

# International Economy

## The global dimension

A free fall into global depression appears to have been averted. Policy-makers seem to have learned somewhat from mistakes of their predecessors in the 1930s.

This does not mean that countries have escaped a severe recession. They haven't — and the human collateral damage is devastating.

The International Labour Organization (ILO) predicted that the jobless numbers globally would rise by 60 million in 2009. The UN commission of experts on international financial and monetary reform warns that 200 million people, mostly in developing countries, could be pushed into deep poverty. Amnesty International's annual global report says: "We are sitting on a powder keg of inequality, injustice and insecurity, and it is about to explode."

Shrinking trade, falling remittances and other capital flows are deeply affecting poor countries' ability to respond to the crisis, and many who have climbed out of poverty are falling back into poverty.

The world's major economic powers have come together in a new forum, the G-20, to co-

ordinate their responses to the crisis. At the London meeting in April 2009, they committed to reforming the global financial architecture: new resources for the International Monetary Fund, including a new issue of SDRs, the IMF's currency; a crackdown on excessive executive compensation, tax havens, hedge funds, and other elements of the shadow banking system; stronger capital requirements for banks, etc. Although a step forward in international cooperation, G-20 commitments are voluntary, often vague, and without enforcement measures.

Moreover, as the crisis has eased somewhat, the political will to act together appears to have waned. Cracks have widened in the positions of various countries, and real action has been limited.

The much larger and more representative United Nations forum, which is also developing responses to the economic crisis, has been largely sidelined by the Western media and major developed countries.

The AFB commits to push for the following policy measures at the G-20 and other international forums:

- Implement further stimulus measures until a real recovery takes hold. Ensure international recovery initiatives place jobs at the forefront. Support the International Labour Organization's Global Jobs Pact and its general framework to advance the social dimension of globalization.
- Do not compromise climate change policies in confronting the economic crisis. See it as an opportunity to address — simultaneously — economic stability and job creation while investing in measures to reduce greenhouse gas emissions. This should be an important component of stimulus spending initiatives. Countries should commit to targets and timelines for reducing emissions; support the adaptation costs of developing countries; and embrace the concept of “just transition” for workers affected by the transition to a green economy.
- Create effective mechanisms for international policy coordination, going beyond G-20 to include more representative institutions such as the United Nations.
- Renew efforts against tax havens and, more generally, tax evasion. Develop international cooperation mechanisms to avoid tax competition, wage deflation, and social dumping.
- Impose a global tax on financial transactions, both for purposes of discouraging financial speculation and also as a way to raise revenue. Such a tax would levy a tiny fee on trades of financial and instruments such as stocks, OTC derivatives, and credit default swaps.
- Reform the international dollar-denominated currency system, which has created huge financial imbalances and reduced global aggregate demand. Move toward a multilateral SDR-type global reserve currency based on an expanded basket of currencies.
- Encourage countries to implement controls on short-term capital inflows to prevent speculative bubbles and currency appreciation. These are key components of domestic macroeconomic policy management and industrial policy development. Countries in Asia, Latin America, and Eastern Europe are already resorting to direct capital controls to slow massive speculative capital flows from developed countries which are destabilizing their economic recoveries.
- Create a new agency to regulate systemic financial risk on an ongoing basis. The Financial Stability Board, which is currently responsible for planning and coordinating financial regulatory reform, is a non-transparent body dominated by central bankers, regulators, and finance officials.
- New regulatory measures should: limit excessive leverage in financial institutions; regulate the shadow financial system; increase transparency of over-the-counter derivatives markets; regulate executive pay structures so as to discourage excessive risk-taking; and reform the credit rating system to eliminate conflict of interest.
- Give greater decision-making power in the IMF to emerging and developing countries, and demand that the IMF cease requiring monetary and fiscal austerity in its stabilization agreements with countries experiencing severe economic hardship. Create a new lending facility without conditionality (either within or outside the International Monetary Fund), financed by a new allocation of SDRs.

## The North American dimension

Both Canada and the United States responded to the economic crisis with massive monetary policy stimulus — interest rates at near zero — and major support/bailout packages for their respective financial sectors. Both countries also brought in a joint major support package for the North American auto sector.

The biggest difference between the U.S. and Canadian responses to the economic crisis has been in the area of fiscal policy. Although the Harper government touts its “massive” fiscal stimulus package, in fact it is far smaller proportionally than the U.S. package, despite the much lower Canadian debt/GDP ratio.

Comparing U.S. and Canadian government program spending in the first half of 2009, U.S. spending rose by almost 15% whereas Canadian spending rose only 2%. The Americans are outpacing us 7-to-1 in total spending.

While fudging on the size of its own fiscal stimulus package, the Harper government has been waging an aggressive campaign against the Buy America conditions attached to the U.S. stimulus package, and has been seeking a bilateral exemption from Buy America.

Given the depth of the U.S. recession, it is understandable that it would want its infrastructure projects to favour domestic producers over imports. This is especially true if other countries — Canada included — are not doing their part with their own fiscal stimulus packages and are attempting to free-ride on a U.S. recovery.

The just-concluded Buy America deal with the U.S. is a terrible deal for Canada. Far from the promised exemption from Buy America provisions, it gives Canada fleeting access to stimulus projects worth \$US4–5 billion, less than 2% of the \$275 billion of procurement funded under the US Recovery Act. Canadian suppliers can expect to see very little practical benefit. In return for these meagre scraps, the provinces and municipalities have offered up temporary access to U.S. suppliers worth an estimated \$CAD25 bil-

lion. Worse, Canada has bowed to U.S. pressure to bind purchasing by Canadian provincial governments under the WTO Agreement on Government Procurement, severely curtailing the use of procurement as a public policy tool. The deal is contingent on approval in both countries. It should be subject to parliamentary scrutiny and approval. The AFB rejects the Buy America deal on the grounds that it is unfair and detrimental to the Canadian public interest.

NAFTA renegotiation and the Security and Prosperity Partnership (SPP) AFB priorities for renegotiating NAFTA were outlined in last year's AFB.

The SPP, a NAFTA-plus initiative ended by President Obama in the summer of 2009, was a post-September 11, 2001 business-driven initiative prompted by fears of border disruption and by a desire to rejuvenate the stalled NAFTA-plus integration project. Annual NAFTA leaders' meetings will continue, but it appears they will be more open and inclusive of other voices besides big business.

Among the SPP's more damaging actions:

- The SPP working group on energy helped to reduce regulatory barriers to tar sands development and to the construction of the pipeline infrastructure necessary to get the unprocessed bitumen to U.S. markets.
- Under an SPP regulatory harmonization agreement, Canada's chemical regulation regime has shifted towards the weaker American model put into place by the U.S. chemical industry under Bush, with its emphasis on self-regulation and risk management, and away from the much stronger European regime with its emphasis on the precautionary principle and the burden of proof on business.
- Ground zero in the H1N1 (swine flu) pandemic was a factory hog farm in

Mexico, owned by U.S. multinational Smithfield Foods, that ended up in Mexico due in part to lax regulations or weak enforcement capacity. An SPP pandemic plan was touted as an integrated emergency response initiative, which would make North Americans safer. It was designed to contain and control avian flu and other forms of influenza. But Mexico was not given the resources or the technology needed to do its part. Thus, the risks were integrated, but risk prevention was not integrated.

The AFB will work to undo these damaging measures. More generally, we will work to reverse, or reshape where appropriate, the adverse effects of unbridled free market continental integration.

At the same time, the AFB will strive to ensure that Canadian governments maximize essential policy flexibility — to reflect unique Canadian conditions and to be in a position to leap ahead of any floor of standards that may be agreed to.

#### Canada-EU trade and investment negotiations

The Harper government entered into trade and investment negotiations — the most extensive

since NAFTA — with the European Union in October 2009. The negotiations are expected to last two years. Canadians generally admire the European social model and higher regulatory standards, and generally want Canada to diversify trade away from its overreliance on the U.S., but the negotiations with the EU are very narrowly focused on a commercial basis. Trade with the EU is already largely tariff-free. These talks are about behind-the-border measures which go to the heart of domestic policy-making.

The European Commission wants access for its large corporations to Canadian public services and government procurement, the elimination of the Canadian Wheat Board and agricultural supply management, as well as tougher copyright and patent protection. The Harper government is eager for a deal that advances its free market, small government agenda.

The Harper government cannot be trusted to negotiate a deal with the EU that is in the best interest of Canadians. The AFB prefers and will initiate a broader diplomatic engagement with Europe that would move Canada toward the European social model and foster a race-to-the-top dynamic of regulatory standards and climate change policies.