national union

research

A dictionary for the global economy

Revised March 1999

Introduction

During the Great Depression, it became evident that the private sector, left to its own devices, had led the world to economic ruin. By the mid-1930s, just about everybody had had more than enough of the failures of unfettered free markets.

Help was on the way. Economist John Maynard Keynes, deeply concerned about high unemployment and the inequitable distribution of wealth and income under the free market system, developed a new economic theory. It showed how government had to play a key role within a capitalist economy, to counter the instabilities of free markets. Keynes *wasn't* anti-business, by any means. He just knew how important it was to establish policies and programs that ensured that the benefits of economic growth were shared. Keynes' theory played a tremendous influence, not only in getting the world out of the Great Depression, but also in supporting the great social programs of the 1940s, 1950s, and 1960s in western industrialized countries and elsewhere.

In the early 1970s, neo-conservative politicians and their business supporters began to argue that there was too much government. Based on the theories of Milton Friedman, they said that the main job of government was to remove barriers to economic efficiency. Aside from this, governments should butt out. Free markets would turn the economy around.

This new agenda—termed "neo-conservative" in North America—was taken up by politicians like Margaret Thatcher, Ronald Reagan, and Brian Mulroney. It was promoted by governments, multinational corporations, business lobby groups, the World Bank, and the International Monetary Fund. Despite abundant evidence to the contrary, they said we would all become far better off through adopting their policy prescriptions.

Globalization has now become a key component of this agenda. Unpopular actions taken by governments, multinational companies, and international bodies are now routinely blamed on the realities of globalization. We are told that there is no alternative to deep cuts in government programs; unfair tax policies; trade agreements that vastly reduce our ability to regulate global corporations; or government or corporate restructuring that results in thousands of lost jobs.

In the past 25 years, globalization—and the corporate agenda it supports—have resulted in a tremendous redistribution of power, away from government and people, towards the market and corporations. This has occurred in countries around the world.

How can we react against this agenda? The first step is to recognize that global forces are not anonymous creatures acting in a vacuum. Rather, they include:

- The transnational corporations that dominate global markets, that increasingly base their investment, hiring, and production decisions on whether countries provide a more "business friendly" environment (i.e., lower taxes and fewer public programs), or workers accept the flexibility (i.e., lower wages and benefits) they demand;
- International financiers, who rely on electronic signals to move huge flows of capital from one end of the globe to another, seeking the greatest return, at the expense of countries and government policies deemed unfriendly to free markets;
- Currency speculators, who profit through cashing in on what appear to be relatively insignificant movements in countries' currencies, no matter how much havoc their actions wreak on those countries, their communities, and the people who live there;
- The World Bank and IMF, whose policies have inflicted too much damage on too many countries, and impoverished too many people, through their heavy focus on cuts in public spending, privatization, and deregulation; and

- Bond-rating agencies, whose narrow focus on governments' balance sheets can result in tremendous increases in borrowing costs for countries who do not comply with the deep cuts demanded by their mathematical formulas and ratios.

While it may be difficult to change this behaviour, these actions should ***never*** be taken as givens. But countries cannot go it alone. Without international co-operation, transnational corporations, currency speculators, and others will succeed in pitting countries against each other, plunging towards the lowest common standard.

Countries co-operate in many areas of common interest—such as in relation to the environment, AIDS research, and peace keeping. It is just as important to have strong international co-operation, to deal with issues such as the following:

- The investigation of concrete mechanisms that would result in fairer taxes and enforceable legal requirements for transnational corporations;
- The determination of ways in which governments and workers can effectively oppose demands for reductions in wages, benefits, and/or taxes by profitable companies who threaten to move elsewhere, closing plants and shedding jobs in the process;
- Promoting employment and job creation policies, on an international basis;
- Obtaining the funding needed to improve and extend public programs, to help citizens adjust to often rapid economic restructuring;
- Bringing real reform to the international bodies that promote the neo-conservative economic agenda, like the World Bank, IMF, and World Trade Organisation;
- Putting controls on international capital movements that occur to "punish" countries that are seen as unfriendly; and
- Thwarting the ability of currency speculators to wreak havoc on the world economy, or individual countries.

Ordinary citizens must be in a position to lobby their governments, to convince them to enter into the types of agreements needed for effective regulation of the global marketplace. As an essential part of this effort, citizens must be aware of the organizations, individuals, and mechanisms that dominate global markets.

This publication, updating our research document first issued in 1995, represents a step along that path. Please let us know if it meets your needs, and how it can be improved.

James Clancy
National President

Larry Brown
National Secretary-Treasurer

March, 1999

Asia-Pacific Economic Co-operation(APEC)

An institution, established in 1989, to increase consultation at the ministerial level on Asia-Pacific issues. The 18 current members include Canada, the United States, Mexico, Chile, Australia, New Zealand, and the major countries of Southeast Asia (such as the Peoples' Republic of China, Japan, South Korea, Singapore, and Thailand). Peru, Russia, and Vietnam were recently admitted as additional members.

APEC's technical work is carried out by specialized working groups, while its political work is done by the Senior Officials' Meeting, which prepares the agenda for periodic ministerial meetings. Much of the work of APEC focuses on trade issues, such as harmonization of standards, rules on intellectual property, co-ordination of rules on competition policy, and customs co-operation.

Published material from APEC recognizes "the important contribution of the private sector to the dynamism of APEC economies"; and commits APEC "to enhance and promote the role of the private sector and the application of free market principles in maximizing the benefits of regional co-operation."

Bank of Canada

The central bank is responsible for Canada's monetary policy. It plays a vital role in determining the price level and overall rate of economic growth in the country by influencing the level of interest rates and the value of the Canadian dollar in relation to other countries' currencies. Its responsibilities include the printing of money, the management of the national debt, the investment of funds for government agencies, and advising the Minister of Finance on economic policy. Although the Bank of Canada Act gives the Bank a wide range of powers, it continues to be obsessed with controlling inflation, which at this writing is virtually non-existent.

The Bank of Canada is headed by a Governor. The Bank has considerable independence, but the government can overrule it through having the Minister of Finance issue it written instructions. The Bank is owned by the Government of Canada, and thereby, the people of Canada.

Bank for International Settlements

A clearinghouse for major central banks (including the Bank of Canada) who own its shares. Central bankers attend regular meetings of the board, held in Switzerland, once a month. There are also a number of working groups, which study issues of importance to the Bank. The BIS is considered to be a useful forum for the discussion of banking issues, and for the exchange of ideas and approaches to international problems.

Bank rate

The minimum rate of interest the Bank of Canada charges chartered banks, other members of the Canadian Payments Association, investment dealers, and money market dealers for their loans. It is fixed at ¼ of 1 per cent above the average yield on a 91-day Government of Canada Treasury Bill. The yield used to be adjusted weekly, but is now subject to only periodic changes. It should be noted that the Bank of Canada is not just a passive spectator in this or the other activities it takes to influence the bank rate. The bank rate is an important signal to the banking system on the direction of monetary policy. An increase in the bank rate is normally a signal that the Bank of Canada plans to tighten the money supply, and the banking system will respond by raising rates to its customers. A decrease in the bank rate is a sign that the Bank of Canada intends to relax monetary policy, and the banking system will respond by lowering interest rates. The bank rate is also greatly affected by the actions of the Federal Reserve in the United States (see separate entry).

Bear market

A market that is declining. Those who expect the market to fall are called “bears”.

Bond

A certificate on which the issuer, who is borrowing money from the holder, promises to pay the holder a specified amount of interest for a specified length of time. Typical periods are 5, 10, and 20 years. Bonds are issued by private companies, governments, Crown corporations, and financial institutions. When a bond is issued by a private company, the holder does not own part of the company (as the holder would, in the case of shares). The holder also has no say in how the company is run.

Bond rating

A professional assessment of the creditworthiness of a particular bond issuer, such as a government or a private company. The rating indicates the borrower’s ability to repay the interest and the principal of the bond. The lower the rating, the greater the risk of default on the bond (and the higher the rate of interest the borrower must pay). The higher the rating, the less the risk of default (and the lower the rate of interest the borrower must pay). The two top bond-rating firms, based in the United States, are Moody’s and Standard and Poor’s. The two principal Canadian firms are Dominion Bond Rating Service and Canadian Bond Rating Service.

Bull Market

A market that is advancing. Those who expect the market to rise are called “bulls”.

Business Council on National Issues (BCNI)

The BCNI was formed in 1976 by a group of corporate leaders who felt that the welfare state had grown so large and interventionist that it had encroached on what they perceived as the private sector’s rightful mandate; and that nobody in government was listening to big business in a serious way. Today, the BCNI is the most powerful special interest group in the country.

The BCNI comprises 150 chief executive officers from major transnational companies, and has a major role in developing public policy and shaping national priorities. The companies that form the BCNI have combined assets of $1.5 trillion, earn annual revenues of $400 billion, and employ about 1.3 million Canadians. The BCNI has been front and centre in maintaining the fight against inflation, cutting back public spending, and bolstering corporate profits. Its chief spokesperson is its president, Tom d'Aquino.

Business Roundtable

The U.S. counterpart to the BCNI (see separate entry). According to the AFL-CIO, most of the Business Roundtable's work is behind the scenes, as opposed to the very public stance taken by the BCNI.

C.D. Howe Institute

Although the C.D. Howe Institute calls itself "Canada's most respected independent, nonprofit economic and social policy research institution", it actually represents the views of the business elite. It is funded almost exclusively from Bay Street and its board is drawn from Canada's biggest corporations.

The C.D. Howe Institute's main focus is on economic issues, and recent studies address such topics as debt reduction, the need for tax cuts, and the benefits of privatization. The Toronto-based organization has also led the attack on Canada's social programs. Its president is Thomas Kierans.

Canadian Payments Association

The financial network that clears cheques, pre-authorized debits in savings and chequing accounts, and electronic transfers so that financial institutions accepting cheques and other transfers can get the money from financial institutions on which the cheques and other transfers are drawn. The system, which balances the books of the millions of daily financial transactions in Canada, is made up of the country's banks, trust and loan companies, major credit unions, and other financial institutions. It is chaired by an executive of the Bank of Canada.

Capital gain

An increase in the value of an asset, such as a share, bond, land, house, or other asset, which results in a profit if the asset is sold. In Canada, capital gains are often taxed at preferential rates.

Club of Rome

An international association of business people, scholars, and scientists, founded in 1968 to study humanity's common problems, particularly problems of long-term resource supplies, environmental pressures, economic growth, and food supplies. The Club was founded by Aurelio Peccei, an Italian industrialist, and is financed by the Agnelli Foundation and the Volkswagen Foundation of Germany. The most famous works of the Club of Rome include the Limits to Growth, a publication linking environmental crises, famine, overpopulation, and natural resource depletion; and its RIO report, which called for the adoption of a New International Economic Order.

Currency Trader

There are only a few hundred currency traders operating across the globe. Their actions usually involve watching computer screens for up to 16 hours a day, and pushing the right buttons at the right time. The purpose is to take advantage of infinitesimal differences in exchange rates. In doing so, they can undermine or even totally frustrate countries' efforts to carry out policies that are in the best interests of their citizens.

Aided by the technological revolution in computers and telecommunications, these traders include big banks, mutual funds, trading firms, and currency speculators. Each of these actors may have tens of billions of dollars to risk in speculation.

According to the latest available figures, currency traders now complete $1,300 billion (US) in foreign exchange transactions each and every day. As astounding as this figure might seem, it becomes even more so when it is recognized that the world's official foreign exchange reserves are estimated at only $1,200 billion (US). In other words, privately held foreign exchange reserves in the hands of institutional speculators far exceed the capacities of central banks, acting individually or collectively, to fight the tide of speculative activity.

Derivative

A financial contract whose value depends on the values of one or more underlying assets or indices of asset values. They typically refer to contracts known as forwards, futures, swaps, and options. The primary purpose of these instruments is *not* to borrow and lend funds, but rather to transfer the risk associated with fluctuations in asset values. In many instances, derivatives reduce risk. For example, a company dealing in copper may borrow money with its payments tied to the price of copper. If copper prices fall, its debt payments also fall. In other instances, companies and individuals have lost millions of dollars in complicated derivative transactions.

It has been observed that derivatives give financial speculators a "back door" around normal regulatory and tax requirements, and undermine the stability of the world financial system. A main reason is that the regulatory regime is far behind financial developments (particularly the global scale of financial markets and the ability to shift large amounts of cash at the push of a button). Most derivative contracts fall into one of four classes: foreign exchange, interest rate, commodity, and equity.

Dividend

Income that is based on owning shares of a company. For example, a company may pay shareholders a 20% dividend for each share that is held. In Canada, people who receive dividends from Canadian companies pay income taxes at a preferential rate.

Diversification

The allocation of investment assets within an asset class, among different asset classes (stocks, bonds, real estate, etc.), or among geographical areas, to reduce risk.

Euro

A new common currency, introduced on January 1, 1999 in 11 European countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

European Union

The European Union is a treaty-based institutional framework that defines and manages economic and political cooperation among its fifteen European member countries. The Union is the latest stage in a process of integration begun in the 1950s by six countries— France, Germany, Italy, the Netherlands, Belgium and Luxembourg—whose leaders signed the original treaties establishing various forms of European integration. These treaties gave life and substance to the concept that, by creating communities of shared sovereignty in matters of coal and steel production, trade and nuclear energy, another war in Europe would be unthinkable. While the EU has evolved common policies in a number of other sectors since then, the fundamental goal of the Union remains the same: to create an ever closer union among the peoples of Europe.

Due largely to the success of Europe's economic integration, there are now 15 EU member states (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom), and membership will likely increase to more than twenty soon after 2000.

The European Union has several governing bodies. The *European Commission* proposes policies and legislation, is responsible for administration, and ensures that the provisions of the Treaties and the decisions of the institutions are properly implemented. The current Commission (1995-2000) consists of 20 Commissioners, including the President (Jacques Santer), who are appointed by common agreement among the member states and approved as a body by the European Parliament. Commissioners hold portfolios of responsibility and act in the interest of the Union, independently of national governments.

The *Council* enacts legislation binding throughout EU territory and directs intergovernmental cooperation. The Council is composed of ministers representing the national governments of the 15 Member States. Different ministers attend Council meetings depending on the agenda. Most decisions are taken by majority vote, but some decisions (for instance on foreign policy in the framework of the CFSP, taxation, and environmental issues) still require unanimity. The Presidency of the Council rotates among the member states every six months. Each Presidency concludes with a *European Council* which brings together the Heads of State or Government of the 15.

The *European Parliament* is composed of 626 members, directly elected to five-year terms. Members of the European Parliament (MEPs) form political rather than national groups. The European Parliament now has a limited legislative role thanks to the co-decision procedure introduced by the Maastricht Treaty. The Parliament acts as the EU's public forum, debating issues of public importance and questioning the Commission and the Council. The Parliament can amend or reject the EU budget.

The *Court of Justice* interprets EU law and its rulings are binding. The Court comprises 15 judges assisted by 9 advocates-general. It is assisted by a **Court of First Instance**, which has jurisdiction to hear cases in limited areas.

The *Court of Auditors,* which consists of 15 members appointed by a unanimous decision of the Council after consulting Parliament, monitors the Union's financial activities.

The *European and Social Committee* comprises 222 members who represent employers, employees and numerous other groups such as farmers and consumers. It must be consulted before the adoption of a significant number of decisions; it may also deliver opinions on its own initiative.

The *Committee of the Regions*, established by the Treaty on European Union, also comprises 222 members, representing local and regional authorities. It must be consulted before the adoption of decisions affecting regional interests, and it may also deliver own-initiative opinions.

Exchange rate

The number of units of a Canadian dollar that are needed to buy one US dollar, or one unit of another foreign currency. For example, if the Canadian dollar is trading at 66 cents, it will take almost $1.52 Canadian (1 divided by .66) to buy $1 US. In a fixed exchange rate system, countries are required to maintain the exchange rate of their currency, in relation to a key currency (such as the US dollar) or a basket of currencies. In a floating exchange rate system, exchange rates are set by demand and supply, and countries have no commitment to a particular exchange rate (although, in practice, many countries intervene in the market to keep the value of their currency within a range they feel is acceptable; or to counter the actions of speculators).

Federal Reserve Board

The Federal Reserve System is the central banking system of the United States, created in 1913. There are 12 regional Federal Reserve Banks and a national board of governors, operating under the chairman of the Federal Reserve Board, currently Alan Greenspan. The Federal Reserve Board sets reserve requirements for US banks, supervises the banking system, sets interest rates, reviews the activities of district reserve banks, controls the production of currency, and takes part in the Open Market Committee, which determines monetary policy and exchange rate policy.

Fiscal policy

A government's use of its taxing and spending powers to dampen down the swings of the business cycle, and to contribute towards the maintenance of a growing, high-employment economy free from excessive inflation or deflation. The overriding focus of most Canadian governments in recent years has been on reducing their expenditures, with targeted increases in certain high-profile areas like health care. Generally, these increases have not returned those expenditures to where they were before the cutting started.

Forward exchange

A foreign currency that is bought or sold at a specific price, for delivery at some specified future date. For example, an importer who is to take delivery of products in three months time and who wants insurance against higher prices caused by a decline in his or her country's exchange rate will buy a three month futures contract, enabling the importer to take delivery of the foreign currency that will be needed at a price that protects against a loss on the import transaction.

Fraser Institute

For many years after the Fraser Institute was established in Vancouver in 1974, it was considered to be a radically right-wing think tank on the fringes of the policy community. Many people now feel it is more "mainstream", although its political orientation hasn't changed. Its president is Michael Walker, and its Board is drawn from the upper reaches of corporate Canada.

The Fraser Institute calls itself "an independent Canadian economic and social research and educational organization"; and says that its objective is "the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians". The Institute is involved in economic and social research, publishes books and newsletters, monitors television news to ensure "balanced" reporting, and is particularly effective in involving high school and university students in its market economics programs. Besides its own staff, it hires academics from around the world to develop right-wing positions on such matters as free trade, taxation, government spending, health care, the environment, Aboriginal rights, and privatization.

Free Trade of the Americas (FTAA)

At the Summit of the Americas (SOA) December 1994 in Miami, Heads of State and Governments from 34 countries throughout the Hemisphere agreed to construct the Free Trade Area of the Americas (FTAA), stretching from Alaska to Tierra del Fuego, by the year 2005. Creating the FTAA is a complex process, involving government officials participating in working groups in a wide range of trade and investment areas, and ministers meeting regularly in Trade Ministerials to decide key issues.

The FTAA will encompass all of those areas within the World Trade Organization's ambit. Its stated goal is to go beyond previously agreed multilateral trade liberalization within the Hemisphere, wherever possible.

Futures market

A market in which investors buy and sell commodities, financial instruments, and foreign exchange for future delivery. Futures markets trade in a wide range of commodities, including wheat, corn, coffee, hogs, cattle, gold, silver, the Canadian dollar, treasury bills, and government bonds. The futures market provides an important role in stabilizing prices for commodities, and ensuring a stable supply. Through selling futures contracts, a producer can recover some of the losses that might be incurred on a commodity if prices fall; while, by buying futures contracts, a producer can ensure existing prices in a commodity that will be acquired at a future date.

The market is also characterized by speculators, who trade in the market to make a profit by buying and selling contracts to take advantage of price fluctuations. In doing so, they are speculating on the difference between the "futures price" of the commodity, and the actual ("spot") price three months later or longer.

The main Canadian futures markets are in Winnipeg, Montreal, and Toronto. Other major exchanges are in Chicago, New York, and London.

General Agreement on Tariffs and Trade (GATT)

See the entry under World Trade Organization.

Global Business Network

A think tank, created in 1988, whose explicit purpose is to shape the future of the world. At one level, the GBN is a relatively tiny consulting company. At another level, however, the GBN has an impressive list of clients (the White House, AT&T, major television networks, multinational companies), and has become increasingly influential in helping business and government leaders make major decisions.

Globalization

The shift in investment, production and trade decisions from serving national markets to serving world markets. Related to this is the decline of trade barriers; the shift to free market economics; the growth of competition to a world scale; and the increased ability of multinational companies to demand and obtain tax, regulatory, environmental, and other concessions (such as less costly social programs, or reduced regional development transfers) under the often real threat that they will move operations elsewhere if their demands are not met.

According to its advocates, globalization has taken decisions out of the hands of national governments, over which the public has some potential control, and has handed them over to a "faceless" creature called the international marketplace, over which the public and countries have absolutely no control. In reality, these "faceless" creatures are real people, who control large flows of capital, typically on behalf of multinational corporations.

Gross Domestic Product (GDP)

The total of all economic activity in a country, no matter who owns the assets that generate activity. Canada's GDP includes the profits of a foreign company located here, even if they are remitted to the firm's parent located in another country. The difference between GDP and GNP is usually relatively small, perhaps 1% of GDP.

There are many things that are not in GDP, including the following:

- **transfer payments,** for example, social security and pensions;
- **gifts;**
- **unpaid domestic activities,** for example, if you shovel the snow on your driveway, the value of your work is not included in GDP but it is if you pay somebody to do it);
- **barter transactions**, for example, if you exchange some carpentry work for an appointment with your dentist;
- **second-hand transactions**, for example, the sale of a used car (where the production was recorded in GDP in a previous year);
- **intermediate transactions,** for example, a lump of metal may be sold several times, perhaps as ore, pig iron, part of a component, and finally, part of a washing machine. The metal is included in GDP only once, at the net total of the value that is added between the initial production of the ore, and its final sale as a finished item;
- **leisure—**an improved production process which creates the same output, but gives more recreational time, is recorded at exactly the same price as the old process;
- **environmental costs**—GDP figures do not distinguish between "green" industries and polluting industries—they both add to GDP. Ironically, while clean-up costs of an environmental disaster add to GDP, the costs that are saved from having a more environmentally responsible production process subtract from GDP;
- **inefficient activities**—no allowance is made in GDP for activities that might be provided more efficiently. They are valued at the costs of the salaries, equipment, and so on, needed to carry them out, even if those costs would differ under a more efficient process.
- **allowance for changes in quality**—GDP does not take account of technological improvements in a product over time.

See also Gross National Product (GNP).

Gross National Product (GNP)

The total of the incomes earned by residents of a country, regardless of where the assets are located. Canada's GNP includes the profits from Canadian-owned firms located in other countries. The difference between GNP and GDP is usually relatively small, perhaps 1% of GDP. Seel also Gross Domestic Product (GDP).

Group of Seven (or G-7, sometimes known as the G-8)

Since 1975, the heads of state or government of the major industrial democracies have been meeting annually to deal with the major economic and political issues facing their domestic societies and the international community as a whole. The six countries at the first Summit were France, the United States, Britain, Germany, Japan and Italy. They were joined by Canada at the San Juan, Puerto Rico Summit of 1976, and most recently by Russia.

Meetings of the G-7 have become highly structured, and each country's delegation now includes not only the leaders of those countries, but also ministers dealing with such areas as foreign affairs, finance and trade, and a large staff of officials. The meetings, which at first focused on economics, have been expanded to include almost any issue on the political agenda of the G-7 countries.

Group of Ten (G-10)

The finance ministers and central bank governors, or their officials, of the leading industrial countries, who meet on a regular basis to discuss problems of the international monetary system and ways to make the system function more effectively. The members of the G-10 (which actually comprises 11 countries, since Switzerland joined in 1984) are the United States, Canada, Britain, Germany, Japan, France, Italy, Belgium, the Netherlands, Sweden and Switzerland.

Hedge

A protective manoeuvre; a transaction intended to reduce the risk of loss from price fluctuations. In a currency hedge, for example, the objective would be to protect against detrimental currency movements that would reduce the portfolio return.

Inflation

A steady rise in the price of goods, services, and factors of production over an extended period of time, as calculated through the use of a price index developed and used for this purpose. The Consumer Price Index (CPI) is generally recognized as the main indicator of inflation in Canada. It measures the change over time in the cost of purchasing a constant "basket" of goods and services. That "basket" has been put together by Statistics Canada, to represent Canadian consumers' spending habits. Monthly surveys are done to collect the data used to calculate the CPI.

Other measures of inflation (price indices) may be more relevant to some organizations or governments: for example, a change in wholesale prices may be a sign to central bankers or manufacturing firms that consumer prices will be rising in the months ahead.

The Bank of Canada gives a high priority to achieving low inflation, as opposed to meeting its many other mandated objectives.

Interest

Income that is based on lending money: for example, depositing money in a bank, trust company, or other organization; holding Guaranteed Investment Certificates or other deposits; owning government securities such as Canada Savings Bonds or Treasury Bills; owning corporate bonds; or privately lending people money.

Interest rate

The price charged for using somebody else's money. See also the entry under Bank rate.

International Monetary Fund (IMF)

The IMF was conceived in 1944 as one of the pillars of the post-war economic order. Its aims are to promote international cooperation in monetary matters; facilitate the expansion and growth of international trade; encourage fixed values of different currencies (exchange rates); establish a system to control the international trading of currency and abolish foreign exchange restrictions; and to provide temporary financing while borrowers take steps to correct balance of payments deficits.

The IMF was designed to address the concerns of industrialized nations, not the requirements of developing countries. Since its inception, however, developing countries have become the IMF's major borrowers. The IMF's loans require countries to adopt structural adjustment programs that are based on "free market" principles. **The evidence shows that IMF policies, supposedly intended to "stabilize" economies through such prescriptions as cuts in public spending, privatization, and deregulation, have inflicted too much damage on too many countries, and impoverished too many people.**

The IMF's resources come from the quotas or capital subscriptions of member countries, its capacity to borrow from lenders, and its ability to draw on a line of credit from various countries. The IMF has 182 members, and voting strength is based on the size of a nation's contribution to the fund.

The IMF and the World Bank, its "sister" organization, are collectively referred to as the "Bretton Woods Institutions". Many have said that the two—which share various functions, facilities, and forums—are indistinct. In response, the IMF has stated that the "fundamental difference" is that the Bank is primarily a development institution; and the IMF is a cooperative institution that seeks to maintain an orderly system of payments and receipts between nations.

Investment dealer

A financial firm that helps corporations raise capital; helps pension funds, corporations and individuals with investment capital get the best return on their funds; and helps provide a secondary market (i.e., for the sale from one investor to another, following the initial issue) for outstanding bonds, commercial paper, finance paper, treasury bills, and unlisted shares.

Investment dealers also advise governments and companies on the size, type, and timing of new bond and stock offerings; and on investment and organizational strategies. Some investment dealers also operate in the money market, dealing in short-term funds, and thus play an important role in the Bank of Canada's monetary policy. Most investment dealers are part of a securities firm that is a stockbroker as well.

Monetary policy

The money-supply and credit policies of the Bank of Canada that determine the availability and cost of credit in the economy and, thereby, the rate of economic growth, the level of employment, and the level of inflation. Monetary policy also plays an important role in determining the exchange rate of the currency, which in turn affects the level of output by affecting the prices of exports and imports. Since 1988, the Bank of Canada's main emphasis in monetary policy has been to achieve low and stable rates of inflation.

Money market

A capital market in which short-term capital is raised and invested, and in which short-term securities such as Treasury bills and commercial debt securities maturing in three years or less are traded. The main participants in the money market are the federal, provincial and municipal governments; the chartered banks; the Bank of Canada; and major corporations and non-profit organizations. The market is operated through a telephone network.

Multinational corporation

See entry under "Transnational corporation".

Multilateral Agreement on Investment (MAI)

A proposed agreement, negotiated behind closed doors under the auspices of the Paris-based Organisation for Economic Co-operation and Development (OECD), that would have made it possible for transnational corporations to move their investments around the world, unfettered by government intervention and regulation.

Fortunately, the process eventually opened up when secret documents were leaked, and then posted on the Internet. When ordinary people found out about the MAI, they were justifiably enraged, and demanded that it be withdrawn. This was eventually done, after initial denials from government officials (including several in Canada’s Cabinet) that the proposed MAI would be damaging to Canada and other countries.

Despite our apparent successes in “defeating” the MAI, the concept is still very much alive, and may surface in other activities, forums, and organizations. As an example, a December, 1998 European Commission discussion paper on trade and investment plotted a strategy to implant MAI-like principles in the World Trade Organization.

Mutual fund

Instead of investing in individual shares, bonds, or other securities, investors may decide to spread the risk of investing across a wider range of securities than they could do on their own. A mutual fund raises money from investors, through the sale of units (or shares) of the fund. Its manager then uses this money to invest in a wide portfolio of shares, bonds, and securities. There are a number of different types of mutual funds, and each may have a specialized investment strategy (short-term, secure investments; longer-term risky investment; balanced investments; stable income, etc.) They may focus on different types of investments (stocks, bonds, other) and on opportunities from different parts of the world (e.g., Canada, the U.S. Latin America, Europe, Asia-Pacific). The performance of individual funds varies widely.

National Citizens' Coalition (NCC)

The NCC claims to have more than 40,000 supporters, but has no fixed membership. It advocates individual freedom and responsibility under limited government, but has no democratic structures. Independent of all political parties (but now headed by Stephen Harper, formerly a high profile Reform Party member of Parliament), it gets its funding from wealthy business people. The NCC supports privatizing and contracting-out, citizen-inspired referendums, the reform of pensions for MPs and federal workers, freedom from "forced" unionism, Senate reform, and government cutbacks. The NCC is best known for its full-page newspaper ads promoting its points of view on particular issues.

Option

A contract in which the owner of a piece of land, building, block of shares, or some other property agrees to sell the property to another party for a specified price during a specified period of time. In return, the buyer of this right or option pays a sum of money, whether or not the option is exercised. The purchaser loses money if the option is not exercised, but this is a small price to pay if it turns out that purchasing the property would have been a poor investment (the only money lost is the price of the option, not the entire value of the asset).

Organisation for Economic Co-operation and Development (OECD)

The OECD is a Paris-based intergovernmental organization whose stated purpose is "to provide its 29 member countries with a forum in which governments can compare their experiences, discuss the problems they share and seek solutions which can then be applied within their own national contexts." Each member country is committed to the principles of the market economy and pluralistic democracy.

The OECD says that its "fundamental task" is “to enable its members to consult and co-operate with each other in order "to achieve the highest sustainable economic growth in their countries and improve the economic and social well-being of their populations." As a key part of this, the OECD offers advice and makes recommendations to its members. On occasion it also arbitrates negotiations of multilateral agreements (which is presumably how it got involved in the proposed Multilateral Agreement on Investment, or MAI), and establishes legal codes in certain areas of activity.

The members of the OECD are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

Over-the-counter market

The market for corporate and government bonds and shares that are not listed on the stock exchange. This market is usually conducted over the telephone, with prices reached through negotiation. Companies traded over-the-counter are usually too small to be traded on a normal stock exchange.

Prime rate

The interest rate charged by a chartered bank to its most creditworthy borrowers.

Selling short

A form of speculation in which the investor expects the price of a stock to decline. Securities are sold, even though the seller does not actually own them (the shares are borrowed from someone else), and then are bought back—at a lower price, if the investor was right about expected decline in price. These shares are then delivered to the original owner's account. The profit is the difference between the selling price of the shares, and the price paid to purchase them (and, of course, the commission paid to the stockbroker). The risk a "short seller" has is that the share price will go up after they are sold, and that they will then have to be bought at a higher price than they were sold for.

Shares

Ownership of part of the capital stock of a corporation, as represented by the possession of share certificates. A shareholder actually owns part of the company, and some classes of shares (typically common shares that have "voting" rights) entitle the shareholder to have a say in the management of the company, at least in theory. In practice, companies typically have so many shareholders, and/or leave so many shares in the hands of the principal owners, that small shareholders may have little if any say in how the company is run. Shares are bought and sold on stock exchanges or on the over-the-counter market, through stockbrokers.

Stockbroker

An individual or firm owning a seat on a stock exchange, and who is therefore able to buy and sell shares listed on the exchange for itself or for others. A stockbroker is paid on a commission basis (based on the value of the shares bought or sold).

Stock exchange (stock market)

An organized market, on which shares are bought and sold for investors by stockbrokers. The four stock exchanges in Canada are the Toronto Stock Exchange, the Montreal Stock Exchange and the Vancouver Stock Exchange.

Swaps

A transaction in international banking in which one currency is traded for another in order to earn a higher rate of interest.

Tariff

A tax or duty on imported goods levied either as a percentage of their value or according to the number of units shipped.

Tax cut

The new mantra in public policy in industrialized countries, complementing (and often replacing) globalization. The supporters of tax cuts claim that taxes are far too high, and that lower taxes will turn the government's financial situation around, and spearhead economic growth.

Nobody likes high taxes, and this message is often quite effective among low- and middle-income earners. It's important to recognize, however, that the impact of tax cuts on low- and middle-income earners is relatively quite small, providing them with only very modest amounts of extra cash. Just as important is the fact that tax cuts are typically counterbalanced by additional charges and fees, to finance public programs (and in many instances, to help finance the programs that <u>used</u> to be public).

In reality, it's corporations and high-income earners who benefit most from tax cuts. As an important example, remember that the benefits of the 1981 Reagan tax cuts went almost entirely to the wealthiest 20 per cent of the population.

As such, tax cuts won't necessarily stimulate the economy, and they certainly won't make our economic system—which already favours corporations and high-income earners—any fairer. In truth, beyond the rhetoric, the tax cut argument is based on a single premise: the tax system (which provides revenues to the public sector) is taking too much money away from the "productive" private sector; and transferring it to the "unproductive" public sector. As a direct by-product, these taxes (and the actions of the governments they help fund) are held to impose a high "cost of doing business" on the private sector, which is "forced" to operate far less efficiently than it otherwise would.

Tobin tax

A tax named after the author of several papers, which discuss it, Nobel prize-winning economist James Tobin. Tobin has noted how worldwide currency speculation wastes "vast resources of intelligence and enterprise"; and has observed that the free movement of funds across currencies, has been "hazardous to the economic health of nations". The reason, according to Tobin, is that "vast funds" are now prepared to move from currency to currency, to profit by speculating on "minuscule percentages" of price movements between those currencies. To those who engage in such speculation, the "outcomes...on real economies, local, national, and international" are irrelevant.

Tobin's proposal would tax speculative currency transactions on a worldwide basis. According to Tobin, the revenue yield of a 0.5% tax on a base of trillion dollars a day would be $1.75 trillion a year. Aside from the revenue implications, such a tax would be "a considerable deterrent to persons contemplating a quick round-trip to another currency."

Transnational corporation (also known as a multinational corporation)

A corporation with subsidiaries in more than one other country, and which operates from an international perspective. Transnational corporations use their financial resources, technology, systems of distribution, product identity, and other strengths to set up subsidiaries in countries around the world, and to allocate production according to local labour costs and skills, tax policies and initiatives, cost of social programs, distribution costs, and other such factors. They have become an important means of transferring technology, and often create jobs in developing countries, but have serious drawbacks:

- Local residents may not develop high-level skills, which are left to the parent company's head office (locals are hired to do low-skilled, low-wage work, usually under environmentally unsafe/union-free/oppressive conditions that would not be tolerated in the parent's home country).
- Although technology may be transferred, research and development may not, and host countries may obtain less technological knowledge than under other arrangements, such as licensing.
- The entry of a transnational may prevent the creation of viable local companies, since transnationals can quickly establish and fund their own local subsidiaries, and bring in both parts and experts from head office.
- The existence of a large number of foreign-controlled subsidiaries weakens the ability of national governments to control their own economies, since many decisions are made elsewhere; and can shape economies away from program initiatives that would make them self-sustaining (and their citizens better off) in the longer-term.
- Transnationals weaken local cultures, shaping tastes and values away from local traditions.
- Transnationals deprive treasuries of taxation revenues, through overpaying their head offices for products, services and research; and/or by manipulating the prices at which goods and services are transferred between and among subsidiaries or otherwise related companies to take advantage of low-tax environments.

Treasury Bill (also known as a T-Bill)

A short-term investment issued by the Government of Canada and the provinces, usually for periods of 91, 182, or 364 days. T-bills are sold at a discount: that is, they are sold at less than their face value. At maturity, the holder collects the full value, with the difference representing interest. The bank rate—the minimum rate of interest the Bank of Canada charges the chartered banks, other members of the Canadian Payments Association, investment dealers, and money market dealers for their loans—is fixed at ¼ of 1 per cent above the average yield on a 91-day Government of Canada Treasury bill.

Trilateral Commission

A New York based organization, consisting of about 200 private citizens, that researches and debates common issues, and expounds the virtues and interests of international capitalism. Its members are business leaders and former government leaders from the United States, Canada, Europe, and Japan. The Trilateral Commission is privately funded, and has an important influence on the policies and programs of governments.

Unemployment

According to Statistics Canada, the term "unemployment" refers to those persons who, during their regular survey of the labour force: (a) were without work, had actively looked for work in the past four weeks, and were available for work; (b) had not actively looked for work in the past four weeks but had been on layoff and were available for work; or (c) had not actively looked for work in the past four weeks but had a new job to start in four weeks or less from the reference period, and were available for work. The "unemployment rate" then represents the number of unemployed persons, as measured through the above process, expressed as a percent of the total labour force.

However, this "official" rate misses several categories of unemployed workers. For example, there is "hidden" unemployment. These are people who want work, but who are not officially counted as part of the labour force or the unemployed in the government's survey, because they were not actively seeking work when surveyed. They include workers who had not actively sought a job because they believed no work was available, or because they were waiting recall to a job, or were awaiting a reply to a job application. There are also many "underemployed" workers: people employed in part-time jobs who really want full-time jobs; persons working only short-time; and workers laid off for part of the week.

If we add "hidden" unemployment and "underemployment" to Statistics Canada's "official" figures, it becomes evident that the "true" number of unemployed or underemployed workers is significantly larger than the government admits. It would not be unusual for the "true" unemployment rate to be some 50% higher than the "official" one.

World Bank

The International Bank for Reconstruction and Development, frequently called the "World Bank" was established in July 1944 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, USA. The World Bank, which is the "sister" organization of the International Monetary Fund, opened for business on June 25, 1946. The World Bank's goal is to reduce poverty and improve living standards by promoting sustainable growth and investment in people. The Bank provides loans, technical assistance and policy guidance to developing-country members to achieve this objective.

The World Bank Group includes the following institutions: The International Bank for Reconstruction and Development (IBRD); The International Development Association (IDA); The International Finance Corporation (the IFC); The Multilateral Investment Guarantee Agency (MIGA) ; and The International Centre for the Settlement of Investment Disputes (ICSID). As of July 15, 1997, the IBRD had 180 members; IDA had 159; the IFC had 172; MIGA had 141 and ICSID had 128. The president of the World Bank is James D. Wolfensohn.

Its critics have attacked the World Bank on a number of grounds: in particular, based on allegations that it is undemocratic in its decision-making, ignoring the views of developing countries; that it funds environmentally unsound projects; and that its market-oriented approach is applied in a doctrinaire way. See also the entry on the "International Monetary Fund".

World Economic Forum

According to U.S. government documentation, the World Economic Forum "promotes interaction among leaders from government, business, academia and the arts with the objective of improving the state of the world". It is a not-for-profit foundation under Swiss law. The World Economic Forum has its headquarters in Geneva, and its President is Klaus Schwab. The organization is financed through membership fees and cost contributions from participants in specific events.

The World Economic Forum pursues its aims by organizing high-level meetings and summits, the largest and best known is its Annual Meeting held in the ski resort of Davos in eastern Switzerland. This weeklong meeting, informally known as the Davos Symposium, brings together over 800 chief executives from around the world, some 200 government leaders, numerous high ranking officials from regional and international organizations, and some 300 experts, scientists, artists and representatives of the media. A report in the media says that non-member companies pay $20,000 (plus travel expenses) to attend.

In addition to its annual meeting, the World Economic Forum organizes regional and national meetings around the world. It is also known for its annual "Global Competitiveness Report".

World Trade Organization (WTO)

The WTO is an international agency set up in 1995 to oversee the rules of international trade. Its stated purpose is to help trade flow smoothly, in a system based on rules, to settle trade disputes between governments, and to organize trade negotiations. The WTO is an intergovernmental organization. The main decision making bodies are councils and committees consisting of the WTO's entire membership. Administrative and technical support comes from the WTO Secretariat in Geneva.

The international organization that preceded the WTO was the General Agreement on Tariffs and Trade (GATT), although the GATT is now part of the WTO agreements. GATT deals with trade in goods, the General Agreement on Trade in Services (GATS) deals with trade in services, and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) deals with such issues as copyright, trademarks, patents, industrial designs and trade secrets.

The WTO, whose orientation is towards liberalized world trade, is located in Geneva, Switzerland, and has a membership of 132 countries. Its head is Renato Ruggiero (director general).

Yield

The annual return on an investment, expressed as a percentage of the cost of the investment. For example, an investment of $100 that pays $8 annually has a yield of 8%.