



NATIONAL ACTION COMMITTEE
on the status of women

COMITE CANADIEN D'ACTION
sur le statut de la femme

THE MACDONALD REPORT
AND ITS
IMPLICATIONS FOR WOMEN

by Marjorie Cohen,
NAC Vice President

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The central themes of the Macdonald Report are that the Canadian economy should--be -more- -directly-controlled by -market -forces and -that the economic- links--between Canada and the U.S. should be made stronger through free trade. The commissioners recognize that these changes will cause profound changes- in the economy, but they feel that with reasonable adjustment policies in the short run and higher productivity rates in the long run, _ people will ultimately be better off. On the whole, the commissioners are relatively unconcerned about the disparate effect their policies would have on various groups of people in the economy. There are brief references to the industries which will be weakest and strongest in the free trade arena, but there are **no** detailed analyses of how each industry would fare. Also, in all of its 1,911 pages, the report pays scant attention to how various groups of workers and regions, in the country will be affected.

My interest in this paper is to examine the impact the policies of the Macdonald Commission would have on women. It seems to me that both the economic and the social policies advocated would worsen women's position in Canada: the economic changes would increase women's unemployment substantially and the social policies would not only retard women's rate of progress, but would actually leave them in a worse position than they are at present

FREE TRADE

A substantial portion of the first volume of the report of the commission is devoted to a broad analysis of the global economy. The most startling omission in this section is the extent to which transnational corporations have become orchestrators of global economic activity. No consideration has been given to the growth, power, and mobility of large corporations and the implications this has for the trade policies of nations. Because of their central position in our economy, understanding the behaviour of these firms is critical to developing correct trade and industrial policies. While the public policy initiatives of the past few years have reduced the proportion of the economy controlled by foreign corporations, Canada still represents an extreme case among industrialized nations in this regard. Foreign companies own 49% of Canadian manufacturing industries, 45% of petroleum and natural gas, 43% of mining and smelting, and 26% of all other industries, excluding agriculture and finance. (II, 233)

In the past, foreign corporations have been attracted to Canada because of the extent and accessibility of resources here and because by locating here they would have access to the Canadian market. However, in recent years there has been an increasing tendency for Canada's traditional advantage as a resource producer to be undermined by the cheaper cost of resource production elsewhere. Likewise, in manufacturing the rapid advances in communications and transportation and a less restrictive international economic system have made cheap labour markets in poor countries easier to exploit. The result is that there has been an increasing tendency for labour-intensive production of transnational corporations to shift away from countries with unionized and relatively well-paid labour toward countries which can guarantee lower wage costs. Nevertheless, not all countries are equally vulnerable: I would maintain that Canada has much more to lose from a bilateral free trade agreement than does the U.S. and that the results of the extensive changes advocated by the Macdonald Commission would seriously weaken the economy and increase the unemployment rate substantially.

There are two important issues to be raised at this point. The first is one which has been often cited as the major disadvantage of free trade to Canada.

That is, that a dramatic shift in trade policy may well cause a precipitous decline in manufacturing in Canada as a result of both increasing competition for domestic producers and dramatic changes in the behaviour of foreign-owned corporations which operated *in* Canada. The second issue is the extent to which free trade in services will adversely affect employment in this country. This issue has received fairly little attention, but as both international trade in services and the proportion of our labour force engaged in the production of services increases, foreign competition in this area becomes more of a threat.

The commissioners *do not*, see the high degree of foreign ownership in Canada as a liability *in* a free trade arrangement with the U.S. The usual argument against free trade is that since foreign manufacturers have established here to serve a Canadian market which had been protected from imports, they will leave when it is no longer necessary to be located here to sell at competitive prices. The fear often expressed is that when foreign firms leave the country, jobs will be lost and no domestic employment will replace the departing industries because strong, established foreign competition would be too tough to beat. The commissioners admit that this could happen, but feel this would be one of the "short-term adjustment costs" and that ultimately other foreign investment would be attracted to Canada. Their reasoning is that foreign investment previously discouraged from Canada by U.S. trade barriers would suddenly have access to the American market from our country and therefore would have a strong incentive to locate here. (I, 332) But the case for this optimistic approach to the issue isn't particularly strong and relies much too heavily on things sorting themselves out in the very long run. Even the commissioners agree that Canada's manufacturing sectors, except for automotive products, are particularly weak and vulnerable to free trade agreements. Nevertheless, this problem does not lessen the commissioners' support for free trade because "at most free trade would directly affect only one-fifth of our country's labour force," since manufacturing represents less than 20% of the country's employment. (I, 336) The commissioners also seem to take comfort from a Canadian Manufacturers' Association survey of 1031 Canadian firms which indicated that "only" one-third of the companies expected to be adversely affected by free trade. Any change in economic policy which has odds like this cannot be adopted simply as an affirmation of a "leap of faith," as has been urged by the commission's chairman, Donald Macdonald.

Women in Manufacturing

The commissioners admit that moves toward trade liberalization are likely to affect women adversely because of their predominance among workers in textiles and light manufacturing. But they feel this is not a cause for serious concern because adjustment assistance would give female workers the opportunity "to leave low-wage, declining sectors of employment for expanding ones." (II, 629) The sanguine view that displaced female workers in manufacturing will find high-wage jobs in new, expanding sectors has no basis in the findings of studies prepared for the commission, for this issue was not the object of any investigation: it is merely stated as a belief.

The commission has identified two sectors as being in a strong position to survive a free trade market. These are urban transit and forestry products. The weak sectors are much more numerous, they employ far more workers, and are principally in secondary manufacturing.' Women's labour in the manufacturing sector is highly concentrated in the industries which are generally considered to be most vulnerable to free trade. These industries are textiles, clothing, small electrical products, sporting goods, toys and games, and leather products. About two-thirds of the workers in these six industries are women and altogether these industries account for about 42% of all female manufacturing workers.²

The likelihood of the displaced employees in vulnerable industries being easily retrained to find.-higher-paying jobs in new industries is slim indeed. Research has shown that the female workers in these industries tend to be older than. average female workers; they are much more likely to be immigrants and therefore less likely to speak English or French; they are more likely to be married; and they have considerably lower levels of education than the average female worker in Canada. They are also much more likely to be living in Quebec. More than 65% of all the female manufacturing workers in Quebec are employed in the six industries which will be most adversely affected by free trade.³

While the commission recommends substantial temporary adjustment policies to retrain and relocate displaced workers- who are suitably adaptable, if the experience of the past is any guide at all, women will receive little help. Women are substantially underrepresented in all training programs, but particularly those which offer extensive skills training.⁴ But even more discouraging in the type of assistance the commission is recommending will be the requirements that workers indicate "willingness to undertake adaptive behaviour." For the most part this seems to mean readiness to relocate. For married women relocating is a far from simple matter, since most families live where employment is available to males _simply because males are paid more. For **families** desperately needing. **two** incomes, the relocation of unemployed female workers may be impossible.

Service Sector

Women workers in the manufacturing sector are not the only ones whose jobs are threatened by free trade. The vast majority of women workers, over 80%, are employed in the service sector of the economy. It is no secret that the U.S. intention in liberalized trade arrangements is to include trade in services as well as trade in goods.⁵ While the commission notes that the U.S. is the only nation which is convinced of the need to negotiate free trade in services, there are very good reasons why they are intent on doing so. Like Canada, the U.S. economy is increasingly service-oriented: services account for about two-thirds of its GNP and almost 70% of its labour force. But what is increasingly important is the export of services. It is estimated that the U.S. exported services worth \$60 billion in 1980.⁶

So far trade agreements have focussed on merchandise and have excluded services. The problem for transnational corporations has been that as improved technology in communications and transportation facilitate exports, countries which face increasing competition in services begin to institute restrictions to contain the competition. Canada certainly has done this as American competition in radio, television, and publishing threatened Canadian cultural institutions. In cultural areas and those affecting national security the commission sees good reason to continue protective measures. But the important point with respect to services is that it is very difficult to know precisely which areas free trade

will affect in the future, so that entering into a comprehensive agreement on trade in services may well preclude protection of many industries which are now not directly threatened. Protection of services at the moment takes the form of professional licencing, government procurement policies which give preferential treatment to local service firms, restrictions on foreign banks and insurance firms, and limits on the operations of foreign transportation and communications firms. But much foreign competition in services in the past has been limited by immature technology. This, of course, has been changing rapidly in the past few years and it is increasingly possible, for example, for many clerical services, such as data processing, to be provided externally.

The commission's approach to free trade in services is extremely worrying. The commissioners reason that since there are great advantages to the U.S. in gaining access to the Canadian service market, the U.S. would have an incentive to "offer guarantees of improved access for goods exported from Canada." (I, 309) Since a much larger portion of our labour force is engaged in providing services than is engaged in manufacturing, the trade-offs are likely to be very lopsided.⁷ For women, any policies which threaten jobs in the service sector will affect them, since it is in the service sector that the vast expansion in female employment has occurred in this century.

Throughout the Report the commissioners continually stress the uncertainty of the future, the insecurity of the global economy, and Canada's "extreme vulnerability to the international business cycle." (II, 199). As they point out, Canada tends to suffer much more during economic downturns than other industrial countries. In light of this, putting the major emphasis for Canada's economic future on trade with one country will not reduce Canada's precarious position. More than 70% of Canada's trade is now with the U.S., but the policies of the commissioners would increase it substantially. Even if free trade proved beneficial and could be negotiated in exactly the way the commissioners want, it would be secure to Canada only as long as an agreement lasted. If our economy becomes even more dependent on the U.S. there could be catastrophic repercussions if the U.S. at some future date decides protectionist policies are more to their advantage. There is also a strong assumption behind all of the reasoning on free trade that the American economy will always be healthy, and that the dollar will remain strong. If the U.S. dollar depreciates

seriously there would be serious consequences for Canadian trade even if free trade exists. The point is that tying the Canadian economy more closely to the U.S. will place this country in a much more vulnerable position -- a position which will enable it to cope with the vagaries of external forces even less well than it has in the past.

SOCIAL POLICIES

The objectives of the commission in recommending changes in income-security systems and the provision of social services are to simplify-- the delivery of these services and to make the labour market more flexible and adaptive. The proposed changes are extensive: As the commission notes, "they will affect the lives and livelihood of virtually every Canadian." (II, 540) I would add that they are likely to affect the lives and livelihood of virtually every woman adversely.

Incomes Policy

In the presentations made to the commission by women, labour, and community groups, the overwhelming concern was for the extreme hardship which high and persistent rates of unemployment in Canada imposed on people.⁸ In its interim report the commission took the approach that unemployment and inflation are both evil, but that fighting inflation was paramount. This tone is also central to the final report. Keeping prices low is the fundamental concern and whatever solution is to be found for unemployment has to be found within the parameters of maintaining low prices.

To this end, the commissioners advocate reinstituting an incomes policy "for three years or so" in order to "reinforce the downward trend in inflation." (II, 377) As the National Action Committee on the Status of Women noted in its brief to the commission, wage control programs have had a profoundly negative impact on women.⁹ Any of the advances which women have made toward closing the enormous wage gap between males and females is eroded with wage policies which limit wage increases to a uniform percentage. Because men's wages are higher

than women's, percentage increases mean in absolute terms, men receive greater wage increases than women.

In recent years women have made important advances in their position in the labour force through collective action. An incomes policy effectively eliminates collective bargaining and with it women's ability to negotiate better work conditions. Any issues affecting costs can be removed from bargaining -- this- would include health and safety issues, affirmative action, and issues dealing with technological change. In a society which professes to recognize the gross injustice of women's low wages an incomes policy is decidedly regressive. The effect on women will be to maintain the status quo.

Changes in Unemployment Insurance

One of the worst features of the report is the attitude it takes toward the unemployed. The belief of the commissioners is that the unemployment insurance program can be redesigned to reduce unemployment itself. The implications are that the unemployed are 'largely responsible for their own joblessness and that it has merely been the misguided generosity of the state which has lured them into unemployment

In redesigning the unemployment insurance scheme the commissioners hope to develop a more "flexible and adaptive labour market" and to reduce costs. To achieve these objectives they recommend a reduction of benefits, more stringent entry requirements, shortening the length of benefits for some, and ending the extended benefits to people in regions where unemployment is particularly high. (II, 541) The assumptions behind these recommendations are that the unemployed do not look hard enough for jobs, prefer to collect U.I. rather than work, have a disincentive to work if they receive U.I. benefits, and will refuse to move to high employment areas because they are on U.I.

The commissioners also see the availability of U.I. as having been an incentive for women to join the labour force. In support of this view they cite the evidence of rather questionable studies which have tried to show that "work-force participation rates, especially those of youths and women, increase with the generosity of unemployment insurance payments." (II, 594) In fact altogether

the commissioners see the rise of unemployment in Canada as a result of women's increasing participation rates and changes in the U.I. Act. Considering that women in other industrial countries are employed in about the same proportion as they are in Canada, and that Canada's unemployment insurance benefits are not as generous as they are elsewhere, these factors surely cannot explain the much higher rates of unemployment here.

The recommendations of the commissioners will be disproportionately hard on women. A reduction of benefits is worst for those on the lower end of the income scale; since women are invariably a disproportionate part of low-income workers they will be most affected by this change. The extension of the qualifying period_ and tying_ benefits directly to the number of weeks worked will be particularly difficult for women because of the characteristics of their labour-force experience. They tend to be more heavily represented among part-time-and temporary workers and they are more likely to be working in marginal industries which frequently lay-off workers when business is slack. The changes recommended by the commissioners will undoubtedly reduce the cost of unemployment insurance, but it will do **SO** at the price of income protection for workers.

Universal Income Security Program

Canada has a fairly miserable record for spending on social programs. Of the countries belonging to the Organization for Economic Co-operation and Development (OECD), Canada is ranked ninth out of twelve. (II, 554) We spend less of our national resources than most on pensions, about average amounts on health and education, but more than average amounts on unemployment benefits. We spend more on unemployment payments not because our benefits are more generous than that in other countries, but because our rate of unemployment is so high.

Generally, the commissioners recognize that Canada cannot afford to reduce its spending on social services. Rather, the commission feels the system should be redesigned so that it is both easier to understand and so that it will not discourage people from working. To achieve these goals the elimination of a wide range of programs is advocated in favour of one comprehensive income-transfer

package, a Universal Income Security Program. In the past many reform groups have called for a "Guaranteed Annual Income" as a way to protect people from falling through the gaps in the income security net. In particular it would help the working poor maintain a decent standard of living. The important features of this type of proposal would be relatively high levels of benefits for those who have no other income and a relatively high tax-back rate for those who receive some sort of benefit or wage. This then, would guarantee a minimum standard of living which would not require that people live in poverty.

The commissioners have not adopted this scheme. Their program would provide a very low guaranteed income. In fact even the commissioners recognize that the income levels are "not necessarily adequate to meet all family needs unless some additional support is provided." (II, 797) Nevertheless, the commission is recommending that most of the existing support programs be eliminated. These include guaranteed income supplements, family allowances, child tax credits, married exemptions, child exemptions, federal contributions to social assistance payments, federal social housing programs, and possibly the personal income-tax exemption.

The tremendous overhaul of the social security system which would be required by the introduction of the single Universal Income Security Program recommended by the report is unlikely to happen. Far saner, and certainly much more humane, are the short-term recommendations the commissioners make. These would rectify the regressive features of the present system by redirecting money from the child tax exemption to the child tax credit or to family allowance, and would help the poor who can work by permitting those on welfare to retain a larger portion of their benefits when they find some sort of employment.

IMMEDIATE IMPLICATIONS

The policy recommendations of royal commissions are never implemented in the comprehensive way that they are presented. Usually if some of the recommendations coincide with policies the government is interested in pursuing, the recommendations of the royal commission will be brought out in their support. In this case the philosophy behind the Royal Commission on the Economic Union

and Development Prospects for Canada.- coincides with that of the current government, a factor which will enhance the likelihood that parts of the document will be implemented. The danger for women is that certain policy issues the commission has addressed are currently under review and as a result, the commission's recommendations are likely to have considerable weight. The issue of equal pay for work of equal value, for example, is currently under consideration in Ontario. Although this legislation has worked successfully in the federal sector for many years, the commission recommends that further legislation should not proceed until it is better understood. (II, 642) While the commissioners recognize that equal value legislation would correct some of the worst defects of occupational segregation,, they are so wedded to the idea that the market is the best allocator of wage rates that they simply cannot believe that real discrimination, exists: they insist that normal forces of competition should eliminate it. This reasoning is fine in a full employment economy, but in one where unemployment rates are abnormally high, employers are in a position to pay workers what they choose. The commissioner's reasoning is based on an old-fashioned notion of the perfectly competitive system, and it is wrong;. but unfortunately their recommendation in this issue may well prevent the passage of equal value legislation women have been working for many years to achieve.

Unemployment Insurance is also under review at the moment. The recommendations of the commission will undoubtedly be well-received in this quarter, for it is well-known that the government is anxious to reduce its unemployment insurance bill. While many groups will argue before the review committee that the greatest disincentive to work is having no job to go to, for those who want to believe that unemployment could be substantially reduced if the insurance scheme were designed more cleverly, the reasoning and recommendations of the Royal Commission will be proof enough that they are right.

The wholesale move toward free trade and unfettered market forces is likely to be tempered by the realities of the world we live in. But the ideas, which I have argued are wrong, are likely to have some effect on public policy. In both the areas of employment and social programs, women will be the losers when the ideas take hold.

NOTES

1. The commission identified the weak manufacturing industries as textiles, clothing and footwear, machinery and equipment, electronics, electrical machinery and equipment, furniture, scientific equipment, and consumer products. (I, 345)

The North-South Institute, Women in Industry: North-South Connections (Ottawa, 1985), p. 31.

3. Ibid., pp. 30-31.
4. For example, in the National Training Program in 1983-84 only 19% of the participants were women. Ibid., p. 42.
5. Services cover activities in a wide range of areas. These include insurance, accounting, consulting, design, advertising, transportation, communications, banking, motion pictures, art, music, law, education, and the health fields. For a discussion of trade in services see William Diebold, Jr., and Helena Stalson, "Negotiating Issues in International Services Transactions," in Trade Policy in the 1980s, edited by William R. Cline (Washington, 1983), pp. 581-609.
6. Joan Edelman Spero, The Politics of International Economic Relations. (New York, 1985), p. 100.

Services and utilities account for more than two-thirds of Canada's labour force while manufacturing employs less than one-fifth. Report.. Royal Commission on the Economic Union and Development Prospects for Canada, Vol. I, Table 2-12.

8. The content of some of these presentations is available in The Other Macdonald Report, edited by Daniel Drache and Duncan Cameron (Toronto, 1985).
9. The National Action Committee on the Status of Women, "The Persistence of Inequality," in The Other Macdonald Report, pp. 98-109.