To truly reduce inequality, Canada must question neoliberal policies

By Roy Culpeper
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In a recent publication, three researchers at the International Monetary Fund called into question certain aspects of the neoliberal agenda. The term, as the authors correctly state, is used more by critics than by the architects of the policies, which were first initiated under British prime minister Margaret Thatcher and U.S. president Ronald Reagan in the 1980s.

Since then, international organizations such as the IMF have unquestioningly propagated neoliberal policies around the world. Is the IMF in the process of losing its faith? And in Canada, is our Liberal government listening?

The neoliberal agenda can be summed up in two words: deregulation and austerity. Freeing up markets from regulation and reducing the role of the state through expenditure and program cuts will lead to higher efficiencies and greater economic growth and prosperity – or so neoliberals believe.

The IMF researchers give credit, without evidence, to some parts of the agenda – for example, they believe that expansion of global trade and foreign direct investment have benefited millions throughout the world by generating employment and transferring technology.

But they do raise questions about two neoliberal policies: capital-account liberalization and fiscal austerity. This leads them to conclude that the growth benefits from such policies are difficult to quantify; that there are definitely costs, in terms of higher inequality; and that increased inequality, in turn, has a negative feedback by undermining further growth.

The policy of freeing up capital to cross international borders without restriction was meant to channel capital from countries where it is abundant (the rich countries) to those where it is scarce (developing countries).

Access to foreign markets was supposed to deliver a win-win, with rich-country investors getting higher returns and developing-country borrowers getting capital more cheaply.

Unfortunately, it has not worked this way, since much of the capital is short-term and speculative rather than long-term, such as foreign direct investment. Surges of short-term capital lead to financial instability, and in a significant number of cases, to financial crisis in the countries at the receiving end.

While few growth benefits were discernible from such flows, the authors found that frequent financial crises had an appreciable cost in raising income inequality. They conclude that capital controls, anathema to the IMF until recently, are often the only option available to contain such volatility.

Next, the authors consider austerity policies, known euphemistically as “fiscal consolidation” in finance circles. It turns out that for many countries, such as Canada, squeezing government deficits through expenditure cuts and tax increases has significant costs, by worsening unemployment, reducing growth and increasing inequality.

The IMF researchers are clearly concerned about the negative effect increasing inequality has on growth. So much so that they suggest that redistribution through taxation and expenditure programs in favour of the poor may be unavoidable. Such a suggestion coming from the IMF would have been unthinkable in the past.

But it is now impossible to ignore increasing evidence that globalization, liberalization and privatization are not working to expand employment and economic growth, as their proponents have argued. The evidence now encompasses free-trade agreements – to which the IMF researchers gave the benefit of the doubt. However, recent simulations of the effects of the planned Trans-Pacific Partnership by experts at Tufts University and the C.D. Howe Institute indicate that the economic gains from the TPP for countries such as Canada are negligible, at best. More disturbing is the projection in the Tufts study that 58,000 fewer jobs would be created in Canada than under a baseline scenario without the TPP.

But you don't need economists with fancy simulation models to grasp what is going on. As Eric Reguly reported in these pages recently, in North America and Europe, real average wages of low- and middle-income workers have stagnated for decades, and jobs have migrated abroad. Even if this was not the result of trade liberalization, Western governments did little to help alleviate the loss of jobs and relatively lower incomes. Result: a growing number of angry, unemployed workers.

To its credit, the Liberal government has got some things right by accepting the need for fiscal deficits in the next few years to stimulate employment and growth. But at the same time, it continues to believe trade liberalization deals such as the TPP and the comprehensive economic and trade agreement with the European Union will deliver more jobs and prosperity for Canadians. If they truly wish to "grow the middle class," Prime Minister Justin Trudeau and his cabinet, like the IMF, must be prepared to question, and not ratify, these trade deals.

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