THE MULTICENTERED STATE
CANADIAN GOVERNMENT UNDER GLOBALIZING PRESSURES[1]

Introduction

Keynes is dead! Fordism is finished! Income disparities are increasing![1] Society is polarized! Corporate capitalism has carried off a silent coup![2] The nation-state has been dismantled![3] and shrunk![4]

In the light of these dire diagnoses, citizens everywhere are experiencing high levels of anxiety concerning the social cohesion, economic performance, and political viability of their state structures. In Asia, the devastating combination of currency crises and government austerity imposed by the International Monetary Fund has shaken these newly industrializing states' capacity to promote their interests. In the far more stable context created by the European Union, its fifteen member states share a nagging concern about their continuing capacity to function once they lose their monetary policy and then admit another ten applicants.

Located somewhere in between these extremes of externally determined dysfunctionality and self-imposed truncation, Canadians are beset with doubts about the capacity of their political system to perform its expected functions. They are so bombarded by disconnected bursts of political and economic information that they have difficulty understanding the whole: a plethora of individual analyses does not automatically generate an overall synthesis. When it comes to comprehending the specific entity once known as the nation-state, the dilemma is understandable, for there is no longer just one state to be comprehended. In our postmodern, globalized situation stateness exists on many levels, and governance functions are performed not only on these public levels but in the market place and in society, both within nations and transnationally, because power has been fragmented and reconstituted in many different centres.

To explore the nature of the multi-centred state in the Canadian case, under conditions of centrifugal fragmentation and international integration, is an ambitious undertaking. This chapter takes up the challenge by attempting an exercise in triangulation. *Chronologically*, it asks how the Canadian state has evolved into a five-tier model over the years since the social-democratic paradigm held sway during the prime ministerships of Lester Pearson and Pierre Trudeau (1963-1984), under the neoliberal prime ministerships of Brian Mulroney and Jean

Chrétien (1984-200?). *Functionally*, it identifies the ways in which the state's performance of its principal tasks has altered over this same quarter- century. *Structurally*, it argues that these functions have been performed in a state structure with a disaggregated but interconnected and interactive architecture that operates on five levels, from the traditional local (municipal) and sub-national (provincial) tiers through the federal and on to the more recently established continental and global levels.[5] The chapter's three sections look at the five-level structure of governance, at the Canadian state's economic role, and at the activities of what I term the "civil state".

The Canadian State: a Multi-level Structure

Not all these five levels of governance can be properly described as governments. In Canada only the federal and provincial levels have formal constitutional standing, municipalities remaining the colony-like creatures of their provinces. At the continental and global levels, governance structures are more like works in progress than well established institutions. However, there has been sufficient institution building at these latter levels that governance functions with the quality of stateness are performed to some degree at each tier in the model.[6] This section briefly elaborates this five-tier model, so that we can next see how its chief state functions are activated through a dialectical linking of the many components of this multi-layered, increasingly decentred state.

The Federal State

The federal state started its shift towards neoliberal governance some two years before the election of Brian Mulroney and has been realizing this never openly declared mandate ever since. As many scholars have shown, a prime characteristic of the neoliberal state is to have 'downloaded' functions to 'lower' levels of governance and 'uploaded' authority to the global and continental tiers. In addition to this vertical devolution, the state has 'offloaded' functions to the marketplace by privatizing crown corporations and deregulating sectors that it used to supervise strictly.[7] Paradoxically, these apparent losses of power have occurred because the federal state has displayed considerable strength. It strove for many years to balance its budgets by taking steps that many entrenched interests, including the provinces, bitterly resisted, and it imposed structural reforms, which favoured market outcomes constraining both itself and society. In 1989 the government used its treaty power to help create a new continental regime of accumulation in which it has been an enthusiastically self-restraining participant. Successive federal governments cut and reinvented social programs, reducing citizens' protection from the greater perils of the deregulated market. In each of these cases, Ottawa exerted discipline over the provinces, which were forced to face new difficulties. In short, to divest itself of authority the Canadian state had to take strong action.

The federal state also maintains an important role because it continues to nurture some vestiges of the embedded liberalism that characterized the Keynesian welfare state. Part of the Chrétien Liberals' rationale for deficit elimination has been to ensure that their government can continue to play a role in social policy. In this regard they maintain the paradigm that prevailed under the Pearson andTrudeau governments. While some may not approve of its ungenerous way of life, reports of the federal state's demise are greatly exaggerated.

Provincial Governments

As a rule, federal devolution has increased both the de facto and the de jure jurisdiction of the provinces, which have welcomed the extra power when the financial implications were neutral but have had mixed reactions when it has had uneven fiscal effects. When downloading has been accompanied by general cuts in transfer payments, all provinces have protested. When these cuts in transfer payments have disproportionately favoured the equalization-receiving, have-not provinces, their otherwise-better-off "cousins" have objected vociferously.

Since the Canadian government negotiates trade treaties but can implement them only in areas of its own constitutional jurisdiction, provincial involvement has been necessary to realize what are understood to be the benefits of liberalized trade. For this reason, Ottawa has encouraged increased provincial participation since the 1970s, when the GATT's Tokyo Round first brought non-tariff barriers to the trade negotiating table.[8] Paradoxically, an increased provincial role in trade policy-making has resulted in decreased provincial capacity for industrial policy because trading principles such as national treatment and the right of establishment diminish a sub-national government's ability to foster the competitiveness of its home-owned enterprises. While provincial influence over trade policy has increased, Canada's trade initiatives have been driven by the federal government.[1] The growing authority of global and continental governance over areas of provincial jurisdiction suggests that increased provincial interest in trade policy is the result more of federal initiatives and federal uploading than because of federal downloading or independent province-building.

The provinces' increasing fiscal weight since the 1970s has given them greater authority in what used to be the federal preserve of macroeconomic management, but their use of this authority has been strongly influenced by the federal state. For example, the federal government's 1990 transfer cuts precipitated choleric criticism in the provincial capitals, which then proceeded to bring down just the kind of tough, deficit-cutting budgets that Ottawa had sought to provoke.[2] Monetary policy is a matter of federal jurisdiction and has also been used, particularly via the Bank of Canada's price stability policy, to influence provincial fiscal policy. All those attempting to swim against this monetary-policy tide eventually fell into line, particularly Ontario.[3] In sum, while provinces have acquired increased capacity and authority, they have done so in a neoliberal context that has been largely shaped by the federal state.

The Municipal Level

One consequence of the strain on provincial budgets caused by federal devolution has been the domino effect of further sub-national downloading to municipal governments. The great concentration of power in provincial executives jealously guarding their bailiwick has meant that Ottawa's relations with municipal governments are far weaker than Washington's role in US cities, even though in both countries local governments are constitutionally the creatures of their states or provinces.[4] Provincial restraint on municipalities has drastically curtailed their limited powers, again especially in Ontario, whose principal city, Toronto, has suffered a virtual putsch at the hands of the provincial government at Queen's Park.

Their constitutional orphan status does not mean that Canadian cities are cut off from the international political economy. Indeed, a principal mechanism through which the global and continental orders operationalize themselves is a network of international cities that act as growth nodes and connectors to other cities and their regional hinterlands.[5] The Canadian federal government has helped shape this global-local interface, captured by the notions of 'glocalization' and 'glurbanization', insofar as it has promoted or resisted globalization. In promoting globalization, for example, as subsidizing infrastructure investments designed to support a World's Fair or Olympic bid, Ottawa has enhanced the position of its international cities through which trade is organized – particularly Montreal, Calgary, and Vancouver – at the expense of other urban areas.

The Continental Regime

The uneven projection abroad of governmental, societal, or entrepreneurial actors characterizes the development of governance at the continental level. If an integrated North American market is being forged by corporations operating continentally thanks to the North American Free Trade Agreement's (NAFTA's new rules on investment and trade)[1] and if a halting evolution of continental norms can be detected in the work of dozens of NAFTA's working groups beavering away on specialized issues such as the cross-border transportation of dangerous chemicals,[2] one might think that the Canadian state was on the road to irrelevance. But NAFTA was designed by its authors to prevent any supranational form of continental governance from developing. Far from encouraging greater political integration, its two northern member states are carefully monitoring their borders to obstruct immigration from Mexico and restrict general labour mobility. In the name of their national autonomy, the three governments have already taken steps to hobble NAFTA's putatively autonomous Commission for Environmental Cooperation. In the interests of buttressing this autonomy, they are also resisting creation of a North American monetary authority that might clone Europe's European Monetary Union.[3]

Notwithstanding its lack of supranationality, the new continental governance has had a reconstitutionalizing effect on the Canadian state. Most debated have been the strictures on the range of permissible government action imposed by NAFTA and its forbear, the Canada-United States Free Trade Agreement (CUFTA), on many policy areas formerly considered to be at the sovereign discretion of the federal or provincial states. The problem is not just that NAFTA establishes specific constraints on Canada's industrial, energy, and cultural policy. It is that these policy capacities are altered as if they were entrenched in constitutional form: they cannot be changed back in response to a democratic mandate being won by a political party dedicated to reversing them. Although these inhibitions parallel the negative integration that characterizes the European Union's market-centred and state-limiting processes,[4] their actual effects on Canadian governments have been hard to measure.

A contemporaneous shift in the managerial philosophy of both elected and bureaucratic policymakers away from a big-is-better activism in favour of a small-is-best disengagement makes it difficult to determine whether a reduction in interventionist practices by federal and provincial governments resulted from officials' fear of falling afoul of the new continental rules or from their own conversion to minimum-governmental neoliberalism. Non-decision making is famously resistant to scholarly observation: analysts can rarely tell to what extent NAFTA has prevented state actions that might have been taken in its absence. Furthermore, Canadian decisionmakers may have renounced industrial policies that support national enterprises because of their compulsion to eliminate budget deficits or because they no longer believe that they should be trying to pick winning national champions, not because of NAFTA's principle of national treatment.

The Global Order

The evolution of a global level of governance further diminishes the freedom to run its own affairs formerly enjoyed by the sovereign state. Whether global economic commitments have been adopted willingly or reluctantly, the post-national state has tied its own hands. Its loss of internal sovereignty may be partially offset by a corollary capacity to exercise external sovereignty through participation in intergovernmental decision-making at the global level. This enhanced deliberative capacity may mean little if it only establishes the autonomy-limiting norms, regulations, and disciplines that it subsequently imposes on itself.[5] But if these rules make it easier for a country to achieve its international objectives, then this external sovereignty delivers a payoff at the national and sub-national levels. In 1990, half way through the long Uruguay Round, it was Canada that proposed introducing the more authoritative institutional structure that transformed the ineffectual General Agreement on Tariffs and Trade (GATT) into the more substantial World Trade Organization (WTO).[6] The same round of trade talks also yielded what had eluded the grasp of the Canadian government when negotiating FTA and NAFTA. The WTO's comprehensive subsidy codes combined with its strong dispute settlement body promised to reduce the vulnerability of Canada's exports to the kind of US harassment that can unilaterally allege unfair subsidies and impose stiff countervailing duties.

In principle, Ottawa believed that a mid-sized state was better off in a rules-based system with a dispute-settlement mechanism strong enough to enforce the rules, if the alternative was a power-based system in which the most powerful states imposed their will arbitrarily. In practice the logic of the GATT process was itself based on power: the strongest states dominated the Uruguay Round negotiations, so that the new global rules tended to incorporate the norms advocated primarily by the United States on behalf of its giant transnational corporations TNLs. For this reason, globalism does not necessarily present Canada with a real escape from continentalism. Much of the constraint that the WTO has imposed on Canada in the few years of its existence has been an application of U.S.-inspired rules uploaded from the national and continental levels and entrenched in the global regime. Policies established years and even decades ago to support a modest Canadian magazine economy have been declared invalid, exposing that part of the Canadian cultural system to annihilation. Nonetheless, such global institutions give federal – and, on occasion, even provincial – government officials legitimate platforms on which they can attempt to build coalitions with the like-minded to defend their state interests.

The interplay of exogenous and endogenous forces over several decades has decentred the Canadian state, redistributing power along the federal-provincial-municipal jurisdictional spectrum. Such internal adjustments were not thought to be life threatening to the state. More problematic for its primacy was having the superimposing on it of new international centres for rule making and adjudication at the continental and global levels. To see what this five-level architecture of stateness means for Canadian governance, we need to look at how the Canadian state is carrying out its traditional activities both in economic policy (in the next section) and in its role as civil state (in the section after that).

Economic Functions in a Decentred State

Having located stateness on five levels, we need now to reconsider some of the chief functions performed by the Canadian state. We can examine how its traditional responsibilities have been reconfigured both under external pressures of globalization and under internal forces pressing for political change. Pride of place goes to the state's role as macroeconomic manager. Then comes its familiar guise as industrial promoter, as trade-rule negotiator, andas regulators of banking or telephone systems.

The State as Economic Manager

It is in the state's capacity to direct the economy that neoliberalism's impact has been greatest, whether out of ideological preference or as a response to global or technological 'necessity'. Over two decades the reigning philosophy applied to budgetary governance in Canada has shifted from the language of John Maynard Keynes to that of Milton Friedman. Concern for short-run fine-tuning so characteristic of the Keynesian approach has been set aside in favour of a longer-term structural approach to macroeconomic policy. The earlier priority of reducing the level of unemployment has been displaced by the fight against inflation, just as a Trudeau-era focus on maintaining consumer demand has given way to the Mulroney/Chrétien commitment to making the 'supply side' of the economy more efficient. Deficits, of which ministers of finance once boasted in their stimulative zeal, have become the cause for ministerial apologies. Actively intervening in specific sectors of the economy in order to promote national enterprise has ceded its place to a more generalized concern to get the fundamentals right and less interest in firms performance at the micro-level. The desire to control foreign investment lest it do more harm than good has been replaced by an almost desperate quest to attract foreign investment as a means to and an indicator of global competitiveness.

Since its origin as a resource periphery of more powerful imperial centres, Canada's staple-based economy has always had to take its cues from the global marketplace.[7] It was in no way breaking with tradition, therefore, when neoliberalism in the late 1980s began taking its cues from the discourse of globalization. Recently deregulated global financial markets would not tolerate –

on pain of exchange rate crises induced by currency speculators – signs of uncontrolled inflation in a national economy. The Bank of Canada used this external threat to justify imposing on the economy a tight monetary policy – commonly known as 'zero-inflation'.[8] Canadian economists, who are not generally renowned for social-democratic leanings, wrung their hands at the made-in-Canada recession precipitated by the Bank of Canada's obdurate governor, who demonstrated his de facto autonomy from the Canadian government as a power centre by pushing up interest rates unmercifully and, along with them, the unemployment lines.

A radical reduction of the country's fiscal deficit was a second manifestation of recent macroeconomic responses to globalization pressures. For neoliberalism's first ten years, deficit reduction was a mantra observed more in the breach than in practice. Tight money raised interest rates and aggravated the recession of the early 1990s. Free trade caused sectoral dislocation and severe job losses, provoking increased government spending on social assistance. Both shifts caused the public deficit to swell under the Mulroney phase of neoliberalism. It was only when public faith in Keynesian nostrums about a munificent state had been sufficiently shattered that the federal government (returned in 1993, after nine years of Progressive Conservative rule, to the same Liberal Party that had constructed the Keynesian welfare state) was able to launch an open and unflinching attack on the budget deficit. Whereas Mulroney's government had made many reductions of government spending by stealth, Chrétien's launched a concerted campaign of program slashing in order to reduce the deficit to zero, a target that it reached in 1998.

Although many saw the restricting of government programs as the Canadian state amputating its own limbs, such actions, along with the zero-inflation policy, perhaps allowed it to retain its central function. The neoliberal state might have shed some tasks, but it had clung to its role of economic policeman.

The State as Industrial Promoter

Beyond policies that target the general economic environment, those aimed at improving the functioning of specific economic sectors also distinguish the Pearson/Trudeau state from its Mulroney/Chrétien incarnation.

Under the earlier regime, both the federal and provincial governments were deemed responsible for intervening to save troubled industries and protect national economic players. In the Fordist, post-Second World War compromise between labour and capital, wages rose as productivity increased – thanks to government-sanctioned collective bargaining that gave trade unions the legal right to claim their share of rising revenues. Resulting high wages for workers in assembly-line industries made possible the mass consumption that generated enough demand to keep these manufacturing processes growing. This regime of accumulation shattered in part because it failed to develop complete linkages between the extraction of natural resources and their processing into finished products for local consumption or export. Instead, resources went mostly to the U.S. markets in massive quantities and at nominal prices while manufacturing for the national economy was undertaken by branch plants of U.S. transnational corporations, which typically imported high-cost components for local assembly. In the process, Canada received minimal rents for its resources and contributed to higher returns in the United States. At the same time, the branch-plant economy led to a rising financial drain of management charges, royalties, and dividend payments to the U.S. head-office economy.

The 1970s crisis of Canada's macroeconomic management was linked to this fractured regime of accumulation. With tax revenues from Canada's truncated economic system kept low, the welfare aspect of the federal state never reached European levels in protecting citizens from the vicissitudes of industrialism. Dependence on U.S. capital limited the development of too generous a state. A relatively low level of workers mobilization meant that government was not pushed very hard from 'below'. National unity and nation-building, rather than class struggle provided the dominant axis along which social conflict was organized.

As GATT-negotiated declines in Canada's tariffs steadily reduced protection for territorially based manufacturing through the 1970s, and as the federal government's efforts at developing a post-Keynesian interventionist practice failed by the early 1980s, the logic justifying a century-old industrialization strategy by import substitution collapsed. The Canada Development Corporation, Petro-Canada, the Foreign Investment Review Agency, and the National Energy Program had expressed the faith that the government should control developments within its own territory, particularly for the benefit of the industrial heartland in Ontario. But with new Canadian direct investment abroad having exceeded the entry of new foreign direct investment since 1975, Canada's continentally oriented regime of accumulation could no longer sanction a national mode of regulation that had become intolerable to those, such as the western provinces, that felt that they had never been its beneficiaries.[9]

The neoliberal view of industrial policy was based on the perceived failure of social-democratic efforts to build national champions based in Canada and able to compete in global markets. The shift from importing to exporting direct investment and the resistance of resource-based provinces to subsidy-based policies favouring the industrial heartland helped activist industrial strategies. A traditionally weak state[10] and management's distrust of a labour force that was highly fragmented had also impeded the development of a market economy organized along the lines of the continental European model. For proponents of a liberal market economy whose voices informed the neoliberal consensus by the mid-1980s, industrial strategies were not needed because they did not work.[11] Government should not try to pick winning sectors or firms. Rather, it should let the 'invisible hand' of the market carry out this function. The government's industrial role shifted to getting the fundamentals right, responding to business signals about the kind of tax regime (as low as possible), labour market (as flexible as possible), and infrastructure, whether physical (as high tech as possible) or human (as high quality as possible) that it needed.

Intervention in the national market under the guise of an industrial strategy became unacceptable. Instead, the government took pride in negotiating international rules that were to replace and even prohibit the old ways of shaping the economic game. The federal withdrawal from industrial policy accelerated during the Chrétien Liberals' attack on their inherited deficit. To this end FTA's facilitation of enterprise mobility to the United States or Mexico put heavy pressure on trade unions to make wage concessions and to provide the greater 'labour flexibility' that business in Canada was demanding. Supporting this competitive imperative, the Canadian state whittled down the social wage, reducing unemployment insurance benefits, cutting assistance to people on welfare, and generally doing less to protect citizens from the destabilizing economic circumstances that it was itself fostering.

The squeezing out of Keynesian dogma by neoclassical economic dogma was not the only factor transforming microeconomic management. Astonishing advances in information technology resulting from breakthroughs in both computers and communications, shifted thinking on innovation from manufacturing and productivity to a knowledge-intensive approach. In this new techno-economic paradigm microeconomic, firm-, or sector-centred industrial policy gave way to a focus on investing in education for skills development and in communication infrastructure for at tracting footloose investment to locate in Canada.[12] In this optic, government should be no longer a hierarchically superior organization connected through a vertical relationship with the market, but is the heterarchically articulated agency nourishing a horizontal, information-sharing, and morale-boosting relationship with the private sector. Such rethinking of government's proper role preached moving away from Fordist mass- production assembly plants towards more specialized, more dynamic clustering of flexible, knowledge-based firms with a less permanent, less structured workforce.

If government at any level could assure business a supply of highly skilled, well-trained labour and could absorb the costs of health and disability insurance, if road and rail connections could guarantee the conditions for just-in-time delivery, if the latest, ultra-fast telecommunications infrastructures could be installed, then investors -- no matter whether foreign or national -- would surely come to locate, innovate, and germinate.

Under this decentring approach, sub-national regions become more logical loci of action than the federal tier for the needed public-sector encouragement of private-sector partnerships and alliances. In a huge country containing geographically distinct economic centres, the federal system has difficulty developing a co-ordinated economic activity that satisfies all regions. One national policy configuration does not fit all needs. As a consequence, the provinces may constitute the preferable administrative tier for establishing innovative systems that galvanize private-sector initiatives within a techno-economic, knowledge-based, lean production mission.[13]

The disengagement of the central government could be seen in falling levels of federal funding for industrial programs. The re-empowerment of provincial governments appeared in their taking on the new vocabulary of competitiveness and skills training even when displaying their formal acceptance of neoliberalism. Ontario provides a delicious example of this phenomenon. A new Liberal government in 1985 officially converted to the doctrine of the non-protectionist, knowledge-based economy. In 1990 a social-democratic government pursued this path by establishing partnership programs bringing labour and management together to work out new forms of co-operation, sector by sector. Most recently in 1995 a neoconservative government started off by demolishing these programmatic innovations only to bring them back in when it came to understand the logic of its new role of business promoter in the information-technology age.[14]

Manifesting the reality of glocalization, municipalities conscious of their vulnerability in the face of footloose capital have attempted to generate attractive local conditions such as industrial parks located adjacent to university campuses that are conducive to clusterings of knowledge-intensive innovators. The sharp distinctions that previously characterized municipal, provincial, and federal governments' approaches to industrial development are increasingly blurring. So is the distinction between initiatives undertaken by the public and private sectors since governments, universities, business associations, and private firms are implementing similar types of incubator policies in the quest for the pot of gold called innovation. The decentred state is also an interconnected state.

Disregarding the nationality of capital and welcoming investors, whatever the colour of their money, have characterized Canadian politicians' attitudes for over a century. Patriotic concerns about foreign domination and the resulting nationalist policies to favour indigenous enterprise have been historically exceptional and significant only in certain key sectors. Recent industrial policies appear more to be variations of hybrid approaches. Favouring national champions (otherwise known as picking winners) may have been officially discarded as an approach, but Ottawa found money to put into 'technology partnerships' funds that are targeted to the efforts of home-based corporations – whether domestically or foreign-owned -- to compete in high-tech markets.

Efforts to screen foreign direct investment in order to extract greater benefits from incoming capital (particularly takeovers of existing corporations) were never very effective even though the Foreign Investment Review Agency generated disproportionate amounts of antagonism among American and European investors. Performance requirements on foreign investment have been cut back both by the federal government, which wants to make the economy more welcoming, and by continental and global trade agreements, which have outlawed such governmental devices as improper barriers to economic liberalization.

The end result is that Canada's approach to encouraging enterprise can be compared to pollywog breeding. A generous tax regime to favour research and development, universal public health insurance, high-quality public education, excellent infrastructure: these are the conditions put in place to promote entrepreneurial breeding. Beyond this, government does little to manage the growth process and protect the successful progeny. The frogs' eggs hatch into pollywogs. The pollywogs evolve into frogs. But there is virtually nothing that Canadian governments do to prevent predators from swallowing the frogs as they mature.

The Canadian software industry graphically illustrates this problem. Existing on the periphery of the world-dominant American software sector, Canadian software entrepreneurs have difficulty even getting access to the US-controlled distribution system within their own country's market. Those micro-firm tadpoles that do make it to the medium-sized frog stage tend rapidly to be swallowed by the Microsofts or Disneys or IBMs. Even for a national champion such as Northern Telecom, which owes its success to a long incubation within the protected monopoly of Bell Telephone, the need to survive and grow in the global marketplace has pushed it to locate its major research and manufacturing operations in the United States of America.

Canada's National Research Council still uses its dwindling allocation of public funding to support both pure research and adoption of it's findings by the market through co-operative venture programs. Ottawa still provides selected corporations with discretionary subsidies under its Technological Partnerships program and proffers what it claims to be the world's richest tax credits for research and development which provincial governments complement with their own subsidies and incentives for high-tech skills training. Both levels of government admit their impotence in securing home-based corporations from takeover or emigration and have become hesitant, even reluctant, sponsors of corporate clients. In sharp contrast, the trade-policy function under neoliberalism has become bold to the point of brash.

The State as Trade Negotiator

Both macroeconomic and industrial-policy changes were decided internally in response to exogenous pressures. Trade policy manifests the opposite phenomenon: demands from within the Canadian political system led to an externally moulded policy regime. The ideological pressures for free trade came from a number of sources, especially the perceived weakness of Canadian capital, thought to be flabby because of tariffs and governmental protection.[15] What better way to force entrepreneurs to be free than by pushing them under the cold shower of unprotected global competition? How better to compel protectionist provincial governments to disarm than to face them with an international agreement presenting no alternative and no recourse? In this sense, the misleadingly labelled policy of 'free trade' was Canadian neoliberalism's actual industrial strategy.

In the rationale offered by its proponents, Canadian-American free trade meant not just increased Canadian access to U.S. markets (lower U.S. tariffs) but secure access (exemption from the uncertainty-creating harassment of anti-dumping and countervailing duties that U.S. trade-remedy law empowered American competitors to trigger against Canadian exporters).

In the event, FTA failed to achieve Canada's goal of secure access. It did, however, incorporate the principal elements on the U.S. negotiating agenda, which was integral to a broader American trade strategy. The United States believed that foreign governments unfairly subsidized their exporting producers. While Washington was hardly afraid of the Canadian state, it wanted to use the FTA as a precedent in its dealings with those states whose competitive powers it did fear. Hence any policies regulating foreign investment or subsidizing Canadian enterprises had to be declared unacceptable. Accordingly, once it signed the FTA, Canada could no longer use its comparative advantage in petroleum or hydroelectric resources to give its own enterprises lower input costs for energy. The principle of national treatment when extended from imported goods to foreign investment, forbade governments from favouring their own domestically owned enterprises unless they gave the same grants or incentives to foreign-controlled firms. However 'grandfathered' existing cultural policies might be, any new initiatives to favour Canadian culture at the expense of U.S. entertainment corporations would make any sector of the Canadian economy vulnerable to U.S. retaliation.

Free trade generated an unprecedented polarization in the Canadian political system. The Conservative government's free trade agreement was attacked in the 1988 election by both opposition parties. If the opposition's broad coalition of labour unions and social movements, native peoples and cultural groups, the poor and the pensioned feared anything, it was that the FTA would sabotage the state's economic policy capacity.

Powerful popular resistance to free trade did not stop the Mulroney government from joining with the United States and Mexico to negotiate the

FTA's expansion. NAFTA deepened the disciplines that it imposed on government action, particularly in adding tough intellectual property rights to the new continental rulebook. Nothing daunted by the extra commitments that it had made, Ottawa simultaneously supported the final push of the Uruguay Round negotiations to create the World Trade Organization (WTO).

The combination of neoliberal macroeconomic policies with reduced industrial policies and enhanced trade liberalization has created a decentred political economy characterized by at least five elements blocked continentalism, denationalized industry, labour-market fragmentation, corporate restructuring, U.S. corporate empowerment, and privatization.

Blocked integration. That the Canadian political economy has not become more centralized around the de facto continental capital of Washington is paradoxically ensured by those U.S. interests that do indeed fear the Canadian state and the unfair competition that they allege it promotes. Anti-dumping and countervailing duty actions sponsored by the U.S. government have targeted those Canadian exports that put American producers under uncomfortably high degrees of competitive pressure. The softwood lumber industry induced Congress to change its trade law's definition of subsidy in such a way as to prevent competitive Canadian exports from expanding their share of the U.S. market. Farmers along the forty-ninth parallel in the midwest states have blocked the highways bringing Canadian grain to U.S. markets. Blocking Canadian exports may not be entirely consistent with the spirit of trade liberalization, but, as has so often been the case in the past, it is such manifestations of U.S. economic nationalism that push Canadians to retain their separate political and economic institutions, preventing them from merging in the continental U.S. system more completely.

Denationalized industry. When U.S. protectionism prevents Canadian producers from exporting their goods, it may force them to export their capital, inducing a forced integration of the smaller Canadian sector in the larger U.S. system. Because U.S. anti-dumping policy has been applied ruthlessly to their exports, Canadian steel companies have been compelled to locate their new, highest-technology smelters in the United States, ipso facto weakening this once superior and autonomous Canadian sector and melding it into the ranks of its former competitor.

Labour-market fragmentation. Increased competition from the U.S. Southwest's right-to-work states as well as from Mexico's maquiladora region has induced Canadian corporations to press labour unions into accepting cutbacks in wage and fringe benefits or face plant closures. The extent of concessionary bargaining varies by sector, region, and gender, with its major incidence falling on low-skilled males in unionized environments and part-time females who are reduced to piecework and remain unprotected by union negotiated benefits. Exceptionally, within the automobile sector, which has become decisively integrated on a North American basis following NAFTA, the independent Canadian Auto Workers have

managed to extract from the prospering major car and truck assemblers generous settlements that increased both wages and fringe benefits.
Corporate restructuring. Overall, the FTA and then NAFTA have created a regulatory regime to facilitate a continentalized system of production. Having gained new freedoms from governmental intervention, medium and large-scale corporations have been able to close down branch plants in Canada or restructure their operations for what in many sectors has become a single, continental market.[16] Foreign-owned branch plants evolved into hollowed out subsidiaries or warehouses for their parent firm.[17] Canadian-owned national champions, which once served the domestic market, have restructured themselves to serve the continental market, variously moving their headquarters to the United States expanding by buying out U.S. firms, or being swallowed up completely by their former American competitors. Corporations in some major sectors such as the auto industry have been continentally specialized for several decades.
U.S. Corporate empowerment. The main thrust of the new continental and global trade rules has been to disempower the state by forbidding former practices that directed the activity of both national and foreign corporations within its territory. An ancillary effect of an apparently innocuous rule in NAFTA is actually to give substantial new powers to American (and in principle to Mexican) corporations to prevent Canadian governments from taking regulatory measures that might impinge on the firms' profitability. This provision is lodged in a set of clauses innocently known as 'Chapter Eleven' in NAFTA. The innocence has to do with the chapter's protection of a company based in one North American country from 'expropriation' by a government in another. Understood in Canadian parlance, this protection had to do with compensation in the case of the nationalization of a firm's property. Understood in American administrative law, expropriation and measures 'tantamount to expropriation' include what are known as 'regulatory takings' -- any governmental measure that negatively affects a company's earnings.

As Canadians have discovered in practice, chapter 11 has given American corporations the power to overturn regulatory measures taken to protect the health of Canadians against putatively dangerous substances such as the gasoline additive MMT. The legal reality of NAFTA is stark: foreign corporations have greater rights against the Canadian government than national corporations enjoy, and these rights mean that foreign corporations can overturn the actions taken by democratically elected executives and legislatures.
Privatization. The sale of crown corporations represents another significant rupture in Canadian state practice, expanding the private sector into the construction, operation, and ownership of what used to be considered sacrosanct components of the public domain: highways, municipal water systems, power utilities. The transportation industry has been particularly affected. Once sold off, Canadian National Railways has fallen under majority American ownership and

undertaken a corporate expansion program to position itself as the dominant rail carrier from central Canada down the Mississippi Valley to Mexico. Its previous private sector counterpart, Canadian Pacific Railways, had long since gone 'continental.'

In the airline industry a similar phenomenon has occurred. Air Canada, a now- privatized crown corporation, has taken on U.S. management and, aggressively responding to the Canada-United States 'open skies' agreement, has moved into the medium-distance routes that link Canadian cities more intensively with American airports to the south. Meanwhile Air Canada's private-sector counterpart, Canadian Airlines (formerly Canadian Pacific Airlines), became a minor partner with American Airlines, which in 1999 came close to getting monopoly control of the entire Canadian air system. Air Canada beat off American's attempted hostile takeover to emerge as the country's new monopolist of the airways.

Whether they be of airways or airwaves, monopolies call for governments to regulate. Air Canada's takeover of Canadian Airlines has caused Ottawa to reactivate its regulatory role in the airways, where its formula for ensuring competition in the face of monopoly may well be to open the door to foreign airlines. As for Canada's airwaves, they have shifted from stable regional monopolies to much more volatile, transnational competitive partnerships because of a shift in the Canadian state's regulatory behaviour.

The State as Regulator

In telecommunication a complex set of changes has empowered the federal level of government to disempower itself. Following the Supreme Court of Canada's attribution of exclusive jurisdiction over telecommunications to the federal level and the inclusion of liberalization of telecommunications in the FTA, NAFTA, and the WTO, the Canadian Radio-television and Telecommunications Commission (CRTC) proceeded to reverse Canada's long tradition of establishing regional telephone monopolies in exchange for imposing considerable price regulation. In its place, the CRTC introduced a phased program of deregulation, which is permitting two linked processes: first, the convergence of formerly separated functions such as cable television, telephone, voice, images, computers, and internet communications; and second, the introduction of competition into these services, including the gradual takeover of the Canadian telephone and cable companies by their larger American and European counterparts. As a result, the formerly dominant regional monopolies, Bell Canada and Rogers Cablevision, have entered strategic alliances with far more powerful global telecommunications companies, Ameritech and ATT respectively. At the same time, consumers, whether citizens or corporations, are being wooed with the most up-to-date services, putatively making them globally competitive.

Banking is another area where the federal government has traditionally played a decisive role – one that it may be on the point of abandoning – in maintaining Canadian control of a key economic sector. Having established a national banking system of extraordinary stability, it gradually let foreign competitors enter on a second-class basis. The highly profitable retail market had been effectively reserved for half a dozen Canadian-controlled 'chartered banks,' which have also been allowed in recent years to expand their activities into the formerly restricted domains of stock brokerage, trust companies, and even insurance. Now that financial services have also been brought under the aegis of bilateral (FTA), trilateral (NAFTA), and multilateral (WTO) trade agreements, Ottawa's capacity to maintain the national content of its banking system is at risk.

Recent efforts to consolidate the major Canadian banks has triggered a vigorous debate about the contradictory imperatives of achieving competitiveness or efficiency within the global system (which argues for allowing a couple of national champions to consolidate) and securing competition or equity within the national system (which suggests maintaining a large number of banks). The victory of equity over efficiency in the recent showdown over bank mergers suggests that proponents of a 'civil state' were far from powerless. Indeed, however beleaguered they may be, continuing social and cultural policies reveal that the neoliberal, decentred state still has a social-democratic touch.

The Civil State

In his last mandate as prime minister (1980-84), Pierre Trudeau and his cabinet fought to maintain the welfare state as intended by its Keynesian architects. Established in the Pearson andTrudeau years, universal health care delivered payments through social insurance grants to individuals according to universalistic standards rationalized as rights of equal citizenship. The passage of the Canada Health Act (CHA) of 1984, which prohibited userfees and extra-billing, embodied the Trudeauites' last, perhaps Quixotic, effort to shore up a social security system undergoing financial stress. In this section we consider the federal government's actions in social policies, cultural policy, national unity, and foreign policy.

Social Policies

Policy activists have been insistent about the damage caused both to health care and to the more general social safety net by the severe deficit-cutting measures taken by the federal government and imposed as a consequence on the provincial governments through the mechanism of jointly funded programs. Although Canadians continue to see theirs as a generous welfare state, their social security system has been cut back over the last quarter century.

After their 1984 federal victory, the Progressive Conservatives began by limiting through stealth the growth of social spending.[18] By the time of their re-election in 1988, social programs were overtly retrenched. Following its 1993 victory, the Liberal Party replaced the social framework -- the CHA, the Canada Assistance Plan (CAP) and Established Programs Funding --- with the less comprehensive and generous Canada Health and Social Transfer (CHST). Antipoverty advocates argue that the creation of the CHST 'unleashed the most destructive chain reaction of government domino downloading and government cost-cutting of welfare and social spending that has ever been inflicted on Canada's poor and marginalized populations.'[19] The Mulroney/Chrétien years have seen welfare payments income-tested, targeted, and increasingly made conditional on the recipient's engaging in work or training.[20] The level of public support for the poorest, the oldest, and the least employed has fallen markedly. Cuts have affected funding for public education and for public health, the crisis in which has become a national concern, focused on long waiting periods for hospital emergency services. A sharp increase in homelessness, affecting not just single men but entire families, has become the centre of another national debate. All this evidence of a deterioration in social cohesion notwithstanding, data continue to confirm that, while income inequalities have increased with the rich getting richer and the poor getting poorer, actual levels of after tax income inequality have remained constant during the neoliberal years if one factors in redistributive measures in the tax regime.

By the 1980s and continuing into the 1990s, the Canadian social system was threatening to implode. The weakening of national standards accelerated when Ottawa cut back its social policy transfers to the provinces. Under the CAP, provincial receipt of federal funds required that welfare be available to everybody in need, that there be an appeals process, that the provinces provide certain basic information about their program performance to the federal government, and that no provincial residency requirements be imposed on recipients. The sole surviving condition in the CHST is the prohibition of residency requirements. The CHA's principles are still operative, but erosion in the comprehensiveness of coverage has occurred as funding has declined.

This provincialization of social policy, whose costs can in turn be offloaded to municipalities, has a further disintegrating impact on the federation's cohesion. Since equalization has been built into such programs as the 'cap on CAP' and employment insurance, which discriminate in favour of the less prosperous provinces at the expense of the richer, the divergence of interests between the equalization-receiving and the equalization-contributing provinces has risen.

If sustaining social cohesion is the political rationale for social policies, promoting national cohesion is the political rationale for most cultural policies. But the state's capacity to maintain a vibrant made-in-Canada cultural life is increasingly jeopardized by budget constraints, trade liberalizing agreements, and a deregulated telecommunications system that is powerless to resist the public's bombardment by the U.S. entertainment industry.

Cultural Policies

Cultural policies comprise another area that has been subject to severe cuts in government support. This contraction extends from the Canada Council's patronage in the arts, through public funding for the Canadian Broadcasting Corporation to support for university research. Nevertheless, all these areas of activity have maintained their operations, if with less generous levels of funding and lower levels of staffing. The CRTC, created in 1968 to supervise and control by not just the telephone industry but the public and private broadcasting systems through making regulations and issuing broadcasting licences, has become an important proxy for the state in all its broadcasting activities. It has been regarded as both pariah and messiah - with private interests deeming its policies commercially restrictive- and nationalist groups viewing it as a cultural saviour with insufficient commitment to their cause.

In the private sector, where government regulation has intervened to create a Canadian industry out of what would otherwise have been a simple extension of the American market, signs of life vary from marginal to vibrant. In the film industry most of the very considerable commercial action amounts to producing material competitively priced in low Canadian dollars for Hollywood to market through its global distribution oligopoly.

Despite Canada's need to strengthen the sense of nationhood motivating it to engage in protecting and promoting a distinctive Canadian cultural identity, cultural policy has consistently been challenged by U.S. power and by the neoliberal economic agenda. A good example can be found in recorded music. In the shadow of U.S. cultural hegemony, Canada's recorded music industry has become a vibrant cultural activity, having been fostered by a collection of talent rivalled only by Canada's endless supply of comedians. But while Canadian comedians continue to venture south of the border in search of greater success, the majority of Canada's recordin artists now elect to maintain an identity with Canada as their musical heartland.[21]

Canada's recorded music industry owes its development to an import tariff imposed in the 1920s by the federal government on all finished foreign recordings. This typical strategy for an infant industry created a domestic market for records. Once importing U.S.-made records became unprofitable, branch plants were established in Canada to supply the domestic market from within. Canada's recording business became a miniature replica model of the U.S. industry: each major U.S. multinational firm established record-pressing operations in Canada, with coast-to-coast sales networks to market their products.[22]

While the tariff contributed to the development of a Canadian market for recorded music in general, it did not create a market for *Canadian* music.[23] In the 1960s, Canadian music accounted for 4 to 7 percent of all music played on the airwaves.[24] Further federal legislation induced the market to feature home-grown music. Declaring that domestic talent should have the chance to be heard on

Canadian airwaves, the Broadcasting Act of 1968 empowered the CRTC to establish minimum levels of Canadian music for radio.[25] Assuming the role of cultural protector, the CRTC regulations established minimum levels of Canadian content in AM and FM radio broadcasting. In effect, Ottawa made radio the promotional springboard, sending into the nation's homes music that listeners would not have otherwise wanted to purchase. By 1986, 'Cancon' levels had risen to 30 percent for AM stations and between 10 to 30 percent for FM stations.

With such a significant increase in requirments for Canadian music, radio broadcasters began to demand a greater variety of Canadian artists to play. Accordingly, the record labels began to produce more albums by Canadian acts. The increase in airtime gave Canadian artists more exposure, stimulated rising record sales for this local talent, and further strengthened the country's music industry. Ottawa's import tariff and regulatory policy had created a virtuous, but tenuous, circle of viability for Canadian music.

The healthy market for Canadian music has been seriously challenged in the Mulroney/Chretien period. On the one hand, the FTA eliminated the import tariff, causing the multinational corporations to meld their eastwest distribution networks into single continental systems operating on a northsouth basis. This continentalization of the dominant players deprived the smaller Canadian-owned recording businesses of their national distribution channels. Offsetting this threat is the easier access to U.S. audiences now enjoyed by Canadian musicians who have been signed by American 'labels.'

From the 1960s to the 1980s, a division of labour characterized the Canadian industry. Domestic record labels signed bands and recorded music, while multinational branch operations produced and distributed their recordings. In this process, the domestic record labels retained their ownership of copyright to the music. Canadian-content rules ensured these companies cash from broadcasting royalties. Beginning in the late 1970s, major multinational labels began taking a stronger interest in Canada's music in order to offset a general decline in sales experienced throughout the industry. By the 1980s, when copyright revenues displaced record sales as the main source of revenue in the industry,[26] the multinationals' share of the Canadian industry was growing, to the detriment of local firms.

The negotiation of the FTA and NAFTA gave the U.S. multinationals a chance to change the rules of the game by enhancing the scope of intellectual property rights. After initial resistance, Ottawa accepted Washington's position on intellectual property once it had been incorporated into the Uruguay Round's version of the GATT, which ultimately provided the substance for NAFTA's chapter 17. Article 1706 of NAFTA states: 'sound recording producers shall have similar rights to those of a copyright holder.'[27] Under this innocent-sounding wording if Canadian labels merely record the music, leaving manufacturing/production and distribution to a multinational firm they lose their claim to its copyright. With most firms now relying on the revenues generated from the exploitation of copyrights, article 1706 threatens the survival of many Canadian firms. By the same logic, this provision now grants the multinationals greater distribution and production power, as their own claim to copyright enables them to exploit intellectual property without fear of infringing someone else's rights. Additionally, although NAFTA's provisions on intellectual property rights empowered the U.S. multinational record labels,[28] the WTO's TRIPS granted similar privileges to all multinational labels, further squeezing the independent national record labels from the Canadian market.

Before NAFTA and TRIPS, the federal government was free to alter intellectual property provisions to advance the goals of the domestic industry. Now the its power to change policy is also marginalized, nullifying its ability to protect this part of Canadian culture. The new intellectual property rights are arguably neoliberalism's greatest victory in the cultural sphere.

Television broadcasting is a further area under overall American domination but containing a smaller, poorer Canadian component, whose very existence is the result of state regulation. First the CBC and then Canadian-content regulations produced a minimal level of domestic production of entertainment and documentary TV programming. Francophone radio and television industries are healthier and more vital, benefiting as they do, not only from the federal and provincial governments' subsidy and regulatory protection, but also from the added stimulus afforded by their distinct language.

The threat of U.S. trade retaliation is now a strong *external* limitation to state policy favouring cultural activities. Americans generally consider that Canadian cultural policies are covert protectionist actions that discriminate against the U.S. entertainment industry in order to take a slice from its export earnings. the FTA, NAFTA, and the WTO have given the United States a set of rules that decree culturally protectionist policies to be in contravention of Canada's international obligations – or at least the American interpretation of these obligations.

The new continental and global trade regime will continue to challenge Canadian practices so long as they try to secure a national culture, but it is not the only force threatening to eliminate the state's cultural role. The internet, along with the convergence of computer and mass media delivery systems, threatens to make laws restricting foreign ownership and content ineffective even before the WTO declares them illegal.

It is characteristic of the contradictory nature of the state that the same government both implements policies to protect Canadian culture and signs agreements that put it in danger. While the federal government displays a continued commitment to the ideals of intervention in cultural policy, trade liberalization pulls the carpet from under its feet. Some policy-making powers that were formally held at the federal level have ascended to the continental and global levels. What remains in federal hands has shifted, so that the efficacy of policy has waned. Much of the cultural protection generated in the Pearson and Trudeau years still existed on paper in the Mulroney/Chretien era, but many of these policies are currently in danger of becoming irrelevant or illegal. While Ottawa may continue to sing embedded liberalism's tune in the sphere of cultural policy, neoliberalism continues both to mute the federal government and to overpower its melody with a song of its own.

National Unity

The danger inherent in any claim that a sea change has occurred in Canada's state forms is to ignore the features of continuity that persist from the formally discarded paradigm. Consider, for example, those characteristics of the Canadian polity that Trudeauphiles claim to be his lasting legacy, and which continue to shape the Canadian polity:[29] the Charter of Rights and Freedoms; the impact of multiculturalism and bilingualism; and the long struggle to establish Native land claims, which was launched in the Trudeau years.

Various pan-Canadian aspects of the Trudeau era's policies remain intact and substantial. Bilingualism may not be the most prominent feature of federal policy, but it remained a touchstone both of the Mulroney and Chrétien governments. Multiculturalism, based on high levels of immigration from all continents of the world, becomes every year more entrenched as a central component of the Canadian identity. Most powerful of all the evidence of continuing centripetal tendencies is the cumulating judgments made by the court system – the Supreme Court in particular – in interpreting the Charter of Rights and Freedoms that was introduced into the Canadian constitution in 1982. However neoliberal Canadian politicians may become, Supreme Court judges have retained the liberal spirit in which the Charter was written. Rights of women's groups, of gays and lesbians, and in particular of Native peoples have been advanced over this period in a pattern showing convincing levels of consistency. The deepening of these Charter-based rights boosts federal power because they are defined as pan-Canadian norms.

Foreign Policy

One of the great paradoxes of continental trade liberalization for Canada has been the increased autonomy of a civil Canadian foreign policy – a result thought to be impossible by opponents of free trade ten years ago. In the event, it is the end of the Cold War that has proven the decisive factor. With the East-West nuclear standoff no longer requiring complete solidarity among the NATO powers, Canada has found itself able to take some distance from Washington's positions, whether this be in relations with Cuba (strong opposition to the Helms-Burton Act), peace-making (the landmines treaty), or international law (on international criminal court). Ottawa has resisted the temptation of disagreeing with the United States as a matter of principles, joining the NATO campaign to end ethnic cleansing in Kosovo. To a surprising degree, then, Canada's foreign policy under free trade has taken back power from the continental level. The old formula – maintain good relations with the United States but form multilateral coalitions to pursue other objectives when possible – holds; but the balance between subservience and autonomy has shifted.

Conclusion

This review confirms that substantial changes have taken place in the functions and structures of the Canadian state from the activist, generous practices of the Pearson and Trudeau governments to the leaner and, yes, meaner stances of neoliberal politics. State shapes have shifted in response to a changing global system and have in turn helped to shape that system. The federal and provincial states are different from their modernist predecessors both because of their neoliberal traits and because they have become so tightly interconnected with governance above and below that they each now constitute just one tier in an evolving and nested multi-level state structure. While there has been change, its nature is not always obvious, and its consequences are not always consistent. Continuities with earlier eras also exist, notably a civil service rooted in traditions of respect for the values of the democratically elected government of the day, with bureaucrats guaranteed tenure so that they can serve parties of any ideology with equal and competent devotion. There is some evidence of a return to a more active federal state, as surpluses replace deficits on the public agenda and as the insufficiency of the neoliberal model itself creates the basis for further evolution.

In drawing conclusions, we must guard against nostalgia. Twenty-five years ago those on the left bitterly criticized the inadequate social provision of a state then thought to be reactionary. Now the Trudeau state appears to be decidedly social democratic by comparison with the Chrétien state. Sovereignty is now divisible. Identities are multiple. Governance is deconstructible. As federal and provincial negotiations with Native nations are showing, self government can take many forms, involving diverse geographical and sectoral components, with various types of 'stakeholders' wielding powers of different weights.

The boundaries between state, market, and society have become more porous. It does not follow that the state is declining just because airlines administer immigration procedures at their check-in counters or because advertisers take on the job of policing their own practices. These developments could simply be an indicator of sensible delegation. Similarly, the transnational activity of social movements, epistemic communities, and NGOs may complicate intergovernmental relations but may not ipso facto threaten the raison d'être of sovereign states.[30] While strong states may lose some of their monopoly control over foreign affairs, weaker, more decentralized states such as Canada may gain by co-opting their NGOs' transnational energies to project the national interest abroad.

Even if we have developed a sufficient synthesis to allow an understanding of the Canadian state's evolving nature we have not answered the normative question about how to regain the quality of the social and political life achieved under the welfare state of the first post 1945 decades. To be sure, the phenomenon of globalization may be a process through which capitalism is liberating itself from political control and engendering ever-increasing disparities between rich and poor both within and among countries.[31] Although a decline in the level of social services for the citizenry, a weakening of trade union powers to defend workers, and a diminished capacity to redistribute wealth on egalitarian principles seem to be indicators of social regression inherent in neoliberalism, they do not appear to be necessary concomitants of the emerging multi-level state. Even though the shapes of governance are shifting, the world of federal states may not be as global as both proponents and critics of globalization assume.[32]

If some variant of the proposed 'Tobin tax' on international capital flows were instituted, redistribution of a capital rent in favour of the poor might become possible precisely through a variant of global governance formerly talked about only by dreamy-eyed world federalists. A citizens' version of the Multilateral Agreement on Investment is being proposed by the Council of Canadians, an NGO that has developed an international coalition to demand that rights to given transnational corporations in the global order be balanced by obligations on foreign investors to create jobs with high labour standards, maintain satisfactory levels of environmental performance, and protect national cultural distinctiveness.[33] The European Union has shown that social welfare and workers' rights can be defended in principle – though very imperfectly in practice – at the continental level. Asian capitalism offers an alternative, less individualistic political model for achieving economic competitiveness and social solidarity.[34] In short, capitalisms vary, as do popular responses to them. The postmodern, multi-level state is far from synonymous with a reprise of pre-modern, Dickensian practices.

Ottawa remains potentially capable of restoring the Canadian welfare system but is fiscally constrained. The public knows that social spending lags considerably behind that enjoyed in the Trudeau era, and renewed flexing of federal muscle can be anticipated as budget surpluses swells. Another factor that may result in a different, but reinvigorated role for the Canadian state is the new Social Union Framework Agreement of 1999. It could generate a new species of co-operative federalism, in which Ottawa reclaims some of its earlier functions by enriching its transfer payments and working in tandem with the provinces, although Quebec is again not a signatory.[35] While the rhetoric of consensus around the talks leading to the Soviet Union Agreement disguises inevitable political and jurisdictional disagreements, the Child Tax Benefit, which was their first product, indicates that some movement has taken place. However, since the Social Union has freed the provinces and territories from what they considered the tyranny of federal standards, it would cost Ottawa hefty amounts to regain sufficient clout for it to re-establish these norms.A final danger dogs those who would declare the Keynesian paradigm dead and buried. With substantial resistance to neoliberalism gaining expression both at home (with the distress of hospital and the scandal of e-coli pollution in municipal water supplies brought on by cutting back of the state) and abroad (with the crisis of the globalized financial market system in 1997-98 and dramatic protests lodged against the WTO and the IMF in 1999-2000), no new point of equilibrium has been reached. The neoliberal model leaves the state without an obvious role to play as a buffer against the short-run economic vicissitudes that characterize capitalist economies. In abdicating this function, the federal state exists with a lacuna at its centre.

The neoliberal model has clearly been the winning approach since the Mulroney government took office in 1984, but the silence at its heart renders it incomplete. It is unable to be both true to itself and responsive to the social needs to which governments may feel compelled to respond. Nor does a less regulated global market provide more optimal distributional results on an inter-state basis. Because politicians have deprived themselves of the tools and the rationales for discretionary intervention, citizens demanding a more activist state must speak from outside the neoliberal ideological loop. Over time the neoliberal vision is subject to contestation, against which it has only weak arguments. Indeed, considerable authority and legitimacy having located elsewhere, the federal government may try to reassert itself in ways that it had earlier abandoned and reclaim some of the authority and legitimacy that it had previously alienated. Given the inability of the neoliberal model to respond to some of these concerns, the pendulum may even be poised to swing back towards a state less reluctant to exercise its power to regulate the market and to provide society with the services that it desires. New money for health and other provisions in its 1999 and 2000 budgets suggested the re-emergence of a more socially engaged federal government. Automatic stabilizers and measures to maintain aggregate demand remain in the policy arsenal. Calls for government action to improve physical and human infrastructure are continually heard. Proposals keep emerging from the legal community to create a genuinely supranational dispute- settlement order for NAFTA. Suggestions for government action to re-establish order in the world's financial markets imply enhanced roles for states co-operatively to achieve some variant of global Keynesianism. Municipal elites are rallying behind the notion of a constitutional charter for cities. As a result, the potential for contestation and further change remains at each level of the five-tier system of state power.

What characterized the postwar consensus so celebrated by its analysts was its long period of relative stability. At the turn of the millennium a prime characteristic of the Canadian state is the level of its flux. If it suffers from chronic instability, this is largely because the citizenry, which has borne the brunt of neoliberalism's 'reforms', is clamouring for their attenuation. But it is also because the corporate sector, in its endless efforts to merge and acquire to protect itself from the vicissitudes of the global market, never stands still. What makes future shapes even more difficult to foretell is the proliferation of the sites where policy is made and norms are set. The postmodern state wears a distinctly multi-centred mask.

Notes

[1]I wrote a precursor of this analysis with Tim Lewis as "The Contested State: Canada in the Post-Cold War, Post-Keynesian, Post-Fordist, Post-National Era," in *How Ottawa Spends:* 2000 (Toronto: Oxford University Press, 1999). The present text was deepened thanks to the research contributed in 1999 by my students Sara Boyne, Paola Cifelli, Trevor deBoer, Franca Fargione, Daniela Follegot, Chris Giggey, Michael Hong, Monica Misra, Ambrese Montagu, Karis Rae, Angela van Damme, and Brian Zeiler.

[1] Anton L. Allahar and E. C. James, *Richer and Poorer: The Structure of Inequality in Canada* (Toronto: Lorimer, 1998).

[2] Tony Clarke, *Silent Coup: Confronting the Big Business Takeover of Canada* (Toronto: Lorimer, 1997).

[3] Stephen McBride and John Shields, *Dismantling a Nation: The Transition to Corporate Rule in Canada* (Halifax: Fernwood, 2nd. ed., 1997).

[4] John Shields and B. Mitchell Evans, *Shrinking the State: Globalization and Public Administration Reform* (Halifax: Fernwood, 1998).

[5] In this paper, "regional" will apply to sub-national jurisdictions, "continental" to groupings of several sovereign states that encompass most of a continental landmass.

[6] In this text "state" refers to the enduring – if evolving – ensemble of political, judicial, administrative, and coercive institutions. "Government" will refer to the executive, legislature and bureaucracy that enjoys the current electoral mandate.

[7] McBride and Shields, *Dismantling a Nation.*

[8] On the role of provinces in trade issues, see Douglas M. Brown, "The Federal-Provincial Consultation Process," and "Canadian Federalism and Trade Policy: The Uruguay Round Agenda," in *Canada: The State of the Federation 1987-88*, eds. Peter M. Leslie and Ronald L. Watts (Kingston: Institute of Intergovernmental Relations, Queen's University, 1988); "Canadian Federalism and Trade Policy: The Uruguay Round Agenda," in *Canada: The State of the Federation 1989*, eds. Ronald L. Watts and Douglas M. Brown, (Kingston: Institute of Intergovernmental Relations, Queen's University, 1989); and "The Evolving Role of the Provinces in Canadian Trade Policy," in *Canadian Federalism: Meeting Global Economic Challenges?* eds. Douglas M. Brown and Murray G. Smith (Kingston: Institute of Intergovernmental Relations, Queen's University, 1991).

[1] Ian Robinson argues that CUFTA and NAFTA are centralizing in their effects. See "NAFTA, the Side-Deals, and Canadian Federalism: Constitutional Reform by Other Means?" in *Canada: The State of the Federation 1993*, eds. Ronald L. Watts and Douglas M. Brown (Kingston: Institute of Intergovernmental Relations, Queen's University, 1993); and "Trade Policy, Globalization, and the Future of Canadian Federalism," in *New Trends in Canadian Federalism,* eds. Francois Rocher and Miriam Smith (Peterborough: Broadview Press, 1995).

[2] Robert M. Campbell, "Federalism and Economic Policy," in *New Trends in Canadian Federalism*, p. 200.

[3] The major exceptions are British Columbia and Nova Scotia. British Columbia was not hit very hard by the recession in the early 1990's, but its economy has struggled in the late 1990's, and its fiscal position does not seem to be tending toward balance. Nova Scotia's position, like that of the other Atlantic provinces, is much improved due to ballooning equalization payments which originate in the strength of Ontario's economy over the last year.

[4] Richard Simeon, "Canada and the United States: Lessons from the North American Experience," in *Rethinking Federalism: Citizens, Markets, and Governments in a Changing World*, eds. Karen Knop, Sylvia Ostry, Richard Simeon, and Katherine Swinton (Vancouver: University of British Columbia Press, 1995), p. 251.

[5] Thomas J. Courchene, “Glocalization: The Regional/International Interface,” in *Canadian Journal of Regional Science*, 18, no. 1 (Spring, 1995), 1-20.

[1] Stephen Blank, Stephen Krajewski and Henry S. Yu, “US Firms in North America: Redefining Structure and Strategy,” *North American Outlook* 5, no. 2 (Feb. 1995).

[2] Commission for Environmental Cooperation, NAFTA’s Institutions: The Environmental Potential and Performance of the NAFTA Free Trade Commission and Related Bodies (Montreal: CEC, 1997).

[3] Stephen Clarkson, “The Joy of Flux: What the European Monetary Union Can Learn from North America’s Experience with National Currency Autonomy,” in Colin Crouch, editor, *After the Euro: Shaping Institutions for Governance in the Wake of European Monetary Union* (Oxford: Oxford University Press, 1999).

[4] Fritz W. Scharpf, *Negative and Positive Integration in the Political Economy of European Welfare States* (Florence: European University Institute, 1995).

[5] Wolfgang Streeck has suggested a similar hypothesis for the member states of the European Union, arguing that they have compensated for what they have lost in internal sovereignty by what they have retained in their inter-governmental bargaining in the EU’s various institutions – though decision-making deadlocks and democratic deficits at the continental level of governance are high prices to pay for this exchange. See Wolfgang Streeck, “Public Power beyond the Nation-State: The Case of the European Community,” in Robert Boyer and Daniel Drache, editors, *States Against Markets: The Limits of Globalization* (London: Routledge, 1996), 299-315.

[6] Michael Hart, *Fifty Years of Canadian Tradecraft: Canada at the GATT, 1947-1997* (Ottawa: Centre for Trade Policy and Law, 1998), p. 191.

[7] Daniel Drache, editor, *Staples*, *Markets and Cultural Change: Selected Essays by Harold A. Innis* (Montreal: McGill-Queen’s University Press, 1995).

[8] Observers often describe this policy as one of *zero-inflation*. In fact, it was directed to *price stability*, which may or may not constitute zero-inflation. For example, if prices rise

in one year, but not the next, inflation in the second year would be zero, but prices would not have been stable. See proceedings of a conference held by the Bank of Canada, May 1997, *Price Stability, Inflation Targets, and Monetary Policy* (Ottawa: Bank of Canada, February 1998).

[9] Stephen Clarkson, "Disjunctions: Free Trade and the Paradox of Canadian Development," in *The New Era of Global Competition: State Policy and Market Power*, eds. Daniel Drache and Meric S. Gertler (Montreal: McGill-Queen's University Press, 1991), 103-26.

[10] Michael M. Atkinson and William D. Coleman, *The State, Business, and Industrial Change in Canada* (Toronto: University of Toronto Press, 1989).

[11] Macdonald Commission, Report of the Royal Commission on the Economic Union and Development Prospects for Canada into the 21st Century (Ottawa: Minister of Supply and Services, 1985).

[12] An example of government investment in education is Ontario's Access to Opportunity Program to promote post-secondary enrolment in engineering and computer science programs. Under this program, the government would match private sector contributions dollar-for-dollar. Nortel has already announced to pledge $20 million to the program, as 9,000 employees from its worldwide labour force of 75,000 are engaged in research and development in Ontario. See David Crane, "Nortel sets example by tackling skills gap," *Toronto Star* (3 Mar 1999) E2.

[13] David Wolfe, "The Emergence of the Region State," in *The Nation State in a Global/Information Era: Policy Challenges,* ed. Thomas J. Courchene (Kingston: John Deutsch Institute for the Study of Economic Policy, (1997), 205-240.

[14] Ontario Jobs and Investment Board, A Road Map to Prosperity: An Economic Plan for Jobs in the 21st Century (Toronto: OJIB, March 1999).

[15] Macdonald, a.k.a. Royal Commission on the Economic Union and Development

Prospects for Canada, *Report*, Volume 1 (Ottawa: Minister of Supply and Services, 1985).

[16] Blank, Krajewski and Yu, “US Firms in North America.”

[17] Harry Arthurs, “The Hollowing Out of Corporate Canada,” unpublished paper, 1998.

[18]A noteworthy exception to the fiscal trends outlined has been funding for disabled persons, which has been substantially increased by the federal Liberal government and many provincial governments, including Ontario’s Mike Harris government.

[19] Loren Fried, director of North York Harvest Food Bank, quoted in “Ottawa urged to take lead on poverty issues” the *Globe and Mail* (Dec. 6 1997), A16.

[20] Keith Banting, “The Internationalization of the Social Contract,” in *The Nation State in a Global/Information Era: Policy Challenges*, ed. Thomas J. Courchene (Kingston: John Deutsch Institute for the Study of Economic Policy, 1997), 255-286.

[21] While Canadian musical acts such as The Guess Who, Gordon Lightfoot and Anne Murray are often regarded as some of Canada’s early musical exports, it is often forgotten that Canada has always had a successful stream of artists, though they may not have always achieved success while in Canada. Good examples include Neil Young and Joni Mitchell, both of whom are highly regarded with international success, though were once regarded as non-Canadian simply because of their success in the US. Interestingly, present day Canadian-born international artists such as Shania Twain, Alanis Morisette, Céline Dion and Sarah MacLachlan publicly express their Canadian pride, though the first two currently reside in the US.

[22] In the music industry, the activity of writing music is not considered “production” per se, but rather, “creation” or “recording”. Production refers to the industrial process whereby vinyl records, tapes, CDs and the like are manufactured. See Tim Straw, “Sound Recording,” in *Canada’s Cultural Industries,* ed. Michael Dorland (Scarborough: Carswell, 1996), p. 102.

[23] Canadian music is defined as any piece that satisfies at least two requirements of the **MAPL** system: the **M**usic is composed entirely by a Canadian; the **A**rtist principally performing the music and/or lyrics is Canadian; the **P**roduction was recorded wholly in Canada or performed wholly and broadcast live in Canada; the **L**yrics are written entirely by a Canadian.

[24] Tim Straw, "Sound Recording," p. 132.

[25] CRTC website http://www.crtc.gc.ca/eng/info_sht/g11e.htm.

[26] Line Grenier, "Cultural Exemptionalism Revisited: Quebec Music Industries in the Face of Free Trade," *Mass Media and Free Trade* (Austin: University of Texas Press, 1996), p. 317.

[27] Department of External Affairs and International Trade Canada, *NAFTA: What's It All About?* (Ottawa: Queen's Printer, 1993), p. 80.

[28] Steve Jones, "Mass Communication, Intellectual Property Rights, International Trade and the Popular Music Industry," in *Mass Media and Free Trade: NAFTA and the Cultural Industries,* ed. Emile G. McAnany and Kenton T. Wilkinson (Austin: University of Texas Press, 1996), p. 331.

[29] Andrew Cohen and J.L. Granatstein, editors, *Trudeau's Shadow* (Toronto: Random House, 1998).

[30] Thomas Risse-Kappen, Bringing Transnational Relations Back In: Non-state Actors, Domestic Structures, and International Institutions (New York: Cambridge University Press, 1995).

[31] Stephen Gill, "Globalisation, Market Civilisation, and Disciplinary Neoliberalism," *Millennium: Journal of International Studies* (Tokyo: United Nations University, 1994): 399-423.

[32] On the argument that the world is not as global as is often thought, and that even if it is, downward policy harmonization does not follow, see William Watson, *Globalization and*

the Meaning of Canadian Life (Toronto: University of Toronto Press, 1998); and Paul Hirst, “The Global Economy - Myths and Realities,” *International Affairs,* 73, no. 3 (1997): 409-425.

[33] Heather Scoffield, “Groups Pitch Alternative to MAI,” *Globe and Mail* (8 July,1998), B4.

[34] Richard Stubbs, “ASEAN’s Distinctive Capitalism: Implications for International Trade Rules,” in *Regionalism and Global Economic Integration: Europe, Asia and America*, eds. William D. Coleman and Geoffrey R. O. Underhill (London: Routledge, 1997).

[35] “A Framework to Improve the Social Union for Canadians: An Agreement Between the Government of Canada and the Governments of the Provinces and Territories,” (February 4, 1999).