Canadian Centre for Management Development
Centre canadien de gestion

THE NEW NORTH AMERICA

REPORT ON DISCUSSIONS AMONG EXPERTS AND PUBLIC SERVANTS

September – November 2003

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and
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Canada

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A MESSAGE FROM THE PRESIDENT OF THE CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT

Advancing Canada's national interests and strengthening Canada's sovereignty within a rapidly changing North America is one of the critical policy challenges facing virtually every government department and senior manager in the public service. A sound relationship with the United States as global superpower, neighbour and pre-dominant trading partner is crucial for Canada's prosperity and complements our longstanding internationalism.

With increasing continental economic integration and the changing policy environment triggered by the events of September 11, 2001, traditional lines that separate domestic from international economic and security issues are being further erased, and new policy and horizontal management challenges for Canada have arisen, especially vis-à-vis the United States.

For these reasons, the Canadian Centre for Management Development (CCMD) organized a series of seminars and workshops and two study tours to Washington, D.C. for participating Deputy and Assistant Deputy Ministers during 2003 and 2004 to foster a deeper understanding of the trends and issues, both North American and global, that serve as a backdrop to ongoing policy development and issue management.

During the fall of 2003, the Centre brought groups of senior officials together with distinguished American and Canadian experts from the political, academic, think tank, media and corporate spheres for around 30 hours of debate and discussion on: a) United States foreign policy and world view post 9-11; b) the American economy; and, c) shared and diverging trends in social values. This publication provides an interim report on these first three sessions, largely focusing on trends in the United States. Future sessions will focus on

issues like security, continental governance (including the Mexican factor) and Canadian options.

The discussions were excellent and the response of the senior public servants participating highly positive, in no small part due to the energy and experience of the Co-Chairs, Professor John English of the University of Waterloo and Professor Charles-Philippe David of the Université du Québec à Montréal.

The discussions were off-the-record and the views expressed by participants personal, but I felt that we should give others an idea of the issues discussed. I would like to thank John Higginbotham (who developed this series), Senior Visiting Fellow, and Kevin Ginter, Senior Advisor, Deputy Minister and Assistant Deputy Minister Learning Programs, for writing this publication. Needless to say, this report captures only part of a rich and wide-ranging discussion, and in no way reflects government policy.

Janice Cochrane
President
CCMD

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OVERVIEW

The United States Worldview in Flux

The first session for Deputy Ministers and Assistant Deputy Ministers focused on the foreign policy of the post 9-11 Bush Administration, in particular the war in Iraq. Participants attempted to unravel the historical and immediate factors that have transformed the United States from the laid back "globalizer" of the 1990s into the awakened "hyper-power" of the 2000s. The United States has enunciated a security strategy that promises total war against terrorism linked to weapons of mass destruction, even if this might mean unilateral, pre-emptive regime change as a last resort.

The discussion made clear that the events of 9-11 in New York and Washington, D.C. shocked the American public into a realization that they are no longer protected by their oceans from a dangerous world, and that there are forces in motion that will use even more extreme means to attack innocent Americans within the continental United States if they can. Canadian participants recognized that they still do not fully appreciate the depth of this feeling, or its long-term implications.

The American move against Iraq widened fissures between the United States ("Mars" according to one scholar) and some Western European countries ("Venus") that formed when the common enemy of the Soviet Union disappeared, and which the United Nations (UN) was unable to bridge.

The fusion of radical Islam, terrorism, rogue states and weapons of mass destruction is a new phenomenon, and any American administration, Republican or Democrat, will resist it vigorously. What is not new is America's sense of its global mission, and its historical refusal to allow another power to dominate Asia or Europe to US disadvantage. The United States has acted repeatedly over the last 100 years to preserve balances of power, spheres of influence, and free flow of commerce and navigation and to promote democratic and free market values.

Seen in historical perspective, ninety percent of US foreign policy has not changed since 9-11, but America's explicit (perhaps overly so) National Security Strategy, the invasion of Iraq in 2003, and the style of the Bush Administration has left the impression that the United States is abandoning multilateral institutions for unilateral policies based on national interest measured by concrete results, not resolutions. While this is far from the whole story, (e.g., the US actually supports a number of multilateral institutions and has polarized itself over the details of its anti-terrorism policy) American rhetoric contrasts with Canadians' practical internationalism.

The seminar tested American realpolitik against Canadian internationalism in an amicable setting. Mars and Venus clearly have issues to work through, but the discussion suggested that within a relationship deeply grounded in history, geography and common basic values and interests a closing of differences is inevitable. Participants said they were stimulated by the discussion and left with a more direct understanding of the powerful forces triggered by 9-11 now driving American, Middle East, Trans-Atlantic and world politics.

The US Economic Engine: Strengths and Risks

The second session looked at economic trends in the United States that are of primordial importance as Canada is linked organically to the largest and most advanced economy in the world. The US leads the way in many technological areas, has a business friendly fiscal and regulatory environment, a massive internal market, a culture of individualism and innovation, agile multinational corporations, and a high quality work force. Despite its vulnerabilities — federal budgetary and balance of trade deficits, high consumer debt, foreign competition, limited domestic oil and gas reserves — there was little to suggest that there are underlying internal or external forces that will weaken its global economic predominance any time soon.

Much of the discussion focused on some danger signs ahead, especially budget deficits, the funding of the future medical needs of an aging population, the increasingly attractive politics of protectionism, the weakening of US support for some international institutions, and the impact of the new imperative of security on many policy regimes.

Participants discussed recent trends in the United States economy, their possible impact on the 2004 Presidential election, and their wider significance for United States leadership in the global economy. The United States is emerging slowly but surely from a shallow recession, but is still suffering a hangover from excess capacity created during the 1990s dot-com boom, as well as the negative effects on business and consumer confidence of 9-11, Iraq and corporate mis-governance.

Very low interest rates, recent "Keynesian" tax cuts and the falling US dollar are stimulating the economy as they should, but fewer than expected jobs are being created because of weak business investment and structural changes in the US and in the global economy. The current budget deficit in itself is not a great cause for concern as the US is financing a war, and is recovering from a recession. But longer term, the beltway consensus on fiscal deficit control has broken, with ominous consequences for meeting the medical and social security needs of an aging population starting around ten years from now. The full implications of the drop in the value of the US dollar are not yet clear, but could have considerable implications for the competitiveness of US trading partners like Canada. Experts were impressed with the underlying resilience and flexibility of the US economy in stimulating and reacting to change.

While there are no threats on the horizon to the enormous basic strengths of the American economy, some suggested that the United States is approaching a more painful period of adjustment to the new global economy than many expect. Outsourcing of high value white collar jobs abroad and the growing scale and range of imports from China have become new focal points for protectionist pressures, subtly re-enforced by the psychology of insecurity created by 9-11. The North American Free Trade Agreement (NAFTA) and competition from Mexico also remain neuralgic issues in American politics, and neither the Doha trade negotiations nor the Free Trade Agreement of the Americas (FTAA) are going as well as hoped. Although the United States understands its vital interest in global free trade, American leadership on global economic liberalization may be on a long term downward trend, reflecting trends in both the Republican and Democratic parties.

Both Iraq and the economy will be critical factors in the 2004 Presidential election. Democrat and Republican experts agreed one should not

write off the President because of today's headlines. President Bush will try to keep the economy as a neutral factor, hoping that recent expansion will weaken the charge of "jobless recovery". Despite post-victory problems in Iraq, he is widely seen as a strong leader on anti-terrorism and security issues; this remains an advantage for him and a tricky issue for the Democrats to handle. He is under increasing criticism from the Republican right over the growth of government expenditures during his first term, and faces a variety of protectionist pressures in Congress, a trend that will complicate Canada's task of further securing and stabilizing access to the US market.

American Values in Motion: Understanding the US Social Fabric

The third session looked at long-term trends in American values, at the expression of those values in national policies through the political process, and at some important contrasts with the values and political choices of Canadians.

While in global perspective Americans and Canadians share many broad social and cultural characteristics, the seminar heard strong arguments suggesting considerable and probably growing bilateral divergence between the "average" Canadian and American with respect to nationalism, religion, the role and use of military power, an active role for government (e.g., in redistributing income from rich to poor), tolerance of diversity (e.g., gay marriage, decriminalization of marijuana), and attitudes towards traditional sources of authority.

This divergence is the result of both different historical roots and differing domestic forces in the 80s and 90s, especially the growing influence of neo-conservatism and the religious right in the United States, while Canada remained largely on course in elaborating a liberal social welfare state. A striking longer-term trend is the loss by the Democratic party of its status as the "natural" governing party in Congress, and the risk it faces of becoming a permanent minority party largely concentrated in the Northeast and on the West Coast. Republican control of the Presidency, the Congress and the majority of state governments and the surge of nationalism created by 9-11 have moved the United States to the right and increased the gap with Canadian values and policies.

Nevertheless, it would be a mistake to see these trends as massive, homogeneous or irreversible. US values, opinions and politics remain sharply polarized and fragmented, and there are strong pressures in both America's national character and its highly responsive and fluid democratic system to fold extremes back into the political centre. The recent perception of growing fundamental divergence between Canadian and American values may be overstated, as differences are magnified by the partisan positions of Republicans who control both the Presidency and the Congress in contrast with the centrist positions of the Canadian government.

None of the participants saw an inevitable convergence between Canadian and American values, and no one saw any risk of negative consequences for Canada in following progressive social policies, as these were seen by Americans as Canada's business and within the spectrum of political debate and public policy in the United States itself.

REPORT ON SESSION ONE: THE US WORLDVIEW IN FLUX

The first session in the series focused on the foreign and security policies of the United States in the wake of the terrorist attacks of 9-11. Participants considered, from a number of different viewpoints, the current and historical contexts of US policies in these areas.

The new era in foreign and security policies of the Bush administration crystallized with the release of its National Security Strategy in September 2002. The Strategy outlined the US response to the terrorist attacks of September 11, 2001, and articulated a doctrine of pre-emption and unilateralism if all other means were exhausted. This doctrine committed the US not to wait for future attacks to occur before acting, but rather to "act against such emerging threats before they are fully formed." This doctrine served as the backdrop to the US war in Iraq to remove the regime of Saddam Hussein.

The impact of pre-emption as a cornerstone of US foreign and security policies on US allies such as Canada, and the extent to which the doctrine might lead the US increasingly to "go it alone" to defend itself, formed an important part of the discussion in this session.

Participants were reminded that although American foreign policy had recently aroused great concern and ignited widespread protest in many countries, George W. Bush, as a presidential candidate in 2000, evinced little interest in seeing American troops involved in foreign conflicts. The 9-11 attacks and the urgent need to prevent future, even deadlier, attacks drove President Bush to undertake the radical reassessment of US foreign policy that resulted in the National Security Strategy of 2002.

The realization that the US would, if necessary, act without the consent of its European allies and the UN — and that the US could not count on its closest allies when it declared

its vital interests at stake — caused a historic breach in the transatlantic alliance created during the Cold War. The Cold War alliance, embodied by the North Atlantic Treaty Organization (NATO), was successful because the Europeans and the US both agreed on the nature of the threat posed by the Soviet Union and what to do about it. The Alliance also worked because the Europeans understood that their security depended directly on US power and its presence in continental Europe.

For some, the end of the Cold War in the early 1990s spelled the end of this transatlantic consensus. These observers argue that as Europe has moved toward greater integration, it has also begun to seek a more unified and independent position on the international stage. Thus, the "golden age" of alliances centred on the US may be coming to an end. But for the US, others argued, this does not have to be the insurmountable obstacle that some have described: it can, rather, adjust and find "coalitions of the willing" when required.

Some participants argued that the existing multilateral and international institutions such as NATO and the UN have outlived their purpose and lack relevance in this new era. The UN in particular was designed to deal with conventional threats within a traditional state-based environment: it is not equipped to handle the new threats posed by terrorists and failed, or rogue, states.

Other participants, however, worried about the US weakening its support for a rules-based international system in favour of pre-emption. The notions of pre-emption and unilateralism need to be thought through; it is now time to re-examine our common interests and work collectively on a shared agenda. Surely it was an exaggeration to write off American and European interests in the Alliance and the UN. However, it was pointed out that multilateralism by itself does not necessarily ensure better policy, and one should not presume that the rules work simply because they exist. The terrorists, after all, and the rogue states that assist them clearly did not and do not play by any rules.

Participants also stressed that the US should remember that Canadians shared the pain of 9-11 and stand ready to cooperate on the defence of North America. Canada's position on Iraq reflected the belief that Iraq simply did not constitute an immediate threat to the US. Our action in Afghanistan, nonetheless, showed how seriously we took the threat of terrorism.

Ultimately, nation-states still matter a great deal even in an era of globalization, and the final determination of what constitutes a threat and what does not must be made by the country concerned. After the attacks of 9-11, some participants argued that the US cannot afford to be wrong. Furthermore, those who are fearful of the US "running amok" should understand that the pre-emption doctrine will only apply in the most "toxic" cases — cases where all other approaches have failed.

Some at the session wondered about the effect US support for Israel has had on the terrorists' ideology, but were reminded that the 9-11 terrorists had no ties to Palestine and were more likely motivated by a fanatical, Islamic vision of the world. It is perhaps important to keep in mind that al-Qaeda's terrorist attacks began in the early 1990s, just as the Oslo Accords were being signed and optimism surrounding the possibility of lasting peace in the Middle East was at its height. Indeed, some argued that no country has done more to try to secure a lasting peace between Israelis and Palestinians than the US.

The focus then shifted to what is motivating the US administration in the war on terrorism. The cool reception that delegates gave President Bush at the UN in the fall of 2003 illustrated the difficulties that the US will encounter in the international community as it tries to implement its foreign policy. A participant suggested that the UN delegates' treatment of President Bush left little doubt that the rest of the world does not "get" George W. Bush. The world wonders what is motivating him, what is driving him to pursue what some see as an aggressive agenda with scant regard for international institutions.

Some participants felt that what motivates the administration is the well-grounded fear that the US may be attacked again, this time with results far deadlier than those of 9-11. Given the difficulties in detecting, intercepting and defending against every possible or imaginable threat, President Bush and his advisers have decided that the best defence is a good offence. The Bush Administration's fears may seem exaggerated to people in other countries — and thus the unilateral, pre-emptive strategy an over-reaction — but with Iran and North Korea actively developing nuclear capabilities — and maybe "loose nukes" — it may be that such fears are in fact justified. In any event, whatever one thinks of current US foreign policy, its critics have yet to offer a convincing multilateral security alternative to the American public.

Some participants suggested that critics' fears of the US acting unilaterally and pre-emptively with abandon are overwrought. It is clear that — notwithstanding the strictures of the National Security Strategy — the US will engage in "selective unilateralism." While the costs of the war in Iraq, in both human and economic terms, have not been high from a historical perspective, it is possible that they will prove unsustainable in the current context. Moreover, despite current US policy, a deeper trend has always existed in US foreign policy, one that has followed Jefferson's advice to avoid "entangling alliances" and "foreign adventures," a view strengthened for a time by the Vietnam experience. Domestic and international factors could well serve to limit US military action abroad in pursuit of its National Security Strategy.

The implications of the Strategy will undoubtedly be felt in Canada and in the other countries of the Western Hemisphere. In fact, the Hemisphere can be said to constitute the first security zone of the US both historically (the Monroe Doctrine) and geographically. Participants considered this zone in terms of concentric rings, with Canada occupying the first, Mexico the second, and Brazil and the Southern Cone of South America the third. Complicating matters in the region for the US are the fragile economies and harsh social realities of many countries after a decade of neo-liberal economic

reforms (with mixed results) advocated by the US as part of the "Washington Consensus." While democratic governments are in place throughout Latin America and the Caribbean (with the notable exception of Cuba), sustained economic growth and significant poverty reduction remain elusive. How US security concerns will mesh with Latin American economic concerns remains to be seen.

In fact, the economy and trade, and not security, will be the principal preoccupations for both the Western Hemisphere and many countries around the globe. With the World Trade Organization (WTO) suffering a setback in Cancun and the FTAA process slowing down, how will US policy encourage further economic integration and development in the Western Hemisphere and worldwide? Participants saw that while the President has considerable power with respect to foreign and security policies, he wields significantly less power when it comes to international trade agreements. In this area, the President must work much more closely with Congress, which has important constitutional powers concerning international trade. Indeed, numerous trade treaties have never even been ratified by the US Congress.

Finally, participants were offered a historical perspective of the US worldview. It has become commonplace to refer to the National Security Strategy as a watershed document which marks a decisive shift in US foreign and security policies. However, in some ways, not that much has changed: the US has always been committed to the free flow of people and goods; it has always been prepared to act pre-emptively to defend itself (in the past, Europeans have also reserved this right); and, since World War II, it has been committed to maintaining military superiority over other countries. These are fundamental tenets of US policy and will likely remain so for the foreseeable future.

What, then, has changed? If one goes back to the end of the Cold War, one finds a period of great optimism in which many believed that the "end of history" had arrived and that human civilization was now free to pursue the benefits of liberal democracy and free-market economics in a globalizing world.

However, the terrorist attacks of 9-11 showed that history is not "over" and that existential conflicts over contrasting visions and ideologies will still bedevil us and cause great bloodshed. Indeed, in this respect 9-11 may be, sadly, a harbinger of things to come.

Another important change may involve the transatlantic links between the US and Europe. Put simply, it may be that the US and Europe will have much less to do with each other at the strategic level than during the Cold War. For some observers the US may feel that Europe matters less and less as the latter is preoccupied with burying historic antagonisms and deepening its own economic and political integration, and as its population (and perhaps its Gross Domestic Product (GDP) declines.

Finally, it was argued that Americans have grown more suspicious of institutions. These include domestic institutions, as well as international ones like the UN. Americans will probably be even less inclined than in the past to cede authority to such international bodies, especially when vital US issues are at stake.

Others argued that the US would continue to support NATO and the UN once the Iraq crisis subsided. They wondered if the US, through its new policies, has not caught itself in a trap, and if there is not a better, more sustainable way to deal with terrorism by considering its roots.

But the problem it was argued is that terrorism is an immediate threat that has to be dealt with now and leaves little time for reflection on longer-term strategies. Besides, the US believed it was pursuing just such a long-term strategy when it worked to bring peace in the Middle East through the Oslo Accords, and again when it came to the defence of Muslims in Bosnia and Albanians in Kosovo. However, it is clear now that these actions have had no effect on the mindset of the Islamic terrorists.

Some also asked if the current situation does not run the risk of provoking a "clash of civilizations" as foreseen by Samuel Huntington, or whether current US policies, by undermining

international institutions, will not lead to greater instability and even anarchy. A clash of civilizations may be occurring, some argued, not between the West and Islam but rather between moderate Muslims and the extremists. As for the danger in discarding multilateral processes, a good number of Americans feel that such processes are too unwieldy and too slow in dealing with the vital issues that will affect not only the US but the world as a whole, while other Americans see working with others as the bedrock of US foreign policy.

REPORT ON SESSION TWO:
THE US ECONOMIC ENGINE: STRENGTHS AND RISKS

The second workshop in the series focused on some of the economic successes of the 1990s but also explored the recent economic downturn in the US. Participants considered some of the critical challenges facing the US economy in both the short and long-term, including the current so-called jobless recovery, competition from emerging markets such as China and India, and the hard choices confronting the US concerning health care and social security spending in the face of chronic deficits.

In analyzing the US economy over the past ten years, one participant saw it in four distinct phases. The first phase is characterized by a recession provoked by excess capacity, i.e., the boom years of the 1990s which came to an end in 2001-02. While previous US recessions have been typically the result of some kind of external energy related shock (i.e., the Organization of the Petroleum Exporting Countries' dramatic rise in oil rises following the Yom Kippur War of 1973), this latest economic downturn was a "home-grown" phenomenon, the result of excess capacity and over-production. The Clinton years constituted the biggest period of economic expansion in the post-war period. The nature of the expansion, fuelled in part by the boom in hi-tech stocks, led to a mindset that US Federal Reserve Chairman Alan Greenspan famously termed as "irrational exuberance." The continued high growth rates and excessive optimism encouraged many companies, notably hi-tech companies, to forecast continued growth and high demand. When over time these projections proved unrealistic, companies began to scale back production and as a result triggered the economy's downward spiral.

The second phase involves a recession that did not turn out to be as severe as many feared. As in any economic downturn, the general expectation was that as companies scaled back on capacity, consumers would do likewise and spend less,

thereby weakening the economy even more. However, this negative scenario did not materialize, as the US consumer proved more resilient than expected. Another surprise has been that consumer spending on automobiles and housing has led the way in forestalling a deeper recession. In previous recessions, purchases on cars and housing declined with the economy: in this case, they actually increased to record-setting levels. Why did this happen? There are a number of possible explanations, including significant stimulus from the Federal Reserve, extensive re-financing from lending institutions, and the simple fact that for many families their homes, not equities, are their most important asset.

Phase three relates to an economic recovery that has been a disappointment. Here, one could employ another metaphor, that of the marathon race, and ask if the US consumer can "go the distance" and maintain high levels of spending. In 2002, anxiety over the Iraq crisis and a wave of corporate scandals plagued the economy and resulted in three quarters of weak growth and the loss of three million private sector jobs. Nevertheless, even as companies scaled back and reduced costs, they continued to modernize and invest heavily in new technologies, thereby maintaining high productivity and keeping an edge on the competition.

Finally, in the fourth and most recent phase the economy is showing real signs of improvement. Overall optimism and a number of economic indicators are up, and many are predicting strong growth. Participants saw that the prognosis for the medium-term is somewhat ambiguous. In spite of the good news on many fronts, other factors cloud the short-term economic horizon. For example, high levels of excess capacity are still present in the economy. There is also the phenomenon of the "cautious CEO" who, burned by unrealistic growth forecasts in the 1990s, is now preoccupied by putting in place a sustainable cost-structure; in fact, only 14% of CEOs plan on doing any new hiring in 2004. What is more, the strong housing and automobile purchases that kept the recession at bay in 2002 now, ironically, work against the economy as consumers, having just bought their house or car, will not be

spending on these items in the near future. Consequently, they deny the economy the boost they provided with such purchases in past recessions. And lastly, many states and localities remain mired in a difficult fiscal and economic position. Nevertheless, the positive "animal spirits" of US entrepreneurs and investors were seen to be on the rebound.

Participants' comments covered a wide range of issues, including NAFTA, the lack of a North American economic consensus, and the economy's impact on the presidential election of 2004.

It was noted that, over the past couple of decades, the North American economic space has grown larger than the political space. However, according to some observers, Canada and the US seem to have developed different approaches with respect to deficits and protectionism and have yet to consider a common economic agenda for North America. The continued success of NAFTA and overall trade and economic liberalization will require strong American leadership, which may be currently lacking in both US political parties. An American participant suggested that Canadians will need to cultivate even better relations with people in both parties at the highest levels to be successful in advancing their own initiatives and interests in Washington.

Participants examined two issues with significant long-term implications for the US economy: the effect of China and the perception that this country (and India) is taking jobs away from Americans thanks to a deliberately under-valued currency; and, the Bush tax-cuts, which risk burdening the US with long-term budgetary deficits.

One participant wondered about the truth of reports suggesting that the cuts are ideologically motivated. Is it true that President Bush's tax-cuts are merely a way to deny funding for social programs and "starve the beast" of federal spending, as economist Paul Krugman alleged in a recent article? A panellist suggested that the motivation behind tax-cuts might have more to do with securing a short-term political gain in preparation for the 2004 election. By contrast,

the fiscal policies of the Democrats revolve around three not easily reconcilable objectives: protect the middle class tax-cut, provide universal health care, and balance the budget. How to deliver on all three is the dilemma currently facing the Democratic presidential candidates.

One participant asked if Canada's refusal to support the US during the Iraq crisis created any long-term damage to Canada's interests in Washington, D.C. It was suggested that any hard feelings over the issue were felt to be specific to the Chrétien administration and to the issue of Iraq itself and were already waning due to the need to cooperate on other issues. It is worth remembering that US public opinion is strongly divided over the issue as well. Nevertheless, an American participant suggested that when visiting Washington, D.C. Canadians should make a stronger effort to reach out to Republicans — especially in Congress and the think tanks — and create stronger links with members of that party.

A concrete example of the excess capacity problem referred to above can be found in the auto industry. This has resulted in lay-offs and plant closings on both sides of the Atlantic as the Big Three (Ford, General Motors and Daimler-Chrysler) watch their market share decline against European and Asian imports. Another problem facing car makers involves their aging workforces and the "legacy costs" for such workers (i.e., health care plans, pensions). This issue will loom very large in the near future.

However, while auto market opportunities are diminishing in the developed countries, they are increasing rapidly in the developing world. Indeed, one auto giant has recently announced significant new investment in China as that country's domestic market expands rapidly, and Mexico will also see considerable growth in its domestic market. These developments reinforce the inter-connectedness of the world economy and the competitive pressures that emerging markets can bring to bear on more developed economies. The auto North American industry is also facing stiff competition from China and India in, respectively, automotive parts and knowledge workers.

The importance of the automobile industry in the history of North American economic integration cannot be overestimated. Indeed, one could argue that the 1965 Automotive Products Agreement between Canada and the US — the famed "auto pact" — was the first step on the road toward the Canada – US Free Trade Agreements (FTA). The access to the US market provided by the FTA and NAFTA was a major factor in Canada's strong and sustained economic growth throughout the 1990s.

One participant felt that it is time to look at continental economic integration fifteen years after the signing of the Free Trade Agreement (FTA), and ask if continental free trade is all it could be. In essence, Canada and the US have created a customs union but without the full advantages of one. One area in which our current economic integration falls short has to do with our respective regulatory regimes. Indeed, one might even invoke Freud's famous theory of the "narcissism of small differences" in this context. We insist on keeping separate regimes in areas like food and drug regulation when it would make sense to harmonize the process for approving new products in both countries.

Stepping back from the more detailed aspects of Canada-US economic relations, participants explored the differences in Canadian and American attitudes. A participant argued that Canadians need to show greater understanding and tolerance when the US pursues policies that Canada disagrees with. In the wake of the 9-11 terrorist attacks, Canadians should make a greater effort to understand Americans' fears. Canadians should also be mindful of the importance of the US as the principal buyer of our goods: a sense of respect for our main "customer" should prevail in our dealings with the US.

Following the presentations and subsequent round table discussions, participants wondered if the level of Canada-US economic integration created by the NAFTA has left Canada vulnerable. Fifteen years after the signing of the original FTA with the US and 10 years after NAFTA, are we not now too dependent on trade with just one country? The panelists responded by reminding participants of Prime Minister

Trudeau's failed efforts at finding a "Third Option" in the 1970s that would diversify Canada's trade and lessen dependence on the US. It was argued that this plan fell short, however, because it was motivated by political concerns; if the business community were asked to explore Canada's international trade options, the results might have been different. The point was also made that North American free trade has made the continent the world's most powerful economic bloc, whose total GDP of $11.4 trillion far surpasses the $8.3 trillion of the European Union. This led one participant to invoke Napoleon's dictum that "geography is destiny," arguing that living beside — and having access to — the world's largest and most prosperous economy is not such a bad thing.

The workshop closed with a presentation on the short and long-term economic outlook for the US, in particular as it relates to the challenge in funding social programs for an aging population.

While the short-term scenario for the US economy is not as bad as some critics suggest, it was suggested that the long-term scenario is in fact much worse than many believe. In the short-term, the economy is expanding, and productivity growth is robust. The long-term problems have to do with the strains that will be felt over the next ten to fifteen years in funding health care and social security for an aging population. According to some specialists, the projections recently put forward by the Congressional Budget Office (CBO) illustrate how the current administration has failed to grasp the seriousness of the problem.

Among the CBO's projections is that there will be a federal surplus of $251 billion for the period 2005-2014. An expert revealed that this projection rests on the crucial and mistaken assumption that social security reserves are available for current spending. If one leaves these funds outside the calculation, the surplus turns into a substantial deficit of approximately $7-9 trillion. The CBO projections also fail to take into account the rising costs for social security, Medicare and Medicaid, not to mention the growing interest on the national debt.

It was suggested that meeting the rising costs of social programs for an aging population will be the most important domestic policy challenge in the US. Some conservatives favour giving individuals more "autonomy" in managing their pensions and health care through a system of "individual accounts." But this will simply divert money from reserves to private accounts and not alleviate the overall strain on the system. This leaves basically three long-term choices: cut back pensions and health care benefits (that are already among the lowest in the industrial world); raise taxes by about 10% of GDP; or, borrow for as long as possible. Whichever option that the US eventually adopts, the consequences for American democracy as a whole may well be profound.

Some participants wondered about the institutional capacity in the US to react and deal with this crisis. While it is true that the presidential/congressional system poses real problems in this regard, one should not forget the experience of the 1990s when US leaders were able to work out a consensus and resolve certain economic and fiscal issues. Unfortunately, this consensus no longer exists. It is possible that a way out of the pension/social security dilemma will involve shifting costs to the elderly or those more able to pay, in addition to continued borrowing and deficits. Also, the US might finally adopt a value-added tax (VAT).

A final question addressed the situation of the states. States generally play a small role in the delivery of social programs, with the important exception of Medicaid. In this regard, the levels of coverage and benefits vary significantly from one state to the next. An American participant suggested that the federal government in Washington, D.C. could use its power to ensure a broader, more uniform level of coverage across all states, as in Canada.

REPORT ON SESSION THREE:
AMERICAN VALUES IN MOTION: UNDERSTANDING THE US SOCIAL FABRIC

The third session in the series examined recent changes in US values and public opinion and how these changes compared to the Canadian and global context. Specifically, participants explored whether US society, in the aftermath of both electoral gains by the Republican Party and the war on terrorism, is becoming more conservative and nationalistic. Participants also looked at the political horizon in the US as that country gears up for its presidential election in 2004. And, finally, participants considered whether American and Canadian values are moving closer together or pulling farther apart — the well-known "convergence" debate.

The session opened with an examination of some of the "mega-trends" in American public opinion over the past few years. Americans' attitudes towards government are framed by the famous and persistent split among voters in the 2000 election between "red" (Republican) and "blue" (Democratic) states. Americans' attitudes have changed somewhat since the Reagan era and its emphasis on small government. Americans do not want drastic reductions in the government, much less a full-scale shutting-down of government as was the case in in 1995. Nonetheless, there is a sense of disenchantment among the public today, but it has more to do with perceptions of how government is managed by politicians and civil servants than with the legitimacy of public institutions themselves.

The split between the "red" and the "blue" states reflects a regional aspect to the US political scene that has changed enormously in the span of a single generation. The South, for instance, was once solidly Democrat and the Northeast solidly Republican. The partisan configuration has now been turned upside-down, with the Democrats dominating in New England, but trying desperately to win over the "NASCAR Dads" (e.g., southern white males) who have voted increasingly

Republican for the past thirty years. The overall picture is one of a "bi-coastal liberalism" on the one hand and conservatism in the South and Midwest on the other.

Other major trends in US society include a growing sense of self-reliance and self-confidence, particularly among young Americans. They are less inclined to look for help from the government, and they expect to change jobs more frequently than previous generations. This sense of self-reliance and self-confidence also manifests itself in the debate over a previously untouchable federal program like social security.

The debate over social security also leads us to another important trend — the rise of the investor class. The can-do attitude described above – combined with the Internet and the stock market boom of the 1990s — has given rise to a new group of Americans who believe strongly in their ability to get rich on their own. These Americans do not look to federal programs like social security for retirement planning, but rather believe they can achieve long-term financial security through their own investments, independent of government. They see themselves as middle-class and are optimistic that they can move up the social ladder.

Finally, when it comes to trends in social issues like tolerance, religion and marriage, Americans have grown more tolerant when it comes to race and homosexuality, and yet at the same time they have become more religious. Church-going and marriage are strong indicators of political affiliation, with more Republicans religious and married and more Democrats secular and single. With respect to race and ethnicity, younger blacks are becoming less reliably Democratic in their politics and Latinos, strongly influenced by "family values" issues, increasingly leaning towards the Republicans.

Participants then examined the US political panorama in the run-up to the American presidential and congressional elections in 2004. With voters still evenly divided between both parties, Republicans and Democrats will face a serious challenge in securing the support of a majority of voters. Insofar as the Democrats are concerned, one important factor

would be the presence or absence of Ralph Nader splitting the vote, as he did in 2000. With no one to split the Democratic vote in 2004, the Democrats should keep the same strategy as in 2000 and vigorously pursue victory in so-called "swing" states. They will of course focus on President Bush's record.

One expert suggested that the Democrats will also have to "plant seeds" among voters, a strategy that was successful for President Clinton and Vice-President Gore during their Administration. For example, in the 1990s the Democrats repeated a message of personal responsibility that then allowed them to introduce welfare reform. The Republicans have also been effective in "planting seeds" in the minds of voters. In their case, they have delivered a message of discontent with a society that, in their view, has become permissive on social issues while at the same time has threatened the constitutional right to bear arms. The Republicans' ability to capitalize on this sense of discontent led to their historic election victory in 1994, when, led by Newt Gingrich, they were able to win back control of the House of Representatives after 42 years of Democratic dominance.

Indeed, it is possible that the Democrats never really recovered from this defeat. To get over the shock of that loss — and regain control of the White House and Congress — the Democrats will have to successfully reach out to the "swing" states. One American participant emphasized that they will also need to present a strong position on defence and national security.

One participant wondered whether voter apathy, a problem in Canada, was also a concern in the US. It is a problem at the state and municipal level, but in 2000 Al Gore did get a good turn-out. Participants were reminded that in the US, unlike in Canada, voter registration is the key and parties are responsible for getting their supporters on the voter lists. In the case of younger voters, this is often difficult to do.

However, some have argued that voter apathy is not necessarily a bad thing. Some would suggest that, by and large, people are simply not that interested in politics anymore, and that what appears to be apathy might actually be contentment. If voters

are generally satisfied with things, they are less likely to turn out on election night. But when the voters are upset — as the recall election in California showed in 2003 — voters will be sure to get to the polling booths.

Another issue affecting American politics revolves around campaign financing, and one participant asked about the effect of money on the American electoral process. The relevant polling data indicate that most Americans are by now used to the large sums candidates put forth and are not particularly upset with people spending their own money on elections. There is a significant difference in the way Republicans and Democrats spend on election campaigns, with the Democrats probably more effective at making each dollar go farther. But the recent campaign reforms seem to be helping Republicans more than Democrats. In any event, many observers advocate further reform of campaign financing, and this promises to remain a topic of intense debate. There is a sharp difference between Canadian and American practices in campaign finance that reflects deeper political trends.

Discussion then turned to the relationship between politics and the media, especially the Internet. Former Vermont Governor Howard Dean, for instance, has been innovative in using the Internet to organize his supporters and raise funds. Some have argued that Dean has created a new movement in US politics through his use of the Internet. One participant was curious about the role of the conservative Fox News, but it was suggested that the commentators on Fox News could be likened to "showmen" who are providing entertainment as much as anything else. Another participant argued that the US media is diverse in its perspectives and not the monolithic presence some critics have argued. Regarding Fox News in particular, many in the US perceive it as a counterweight to a larger, liberal bias in the media overall.

Participants also wondered about the more substantive issues of the 2004 Presidential campaign. The environment would likely not play a role in the election, as the issue is almost exclusively identified with the Democrats and, in any event, is more critical at the state and local levels. As for the war on

Iraq and the after effects of 9-11, dealing with the tremendous fear felt by Americans represents a major challenge for the Democrats: it will not be enough to play on the animus felt by many Democrats toward the President. The attacks of 9-11 have had a permanent impact on the US political landscape, with security constituting the main issue for some time to come. Americans are likely to give the President the benefit of the doubt on Iraq as part of defending the US against terrorism.

Finally, American experts thought it unlikely that Canada's position on the war in Iraq and Canadians' more liberal attitudes on issues like gay marriage, pharmaceutical drugs, and the de-criminalization of marijuana, have generated new and lasting ill-will in the US. According to an observer, as Americans themselves are divided on these issues (indeed, they will likely have an important impact on the 2004 election), they are not likely to negatively affect US views of Canada.

The current state of American values and attitudes, and their differences vis-à-vis those of Canadians, framed the remainder of the discussion. Focusing on the concept of "social capital," one participant noted that Americans' networks of friends and associates, and levels of participation in civic life have substantially decreased since the 1960s. This decline in community ties and "connectedness" could have important implications not only on American society but also on American politics and even on Americans' health.

Another observer made the point that in the past the historical threat to Canada's identity was internal and came from the separatist movement in Québec. Today, however, the separatist movement is dormant and the threat to Canadian identity is external, coming from a US that seems to have undergone dramatic changes in the areas of race, ethnicity, immigration and religion. However, he argued, Canadians' attitudes towards the US are in some ways contradictory: a majority of Canadians believe Canada to be superior to the US, but at the same time admire the US because it offers its citizens a "better chance to get ahead."

The differences — and similarities — between Canadians and Americans were further explored through various polling data. The findings from a number of different surveys on US and Canadian values around issues such as religion, individual opportunity and homosexuality revealed a greater religious faith in the US and in particular a belief that "God has a special role for the US in world affairs." The findings also indicate sharp differences on homosexuality, but a shared belief on both sides of the border in the individual's ability to shape his/her own destiny.

On the concept of social capital, participants wondered if urban design had any impact on peoples' ability to "connect" with their community. It was acknowledged that it could have an effect (there is even a 10-10 rule which states that we lose 10% of our social capital for every 10 minutes we have to drive to work), but that ultimately urban design could not make people more civic-minded. Another participant wanted to know to what extent the Internet has contributed to the decline of social capital, but the decline started well before the Internet. The Internet could never replace a sense of community but could supplement it without a geographic focus.

Participants explored the role of religion in US and specifically about the notion of God's "special mission" for the US, referred to earlier in the discussions. There clearly is a generation gap with older Americans being more religious than younger Americans, however, certain issues, like abortion, can cut across generational lines. But regardless of religious beliefs, one should not forget the strong and deep current of "exceptionalism" that runs through American political culture, which holds that, since its inception, America has consciously stood apart from the world (especially Europe) as a "shining city on a hill" — a beacon for liberty for the rest of the world.

Participants discussed and challenged the widely held belief that Americans and Canadians are growing closer in their opinions, values and attitudes. Based on surveys, carried out prior to the last three US elections and annually in Canada, the results reveal a divergence between Canadians and Americans on a broad range of topics.

Tracking a wide range of social values, the results show that since 1992, Canadians have been moving toward values and ideals emphasizing "well-being, harmony, responsibility and flexibility," while Americans have moved toward values characterized by, paradoxically, both ostentatiousness and obedience to traditional norms and structures.

When these findings are broken down by region, one finds that the southern US exhibits the strongest tendency towards values mentioned above, while all Canadian provinces (most in Québec; least in Alberta) lean in the opposite direction. When broken down by age, the results follow the same trend, especially among those under 20: in the US, this group has moved in an almost straight line from values favouring "individualism" while the values of Canadian youths have remained firmly tied to notions of "idealism and autonomy."

A graphic illustration of diverging US and Canadian values was visible in the responses to the statement that the "Father of the family must be master in his own house." Almost half of all Americans surveyed (49%) agreed with this statement, compared to only 18% of Canadians. In this regard, Canadians were much closer to Europeans than to Americans.

One participant suggested that these results perhaps reflect the success of Québec francophones in pulling Canadians' values towards greater permissiveness, autonomy and self-expression. Another participant worried that the divergence between Canadian and American values was in fact accelerating. But it is perhaps important not to overstate the situation: the 2000 election could easily have ended very differently, with Al Gore as President. What is more, the near 50-50 division in US politics persists to this day, according to some polls.

A participant jokingly summed up the differences between the values of Canadians and Americans: Americans are religious, risk-takers, money-oriented and have a higher tolerance of violence, while Canadians are secular, risk averse, suspicious about money, and believe that violence is only acceptable on skates.

CONCLUDING THOUGHTS

The presentations and discussions in the first half of this series focused on three key areas, each of which has an actual or potential impact on Canada-US relations: foreign policy, the economy, and society. Recent changes in the US in all of these areas, whether the result of the Bush administration and 9-11 or pre-dating President Bush, have created real challenges for policymakers in the Canadian federal public service. By exposing Deputy Ministers and Assistant Deputy Ministers to some of the leading American and Canadian experts on these topics, the first three workshops have left them better-equipped to meet these challenges in the future.

Participants in the first workshop deepened their understanding of the profound impact of the 9-11 terrorist attacks on the US and its world view. They explored US foreign policy as expressed in the National Security Strategy that envisages the option of pre-emptive action against threats before they are fully formed. The effect of this strategy on smaller countries like Canada formed a large part of the discussion.

A central element in the Canada-US relationship revolves around economics and trade. On this theme, participants examined the recent setbacks and successes of the US economy and also considered the long term challenges facing the US as it tries to juggle budget deficits with the demands of an aging population. Participants also reflected on North American free trade in a dynamic global context and ways in which it can be improved.

Finally, participants looked at US society and social values as Americans prepare for their presidential election in 2004. With Americans as divided as they were in 2000, both Democrats and Republicans will struggle to win the support of a shrinking group of undecided voters. However, participants saw that the persistent polarization of US society also coincides with a divergence in values between Canada and the US as a whole. The popular thesis advanced by American writer Robert Kagan in which Americans are from Mars and Europeans

from Venus may need to be revised to include Canadians as somewhere in between.

The exploration of these themes gave senior managers a deeper understanding of key trends in the United States. With its focus on North American security post 9-11, continental governance in the 21st century, and the options facing Canadian policymakers in the "new North America," future sessions promise to once again offer Deputy and Assistant Deputy Ministers a forum for better understanding our most important bilateral relationship and one of Canada's most crucial public policy issues.