



# **ECONOMIC DISARMAMENT**

**A public appeal  
for a new approach  
to the world economy  
and Canada's place in it**



National Union of Public and General Employees  
(Canada)



October 13, 1998

The Right Hon. Jean Chrétien  
Prime Minister of Canada  
House of Commons  
Parliament Buildings  
Ottawa, ON K1A 0A6



Dear Mr. Chrétien:

In June of this year at our National Union of Public and General Employees convention, delegates representing 320,000 women and men and their families discussed the perilous state of the world economy. Events of the past three months have only confirmed for me that we have been brought, again, to the brink of a global economic calamity.

The discussion paper that follows sets out a reasonable course of action to alleviate the current misery for millions of people worldwide, and offers to protect countless millions more in the years ahead.

Mr. Chrétien, on behalf of our members across the country, I strongly urge you to take the initiatives that are needed, in relation to the global financial system. I also encourage you to take another look at your government's initial plan to address these important issues and to bring a wide variety of voices--not just those of big business, the banking community, or other "elites"--into the discussions of these and related policy initiatives.

Please feel free to let us know your government's position on Global Economic Disarmament.

Sincerely,

James Clancy  
National President

c.c Hon. Paul Martin, Minister of Finance  
Hon. Lloyd Axworthy, Minister of Foreign Affairs  
Hon. Sergio Marchi, Minister of International Trade  
NUPGE National Executive Board  
Wm. Lucy, President, Public Services International  
R. White, President, Canadian Labour Congress





## **Global Economic Disarmament**

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**D**uring the summer of 1997, when Southeast Asian currency markets collapsed under the weight of speculative activity, many people felt that it was only a localised problem. When the crisis spread to Russia, Brazil, and elsewhere, people realized the problem was more complex than it originally appeared. It became clear that the issues went well beyond one country or region and certainly well beyond the so-called routine ebbs and flows of efficient markets. Indeed, as the weeks and months went by, people around the world finally recognized that the issues went to the very heart of the global financial system itself, and its blind faith in the marketplace as the most effective way of conducting business.

When historians analyze what went wrong during this period, I expect that they will focus on two main issues. The first is our willingness (perhaps naïveté is a better term), in virtually ceding control of the world financial system to a relative handful of investment banks and financial trading houses. Through a variety of exotic instruments—including options trading, short sales, non-trading derivatives, hedge funds, non-deliverable currency transactions, and index futures—they have been allowed to buy and sell currency, and move financial and other assets in and out of national economies at breakneck speed. As you know, this has had devastating

**The global financial crisis has been caused by our blind faith in the marketplace.**

**We have ceded control of the world financial system to a handful of investment banks and financial trading houses.**



results for citizens and countries, around the world. These financial players have accomplished this, not only because of the complexity of these instruments, but also because of the until-recently widely-held belief that the system is efficient, driven by market forces.

**Financial markets and institutions aren't innocent bystanders. They take advantage of the built-in destabilizing tendencies of the system.**

I believe many people now recognize that financial markets, and the institutions within them, are not the innocent, anonymous forces they pretend to be. They are central economic actors, capable of making herd-like judgements of both optimism and pessimism. These judgements carry currency, share and bond prices to irrational highs; and they carry them to just as irrational lows! In short, the economic manias, panics, and booms in today's financial markets have been generated by the financial system itself, by its own built-in tendencies, notwithstanding the terrible consequences of its actions.

**We must regulate banks and global finance into conservative and cautious behaviour.**

The key to economic stability, in my view, is to regulate banks and global finance into conservative and cautious behaviour. The purpose of such regulation is to head off the tendency embedded in financial markets to overlend, overbuy, oversell, and rush into cash. My union believes that the great policy mistake of the 1980s and 1990s has been to neglect this truth, and to trust in the markets' judgements.

**Financial markets have achieved their massive power because governments believe they have no other economic choices.**

Sadly, too many world leaders seem frozen into immobility, even today. Too many still believe that this is the epoch of "the market", of individualism, of globalization, and of a Darwin-



ian belief in natural selection. Prime Minister Chrétien, financial markets haven't achieved their awesome power because it is inevitable that this should happen. They have achieved it because governments have been told, and seem convinced, that we have no other economic choice but to trust in global "free markets".

Related to this is the second main issue I would like to discuss: namely, the failure of the international institutions that should have dealt with many of the problems these financial issues (and others) are creating, especially for the developing world. Specifically, I am concerned about the International Monetary Fund (IMF) and the World Bank, whose prescriptions have so readily been adopted on a global scale, even by governments such as yours.

As you know, the IMF was conceived in 1944 as one of the pillars of the post-war economic order. Although not its original objective, developing countries have become, since its inception, the IMF's major borrowers. Herein lies the problem. The IMF's loans typically require those 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 instead inflicted great damage on too many countries, and impoverished too many people.

At a time when financial markets and capi-

**International institutions, like the IMF and World Bank, have failed.**

**The IMF's prescriptions require countries to adopt programs based on "free market" principles.**

**It's time for a sea change in the IMF's approach.**



tal flight are imposing their own ruinous consequences on those countries, isn't it time for a sea change in the IMF's approach? Why do we continue to allow the IMF to take away the supports people need, to help them weather the major changes their economies are undergoing (including those brought on by global finance)?

**The World Bank, World Trade Organization, and OECD also need a fresh approach.**

I am also concerned about the IMF's sister organization, the International Bank for Reconstruction and Development (the "World Bank"), for several reasons: it ignores the views of developing countries in its decision-making; it often funds environmentally unsound projects; and its market-oriented approach (like the IMF's) is applied in a doctrinaire way. In a similar vein, I am concerned about the policy thrust of such organizations as the World Trade Organization (WTO), and the OECD (through which the proposed MAI is being worked out), whose world economic views are highly consistent, and coordinated, with those of the IMF/World Bank.

**We need Global Economic Disarmament!**

In sum, what has become obvious is a need to change our approach to global free markets; and a need for institutions that will help in carrying out the sorely-needed policy reforms and program responses. I call this a need for "Global Economic Disarmament", and this is no mere metaphor. In my view, just as we have acted to disarm countries from using nuclear weapons, we must act to disarm those who use global finance to wreak havoc with the economies around the world.



In my view, several issues therefore merit discussion. First and foremost is the need for a system of capital controls to moderate the manic quality of investors and speculators, without blocking the need for the billions of dollars of legitimate lending and investment that are now needed. The Tobin Tax, proposed by Nobel prize-winning economist James Tobin, should be part of this package, but so should other mechanisms, such as the types of controls countries like Malaysia and Chile have imposed. We also need a comprehensive study of the role of the above-mentioned “exotic” financial instruments in the world financial crisis, with a view to implementing appropriate controls (and even bans) on the use of the instruments most likely to create havoc on world financial markets.

Along similar lines, a further need is for a comprehensive study, under international auspices, of the risks associated with the electronic order system. Too often, it has allowed volatile trading in New York to spill into the European and Asian markets, and vice versa—and, more importantly, allowed the fallout from panic, fear, and outright mistakes to be transferred around the world at a rapid pace, often without justification.

Secondly, there is a need for a new set of institutions to regulate global finance. Like many others, I reject calls for an expanded role for the IMF and World Bank to carry out this function. They have failed miserably in what they do, and

**This includes capital controls, to moderate the manic quality of investors and speculators.**

**The electronic order system allows panic, fear, and outright mistakes to be transferred around the world.**

**The IMF/World Bank must be replaced with a Global Central Bank, a public institution that would set rules for global finance, and co-ordinate central banks.**



would probably only focus their attention on helping those who agree to the market-based policies they favour.

As such, the IMF/World Bank must be replaced with a Global Central Bank—in essence, a reformed IMF that co-ordinates the main national central banks; and has the power to issue directives to implement its policy objectives. In my union’s view, this Central Bank must be a public institution, accountable to citizens through their governments, that sets the rules for global finance. In response to possible objections by private sector finance to such an institution, I use the analogy of traffic lights and signs: while they regulate the roads, they do not prevent private transport and commerce from taking place or private sector firms from earning profits. The same principle should apply to this new Global Central Bank.

**Countries must be given sufficient resources to rekindle the world economy.**

**Taxation and private sector investment would provide those resources.**

Third, having placed a strong, public institution in place, countries must provide it with sufficient resources to rekindle the world economy—to finance projects like water conservation, the elimination of nuclear waste, and the fight against floods and greenhouse gases, that would create jobs and are vital to humanity. Funds for these efforts could be collected as a worldwide tax, just as taxes are collected today in individual countries.

Moreover, I am certain that private sector firms, well aware of the profit possibilities from such projects (as well as from the increased



spending that would occur, by formerly impoverished citizens), would also participate. The converse, of course, is that if the world economy continues to head downhill, there will be no more profits to earn. Corporations would therefore have a keen vested interest in such projects.

Fourth is the need for a more humanitarian approach to the world economy. This encompasses several dimensions. The first is for immediate humanitarian relief to the victims of global finance and IMF/World Bank policies. One component of this approach is the cancellation of the debts of the world's poorest countries. How can countries in Africa help their citizens weather the economic storm, and afford basic health, nutrition, and other services they desperately need, when they must pay \$13 billion a year in interest on their debt?

A second component of the humanitarian approach has been suggested by Jacques Attali. According to him, "modest indirect taxes", such as on speculative capital movements and on the consumption of nuclear energy, could be used to guarantee each person a minimum income of \$2 per day, on a global scale, and to extend micro-credit. Given recent reports coming out of Russia and other countries, I feel the Attali proposal must be seriously considered, and soon.

The third component of this more "humanitarian" approach is the need for an acceptable forum where these issues can be debated, on a world scale; and where enforceable decisions can

**There must be a "humanitarian" approach to economics.**

**This must include the cancellation of the debts of the world's poorest countries; a minimum income for each person, on a global scale; a forum where economic issues and problems can be debated, and decisions can be made and implemented; and an international study of labour "arbitrage".**



be made and implemented. My feeling is that the G-7 might be appropriate for such actions, but only if other major international powers, like China and India, are allowed to participate.

The fourth component of a humanitarian approach is the need to closely examine the ramifications of something I call “labour arbitrage”. This is the process whereby multinational firms move production and jobs from high-wage labour markets, to other markets where the labour costs are lower. Investor/producers thus reduce their costs, and increase profits, by “arbitraging” these wage differences.

Labour arbitrage goes well beyond the “normal” textbook activities of firms, who seek to make profits through minimizing costs. It has resulted in a crude equilibrium system for labour wages, where the best-paid, most prosperous workers in the world are linked with the cheapest and poorest. In principle, of course, we favour links like these. In the past, they have helped the Canadian labour movement move towards a long-standing objective: namely, to help our fellow workers in the developing world obtain higher wages; and attain higher labour standards.

The problem with “labour arbitrage” is that it does just the opposite. It enables multinationals to make demands—such as greater tax breaks, lower environmental standards, and/or more “flexible” labour markets—and to get them, under the threat that they will pull up stakes

**Labour arbitrage goes well beyond “normal” profit-making by firms.**

**Labour arbitrage “forces” countries to comply when multinationals demand tax breaks, lower environmental standards, and more “flexible” labour markets. It is an important reason why workers around the world have become impoverished.**



and move somewhere else, even when profits are perfectly adequate. Labour arbitrage helps drive the price of human labour downward, in both the developed and developing world. It “forces” countries and economies who need jobs to comply with lower wages, lower labour standards, and weakened policies to help ordinary citizens. In other words, labour arbitrage is an important causal factor, when we seek reasons for the impoverishment of workers and their families around the world.

Mr. Chrétien, there will be no return to “normal” given the current situation, not in the terms that financiers, corporate leaders, or many governments seem to envisage. The global system must either be reformed in fundamental ways, or we will all continue to be victims, as markets deliver random destruction around the world. Among other things, this presents an important opportunity for our country to play a leadership role on the world stage. You and your government enjoy a clear majority in Parliament; and Canada has a well respected and well earned reputation for being an honest broker in matters of world peace and security. What a difference the Canadian government could make, if you decided to act!

I would like to make a final point. I know your colleague, Mr. Martin, recently outlined your government’s “Six-Point Plan” to deal with some of the issues raised in this letter. I certainly hope that this plan isn’t your government’s

**There will be no automatic return to “normal” in this situation. Countries must act to reform the global system.**

**Canada can make a difference!**

**The government’s Six-Point Plan to deal with these issues is deeply flawed.**



last word on global financial instability. While the Six-Point Plan recognizes the ramifications of the global crisis, I am deeply concerned about several of its provisions.

**It should call for directives to central bankers, to end the policy of using interest rates to contain inflation.**

**The Six-Point Plan should also call for the re-institution of reserve requirements on banks, in Canada and other countries where they have been removed.**

**The “sound” economics called for in the Six-Point Plan must not be based on “free market” policies.**

For example, I am concerned about its recommendation to address failures in monetary policy through some vague “quick actions” by central bankers. I’m not sure what this means, but I think that a more appropriate response would be through some specific policy directives and guidelines. Central among these should be an immediate directive to stop the misguided focus on interest rate policies as the key policy tool of central bankers. Interest rate increases may beat inflation to the ground, but they batter everything—and everybody—else as well. Another prescription should be the re-institution of reserve requirements on the banking system, in countries (like Canada) where they have been removed. We cannot continue to allow central bankers and private banks unrestricted control of this important policy instrument.

Another concern about the Six-Point Plan is its reliance on what it calls “sound” macroeconomic and structural policies. My union’s fear is that these “sound” policies refer to a continuation of unfettered free market economic policies. As discussed in this letter, it is now well-recognized that they have failed: or as it was recently put, people now know that the surrender of economic control from the state to the “untrammelled” market has been an “unmitigated disaster”.



Mr. Chrétien, isn't it time to define "sound" economics in a different way? For example, given what has happened over the past several months, why wouldn't we consider returning to the definition used by Professor John Maynard Keynes, and most post-war global leaders who relied on his policy prescriptions? They all recognized the importance of a strong public sector, and public programs, to counter the often virulent flows of unfettered "free markets".

A third concern about the Six-Point Plan is its call for a continued (albeit slightly modified) focus on liberalized capital markets as an ultimate objective. Given the current financial crisis, caused in no small part by unfettered financial markets, how can this response be justified? Financial markets must be constrained, through strong regulation on an international basis, to ensure that they actually work in the interests of ordinary citizens around the world.

A fourth concern with the Six-Point Plan is its continued reliance on the overall approaches taken by international organizations like the IMF and World Bank. Yes, the Plan acknowledges problems with the IMF/World Bank approach, but calls them policy gaps. A more appropriate term, in my view, would be chasm. The IMF/World Bank has been quite out-of-touch with the needs of the developing world, and the policies/programs necessary for economic recovery.

I am also concerned about the Six-Point Plan's way of addressing the IMF/World Bank failures: namely, through "peer review" of their

**"Sound" economics must recognize the importance of a strong public sector and strong public programs.**

**The Six-Point Plan must not continue to steer us towards liberalized capital markets.**

**The Six-Point Plan says the IMF/World Bank have had policy "gaps". "Chasm" would be a better word.**



**The IMF/World Bank failures cannot be addressed by having the world financial community conduct a “peer review”. Those peers caused the problems in the first place.**

**The Six-Point Plan is extremely vague when it says that the needs of the poorest countries must be addressed.**

**Canada must bring these issues to the international community. A wide variety of voices, not just those of the elites, must be heard.**

policies. Mr. Chrétien, haven't many of those “peers”—that is, the members of the world financial community—been major actors in bringing about the crisis that now has to be addressed? Haven't they been the ones encouraging the IMF/World Bank, when they have implemented the disastrous policies that have inflicted so much human misery? Shouldn't the review that your plan calls for therefore be more extensive, and be done by an independent, publicly-accountable body? Is this task not essentially a defining role for world public service?

Finally, I am concerned about the Six-Point Plan's extremely vague, non-specific statement that the needs of the poorest countries have to be addressed. What do you mean by this, in detailed terms? When you say that the World Bank should be “fully engaged as an equal partner with the IMF in designing economic recovery programs for these countries”, does your government mean that the World Bank and the I.M.F. should be doing more of the same things? What are you proposing, to ensure that this won't happen?

Mr. Chrétien, on behalf of our members across the country, I encourage you to take the initiatives that are needed, in relation to the global financial system. I also ask that you to take another look at your government's initial plan to address these important issues; and bring a wide variety of voices—not just those of big business, the banking community, or other “elites”—into the discussions of these and related policy initiatives.



