

# NAFTA AND INEQUALITY: A CANADIAN PERSPECTIVE

Charles E. Reasons

"It was the best of times, it was the worst of times" — this classic quotation from Dickens' *A Tale of Two Cities* seems to be quite appropriate for characterizing the consequences of free trade generally, and specifically, of the recently instituted North American Free Trade Agreement (NAFTA). This article will focus upon the ways in which NAFTA continues to foster inequality between countries party to the agreement, and inequality within these countries, with particular attention to Canada's place in the "new world order." As one professor of economics has observed:<sup>1</sup>

It is abundantly clear that NAFTA will give rise to a major redistribution of income and wealth — not so much from country to country, as from one socioeconomic class to another. More specifically, NAFTA will undoubtedly redistribute income from wage and salary workers to the propertied elite in Mexico, Canada, and the United States. We know this already from the recent experience of Mexico with its corporate *maquiladores* and investment "reform," and from the effects of the Free Trade Agreement between the United States and Canada. This alone would constitute a success for the architects of NAFTA. In the final analysis, it is not the countries or corporations, but rather the propertied elite in all three nations who are the driving force behind this agreement — and who will be NAFTA's ultimate and perhaps only beneficiaries.

Even though NAFTA does more than merely expand the application of the Canada-U.S. Free Trade Agreement (FTA) to Mexico, it is helpful to review briefly the effects of the FTA upon inequality within Canada.

## CANADA-U.S. FREE TRADE AGREEMENT

The FTA represented one of the most fundamental shifts in Canadian public policy since Confederation. It was passed and became law in January 1989 after a divisive federal election campaign in 1988. The pro-free trade movement was led in Canada by the federal government and most provincial governments, aligning with business organizations and interests to form the Canadian Alliance for Trade and Job Opportunities. The anti-free trade forces were centred amongst nationalists, unionists, environmentalists, and women's rights activists involved in an umbrella organization entitled the Pro-Canada Network.<sup>2</sup>

Basically, those for the FTA argued that with the increasing "globalization" of the economy,<sup>3</sup> reducing trade barriers would only benefit Canada since it would open up large U.S. markets, entice capital investment and, thus, increase employment. Those opposed to the FTA saw the deal as leading to the elimination of many high-paying union jobs, while increasing low-paying service sector employment, reducing or eliminating the social programs which are a proud aspect of Canadian identity and well-being, giving up more political autonomy to the United States and transnational corporations, and leading to a lessening of health, welfare, and environmental standards under the banner of the new Social Darwinist imagery of "global competition." The period leading up to the 1988 federal election was a classic example of class politics, in which governments and business were aligned against most working people. While the majority of Canadian voters cast ballots for the two major opposition parties, the

Conservatives won the election and, thus, free trade became law.

## TRICKLE DOWN

What do we know about the effects of free trade? Canada has lost more than 300,000 manufacturing jobs, or 13% of its total manufacturing employment since the FTA was signed.<sup>4</sup> These jobs cannot be replaced and were largely unionized, high-paying, and entailed good benefits. The FTA appears to have increased the bifurcation of the labour market which was already occurring in the 1980s. It has helped to bring about a larger proportion of low-wage jobs, part-time jobs, and jobs such as those in the service industry which tend to be non-unionized and without basic employee benefits.<sup>5</sup> Labour economists call this a dual labour market: one type of labour market being relatively high-paying and unionized, with job stability, promotional opportunities, while the other labour market is low-paying, non-unionized with dead-end jobs, lacking job stability.<sup>6</sup> What this has meant is not only a loss of many high-paying secure jobs, but also a loss of the tax base from those jobs and those industries. This has meant the furthering of the fiscal crisis of the state in terms of collecting taxes and being able to provide health care, education, unemployment benefits, social security, and other benefits to those who are increasingly marginalized to the labour force.

This reduction in tax income from individuals and from companies who have moved south for cheaper labour, has exacerbated the fact that the Canadian government has shifted its taxation policies over the last decade to rely more and more upon individual taxpayers. This has been in line with neo-conservative thinking which aims to buttress corporations, company and business people, while making taxpayers pay more. Ironically, the loss of high-paying jobs and manufacturing industry to the United States has weakened this tax base, necessitating in part the reduction in transfer payments to the provinces for the provision of social services. I am not saying that the free trade agreement created this tax situation, but it highlighted the contradiction of an increasingly regressive tax policy redistributing income to the rich from working people.<sup>7</sup> The Free Trade Agreement also heightened the traditional dependency of Canada upon exports, and increased regional inequalities within Canada.<sup>8</sup> Finally, the FTA, while reducing high-paying, unionized, largely manufacturing jobs, has increased the demand for office sector and service

sector jobs which tend to be largely "female ghettos," part-time, non-unionized, and part of a marginalized work force which is unable to survive on the meagre wages and lack of adequate benefits.<sup>9</sup> Unemployment has increased in Canada under the FTA, as have food banks and other forms of "voluntary" social assistance.

Hundreds of companies have left Canada to relocate in the U.S. sun belt and northern Mexico due to cheaper wages and fewer regulatory, environmental, and other restrictions. For example, manufacturing wages are one-third lower in Tennessee than they are in Ontario. There is no minimum wage in Tennessee, little spent on social programs, and no personal income tax collected. Unions are not welcome in that state: it is one of many southern states that have "right to work" laws.<sup>10</sup>

## NAFTA: MORE OF THE SAME

The North American Free Trade Agreement continues the inequities promoted by the Canada-U.S. Free Trade Agreement, extends them to Mexico, and includes many new provisions to expand the nature of items within its purview. As has been noted for many years, the Canadian economy is a dependent economy which is mainly an exporter of raw materials, and largely under the control of multinationals primarily based in the United States.<sup>11</sup> The major thrust of NAFTA and its predecessor, the FTA, is to provide for the mobility of capital between the trading partners. This means essentially that the multinational companies can move their plants and other aspects of their business to any of the respective countries where they can make the most money via lower wages, non-unionized workers, lower regulatory, health and safety, and environmental standards, lower taxes, amongst other "inducements." With the ability of multinational giants to invest and divest with a minimum of restrictions in the three countries which are parties to NAFTA, wages will become directly subject to competitive pressure on a continental basis.<sup>12</sup>

With weakened unions in all three countries, real wages in the pockets of workers have barely changed for more than a decade. While there are significant differences between Canada, the U.S., and Mexico, and between the different sectors of the labour market, the overall pressures on wage movement are downwards. Wages are much more vulnerable to competitive pressures than ever before. And the social

wage is also shrinking. The entire industrial wage-setting mechanism has to incorporate wage pressures that are no longer primarily local but now starkly global. In these circumstances, a social wage for all Canadians is seen as an impediment to competitiveness rather than as a benefit integral to its society with a high performing economy.

Not only wages, but standards of living, social services, and other benefits which we have in Canada will likely follow this logic. Both provincial and federal powers have been ceded to transnational corporations in a number of areas which make it problematic to stem these negative effects. More specifically, the national treatment provisions of NAFTA (Article 102) place no limits on its application to services, investment and exports as well as imports. This gives foreign companies, particularly U.S. transnationals, the right to compete and operate in Canada on an equal basis with any Canadian companies, whether they be Crown or private. National policies concerning use of Canadian workers, use of Canadian products, keeping capital in the country, or other such conditions for operating in the provinces or the country have been eliminated. Furthermore, NAFTA makes it impossible for the government to operate new monopolies for Canadians by competing directly with these transnationals or other private companies unless they compensate the private sector (Chapter 15).

NAFTA has greatly impeded democratic rights in Canada, particularly efforts by provinces to control and direct their economies, environmental policies, and social benefits.<sup>13</sup> Under NAFTA, corporations will have the option to challenge both federal and provincial laws in Canada before a new body, the International Centre for the Settlement of Investment Disputes, which is not accountable to the very public affected by its decisions.

Furthermore, national treatment rights for most of Canada's resources have been given to the United States and Mexico. Of particular significance is the national treatment of water, which means that the federal government or provinces cannot place restrictions on the export of water to the United States or Mexico. Such a policy means that Canadian governments, federal or provincial, may not give preference to Canadians in times of restrictions and shortages of important natural resources such as water.<sup>14</sup> Also, NAFTA extends the FTA's provisions allowing for the privatization of Medicare and various types of medical services. According to Mel Clark,

one of Canada's leading trade authorities at the GATT Tokyo Round:<sup>15</sup>

Canada cannot continue as an independent nation if it remains in the FTA/NAFTA. It is much more than a trade agreement. The essence of FTA/NAFTA is that it cedes to the U.S. and corporate sector vital powers, that provincial, as well as federal governments, have used to build an independent and humane Canada and, to this end, moderate, curb or redirect market forces. Policy in the ceded jurisdiction is being established by the U.S. and/or the corporations. Canada's outer shell may survive for many years, but alternatively it may disintegrate because Canadians will notice the important decisions are made in Washington and conclude their interests would be better served by being represented in Congress and the White House than in Ottawa and provincial capitals ... the practical consequences of ceding these powers include losing the right to ensure that Canadians have sufficient water, natural gas, oil, electricity, copper or any other goods to sustain their physical, economic, social and environmental well-being; forgoing the right to policies directed to processing and manufacturing exports; a substantial increase in U.S. countervailing dumping actions and loss of exports, production and jobs; the privatization and Americanization of Medicare; and the Americanization of our culture.

## HARMONIZE: TO THE BEAT OF A DIFFERENT DRUMMER

The "harmonization" of wages amongst the three nations will be followed by harmonization of social programs. Harmonization of social programs occurs through general pressures that employers and governments use to make Canadians comply with free trade objectives, and through specific pressures on broad-based social policies such as unemployment insurance and social welfare.<sup>16</sup> NAFTA and the globalization "bandwagon" have helped both governments and employers argue that there needs to be a reduction in the income security and social services provided to Canadians and also a reduction in wage compensation and tax rates. Based on the erroneous assumption that there is now a "level playing field," many leaders argue in business and government that we have to make massive reductions and cutbacks to meet global competition. While the "playing field" may be level, the players are not

equal. Like a peewee hockey team playing the *Canadiens*, it is not the playing field that is of importance but the ability, size, skill, and experience of the players. To apply equal rules to unequal players makes little sense, unless you are the most skilled, largest, most powerful, and most experienced of the unequal players.

What this cry of harmonization due to globalization means is that Canadians should be prepared to accept lower wages, less job benefits, more unemployment, more part-time employment, and social services and social benefits on a reduced scale similar to the southern United States and, ultimately, to Mexico. NAFTA provides for the private management of social services, medical and hospital services, and other such traditionally public sector services. While NAFTA gives some passive protection to public initiatives and social welfare, child care and related public services, there will be increasing pressure to privatize and contract out child care and social services. Furthermore, government procurement and social subsidies in areas such as education and health care, will increasingly be open to the "private sector." As mentioned, NAFTA will increasingly open up health care areas for privatization. The federal government is phasing out its financial participation in medicare, which increasingly will put pressure on provincial governments, who have a reduced tax base and increased social service dependent sector, to privatize and make "for profit" the areas of medicare. This is already being evidenced in cutbacks in services and coverage under provincial medical plans.

The groups hardest hit by these "free trade" initiatives will be those who are unemployed, the elderly, the working poor, and the new unemployable due to the FTA and NAFTA. Given the heightened mobility of capital, the reduced power of provinces and the federal government to control transnational corporations, and the decreasing tax base, the increasing demand for unemployment insurance and social services will be harder to meet. Provincial governments will have to make tough decisions about cuts in basic social assistance, employment, environmental and regulatory regimes, while incrementally instituting free enterprise, privatization, and user-pay principles.

## GLOBALIZE: THE "NEW" IDEOLOGY

Like the history of colonization, imperialism and colonial expansion and exploitation, the "new globalization" will have a positive benefit for some and a negative benefit for many. Whether it is good or not depends on from where you are viewing it. If you are viewing it as a highly paid professional, a corporate executive, a large shareholder in a multinational corporation, or a member of the political/corporate/professional elite of the respective countries, it is the best thing since sliced bread. However, if you are part of the other 80%+ of the population in these respective countries, then it is less likely to be beneficial for you. As noted in a recent book about Canada and the global economy:<sup>17</sup>

Globalization as it is currently understood involves large multinational companies pulling strings in different parts of the globe with puppets dancing to produce whatever it is they can do most cheaply and efficiently. We are supposed to like this because it means that we as consumers get low-priced, varied and high-quality goods. How we fit in as workers and producers is more ambiguous. We are told we have to raise our productivity or lower our living standards. If investment decisions were taken purely on grounds of efficiency, we might be more approving. But investment does sometimes go where labour or environmental standards are close to non-existent, where taxes can be avoided or evaded, or where businesses and governments offer each other the most extravagant bribes. Just as property rights tend to favour those who own property, free trade tends to favour those who control the factors of trade.

As I began this essay pointing out that the elite of the respective countries have the most to benefit from NAFTA, it needs to be emphasized that this is also applicable to Mexico. The richest 10% of Mexicans share approximately 38% of the national income, while the poorest 40% of Mexicans share about 13% of the national income. Nearly two-thirds of Mexicans make no more than twice the minimum wage, *i.e.* \$200 per month, while price levels in Mexico are approaching those in the United States.<sup>18</sup> As one Mexican academic has noted:<sup>19</sup>

Many in the United States nonetheless believe that economic integration and NAFTA have moved jobs on a "fast track" to a modernizing Mexico. In fact, the country's disparities are deepening. Ever more dispossessed accompany the growing number of Mexican "yuppies." The loud "sucking noise" of American jobs going south that U.S. presidential candidate Ross Perot ominously announced last Fall is, from the Mexican side of the border, singularly difficult to hear.

## MEXICO: WHO WINS, WHO LOSES

If the *maquiladores* portend the future of conditions for Mexican workers, then the Mexican workers are going to evidence a significant reduction in the standard of living. The border *maquiladores* pay less than the average manufacturing wage in Mexico, and in Asia. Furthermore, they have fewer regulations regarding environmental and working conditions than is found in the rest of Mexico.<sup>20</sup> Largely due to the biases of Canadian and American presses, and the lack of democratic rights and a free press in Mexico, many Canadians and Americans were under the impression that all Mexicans wanted NAFTA. However, in my visit to Mexico City to attend a conference on NAFTA and Constitutions in September of 1993, I discovered that there existed a great deal of opposition to the agreement from many sectors of Mexican life. Not surprisingly, this opposition included women's groups, union organizers, human rights activists, democratic lawyers' associations, amongst others. The extent of concern about retribution for speaking out against NAFTA was impressed upon me when, after hearing a speech by a top constitutional expert in Mexico on how NAFTA violated the Mexican constitution, I asked him if I could have a copy of his speech. He somewhat sheepishly told me that he could not give me a copy of it, he did not have a written copy of it, and he does not want authorities to get a hold of a copy of it. As Jorge Castaneda has written:<sup>21</sup>

Mexico is not a modern country. True, over the past half century it has witnessed dramatic change. An inward looking, illiterate and agrarian land has become an urban, partly industrialized nation with a growing middle class and a nascent civil service. But Mexico's underlying problems persist. It remains a largely corrupt and unchallenged state that possesses only the merest trappings of the rule of law. The enduring obstacles to Mexico's modernization — its repeated failure to transfer

power democratically or to remedy the ancestral injustices of its society — remain and will require Mexico to continue to change itself, with or without a trade accord.

In a more prophetic observation this author notes:<sup>22</sup>

But if Mexico profoundly differs from its neighbours in any way besides overall wealth, it is in the absence of the rule of law and the regulatory framework that characterize developed market economies. The Mexican judicial branch is totally subservient to the executive; regulatory agencies have no independence whatsoever; corruption is egregious. By omitting both supranational mechanisms for enforcement of norms and rights — on the environment, labour, consumer protection, due process — and any demand for the overhaul of Mexico's political and legal system, NAFTA's signatories ignored a fundamental facet of the Mexican reality.

The reality of the divisiveness of NAFTA in Mexico was dramatically brought to international attention on January 1, 1994. There was a rebellion of indigenous peasants in Chiapas. It was not a coincidence that the rebellion occurred on January 1, 1994 — the day that NAFTA became law. By opening up Mexico to agribusiness, more and more peasants would be unemployed and forced to seek low-paying factory work, or go illegally to the United States. The Chiapas revolt dramatically underscores the fact that Mexico is a divided nation:<sup>23</sup>

... Mexico is at least two nations; the one present at the NAFTA coming-out parties in Washington, and the one that reared its head in San Cristobal de las Casas on New Year's Day.

The carefully crafted image of modern Mexico and NAFTA fostered by the multinational PR firm of Burson-Marsteller was directly contradicted by this rebellion.<sup>24</sup> The other Mexico had arisen, and it was not through millions of dollars of public relations brochures, trade shows, and other fancy hype. The crisis in Mexico and the perilous nature of its "democracy," was further solidified with the assassination of Mexican president Carlos Salinas' hand-picked successor in Tijuana in late March of 1994. As observed by Canada's national magazine, *Maclean's*, this assassination cast doubts about the country as a safe trading partner for the United States and Canada.<sup>25</sup> Prime Minister Chrétien was visiting President Salinas at the time of the assassination: he

quickly reassured members of the Canadian Trade Fair (which was taking place in Mexico City) that they had nothing to worry about regarding business in Mexico. Initially, Mexico's media characterized the assassin as a lone, crazed gunman, much as others who have been political assassins are characterized. This, of course, is an attempt to negate any political and conspiratorial aspects of such a murder. However, within a week of the assassination, the Mexican Attorney-General's Office announced at least seven people were involved.

In the short period during which NAFTA has been in place, it is already evident that the negative consequences of NAFTA will not be shared equally by the three "partners." Mexico and Mexicans will bear the brunt of the fallout from the deal. Workers, the unemployed, the elderly, and those in the marginal labour force in Canada and the United States will also be less well off due to NAFTA, but not in such a dramatic and profound way. Trade has never been "free," but always has costs and related consequences. NAFTA extends and deepens inequities within and between the three nations. □

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### Endnotes

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3. For an insightful analysis of the new buzz word of the 1990s — globalization — see Robert Chodos, Rae Murphy & Eric Hamovitch, *Canada and the Global Economy* (Toronto: James Lorimer, 1993).
4. Burke, *supra* note 1.
5. Arthur W. Donner, "Recession, Recovery, and Redistribution: The Three Rs of Canadian State Macro Policy in the 1980s" in Daniel Drache and Meric S. Gertler, eds., *The New Era of Global Competition: State Policy and Market Power* (Montreal: McGill/Queens University Press, 1991) at 26-48.
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9. Henry Veltmeyer, *Canadian Class Structure* (Toronto: Garamond Press, 1986).
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11. Maude Barlow and Bruce Campbell, *Take Back the Nation 2: Meeting the Threat of NAFTA* (Toronto: Key Porter Books, 1993) at 34-38. Also see Henry Veltmeyer, *Canadian Corporate Power* (Toronto: Garamond Press, 1987) at 76-109; and Paul Phillips, *supra* note 6 at 112-120.
12. Cameron and Watkins, *supra* note 10 at 273-274.
13. Mel Clark, *Restoring the Balance: Why Canada Should Reject the North American Free Trade Agreement, Terminate the FTA and Return to GATT* (Toronto: Council of Canadians, 1993).
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15. Clark, *supra* note 13 at III-V.
16. Canadian Centre for Policy Alternatives, *Which Way For the Americas: Analysis of NAFTA Proposals and Impact on Canada* (Ottawa: Canadian Centre for Policy Alternatives, 1992).
17. *Supra* note 3 at 173-74.
18. Jorge G. Castaneda, "Can NAFTA Change Mexico?" (1993) 72 *Foreign Affairs* 66.
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20. *Ibid.* at 68.
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Administration's Nevada testing site within the territory of the Western Shoshone. The national interest and public good of the United States of America overrode the Ruby Valley Treaty, as well as concern about the health risks of such testing to the Indigenous Peoples, who were exposed to much nuclear contamination.<sup>4</sup>

There is, within the terms of NAFTA, a procedure to settle issues related to the taking of lands and resources. An "independent" NAFTA tribunal may settle any disputes arising from the sale of the Indigenous Peoples' lands and resources. How independent? How fair? Can Indigenous Peoples veto any decision made by this tribunal? No, they cannot. This tribunal is set up to protect the interests of the parties to NAFTA. Indigenous Peoples are not signatories to NAFTA; our lands and resources are merely the fuel for the machine — Indigenous Peoples must be removed to make way for "development." Five hundred years and the struggle continues. The Mayan peoples, through their Zapatista Army of National Liberation, brought home to the world the continuing struggle of Indigenous Peoples to maintain their lands and resources against colonization.

The populations of Canada and the United States feel that NAFTA is not responsible for the actions of the Mayan Indigenous Peoples. NAFTA is only business; it is only making money. But the wealth and use of Indigenous lands means Indigenous peoples will have to step aside or be destroyed. The Mayans chose neither. They are fighting for the future generations and the next five hundred years. They are fighting for survival, as are all Indigenous Peoples. □

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Citizen of the Blood Tribe within the Treaty Seven area of Canada.

#### Endnotes

1. *Edmonton Journal* (16 April 1994).
2. *Indian Act*, R.S.C. 1985, c.I-5, s.35(1).
3. *The Land Titles Amendment Act, 1977*, S.A. 1977, c.27.
4. This information was provided at the World Uranium Hearings held in Salzburg, Austria in September, 1992. The author of this article was present at the hearings.

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