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The Obama Effect
Canada-US Relations in a Time of Economic Crisis[1]

By Bruce Campbell

Introduction

After eight disastrous years of George W. Bush, the world breathed a huge sigh of relief with the election of Barack Obama.

Despite the unenviable legacy he has inherited and the enormous challenges ahead, Obama inspires hope far beyond the American border. However, hope is necessarily tempered by the following caution: powerful forces both inside and outside the country will resist the change Obama represents. It's essential to recognize the limits of what one person—even the potentially transformational leader of a superpower—can do in the face of such formidable obstacles.

Obama's cabinet appointments—especially the economic appointments—are a mixed bag as agents of change. Still, many of Obama's early decisions have been positive, signaling the US intention rejoin the international community: it will close Guantanamo, condemn torture practices and downgrade other excesses of the Bush "war on terror". It will exit Iraq and take a more balanced approach to resolving Middle East conflicts. It will restart nuclear disarmament efforts. And it will cease to be obstructionist and will become a leading proponent in the fight against global warming. On Afganistan, Obama has said that US military forces would double and no timetable for withdrawal of troops has been set. However, he has also indicated that expectations of what can be accomplished will be lowered and that diplomacy and development will play a larger role in his Afghanistan strategy.

The new US Administration raises many questions for Canadians. The most pressing: how will US efforts to combat the economic crisis affect Canada? Given the highly integrated and asymmetrical nature of the two economies, how will the two governments cooperate and coordinate their policies to manage the recession? Their anxieties have been fuelled in recent days by the outcry of Canadian politicians over 'buy America' provisions in the Obama stimulus package working its way through the US Congress.

In Canada, the political landscape is less encouraging than south of the border. Though even here, there is some room for optimism. The worst conservative excesses of the Harper government have been reined in, though perhaps only temporarily. One only has to look at the difference between the November Economic Statement, and the still flawed but improved January 27th budget.

Canadian economic vulnerabilities entering the recession

Before addressing what's on the table when the president and prime minister meet, it's important to flag several features of the Canadian economy that will affect our ability to cope with this recession. The conventional wisdom is that the Canadian economic fundamentals going in are strong. While it is true that our fiscal and external balances are in better shape compared to the US and other industrialized countries, policy developments and structural changes in the Canadian economy over the last two decades have left us more vulnerable than in past recessions.

Since the last recession, Canada's laissez-faire policies have dramatically widened the gap between the rich and the rest of us, deepened poverty, and intensified insecurity among middle-class families whose incomes have either stagnated or declined even as they work harder to hang on to their standard of living. Income gains since the early 1990s have gone disproportionately to Canadians in the top 10% of the income scale, and predominantly to the richest 1% of Canadians.[2] This same group has appropriated the lion's share of the benefits from tax cuts during this period. And as a result, Canadian households are more indebted than ever—with $1.25 of debt for every dollar of disposable income—and thus constitute a weaker engine of recovery.

Secondly, recent decades have seen a dramatic decline in the role and fiscal capacity of Canadian government. Its diminished size since the mid-1990s is revealed in a 2007 study published in the journal, *Canadian Public Policy*, by Ferris and Winer.[3] After making adjustments to national accounts frameworks in Canada and the US for better comparability, they find that the size of government in Canada and the US in 2004 is virtually identical. There are some important differences in how funds are allocated—a much larger chunk of US expenditures go to defence—but nevertheless, non defence-related government spending, according to the authors' estimates was only 5% of GDP higher in Canada than in the US—37.5% vs. 32.7%—in 2004. This is down from the huge 16% of GDP—50% vs. 34%—gap in 1994. Imagine the hundreds of billions of dollars more that governments would have at their disposal to fight the recession if the public sector were the same size as 15 years ago.

One consequence of these cutbacks is that the federal government's main automatic stabilizer, unemployment insurance, has been shredded to the point where only 39% of unemployed Canadians were eligible to collect EI in 2008. Going into the last recession, almost 80% of unemployed workers were able to access unemployment insurance. As job losses mount, an EI system that is not recession-proof will pose considerable problems. Canada lost 234,000 jobs between November 2008 and January 2009. That job loss is proportionately higher than the 1.8 million American jobs lost during this same period. 60% of these newly unemployed will not be able to collect EI to tide them over until they find another job. Furthermore, this key recession-fighting policy tool is now far less able to offset the collapse of household consumption, and nothing in the January budget changes this reality.

The Canadian economy has also become structurally unbalanced, creating another level of vulnerability going into this recession. The rapid escalation of commodity prices led by oil and gas, magnified by unbridled financial speculation, the investment boom in the Alberta tar sands, and the unprecedented wave of foreign takeovers, produced—among other things—a 65% run up in the Canadian dollar exchange rate. The Conservative government did nothing to curb any of these bubbles. On the contrary, it encouraged them and boasted that they were a source of economic strength. Resource companies reaped super profits and resource rich provinces, notably Alberta and Saskatchewan, saw an influx of petrodollar revenues.

The other side of the coin was that value-added manufacturing and service industries experienced great stress and decline. Canada's manufacturing sector has lost over 500,000 jobs since the onset of the commodities boom in 2002, and the sector has been in recession since 2006. The vital auto sector is close to collapse. Other sectors have experienced devastating losses: forestry, tourism, film, transportation. National high tech champion Nortel, suffering from years of mismanagement and crumbing markets, has filed for bankruptcy protection.

The progress that Canada made over the last 50 years toward achieving a more balanced and diversified industrial structure has begun to unwind, and the economy is regressing once again toward a "hewer of wood and (this time) cooker of tar" status. The proportion of our merchandise exports consisting of raw or largely unprocessed natural resources rose from 45% in 2000 to close to 60% of all exports in 2007.[4] Now that the commodity bubble has burst and exports are collapsing, Canada's trade surplus is plummeting and in December turned into deficit for the first time in 33 years.

Another consequence of the resource boom and the hands-off approach of the government was the largest foreign takeover boom in Canadian history — $200 billion worth in 2006–07. A number of our largest resource companies were sold off to foreign owners: Alcan, Falconbridge, Inco, Abitibi. Domtar, Algoma Steel, Stelco. These companies, now saddled with enormous debt, are in crisis and laying off thousands of workers. Decisions about their economic future are being made in boardrooms outside of Canada.

One would think that this latest wave of foreign takeovers in a country that has by far the highest level of foreign ownership of any industrialized country would set off alarm bells in the policy establishment.

In response to the takeover binge, the Harper government appointed a panel of businessmen to advise on foreign investment and competition policy. What did the hand picked panel advise? With the deregulated global financial market spinning out of control and the laissez faire policies under siege throughout the world, the June 2008 panel report, amazingly, recommended an acceleration of foreign investment deregulation: a tripling of the threshold for foreign investment review; shifting of the onus of proof from companies having to show "net benefit to Canada" to the government having to show that a proposed takeover is not in the "national interest;" and lifting remaining restrictions on foreign investment in banking, telecommunications and broadcast, airlines, uranium and cultural sectors.

Priorities agenda items for the Obama-Harper meeting

A recent Toronto Star editorial cartoon pictured Obama's aide saying to him: "Wasn't Harper one of Bush's amigos?" Obama replies: "Let's reach out to Republicans everywhere." Obama will not have forgotten the embarrassing leak by a senior Harper official — during the Democratic leadership campaign — of a meeting where an Obama advisor downplayed his pledge to renegotiate NAFTA as election posturing. He will also be briefed on Harper's rebuke of the 'buy America' provisions attached to the stimulus package moving through Congress. (It should be noted that Harper never publicly criticized Bush, even on his most flagrant abuses of international law.) Although Obama's instincts lean toward collaborative approaches to problem solving, unlike with Republicans in Congress, he does not require Canada's vote to do what he thinks is in the best interest of his country.

The meeting on February 19th will be short, cordial and business-like, with the usual platitudes about each country's best friend, ally and trading partner, etc. Whether or not policy differences with the Harper government surface at this meeting, they are likely to grow over time: the economic crisis, energy and the environment, trade, Afghanistan, the Arctic, Guantanamo, human rights. Harper will no longer be able to lever Bush-style policies to advance his own conservative vision. On the contrary, he will increasingly be seen to be at odds with the Obama White House.

Canadian and US government responses to the economic crisis

US and Canadian government responses to the financial and economic crisis will be at the very top of the meeting agenda.

The US is the epicenter of the global financial and economic meltdown. Its proximate cause was the sub prime mortgage market on top of which was built a mountain of very risky loans made by unregulated financial institutions. As the subprime housing market went sour the entire rotten edifice came tumbling down and credit markets everywhere, including Canada, seized up. Canadian financial institutions have also been hit, though the extent of their exposure to these bad debts is unknown. In any case, both the US and Canada have taken extraordinary measures to stabilize financial markets and get credit flowing.

The US administration has just revealed the next phase of its multi-trillion dollar financial bailout plan. The Conservative government, through its Extraordinary Financing Framework (see Budget 2009), has given itself the power to borrow up to $200 billion to provide cash to mortgage lenders, public financial institutions that lend to business and cash to shore up the reserves of Canadian banks. There will no doubt be some discussion of each others' financial stabilization plans.

It is also recognized by both governments — perhaps less so by the Canadian government — that in this recession traditional monetary policy has lost much of its impact as a tool to stimulate the economy. Thus, the heavy lifting on economic recovery will have to be done by fiscal policy, namely deficit spending.

Canada has relatively healthier fiscal and trade balances going into the recession. Despite the ill-advised Conservative tax cuts that depleted federal coffers to the point where it had $30 billion less in revenue in 2009, Canada has substantial fiscal room to combat the recession due to 12 years of surpluses and one of the lowest debt/GDP ratios among industrialized countries. Despite December's deficit, Canada's overall trade balance was in surplus in 2008. However, it would have been in deficit were it not for a shrinking but still sizable surplus with the US.

The US, on the other hand, accumulated a string of record-level fiscal deficits and trade deficits under Bush. The financial and fiscal measures that are needed to fight the recession will greatly add to its debt. But the US is between a rock and a hard place. If it does nothing the deficit will grow anyway and last much longer, since the recession will be deeper and last longer—possibly turning into depression. As the largest economy in the world, its effects would be felt everywhere—nowhere more so than Canada.

So Canadians should be grateful that Obama is taking bold fiscal steps to confront the most dangerous economic crisis since the 1930s. So far he's investing about $800 billion plus over two years. This is equivalent to about 2.7% per year of the US GDP. Many economists are concerned it is insufficient. "Instead of an overwhelming fiscal stimulus, what is emerging is too small, too wasteful and too ill-focused," according to Nobel Prize-winning economist Paul Krugman.[5]

The IMF is urging its members to implement fiscal stimulus plans in the order of 2% of GDP. It is saying that countries in a relatively stronger position (like Canada) should do more. It argues that if all countries do their part, the world economy will come out of recession sooner.

Let's compare this with Canada's recession-fighting fiscal package, which many here criticize for being too small and ineffective. The January 27th budget outlined a two-year Canadian government stimulus package of close to $40 billion. This amounts to 1.3% of GDP: one-half of what the IMF recommended and less than half the US plan. However, the Parliamentary Budget Officer calculates that netting out the federal program cuts announced in the budget, and spending that is conditional on matched provincial and municipal government funds, the fiscal stimulus package falls to $22 billion, or 0.7% of GDP per year—one quarter of the US plan.[6]

If I were the US president, I would be concerned that the Canadian plan did not go far enough and consequently was free riding on the coattails of a US recovery to boost Canadian exports and foster its own recovery. And I would be pressuring the Canadian Prime Minister for Canada to do more, since chances of a speedy North American recovery would be improved if all partners, especially the strongest ones, did their part.

The President would also want his stimulus package to have the maximum impact on the domestic economic recovery. This is all the more urgent since, to get his package through Congress, Obama has had to sacrifice more effective spending measures for largely ineffective Republican-favoured tax cuts. Implementing 'buy America provisions' would enhance the effectiveness of the stimulus package and the prospects of recovery. Such procurement policies, which have been in place in the US for decades, are allowed under trade agreements—including the WTO and the NAFTA.

Trade, fiscal stimulus and protectionism

The globalization policy establishment—including our own government and opposition leaders—was in a state of high anxiety over the US House of Representatives' version of the fiscal stimulus bill, which requires that US dollars for infrastructure projects use American made steel—warning against repeating the protectionist mistakes of the Great Depression. (This is the same crowd that gave us the deregulated financial globalization that caused this monumental mess.)

Trade Minister Stockwell Day has been uttering stern warnings that US protectionism could trigger retaliatory measures by other nations and a downward trade spiral. (Actually it's the recession that is causing trade to fall.) The prime minister attacked the 'buy America' provisions as a violation of trade agreements and asked Congress to remove them. President Obama and the Senate have moved to calm the waters with assurances that America will not violate its international trade commitments.

Firstly, there is nothing illegal about this type of provision in international trade law. All industrialized nations have them, including Canada. A visit to the Department of Foreign Affairs and International Trade website confirms the legality of 'buy America.' procurement provisions. Trade lawyer Steven Shrybman elaborates:

> "Depending on how they are implemented, local procurement preferences, such as those set out in the Buy America Act, do not offend either NAFTA or WTO trade rules. The right of provincial, state and local governments to use public procurement to foster local or national economic development is one that both the US, and Canada reserved from their international trade commitments. While federal procurement is constrained by international trade law, federal grants or transfers to sub-national governments for infrastructure spending are not…. [Media]Coverage of this issue confuses trade in goods rules, with those of domestic procurement policy. Steel import restrictions would offend NAFTA and WTO rules, and would be protectionist. The use of public funds by governments to support national or local economic development is quite a different matter…"[7]

Secondly, as Paul Krugman argues: under the extreme conditions of the current global slump, trade distortions from 'buy America" would be far less than those caused by a severely underemployed global economy. They would give the stimulus package more bang for the buck, thereby improving prospects of recovery. He concludes: "This isn't an argument for beggaring thy neighbor; it's an argument that protectionism can make the world as a whole better off. It's a second-best argument—coordinated policy is the first best answer… There is a short run case for protectionism and that case will only increase in force if we don't have and effective recovery program."[8]

The US government is embarking on a major stimulus program to combat an extremely dangerous recession. The consequences of deviation from free trade orthodoxy will pale in comparison with failure to revive the US economy. It is understandable that the US would want its fiscal stimulus program to be as effective as possible and therefore would want its infrastructure projects to favour domestic steel producers over imports in reviving its economy, especially if other countries are not doing their part with their own fiscal stimulus packages, especially since it is incurring more debt in the process. It would make sense for Canada and the US to coordinate their recovery packages—especially in highly integrated sectors like autos and steel. In the case of steel, instead of publicly lecturing the US about the theoretical virtues of free trade, Canada would be better advised to push for an exemption from 'buy America'. While I am not optimistic that this would be successful, Canada's bargaining power would be strengthened if it had its own 'buy Canada' procurement requirements from which it could exempt US steel.

Auto sector bailout

The auto sector bailout will also be on the table for discussion. Again, given the highly integrated nature of this industry, the two governments will have to coordinate their bailout packages. Both governments have committed funds. The Ontario and the federal government package is about $4 billion, though its terms and conditions are vague. Support should be conditional on firm guarantees regarding proportional Canadian investment and production opportunities, and progress by the industry in improving the environmental performance of both its production facilities and its vehicles. The mechanisms for this emergency support involve loan guarantees, loans from government banks or other credit arrangements, similar to measures used by the federal government and its agencies to support the Canadian banking industry.

All automakers, including European and Asian, should be pushed to maintain or establish Canadian production content broadly proportionate to their sales in Canada. For companies without a Canadian production presence, this requirement could be met through new investments here, including potential joint ventures with existing automakers (such as Volkswagen's partnership with Chrysler in Windsor).

NAFTA-plus, NAFTA-minus or NAFTA renegotiation?

During the Democratic leadership race Obama pledged to renegotiate portions of NAFTA—enforceable labour and environment standards as well as ending the right of foreign investors to sue governments. He also said that while he would continue with annual meetings of NAFTA leaders, unlike the Security and Prosperity Partnership (SPP) initiative, those meetings would be transparent and big business would no longer have exclusive access.

Both the Canadian and Mexican leaders objected strenuously to the idea of reopening NAFTA. Harper and his trade minister hinted that a renegotiation might see the withdrawal of privileged access to Canadian energy.

Despite downplaying NAFTA renegotiation during the election, and despite the judgment of the free trade punditry that any negotiation will be merely symbolic, there is little reason to think Obama has completely backed away from this promise.

In fact, the economic crisis lends greater weight to the need to seriously re-examine the NAFTA model as part and parcel of what Obama refers to as the failed economic policies that are responsible for the current mess. It also suggests the possibility of adding new items to the list such as new arrangements in the auto, steel and possibly forestry sectors. On January 12, Obama met with President Calderon and reiterated his commitment to renegotiate NAFTA. Calderon has changed his tune and is now calling for minor modifications. Obama will do the same on February 19, though Harper is likely to come back with his own list of NAFTA-plus measures to put on the table.

Harper will likely raise border issues and propose extending the security perimeter outward, around North America, reducing the thickness of the internal Canada-US border. He will also propose a North American environment and energy security accord, as well as further regulatory harmonization—of the lowest common denominator variety. His former trade minister David Emerson is suggesting Canada open negotiations for a customs union.

Whither The Security and Prosperity Partnership

The SPP initiative, launched in 2005, was a big business driven NAFTA-plus initiative aimed at deepening the integration of North American market integration in incremental steps, behind closed doors, and away from parliamentary scrutiny. The business end-game of a deregulated model of harmonized institutions, policies and regulations was shared—to a greater or lesser extent—by all three leaders at the time. Given the power imbalances, the US basically called the shots on the specifics and the smaller partners adjusted accordingly.

Although started under the Martin Liberals, the SPP was for Harper an important tool, not only to cement his alliance with big business, but also to quietly advance his own political vision of a Canada in line with that of the Bush Republicans.

Although information about SPP accomplishments is fragmentary, we know for example that considerable coordinated deregulation was agreed to in this forum—in the area of food safety, transportation, pipelines, drug testing, environment, chemicals, intellectual property, workplace safety, etc.

It is difficult to know at this early stage how Obama will want to recast any ongoing dialogue. Obviously, the US will push its continental economic priorities. Big business in all three countries will not be in the same privileged position to advance its own agenda and will be pushing back against Obama initiatives such as tighter health, safety and environment regulations (requiring possibly de facto upward harmonization). The Harper government will likely also support its business allies against the new US direction.

While upward regulatory harmonization to match any new regulatory improvements is much preferable to the lowest common denominator approach of the last eight years, a progressive Canadian government should always strive to maximize essential policy flexibility—to reflect unique Canadian conditions and to be in a position leap ahead of any floor of standards that may be agreed to. Furthermore, long-standing U.S. corporate hostility to certain Canadian unique regulatory approaches—for example the Canadian Wheat Board, agricultural supply management, or Canadian cultural policies—is unlikely to abate, and could even intensify, in a Democratic-controlled Washington.

NAFTA Renegotiation

NAFTA and other trade and investment agreements using the NAFTA template have greatly enhanced the power and mobility of large corporations at the expense of workers, communities and governments. Acting in a mutually reinforcing way with other neoliberal policies, they have constrained governments' ability to protect their citizens and the environment, to regulate and legislate in the public interest, and to manage industrial and resource development in the national interest. They have played a significant role in depressing incomes and environmental standards, in facilitating the exodus of high value-added jobs, in eroding government fiscal capacity and in weakening public services.

As part and parcel of the failed neoliberal economic model, they have contributed to the current crisis.

Now is the time for these agreements undergo a fundamental rethink. The bias in favour of large corporations and deregulated markets at the expense the public good should be removed. Obama has committed to such a review. A progressive Canadian government should do the same. It provides an opportunity to re-imagine the North American economy in a whole new way.

Renegotiation priorities should be to reclaim public policy space including:

- Eliminate NAFTA's investment chapter provisions that give corporations the right to sue governments for alleged lost profits, giving them the powers to ratchet down unwanted policies and regulations. Through this mechanism, corporations have successfully challenged federal bans on toxic gasoline additives and the export of hazardous wastes while posing a threat to British Columbia's ban on bulk water exports; Newfoundland's local economic development policies have been challenged by multinational oil giant Exxon-Mobil and its control over its resources has been challenged most by Abitibi-Bowater. Quebec's ban on the pesticide 2-4D has been challenged by Dow Chemical.
- Renegotiate energy and other resource policy provisions, notably the "proportionality clause" that compels Canada to continue exporting this country's oil and natural gas resources to the United States, even if these exports result in domestic shortages here at home.
- Negotiate North American autopact-type arrangements in key integrated sectors like auto and steel. Such agreements would apply to all companies selling into the north American market, would set conditions for North American production, protect minimum levels of investment and jobs amongst the three countries, and promote upward harmonization of wages, labour and environmental standards.
- Exclude water from NAFTA and ban bulk water exports.
- Protect workers and the environment. As it stands now, NAFTA functions in such away as to foster a race to the bottom for both workers and the environment in all three countries.
- Create more space for active industrial policies—policies that facilitate domestic processing of resources and greater use of local procurement; and for polices that expanding basic public services like Medicare and education without risk of challenge by foreign investors.

Environment and energy

This will be one of the flashpoints in the bilateral relationship certainly as long as the Conservatives are in power. And Harper will feel the heat to change direction. The Bush White House was the executive office of the American oil industry; and Harper the political mouthpiece of the Alberta oil patch. Together they managed to put a serious wrench into global climate change initiatives. But no more.

It will not be business as usual for Canadian environment and energy policies under Obama. He is serious about reducing America's dependence on imported energy and its dependence on fossil fuels.

On Nov 18, 2008 Obama told a meeting of climate change leaders in Los Angeles: "Once I take office, you can be sure that the United States will once again engage vigorously in these negotiations and help lead the world toward a new era of global cooperation on climate change. Now is the time to confront this challenge once and for all. Delay is no longer an option. Denial is no longer an acceptable response. The stakes are too high. The consequences are too serious."

Al Gore, the world's most prominent climate change advocate, has the ear of the Obama administration and the Congress. Gore spoke to the first hearing of the new Senate Foreign Relations Committee on January 27, urging it to pass President Obama's green stimulus package and bring in, as soon as possible, a national cap-and-trade bill for carbon emissions.

Obama has appointed a strong environment team (a 180 degree turn from Bush's practice of putting industry lobbyists in charge of environmental policy). It is led by Steven Chu, the Nobel Prize-winning physicist, the new Secretary of Energy, and Lisa Jackson, a respected state environmental official, head of the Environmental Protection Agency (EPA). These appointments send a strong signal that environment will not be pushed to the sidelines during the crisis.

Despite the Canadian Environment Minister Prentice's claim that Canada will be a leader on climate change, there is no evidence of a change of direction in the lead-up to the Copenhagen conference in December 2009, where a new global deal on climate change to replace Kyoto will be finalized. Canada is seen in the global climate change community as one of the very worst performers. According to the scientific advice from the United Nations, Canada's minimum targets for emission reductions should be set at 25% below 1990 levels by 2020. However, the government persists in clinging to its current targets which will only decrease emissions by 3% from 1990 levels by 2020.[9]

The Harper government has been gearing up to defend its profligate energy and environment policies. It will call for a North American energy and environment accord to protect its tar sands exports and perpetuate its intensity-based approach to reducing greenhouse gases. It also says it wants to negotiate a North American cap and trade system for greenhouse gas emissions.

It is gearing up to defend against the charge of US environmentalists that dirty oil from the Alberta tar sands should be excluded from the US market. Ambassador Wilson said in a speech to the Economic Club of Toronto on the eve of the inauguration: "This image (of Canada) is fed in part from negative perceptions of the Canadian oil sands industry… But it also stems from a general under appreciation in the United States of Canada's considerable efforts to reduce carbon emissions and to increase renewable energy production—(as well as) a general under appreciation of just how much our two economies are linked." Environmental organizations on both sides of the border are urging Obama in advance of the Ottawa visit not to exempt the tar sands from restrictions on imports of dirty oil.

Comparing the Harper and Obama green stimulus plans highlights the difference in priorities.

Obama announced as part of his fiscal stimulus package $55 billion in clean energy and energy efficiency spending. It includes for example: electricity grid modernization to transmit clean renewable energy, federal building energy efficiency retrofits, energy efficiency and renewable energy research, and home weatherization to help low-income families reduce their energy costs. On a per capita basis, it is 4 times larger than the Harper clean energy measures.[10] What's more, unlike the Harper plan, the US plan is tied to job creation, economic recovery and vision for the transition a green economy

By contrast, the Harper green stimulus plan is pretty feeble. It is small, short term, and linked neither to economic recovery nor to a longer-term plan for transition to a green economy. Its biggest investment is $350 million to support the nuclear energy program and $250 million for research and development into unproven carbon capture and storage. Its mostly symbolic $200 million per year for five years for a "Green Infrastructure Fund" has no implementation plan. The costly Home Renovation Tax Credit does not in any way require that spending improve home energy efficiency. No funding was committed to the government's renewable power program whose existing funds have been fully allocated—effectively ending Canada's commitment to renewable energy. The Canadian government has also refused to join the International Renewable Energy Association.

The Impact of Obama's domestic policy agenda on Canada

Let me conclude with a few observations about the impact of the Obama Administration's domestic policy agenda on Canada. I believe that, on balance, the impact will be positive for a number of reasons.

We are fortunate that Obama is at the helm during this crisis. His economic policies stand to be much more effective in bringing the US economy out of recession than anything a McCain White House would have done, judging by the response of the Republican members of Congress . And recovery in the US is the essential precondition of a Canadian economic recovery.

One of Obama's highest priorities is to legislate an Employee Free Choice Act designed to strengthen unions' bargaining power, which has been decimated over the last three decades. In a January 30 speech reminiscent of Roosevelt's New Deal support for unions, Obama said: "We need to level the playing field for workers and the unions that represent their interests, because we know that you cannot have a strong middle class without a strong labor movement." This is not the kind of statement we are likely to hear from our prime minister. Another priority is to move toward a universal health care system. These two measures (and other related measures) will strengthen both the US social wage and its market wage. If successful they will begin to reverse the enormous growth in income inequality in the US. This will spillover into Canada and offset the relentless downward competitive pressure on Canadian unions, wages and social programs.

The Bush administration, cheered on by the North American business community, deregulated health and safety, labour and environment standards, dragging down Canadian regulations in its wake. This downward cycle will reverse under Obama and a new era of tougher regulations will also spill over into Canada to the benefit of us all.

Obama also marks the end of the tax cut era in the United States. It has been a contributing factor—though by no means the only or even the main factor—to the shrinking of Canadian governments. Once the economic recovery is underway, the US government will need to rebuild its capacity to service its debt and provide the public services that it has promised. To do so, it will increase upper income taxes and close tax loopholes that benefit corporations and rich individuals. This will take the pressure off Canadian governments and provide more space to follow suit.

Finally, though it will remain influential, big business will no longer have the same free rein it has enjoyed for the last three decades. The return of a more pro-active industrial policy in the United States will have a powerful demonstration effect this side of the border, and in some cases—for example in key integrated sectors like autos—Canada will willingly or unwillingly go along.

Concluding remarks

It is tempting to think that the collapse of deregulated free market paradigm will usher in a new era of progressive policy change. But neither the obstacles to change nor the dangers in times like these should be underestimated. The danger, as Naomi Klein documents in her book *The Shock Doctrine,* is that a crisis also creates an opportunity to advance conservative policies that might not normally be possible. Nor should we underestimate the resilience of entrenched elites to weather this storm in the expectation that, after its worst effects have abated, they can carry on as before.

It is also tempting to think that the glow of the "Obama effect" will usher in a new era of Canada-US cooperation. I have cautioned, however, that we are likely to see tensions grow over time with Conservative government. To the extent that the personal relationship of the leaders affects overall government relations, the historical record suggests that Democratic presidents have tended to get along better with Liberal prime ministers and Republican presidents have got on better with Conservative prime ministers. One only has to recall Diefenbaker-Kennedy vs. Pearson-Kennedy; Trudeau-Reagan vs. Mulroney-Reagan; Chretien-Clinton vs. Chretien-Bush.

Regardless of the political stripe of the parties in power and the personal rapport between the leaders, there will always be frictions in the bilateral relationship. The US Congress will always give precedence to domestic interests over Canadian interests. Actions to protect vulnerable sectors or regions are a constant of the bilateral relationship. They may intensify. Usually they are resolved through existing legal and diplomatic channels. Sometimes, when the issue is large enough, the US will simply set aside its trade obligations as it did with softwood lumber.

The huge power imbalance will continue as always to define the relationship, with Canada barely registering on the US consciousness and the US taking up an inordinate space in the Canadian mind. North American integration of the kind we have seen over the last two decades has narrowed Canadian policy space and negatively affected the living standards of majority of people in all three countries. This integration path is neither inevitable nor irreversible. There are alternative paths for managing the vast and highly complex Canada-US relationship.[11]

The challenge for Canadian policy makers is, as always, to preserve sufficient policy space so as to be able chart our own course at home and in the world; to ensure that we have the means to preserve our identity in the face of powerful integrative pressures; and to shape those pressures on terms which allow us to defend our independence.

Notes

1 This paper is based on a lecture given February 5, 2009 at the Karl Polanyi Institute, Concordia University, Montreal.

2 "High-income Canadians", Brian Murphy, Paul Roberts and Michael Wolfson in Perspectives on Labour and Income, Statistics Canada, September 2007.

3 Stephen Ferris and Stanley Winer, "Just How Much Bigger is the Government of Canada? A comparative anaysis of the size and structure of the public sectors in Canada and the United States, 1929–2004" Canadian Public Policy,July 2007, 173–206.

4 Alternative Federal Budget 2009, Beyond the Crisis, Canadian Centre for Policy Alternatives, p.132.

5 New York Times blogpost, February 4, 2009.

6 Parliamentary Budget Office, Briefing Note, Budget 2009 Economic and Fiscal Outlook-Key Issues, February 5, 2009.

7 Globe and Mail February 4, 2009.

8 New York Times blogpost, February 1, 2009

9 See, *Deep Reductions Strong Growth*, study commissioned by the Pembina Institute and the David Suzuki Foundation, December 2008.

10 See CUPE, federal budget 2009 analysis—environment

11 Bruce Campbell, "Managing Canada-U.S. Relations: An Alternative to Deep Integration" in Ricardo Grinspun and Yasmine Shamsie (eds), *Canada, Free Trade and Deep Integration in North America*, McGill-Queens University Press, 2007.

national office • bureau national • 410 – 75 rue Albert Street • Ottawa, ON K1P 5E7
tel: 613-563-1341 • fax: 613-233-1458 • info@policyalternatives.ca • www.policyalternatives.ca