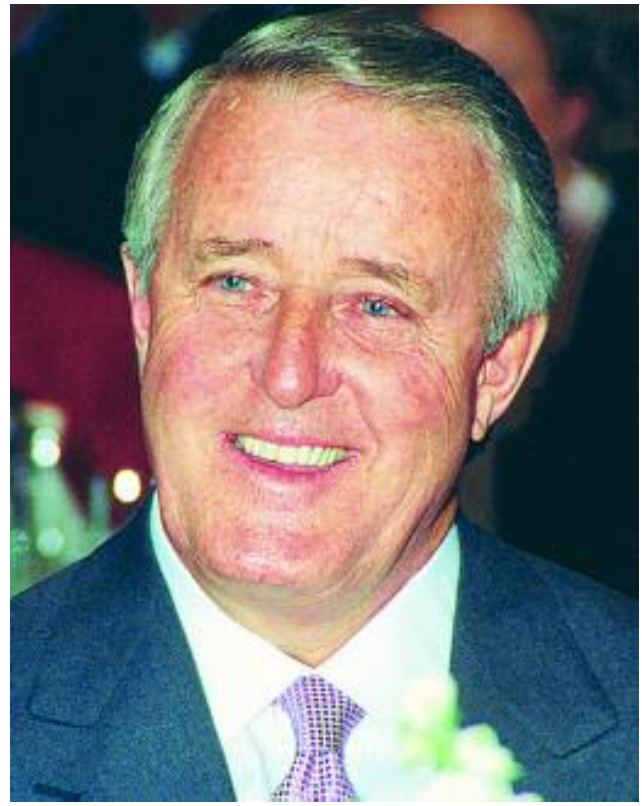
Standing Firm On Free Trade

Interview with the Right Honourable Brian Mulroney

Brian Mulroney will likely go down in Canadian history as the Prime Minister who introduced the most controversial changes in economic policy in the last half century, especially the Canada-US Free Trade Agreement. Many Canadians voted against free trade in the 1988 federal election, and some continue to argue against it. But with the benefits of the actual deal now showing themselves, the historical epitaphs will surely recognise the value of Mulroney's political courage and economic foresight. He was interviewed in his Montreal office at Ogilvy Renault in July by Christopher Ragan, Editor of World Economic Affairs.



The Free-Trade Vision

WEA: We have just celebrated the 10-year anniversary of the Canada-US Free Trade Agreement. Free trade now seems to be something that most Canadians accept. But it was obviously very controversial. Judging by some of your comments before you became Prime Minister, even you seemed a little sceptical of the idea. Were you *really* that sceptical of free trade in the early 1980s? And if so, why?

Mulroney: The comments to which you refer came during the course of the 1983 leadership convention. Mr Crosbie had come out during that convention in favour of a comprehensive free-trade agreement with the United States. I was in favour of free trade, but not, as I refer to it, unfettered free trade. I was concerned that we could not get a free-trade agreement with an independent dispute-settlement mechanism that would allow us to even the scales. As it turned out in the event, we did. It changed a lot of things for me.

Apart from that, there was the scepticism engendered by the growing intensity of the protectionist lobby in Washington at the time, and my reluctance to engage in that at that time, pretty well in the middle of a recession.

That was some of the thinking that surrounded my comments at that time. You can check with my speech to the Conservative convention on the 11th of June 1983. I was seeking the leadership. I said that one of the principle objectives of my administration would be to expand dramatically the management of trade and trading opportunities with the United States and to refurbish the relationship of trust between Canada and the United States.

WEA: What role did the report of the MacDonald Royal Commission play in your thinking?

Mulroney: A very significant role. At that time, there had not been any recent economic literature on this entire question. Proponents and detractors were relying on outdated information. The MacDonald Commission, which was an excellent piece of work in all areas, hit this one clearly on the head with up-to-

date approaches and data and very persuasive arguments. My recollection is that in March of 1985 I met President Reagan in Quebec City and put to him a proposal that we should initiate exploratory talks on a comprehensive free-trade agreement and he agreed with that. Some time later—in the early fall of 1985—the report of the MacDonald Royal Commission came out. The arguments in the report were very helpful in focusing the national attention and the national debate on these things.

Negotiating the Deal

WEA: By many accounts of the difficult negotiation process, the FTA almost didn't happen. The negotiations over the dispute-settlement mechanism were apparently very heated. Why was the dispute-settlement mechanism so contentious?

Mulroney: The argument in the US Congress was that the establishment of an independent dispute-settlement mechanism was the equivalent of a surrender of sovereignty. Under the American Constitution the Congress is sovereign in matters of international trade. The view then was that trade disputes were essentially resolved through brute strength and power. So any formal dispute-settlement mechanism was viewed as a dilution of American sovereignty, particularly on the Congressional side.

My argument with the Americans was that when you join an international organisation—NATO, the United Nations, or whatever—you surrender a small bit of your sovereignty in the interests of greater international harmony and social and economic intercourse. That is just a fact of life. But it is not a surrender in the abject sense. It is a conciliation in the positive sense. And in any case, I indicated to them that there were no circumstances—none—under which I would agree to a free-trade agreement that did not contain an independent dispute-settlement mechanism.

WEA: Did they seem to think that Canada would go to the trouble of negotiating an agreement without one? If there is no dispute-settlement mechanism, what would be the point?

Mulroney: Well, you never can tell. It could be that, in the minds of some important strategists there, Canada, as the smaller party by far, wanted and needed this agreement much more than did the United States. Perhaps they felt that in the crunch, if Canada made enough substantive gains we would remove that particular demand.

We had a small group of ministers in the Privy Council Office on the last night of the negotiations going on in Washington. Toward the end of that evening, I took a call from Jim Baker who was in charge of the American team at that time. (By the way, it was a very good thing because had Baker not been there we would not have had a deal—he was absolutely instrumental in bringing the American side to a position where they would deal.) Baker said to me that he had met with various Senators and Congressmen and, for the reasons I just gave you, he felt there was little or no chance that an independent dispute-settlement mechanism worth its salt could be included in the final deal. I told him: "I want you to advise the White House that I am going to be placing a call to President Reagan. I am going to tell him that I have just been advised that the American side has been able to do a nuclear arms reduction treaty with its worst enemy and cannot do a free-trade agreement with its best friend." So Baker said: "Well, why don't you give us a little time on that." He called me back within the hour. We had the dispute-settlement mechanism that night, as we wanted it.

If I had needed to speak to President Reagan—he was very committed to free trade, particularly free trade with Canada—he would have been very tough on the American side in demanding explanations of this obstructionism. And as the last decade has established, the existence of the dispute-settlement mechanism has not in any way diminished American sovereignty; it has civilised the trading relationship in an enormous way but it has not vitiated American sovereignty.

WEA: In retrospect, what would you identify as the significant items that could have been improved?

Mulroney: I had hoped that we could have done more about anti-dumping and the American law itself as it would be applied to disputes. I would like to have seen the independent dispute-settlement provisions tightened up—as they were, by the way, a few years later when they were adopted for the World Trade Organisation. But by and large I am quite satisfied. I'm very pleased with the result.

Selling the FTA Politically

WEA: Let me move on to selling the deal politically. Trade has always been important for Canada and it has always been a source of debate. The 1988 election, of course, was fought almost entirely on that issue. Was selling the idea of free trade difficult within your own cabinet and caucus?

Mulroney: There is a new book out by Daniel Savoie that talks about the growing concentration of power in the office of the Prime Minister. I think there is some truth in that. I think this has been an inexorable and highly controversial development over the years. Savoie makes the point that if and when the Prime Minister decides that he is going to do something, he would be a very weak Prime Minister if he could not carry his own party and his caucus and his cabinet. And so while there was opposition in some areas within my cabinet and my caucus, I could see that we were going to carry the day in terms of getting it through the party, getting it through the government.

But there were some tough spots. I remember when there was a break-down in the negotiations and I indicated that Simon Reisman should interrupt the negotiations and come home. That was widely construed in the country as signalling the end of negotiations. Parenthetically, the Americans made it very clear while they were here at the McGill conference that for them that was a turning point as well. They realised how serious we were and they knew that they would have to answer to Ronald Reagan about how this thing had fallen apart, and so that brought Baker deeply into the negotiations—which was beneficial for all concerned at the end of the day. I remember a cabinet meeting that took place immediately following my decision to bring Reisman home, and the decision was greeted with some relief by a number of members of the cabinet, whose names will be unmentioned, but who said, "Well, you tried hard Prime Minister, you gave it your best."

WEA: Crocodile tears, I'm sure.

Mulroney: That's right. Some of them were not looking forward to fighting an election on the issue of free trade and were quite relieved that, at that moment, it appeared that free trade had evaporated.

WEA: What did you sense in the mood of the people, the mood of the country, that told you the people were finally ready to say yes to free trade when it came to the ballot box?

Mulroney: This was really about leadership in the sense that you have to stand for something. You can't be negative all your life, whether you're in opposition or the government. If it's free trade, or the GST, or Meech Lake, or the privatisations, or a low-inflation policy, or the Gulf War, whatever it is—you have to stand for something. And it doesn't matter if it is controversial or unpopular. In fact, the more unpopular it is, the more likely it is to turn out historically accurate. Canadians are notoriously resistant to change.

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We had been told for decades that our standard of living is guaranteed, that governments could do pretty well anything and that we really wouldn't suffer. I suppose it's something about the air we breathe, the location of the Great White North, or whatever. There was a general view in some quarters that we were somehow immune to the realities of international finance and international trade—which, of course, is daft. And so I got the impression that the free-trade discussions and debate merged into a debate on leadership. If you stand for free trade—alright, we know where you are. If you don't stand for free trade then what is your alternative? And the opponents' alternative was the status quo. And the status quo, as everybody knows, was getting to be unacceptable and untenable. The campaign, of course, was crucial (as they always are) in terms of polarising the issue. Strategically, we had the free-trade argument and the opposing groups were split between the Liberals and the NDP, and so they had more difficulty on their side.

WEA: This all happened at a time when Margaret Thatcher in Britain and Ronald Reagan in the United States had swung the political and economic pendulum toward the right. Could you speculate on how this free-trade battle would have been, say, ten years earlier?

Mulroney: Let me answer by means of an example. When we began in 1984 talking about deficit reduction and privatisation, this was anathema to most Canadians. We could get very little support for all of that. Remember the Liberals' great argument about the debt, as articulated by Warren Allmand, was that there is nothing to worry about because this is only money we owe each other. Today, deficits are being eliminated everywhere by both socialist and conservative governments, both in Canada and elsewhere. This was heresy when we brought it in and started to fight for it in 1984. And so when people say the Conservatives did not do enough on the deficit-reduction side, what they fail to remember is the context. We were fighting deficits when some of the provincial premiers were, metaphorically, in short pants. It was a hell of a lot tougher 15 years ago then it is today. We had the Liberals—Paul Martin and Jean Chrétien—fighting us every step of the way on free trade, on the GST, on deficit reduction. Now they have swung around and come to this view, which makes it much more acceptable, much easier. I think the same can be said of Margaret Thatcher and Ronald Reagan's role. Did their policies and the thrust of their economies make it easier for me to introduce these policies? The answer is yes.

There was a general view that we were somehow immune to the realities of international finance and international trade—which, of course, is daft.

Criticisms of the Deal

WEA: What do you see as the best measure of success of the FTA and the NAFTA, aside from the fact that no government currently wants to eliminate them?

Mulroney: Well, I think the biggest change is the attitude. Canadian business people are much more outward looking and global in their thinking. They realise that success at home is going to come from the capacity to fight and win abroad. The day I signed the Free Trade Agreement, something like 24% of our GDP came from trade. It is now somewhere in the neighbourhood of 43%. That change is in just one decade. I constantly meet small-business people—from Montreal, Peterborough, Winnipeg, or what have you—on planes all over the world. They'll come to me on the plane and I'll say "What are you doing here?" They respond "Well, I've got a joint venture going with a company in Indonesia, or a company in China selling agricultural products, or high-tech products." This was not the case ten years ago. So I think the most fundamental change has been attitude. The evidence of the success of that attitudinal change is in the numbers.

WEA: Let me ask you about the investment chapter of NAFTA because it has drawn a lot of criticism. Some of these criticisms carried over to opposition to the Multilateral Agreement on Investment. We have situations where companies on both sides of the border are launching suits against the opposing government for "expropriating" their assets. It appears that Canada and perhaps even the United States cannot pursue even a reasonable non-discriminatory environmental policy without running up against these suits. Do you see this as a problem, and, if so, what's the response?

Mulroney: I think the kind of misunderstanding we are seeing indicates that there's going to have to be some clarification of those chapters. There's nothing wrong with litigation. We are talking about two-way trade in goods and services and investment and dividends that this year will probably be in the neighbourhood of $600 billion. It is not sur-

prising that in something this vast and complex that significant litigation will ensue. What is surprising to me is how *little* litigation there is, how few cases there are compared to the volume of trade. But I think there is now less substantive and more vexatious litigation being engendered by what appears to be a lack of clarity in some of the language. And I think the two sides would be well advised to get together. There were probably deficiencies on our part—language that we put in that in some cases failed to articulate our objectives clearly, and it should be cleaned up and corrected. But I don't see anything lethal in any of it.

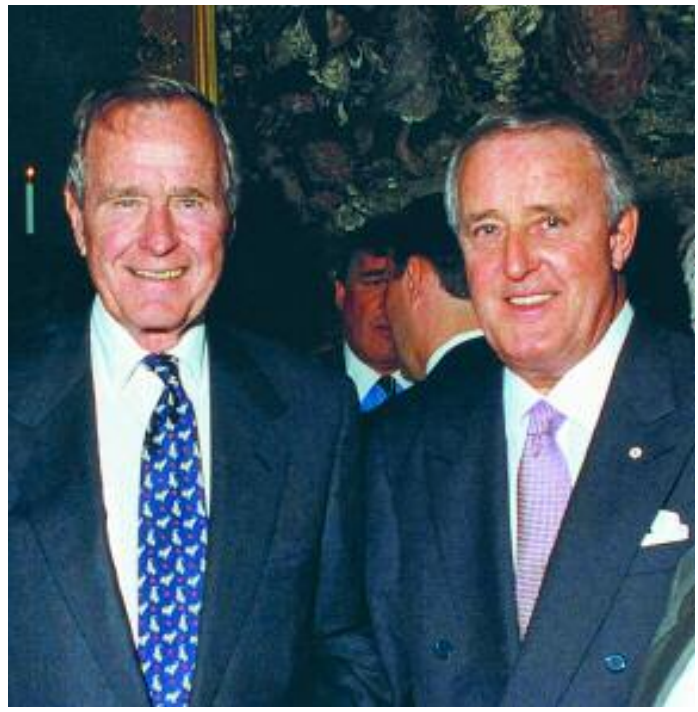
In terms of the trade issues, the environment, energy, resources and so on, the lethal legislation was essentially unilateral—it was in Canada. The National Energy Programme, the PGRT, FIRA—all of those goofy things that I had to scrap that really ran counter to the best interests of Canada and ran counter to the concept of a modern internationally liberalised trading system. This was the Luddites at work. The Liberals in the 1970s and 1980s were a work of art! To think that they're free traders today inspires great confidence in the notion of political conversion.

WEA: I'd like to ask you about social policy. Some critics point to the fact that while free trade may have been beneficial overall there were many workers displaced for considerable lengths of time. That displacement was surely predicted by any theory of trade liberalisation. Why did the government choose not to put in some special temporary FTA adjustment programmes to deal with this displacement?

Mulroney: Yes, we did choose not to implement such programmes, and we became persuaded that this probably was a mistake. At the time, we were persuaded that, compared with any of the other industrialised countries, our policies for social adjustment and unemployment insurance were very, very generous and certainly very comparable to any of the competing countries, certainly the United States. Jean de Grandpré had been commissioned to consider the situation and prepare a report. He brought in recommendations for further action by the federal government, not all of which we accepted, if only for psychological reasons. It might have been wise to do more than we did because the Free Trade Agreement was implemented along with the GST in a deepening recession. Roy MacLaren, speaking for the Liberal opposition, said "We will blame every sparrow that falls on the Free Trade Agreement", thereby focusing discontent on the FTA when in point of fact it wasn't responsible.

So to counter that specious argument we should have, I think, done more than we did. The reason we didn't is that we didn't have the funds needed because they were being dried up by the recession, by an explosion of social spending in other areas—unemployment insurance, welfare payments, equalisation payments. The federal government's deficit fell to 4.2% of GDP in 1988 but exploded again to 5.9% during the recession. It was still a third less when I left office than when I came in, but still that recession was very tough to take for everybody.

This is a good question. I think for all kinds of reasons that we should have revisited this issue and added programmes specifically to deal with the dislocation.



George Bush and Brian Mulroney at McGill's "Free Trade at 10" Conference.

Looking Ahead

WEA: Let me turn to expanding the circle of free trade. Do you see much promise for greater free trade among the Americas?

Mulroney: Absolutely. I see that after the American election the next President of the United States is going to secure fast-track negotiation capacity and we are going to see eventually a free-trade zone in the Americas. A free-trade association of the Americas that will involve 34 countries, 800 million people and annual collective GDP at that time of probably 14 or 15 trillion dollars, which will make it the richest and the largest free-trade zone in history. It will stretch from Point Barrow in Alaska to Nunavut to Easter Island and it is going to be extraordinary. So, yes, I see tremendous possibilities for the future.

Canadian business people are now much more outward looking and global in their thinking. They realise that success at home is going to come from the capacity to fight and win abroad.

WEA: Why are you so confident that the President will get the fast-track authority?

Mulroney: This is all about leadership. When your country's interest is at stake—if you are going to be the leader of the country—you have to say to yourself "I am going to take decisions, not for flattering headlines in ten days but for a

better country in 10 years." This is what it is all about. The fact that it is unpopular and some interest groups don't like it probably means that it is right.

WEA: Does George W Bush have that vision of trade?

Mulroney: Well, here is the problem. Al Gore, who successfully defended NAFTA, and with whom I worked very closely and very amicably for years when he was in the Senate and then as Vice-President, is committed to free trade. The problem is that the left wing of the Democratic Party is very opposed to free trade, and so that's a serious problem for him. George W Bush doesn't have that problem. The larger point, however, is that when you become President or Prime Minister you have to take a larger view of your responsibilities. Many people say the NAFTA vote in 1993 is one of Bill Clinton's most significant foreign policy achievements. And if not the most significant, the most durable. Well, the Democratic Party largely opposed him, and yet he rose above that opposition in the greater national interest. That is why I am confident it's going to take place.

With two-way trade in goods and services and investment and dividends of $600 billion, what is surprising is how little litigation there is.

WEA: As long as we've turned to politics, let's turn to Canadian politics. In your two terms as Prime Minister you, among other things, introduced free trade, significantly reformed the income-tax system, introduced the GST, introduced the wave of privatisations, oversaw the decline of inflation, and began serious work on reducing the deficit. The next government, the Liberal government, eliminated the budget deficit, reformed the method of transferring money to the provinces, established formal inflation targets, and began the reform of the Canada Pension Plan. One could be forgiven for thinking that the recent Liberal government appears to be almost as conservative as the previous Conservative government. What is your response?

Mulroney: Well, imitation is the sincerest form of flattery. And I view it all with interest, because I remember the positions that were adopted in the House of Commons and on the campaign trail. Life is full of ironies. There is nothing wrong with that. We need those too. I mentioned earlier about Roy MacLaren telling the House of Commons that they would blame every sparrow that falls on free trade. That's okay—it's a political position. But then to find out that Roy MacLaren was running for the position of Director General of the World Trade Organisation—surely, even for a Liberal, that's pretty good going! So once one gets over the sense of ridicule that exists in political life from time to time, there is a great deal of humour in it.

The important thing for me, the important thing for all of us really, is the following: All we wanted to do for those controversial days and years was to take decisions that were in the best interest of our country, and to do that you take a lot of political pain. What would have been very unsettling would have been to find out, after we left office, that indeed there was a much better way of doing it. Suppose the Liberals had been able to come in to office, as they said they would, and scrap the Free Trade Agreement, cancel NAFTA, revoke the GST, undo the privatisations, and get rid of our anti-inflation policy. Had they been able to do that and produce the kind of growing economy we have today, I would have felt doubly foolish and sad because, first, we would have clearly been responsible for ill-conceived and wrong-headed policies and, second, which is no less important, we would have endured needless political fall-out to ensure their passage. So from a personal point of view it is satisfying to find that the policies that we believed to be in the national interest are now so construed by our political opponents to a point where—I think it is probably fair to say—they've reversed themselves completely and have adopted our agenda. And I say that without pretence or vanity because it probably could have gone the other way. So I am just satisfied and happy that those policies which were so difficult and so controversial turned out to be the right ones for Canada.

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WEA: Are you dismayed by the apparent inability of the PC Party and the Reform Party to either join or to carve out their distinct niches? More generally, what do you see as the prospects for the political right in this country?

Mulroney: Only people with no sense of history, no knowledge of Canada, would think that the Progressive Conservative Party—the party that founded this country—was going to disappear. Of course it is not going to disappear. It will one day soon be the government of Canada. There is no doubt about that. The idea that the Conservative Party would wind up in the bosom of the Reform Party led by Preston Manning is really something that no thoughtful person, certainly associated with the Conservative Party, could ever accept. I mentioned to you the opposition in 1988 that we had on the FTA. And I expected the opposition to the FTA to come from the Liberals and the NDP as well as interest groups such as the CLC and what I affectionately refer to as the NACs, WACs, PACs, HACs, and FLACs, and indeed it did. They were all out there opposing the Free Trade Agreement. Imagine my surprise when I arrived in Alberta to campaign for the FTA—having dismantled the National Energy Programme, abolished the PGRT, scrapped FIRA, moved the headquarters of the National Energy Board from Ottawa to Calgary and having in my cabinet Joe Clark as Secretary of State for External Affairs, Don Mazankowski as Deputy Prime Minister and Minister of Finance and Harvie Andre as government leader in the House of Commons—and my opponents on the left are all there but I've also got another opponent. Preston Manning is running against the Conservatives at a moment

when the centre and the right needed all the help they could get. He was running against Joe Clark in his own constituency. He wasn't there to help us bring in free trade. He was not there to help us or to acknowledge that we may have done something right in getting rid of the National Energy Programme which had devastated the economy in Alberta. None of these. He was running to split the Conservative vote. He is the architect of the disunity, to the extent that he's succeeded thus far, of the so-called political right in Canada. So I feel that Joe Clark is doing an excellent job. He will emerge—he is already winning the popular vote—significantly ahead of the Reform Party. He offers the only alternative vision to the Liberals on a national basis, which is why Manning is now seeking a fusion between the parties.

WEA: So if you were to make a prediction about the future five or ten years ahead, you would predict a resurrection of the Conservatives and a side-lining of the Reformers?

Mulroney: I'll tell you right now that the next time there is a change in government it will be a Progressive Conservative government. There is no doubt about that. Who else is it going to be? The Bloc Québécois? Is it going to be the NDP? Is it going to be the Reform Party? Can you explain to me how the Reform Party is going to win a seat in Ontario or in Québec or in Atlantic Canada given the things that they have said? I don't know Mr Manning—I am sure he is a very fine fellow and I wish him well—but the currents of history are playing their role, as we speak. Witness the re-election of the Conservative government in Ontario, the election of a Conservative government in New Brunswick, the possible election of a Conservative government in Nova Scotia, one in Prince Edward Island, one in Alberta, one in Manitoba. This is the dynamic of Canada. As federal political parties are replaced nationally, they regain strength on a provincial basis and that strength then transfers into their re-election as a national party, which is what is going to happen to Mr Clark. His party will be elected nationally. There are lessons in Canadian history. Look at the Conservatives in 1935. The Conservatives left office in 1935 and were in opposition for 22 years. In all those times there were movements of various kinds—the NDP, the Progressives, Social Credit and so on. Then the voters turn, 22 years later, to a national party and elect John Diefenbaker. And they will elect Joe Clark.

When your country's interest is at stake you have to say to yourself "I am going to take decisions, not for flattering headlines in ten days but for a better country in 10 years."

WEA: Let me take you back to economics for the last question. What do you see as Canada's number one economic challenge in the years ahead?

Mulroney: Productivity and declining per capita income. I am concerned about the conflict in numbers regarding productivity. There are some competitiveness numbers that were released the other day that indicate that we are doing quite well. Then there are the UN numbers that began under my government, when we were elected the number one country in the world. But those per capita income numbers appear to be eroding substantially. I find that very worrisome because per capita income at the end of the day is your national strength. It is the capacity of a strong economy that gives you the national wealth to act with conviction internationally. And so I am concerned about our productivity. I am concerned about our declining per capita income relative to our industrialised competitors and I am very concerned about the government allowing our dollar to hang in there at 65 cents. It masks the illnesses in the economy while this smokescreen of a low dollar, an artificially low dollar, is allowed to continue.

WEA: Do you have a suggested policy response for the productivity issue?

Mulroney: I don't and I am perplexed. I have to tell you I am perplexed by the productivity issue, in part because the numbers have been in conflict. The federal government has put out some numbers, and I am not being critical of them, but they have put out some numbers that appear to be in conflict with other numbers we are seeing. And I am hoping that this productivity matter will be resolved because one of the things we hoped for in the Free Trade Agreement was rising productivity. We seem to be seeing it in the manufacturing sector. So it could be that our productivity is in decline only relative to the United States where productivity gains are tremendous because of the new investment in capital, machinery, and people.

WEA: There is another perplexing problem. A great deal of effort has obviously gone into getting our macroeconomic environment right. And by anybody's standard, the environment is a lot better than it was 15 years ago. Perhaps it just takes a long time for those conditions to influence productivity?

Mulroney: It could be but I find it worrisome. I think this is something that we should really look at objectively. Strip the partisanship away from this one. Productivity is, in my judgement, the true measure of durable wealth. If you are not increasing your productivity, you are on a treadmill to oblivion and we absolutely must, as a country, focus on this. I say this with no partisanship at all. What could be partisan about productivity? Nothing. It is a national problem and a national concern and I think that there should be a national coming together. There should be a national conference called simply to deal with the proper analysis and description of productivity and what we can all do collectively to enhance it. Because only by enhancing our productivity can we ensure genuine and durable growth.

WEA: What are your personal goals over the next few years?

Mulroney: My personal goal is to do a lot better than I am doing playing golf. I took it up last November in Florida and I got the lessons and I have been out on various golf courses demonstrating the wisdom of the fellow who recommended that I not take it up.

WEA: Well, thank you very much for spending time with me today, and good luck with your fairway woods. ◆