# The road from Monterrey: a caution from Canada

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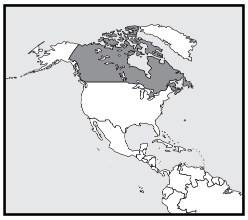

The International Conference on Financing for Development in Monterrey represents a historic moment: the first time the United Nations will sit with the IMF, the World Bank, and the WTO to negotiate common cause. Which vision will dominate? The UN's, which defines where we should go, but not how to get there from here? Or the IMF-World Bank-WTO, who tell us what road to take, but not what to do when we get there? Canada, having followed to the letter the IMF-World Bank-WTO road map strongly warns against it.

What follows is a cautionary message from a nation that has followed, to the letter, the steps that are now being proposed as the agenda for Financing for Development. Yet creating a favourable business climate and watching the economy grow at rates not seen in over a generation has not been enough to prevent the continued deterioration of public goods. Canadian society is moving further away from, not closer to, the vision of the Universal Declaration of Human Rights, even as national wealth increases. The following traces the steps that Canadian governments have taken, the same steps that are being urged for all at the Monterrey talks. The results here should raise questions about the wisdom of adopting this agenda globally.

## Create a favourable business climate

*Reduce the size of government*

- Most aggressive reduction in size of government among the G-7 nations.[2]
- Federal role contracted from 16% of GDP (1990) to just over 11% (2000).[3]
- Smallest size of government since 1951, through cutting spending and cutting taxes.

*Increase confidence with lower inflation, lower costs of borrowing money*

- Average inflation rate over the past five years 1.7%.
- Inflation well below other G-7 countries,[4] lower than has been since 1965.[5]
- Prime lending rate for business at a record low, 3.75%.
- Previous low was between November 1944 and March 1956, at 4.5%.

*Increase reliance on trade*

- Exports more than doubled over the 1990s.
- Exports as a share of the economy rose from 24% in 1990 to 43% by 2000.
- U.S. share of total Canadian exports grew from 74% in 1990 to 87% in 1999.[6]

*Attract more foreign investment*

- Foreign direct investment into Canada grew from CAD 130 billion to CAD 292 billion between 1999 and 2000.[7]
- As a share of the economy, it went from 18.6% of GDP in 1985 to 28% in 2000.
- Compared to other G-7 nations the Canadian economy is highly open: the G-7 average over the same period went from 5.2% to 9.5% of GDP.[8]

These four steps are the heart of the model that will be featured at the Monterrey talks. Promoting "policy convergence" means convergence towards trade liberalisation and privatisation, ostensibly for the benefit of all. In the immediate, these policies require rolling back gains in social development for the least powerful under the guise of better things to come down the road.

The result of implementing these politically difficult policy changes has been improvement in the "economic fundamentals", *ie,* lower interest rates and less inflation. Though these conditions have contributed to a rapidly growing economy, other economic benefits, such as lower unemployment rates and higher incomes, have been slower to follow. This model of growth has distinctively different impacts on the economy and on people.

## Results for the Canadian economy

*The economy grew*

- From 1990 to 2000 the economy grew by 55% in nominal terms, and 31% in inflation-adjusted terms.[9] (Both 1990 and 2000 were peaks in the business cycle, so this captures the growth in the productive capacity of the economy as well.)
- Over CAD 1 trillion produced annually by 2000, CAD 374 billion more than in 1990, creating a vastly greater capacity to finance social development initiatives.
- Unemployment dropped briefly to a 25 year low, at 6.6% in July 2000. As of December 2001 the rate was at 8%.

*Record budgetary surpluses at the federal level*

- Fiscal year 2000-01 was the fourth consecutive year in which the federal government recorded a budget surplus. This was last accomplished in

1 Research Associate, Canadian Centre for Policy Alternatives.

2 Government of Canada, Department of Finance, *Fiscal Reference Tables*, September 2001, Table 54.

3 *I bid.* Table 8. These fiscal years are both peaks of the business cycle, so the contraction is not due simply to the strengthening of the economy.

4 Department of Finance Canada, *A Report on Plans and Priorities*, 2001-02 Estimates, p. 11.

5 Statistics Canada, Consumer Price Index, CANSIM P200000. Note that the Government used the War Measures Act on 18 October 1941, during World War II, to set limits on wages and prices. The measures came off in 1945, when the war ended, and prices grew at an annual average of 7% until 1952.

6 All figures from Industry Canada, *Departmental Performance Report 2000-2001*, 31 March 2001, Section 2.4. Available on-line at: http://www.ic.gc.ca/cmb/welcomeic.nsf 532340a8523f33718525649d006b119d/030fbd4595e348cd05256b03004eec15!OpenDocument

7 *Ibid.*

8 Industry Canada, Micro-Economic Policy Analysis Branch, *The Trade and Investment Monitor, Fall/Winter 1999/2000*, pp. 24-26.

9 Statistics Canada, *National Accounts*, Gross Domestic Product, Expenditure-Based, CANSIM 14840, CANSIM 100126.

the four-year run up to 1951-52 fiscal year.

- The scale of current surpluses is unprecedented. In November 2000, estimates of its size over a five-year horizon ranged between CAD 150 and almost CAD 200 billion.[10]

*Federal debt decreased*

- Net federal public debt fell from 70.7% of GDP in 1995-96 to 51.8% in 2000-01.
- Fastest and deepest rate of debt reduction within the G-7 nations.[11]
- Canada's public debt was reduced by CAD 35.8 billion between 1996-97 and 2000-01, making debt reduction one of the biggest public expenditure programmes of the 1990s.
- A record CAD 17.1 billion paid by the federal government in 2000-01 alone.

*Deep tax cuts*

- The federal government has planned for CAD 100 billion in tax cuts over the next five years, the key method for eliminating the budgetary surplus. These are the biggest cuts in Canadian history.
- Tax cuts reduced federal revenues by CAD 17 billion in 2000-01, estimated to rise to CAD 20 billion in 2001-02. To put this into perspective, there was less than CAD 7 billion in increased programme spending for the Canadian economy in 2000-01.
- The tax cut promise remains sacrosanct, despite the deepening economic downturn unleashed by the events of September 11. Accelerating the reduction in government revenues while spending more on security means other domestic spending will be cut.

## Results for the people of Canada

Creating a hospitable environment for business investment and reducing the size of government has resulted in fewer mechanisms to ensure that the benefits of growth would translate to all citizens.

*Inequality grew*

- Only the top 20% of families saw any improvements in incomes over the 1990s. By 1999 they accounted for 44% of all earnings, while the share of earnings dropped for all other groups.[12]
- The after-tax income gap between the rich and poor was wider in 1999 than in 1990, a result of trends in earnings, the reduction of income supports—which most affect those at the bottom—and accelerating tax cuts—which most benefit those at the top.
- Examining wealth, rather than income, the top 20% of the population saw their median net worth increase by 39% between 1984 and 1999, to 70% of all personal wealth. The bottom 20% saw their share of wealth remain virtually unchanged, at close to 0%.[13]

*More hunger*

- The number of people receiving emergency groceries from a food bank doubled between 1989 and 2000 to over 760,000 people. Almost 40% of those who relied on these programmes were under the age of 18.[14]
- In Toronto alone, the numbers relying on food banks rose to 140,000 in 2001, an increase of 22% since 1995, notwithstanding strong economic growth.[15]
- More women now rely on the programmes, rising from 51% to 58% of all recipients.

*Unsafe drinking water*

- The number of instances of contaminated drinking water continues to escalate across the country.

10 Armine Yalnizyan, *What would they do with the surplus?* Ottawa: Canadian Centre for Policy Alternatives, November 2000, pp. iv and 6.

11 Government of Canada, Department of Finance, *Annual Financial Report of the Government of Canada, Fiscal Year 2000-01*, p. 5.

12 Statistics Canada, *The Daily*, 6 November 2001, "Family Income".

13 Livio Di Matteo, "Middle Class Gains the Most from Redistribution of Wealthy Line", *National Post*, 28 August 2001, p. C15.

14 Carly Steinman, "A Surplus of Hunger: Canada's Annual Survey of Emergency Food Programmes", prepared for the Canadian Association of Food Banks, October 2000.

15 Daily Bread Food Bank, *Who's Hungry Now: Food Recipient Profiles, 1995 to 2001*, Toronto: 2001.

- In 2000, seven people died of E-coli in Walkerton, Ontario, and thousands fell ill.
- Despite this, in 2001: 7,000 people were infected by a cryptosporidiosis outbreak in North Battleford, Saskatchewan; half the 500 communities in Newfoundland had a boil-water advisory during the summer; one of the biggest cities in the country (Vancouver) issued a water safety warning to its residents in early 2002.
- It is estimated that CAD 1 billion a year is required in federal funding alone over the next ten years to maintain safe water infrastructure systems in municipalities.[16]
- The federal government has committed CAD 2.65 billion over the next six years for all infrastructure investment.

*Access to quality public education and health care declining*

- Funding cutbacks have increased class size and reduced learning resources in primary level public education.
- Private school enrolment is on the rise, to 5.6% of all children in elementary and secondary schools in 1998-89 from 4.6% in 1987-88.
- Tuitions at post-secondary institutions have increased by an average 126% between 1990 and 2000 due to large reductions in public spending.
- University tuitions are being deregulated, meaning there is no upper limit. A law degree at University of Toronto now costs about CAD 13,000 a year, and there are plans to raise this to CAD 25,000 a year in more than one major academic institution.
- Health care funding was dramatically cut in the 1995 budget, and federal funding is still not at levels comparable to 1994.[17] The ensuing (and predictable) crisis in health care delivery has called the "sustainability" of current health care provisions into question.
- In 2002 alone there will be three top-level commissions looking at "new" ways to finance, or scale back, these provisions.

## Conclusion

Canada's experience shows that though economic growth may promise a better quality of life, the means can overtake the ends. The objectives of the Universal Declaration of Human Rights, once seemingly easy to secure in affluent countries like Canada, are becoming increasingly distant for a growing number of citizens.

It is ironic that more Canadians enjoyed greater human rights when the economy was much smaller. The reason was the active will and intervention of governments that saw their purpose as insuring a "framework of fundamental fairness and decency within which all Canadians are able to pursue their individual goals".[18] This stands in sharp contrast to the reductionist goal of insuring the right "economic fundamentals".

The federal government has followed the advice now being presented to developing countries to the letter, and has been praised by the institutions that created the game plan. The Monterrey agenda reinforces this plan globally, a plan that believes the private sector can secure the public good.

But the bottom line is that there are certain things the private sector cannot do. The role of the public sector in keeping an entire nation healthy and educated is irreplaceable. The private sector can no more deliver these public goods to all members of society than it can deliver a justice system, or the defence of a nation.

The outcome of the Monterrey talks will set the stage for what help people can expect from their governments in their struggle for a better life. Concerned citizens everywhere need to reinforce the importance and legitimacy of public investments in the most basic areas of human life. When people are adequately fed and housed, healthy and educated, economic growth naturally follows. The notion that basic human needs will be met only when economic "basics" have been properly aligned is a perverse logic that is unfortunately being promoted globally.

Canada's experience should serve as a caution for those who take the road from Monterrey following the IMF/World Bank/WTO road map. It is a route that takes us further away, not closer to, the destination we set out for ourselves more than 50 years ago: the objectives set out in the 1948 Universal Declaration of Human Rights. It is time to carve out an alternate route, a more direct route, a route that puts the attainment of human basics first. ■

16 Federation of Canadian Municipalities, 2001, p. 22.

17 A CAD 21 billion programme multi-year re-injection of federal funds is scheduled to bring it back to that level over the next four years. See details at http://www.fin.gc.ca/fedprov/cimefe.html

18 Liberal Party of Canada, *Creating Opportunity: The Liberal Plan for Canada*, Ottawa: 1993, p. 73.