be long before other provinces pursue such policies as a way of dealing with rising health-care costs. The move to a privatized, decentralized and fragmented system, moreover, will help serve the needs of large health corporations and insurance companies who favour a competitive health care 'market' in which there is room, free from 'intrusive' state management, to reap profits. In the process, however, a two-tiered medical system may soon emerge: a hollowed-out publicly financed one for the poor, and a capital-rich privately controlled system for the wealthy.

FREE TRADE AND THE FUTURE OF THE NATION-STATE

Debates around free trade pacts have also noted that such agreements tend to undermine the sovereignty of nations, placing political power in the hands of transnational corporations or non-elected transnational agencies controlled by corporations. With the increasing ability of capital to move from one jurisdiction to another, nation-states are more than ever pressured to appease the interests of corporations, often to the detriment of their citizens. In the age of free trade, then, the ability of the nation-state to pursue progressive social policies may be curtailed by the growing political and economic power of capital.

Consequently, when the Canadian state develops social welfare policies in the future, such policies will not only have to abide by the rules set out in the text of CUSFTA and NAFTA, but they will also have to be structured in a way that benefits and promotes capital accumulation. For Canadians to become more competitive in the 'global economy,' social programs may increasingly be seen as a way to entice foreign investment. For example, recently there has been some discussion about proposals, initially tabled by

the right-wing Fraser Institute, for topping up welfare payments for people who want to work at low-paying jobs. While on the surface this may be seen as a modest attempt to help welfare recipients earn extra income, there may be another agenda here. Such programs may also be designed to force as many people into the labour force as possible and make them work at a subsidized wage so that Canadian corporations can compete with the low-wage economy of Mexico. This would seem to indicate that social programs under free trade are being designed not to reduce or end poverty, but to subsidize corporations with publicly-financed wage supplements (Swanson, 1993:12).

It is important to keep in mind that wage supplement schemes are not just the fanciful dreams of right-wing economists; the current government openly entertains the idea. Furthermore, in the United States such a program is before Congress in the form of the Earned Income Tax Credit bill. If the bill is enacted, U.S. families who receive social assistance and who seek low-wage work could earn up to an extra \$3,500 a year in benefits. Meanwhile, however, Congress has failed to agree on an increase to the minimum wage. **142** Is this perhaps a sign that the purpose of the new tax credit legislation is to lessen the wage costs for businesses and provide them with a cheap pool of labour? Whatever the case, replacing Canada's social programs with a wage supplement program may be an example of harmonizing Canadian policy with American policy (Swanson, 1993:12-13).

It is unclear how a future progressive government might be constrained by trade agreements. On one level, governments will be limited in their approach by the written agreement; for instance, nationalizing pharmaceutical corporations in an effort to provide all citizens with a public drug plan would no doubt be seen as an unfair trading practice subject to retaliation (see Fuller, 1993:18). On the other hand, governments will also be constrained by the market forces unleashed by the nature of free trade agreements. For example, even if new social programs are not viewed as subsidies or unfair trading practices, governments may be discouraged from pursuing such policies out of fear of interfering in the market. Raising corporate taxes to fund programs, for instance, is less an option if businesses can easily move

from one jurisdiction to another. The nation-state is thus caught in a precarious and contradictory position: on the one hand, it has to cater to the needs of capital and create a climate conducive to profit-making, while on the other hand it must respond to the needs of its citizens who are increasingly suffering under the vagaries of the marketplace. Social policy in the age of free trade will continue to reflect this tension, especially as the ill effects of trade liberalization and other laissez-faire economic policies displace more and more people who then must turn to the state for services and programs.

LOOKING TO THE FUTURE

My current research suggests that both CUSFTA and NAFTA have important consequences for the development and delivery of social programs in Canada. Free trade threatens universality, promotes policy harmonization, and favours market forces rather than state intervention, thus limiting the role that governments can play in the economy.

In this context, then, free trade is really a password for economic liberalism and a social policy agenda that undermines the principles of universality and citizenship rights. While proponents of these agreements may fervently try to obscure this hidden dimension by arguing that neither CUSFTA nor NAFTA threaten social programs since these items are not part of the formal documents, the reality is that free trade does pose a serious threat to Canada's social safety net. What is urgently required, therefore, is research that begins to more fully link the ideology and practice of free trade with the current changes in social policy so as to expose the myths propagated by those defending trade liberalization. Beyond this, however, researchers will need to think about the constitution of a 'post-free trade' world, of how global economic development can be achieved in a more equitable and humane manner. Finally, we must also think about the role of social welfare programs in such a world, of how they can be used to provide a better redistribution of wealth and income. This will require a renewed commitment to full employment at decent wages and to social programs that, in the words of Jean Swanson (1993: 13), "will reduce poverty, not victimize the poor."

NOTES

1. Ricardo's thesis about 'comparative advantage' is much debated. However, the suggestion that free trade creates mutual benefits is not backed up by the bulk of empirical evidence. In fact, it appears that free trade tends to exacerbate differences between the economically dominant country and the less developed trading partner (Watkins, 1992:83).
2. For example, Canadian corporate investment in the United States alone grew sevenfold from 1975 to 1985 (Clarkson, 1991:113). Meanwhile, the concentration and conglomeration of capital in Canada, after a decline between 1969 and 1978, rose rapidly between 1978 and 1987. During this period, Canadian-controlled assets of the country's largest corporations increased from 43 to 50 per cent, while the foreign-controlled proportion fell from 29 to 25 per cent. By 1987, 74.5 per cent of the assets of Canada's largest corporations were controlled by 17 corporations, whereas in 1978 the largest enterprises controlled 63.6 per cent of corporate assets (see Richardson, 1992:311-312).

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Alternate Routes, Volume 11, 1994

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