

Free Trade and Political Courage

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WHEN CANADIANS WENT TO THE polls in the fall of 1988, they basically voted for or against free trade with the United States. The election was fiercely fought by all political parties, and the political hyperbole was at its best—or, more accurately, at its worst. At one extreme, advocates of free trade claimed that Canada's signature on the treaty would cure all of its economic ills and that, without it, Canadians' living standards would plummet. At the other extreme, opponents portrayed free trade as spelling the end of an independent and proud Canada, with its national identity being drowned by a flood of American cultural flotsam.

Heated Debate

I was living in Boston in 1988 and so I didn't experience the heat of the election debate. In Boston, as in all US cities, the Canadian federal election was not an issue. Bits and pieces of the stories surfaced here and there, but not surprisingly the passion, the hyperbole, the finger-pointing, the shouting and the accusations were all but invisible to anybody living in the United States. As a graduate student in economics, I thought I understood the economic issues involved in trade liberalisation, and I clearly supported the move toward freer trade. I knew that any process of trade liberalisation would have its foes, from both economic nationalists and sectors of the economy shielded by the existing protectionist policies. So I knew that the proposed free-trade agreement would lead to a heated debate. I just didn't see the one that actually took place.

A few years later I read *The Betrayal of Canada* by Mel Hurtig. From the title,

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and a little knowledge of Hurtig's views on other issues, I knew I would be unlikely to agree with Hurtig's central thesis that Canada's participation in the FTA made Faust's bargain look like a holiday. Nevertheless, I wanted to know how people on the other side of the debate thought and argued. As it turned out, I could not finish the book—it incensed me so much that I had to put it down after the first hundred pages. I was astounded by the nonsense that was being passed off as serious analysis. The flaws in reasoning, the jumps in logic, and the abuse of statistics were all enough to earn any undergraduate student a failing grade. In retrospect, however, there was considerable value in reading Hurtig's book. In addition to teaching me how to think through and dissect some common arguments made against free trade, Hurtig's prose showed me the depth of the political demagoguery involved in Canada's free-trade debate. I didn't recognise this at the time, but I do now.

Political Courage

Fast forward to June 1999 and the "Free Trade at 10" conference organised by the McGill Institute for the Study of Canada. For the most part, this was an excellent conference. It brought together most of the principals involved in the negotiation of the Canada-US FTA (as well as for NAFTA), and allowed them to exchange old war stories, explain their bargaining strategies after the fact, and generally pat each other on the back for a job well done. For this reason, of course, some people think that the McGill-sponsored "love in" did not pay enough attention to those opponents who feared that free

trade would undermine Canada's social programmes and environmental safeguards. As incomplete as many of these opponents' arguments were (and still are), a reasonable criticism exists—a more balanced conference would have been valuable. In fairness to the organisers, however, high-profile free-trade opponents *were* invited but they chose not to attend.

As I listened to the various speakers at the two-day conference, my thinking went back to the Canadian economic landscape of 1984, before Mulroney's Conservatives were elected. I thought about the many directions in which Pierre Trudeau's Liberals extended the reach of government. I tried to replay those passionate political debates during the 1988 election. As these visions raced through my head, I was struck by one overriding thought that—I am embarrassed to admit—I never fully realised before: the political courage displayed by Brian Mulroney in 1988 was truly staggering.

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Federal elections had been won and lost on the issue of free trade before 1988. It is no surprise, therefore, that over many years the arguments against free trade had been sharpened and refined to the point where it was easy for Mulroney's opponents to convince a lot of people that free trade was a very bad idea. Some arguments were wrapped in the Canadian flag, and

stressed the Canadian identity as the clear victim of the deal. Other arguments were based on the idea that free trade reduces jobs or wages or both. Still others were based on the notion that Canada would be forced against its will to sell oil or water to the United States. Most of these arguments against

free trade are based on faulty analysis and bad economics. But in the right hands these arguments made for excellent politics. This is one of the unfortunate facts of political life—sometimes the best politics are based on the worst economics.

Against this powerful arsenal of political arguments, Brian Mulroney had the political courage not only to push a highly contentious policy through his own party and caucus, but to call a national election on the issue. He was aware of the emotional might of his opponents' claims, tugging on the heartstrings of Canadians. He knew they would be pushing all the nationalistic buttons available to make Canadians choose the *status quo*, to avoid further integration with the United States.

Still, Mulroney had the courage of his convictions to push ahead. He knew that a free-trade agreement between Canada and the United States was not only beneficial for the usual economic reason that it would increase trade flows, but that without such an agreement Canada would be vulnerable to an increasingly protectionist US Congress. Mulroney believed that Canada's future protection from American bullying lay in *increasing* the ties between the two countries, not in reducing them. For that very reason, he never wavered from his insistence on a formal dispute-settlement mechanism—one outside the political process in which disputes would be settled by having experts from both countries reviewing "technical" issues.

Brian Mulroney did not know whether Canadians would vote his way. He couldn't be sure that the advocates of free trade would eventually win in the many public debates against the anti-free-traders. He put his job on the line. But this does not mean that he left the election outcome to chance. In his

view it depended on political leadership. He decided that in the 1988 election good economics *could be made to be* good politics. Mulroney stood for free trade and he was prepared to argue the case as often as it took to convince

the people that he was right and that the alternative—the *status quo*—was worse. This is precisely what political leadership is all about. A lesser prime minister, one that simply watched the polls and followed the ebb and flow of public opinion, would never

have brought the issue to the Cabinet table, let alone put it to a wary electorate.

A Decade of Free Trade

A decade later, Canadians are generally pleased with the outcome. To be sure, some Canadians have been hurt by the economic adjustments involved in the process of trade liberalisation. Plant closures, bankruptcies and layoffs involved genuine pain and hardship. We should not forget these costs. But the less visible and less emphasised benefits—the new start-up businesses, the expanding trade flows, the productivity gains coming from increased production runs—more than offset the costs. The acid test of free trade's success is the wholesale conversion of Jean Chretien's Liberal government, the same set of politicians who vigorously fought against free trade in 1988 and promised to undo NAFTA if they were elected. In 1993, when the Liberals finally took office, no one considered, even for a moment, dismantling the FTA or NAFTA. They may have thought it good politics to fight against

free trade in 1988, but in 1999 it is good economics that rules the day. For an economist, there is no small measure of comfort in this fact.

The *Dossier* in this edition of *World Economic Affairs* reviews "A Decade of Free Trade". Interviews with Brian Mulroney and James Baker, then US Secretary of the Treasury, provide insights about political leadership, the tactics of negotiation, and personal thoughts on possible inadequacies of the deal. Articles by Richard Lipsey, Stanley Hartt, Pierre Marc Johnson, and Charles Sirois explore issues ranging from the exaggerations of the free-trade debate to the myths that continue to haunt us, from the success of NAFTA's environmental record to the ongoing need for the Canadian government to protect "culture". Finally, an interview with Bombardier's Laurent Beaudoin explores the role of Canada's *Technology Partnerships Program* in subsidising research and development, and how such subsidisation affects the pattern of trade.

The FTA and NAFTA are with us to stay. The expansion of free trade to include all of the western hemisphere is on the current political agenda. After that, the Americas will start eyeing Asia and Europe as the obvious next partners. But any expansion of free trade will involve political debate. Perhaps the opponents of free trade will never rally their forces as they did in the 1988 election—perhaps they are no longer real opponents, having

broadly accepted the case for free trade. But such complete political conversion is unlikely. What is more likely is that their forces will be rallied and the political battles will take place. And when they do, some lessons about the FTA and NAFTA will be invaluable. ♦

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