

**GOOD SENSE VERSUS COMMON SENSE:  
CANADA'S DEBT DEBATE AND COMPETING HEGEMONIC PROJECTS**

by

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## Abstract

This thesis applies Gramscian hegemonic theory to a study of the Canadian national debt debate. It is argued that the debt debate pits two competing projects against one another: a neo-conservative hegemonic project, challenged by a popular sector counter-hegemonic project. Using the national debt debate as a case study, this thesis examines the conditions and strategies under which hegemony may be successfully established, maintained and challenged.

This thesis finds that the neo-conservative project in Canada is hegemonic, but inherently fragile. Neo-conservative ideas regarding the origins of the debt, and neo-conservative prescriptions with respect to deficit reduction have become the new “common sense,” accepted by much of the public and firmly supported by the state. Neo-conservative hegemony resulted from favourable economic conditions, compelling moral and intellectual leadership, and effective strategy. This thesis provides a detailed account of these interconnecting factors, highlighting the strengths of the neo-conservative project.

It is argued neo-conservative hegemony remains inherently vulnerable due to the inability of the neo-conservative project to deliver material prosperity for most people. Evidence is presented demonstrating that the neo-conservative policies responsible for the debt's accumulation – monetarism, regressive tax reform, free trade, and financial deregulation – confer material benefits to the corporate class, while eroding the material conditions and security of most Canadians. Similarly, the dominant approach to eliminating the deficit places the burden of deficit reduction primarily on the working and middle classes. This reality may be used by the popular sector to put the neo-conservative project onto the ideological defensive, provided it can effectively highlight the issue of public debt as proof of the failure and inequality of neo-conservatism.

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## Preface

I have attempted to approach the material in this thesis as objectively as possible. I should confess, however, that I am not a non-partisan observer. I have been involved with popular sector groups for some time, and some of the information presented in this thesis comes from this first hand experience. It was through discussions with popular sector activists and researchers that I came to choose this topic. The popular sector has developed an impressive analysis regarding the origins of the debt, and has, in recent years, advocated numerous progressive deficit reduction proposals. Yet these alternative ideas are rarely granted serious consideration by the media or government and state officials – a reality that causes popular sector activists no small amount of frustration. This thesis emerged as an attempt to build on work seeking to explain this imbalance, and to identify conditions and strategies under which this imbalance may be challenged.

While this thesis is concerned with two competing projects – their conflicting explanations for the debt's growth and different approaches to deficit reduction – more space is devoted to Left analysis and solutions. I believe this is unavoidable. I have attempted to be fair in presenting the arguments of both neo-conservative and popular sector proponents. However, presenting non-dominant views inevitably requires more time; proposals which challenge conventional wisdom require a more thorough examination of the data and a more multi-faceted approach to deficit reduction.

## **Chapter One: Introduction and Theoretical Framework**

### **1.1 Relevance of the Topic**

Since the early 1980s, the issue of debt and deficit reduction has come to dominate the political and economic life and discourse of most countries, developing and industrialized alike. Canada has not escaped this trend. All political parties in Canada have found it expedient to address the issue of public debt in their electoral platforms. Once in power, all political parties have placed the issue of deficit reduction at the heart of their policy discourse. Governments are often heard proclaiming that growing debt has severely limited their policy options. Virtually all fiscal, monetary, and industrial policies, we are told, are constrained by the deficit reduction imperative. As recent federal Budgets demonstrate, the goal of deficit reduction now dominates the national policy agenda: lay-offs, privatizations, spending cuts, government restructuring, and the imposition of new user-fees are all justified on the grounds of meeting deficit reduction targets. Monetary policies too, state officials contend, must effectively attract foreign capital to finance our debt payments (Thiessen 1995; Dept. of Finance 1994b:77-8). The media<sup>1</sup> offer regular warnings concerning our growing national debt, and since at least the late 1980s, Canadians have heard that national public debt is reaching crisis proportions.

Spending cuts and other deficit reduction policies are presented not as political choices, but as inescapable economic imperatives. At times it appears a society-wide consensus has emerged around the need for significant spending cuts. It has become the new common sense that government is too big, the deficit and debt too large, and social programs too generous.

Nevertheless, cracks in the new consensus occasionally appear. Generally these challenges to the dominant discourse have been muffled and short-lived, but recently they have been loud, angry and sustained. Evidence for this can be found in student demonstrations against cuts to post-secondary and social program funding, which over the past two years have been larger than at any time since the Vietnam War. Recent rallies against cuts to unemployment insurance (UI), particularly in Quebec and Atlantic Canada, have been substantial, and sometimes violent. In the Fall of 1994, as the House of Commons Standing Committee on Human Resource Development was touring the country gathering responses to proposed social program reforms, the hearings were dogged by protests; student, community and labour activists, having learned

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<sup>1</sup> Throughout this thesis, the term media refers to the mainstream media. Thus, I am not referring here to cooperative, non-profit or community-based media.

from a leaked Treasury Department memo that the government wanted to cut a further \$7.5 billion from social programs (ECEJ 1994:1), disrupted the proceedings in at least three cities.

Demonstrations outside the Ontario legislature protesting Premier Harris's \$6 billion cut in government spending have become almost routine. In the Fall of 1995, the new Ontario Conservative government read its Throne Speech, outlining its plans to implement workfare, repeal labour and employment equity legislation, and cut welfare benefits by over 21 per cent. Outside Queen's Park, over five thousand people protested the Harris plans. Hundreds of the demonstrators stormed the doors of the legislature, entering into a violent confrontation with police in riot gear (Mittelstaedt 1995). When the Ontario Conservatives met in Hamilton in early 1996 for a policy convention, 100,000 protesters demonstrated outside – the largest mobilization of labour and its allies in Ontario history (CBC national news, Feb. 24, 1996).

It is on these occasions that contemporary class conflict in Canada reveals itself; it becomes evident that the politics of debt pits competing agendas and visions against one another. There is broad agreement among most journalists, state officials, political parties, and commentators from academia, the private sector, and nominally independent research institutes regarding the need for deficit reduction through spending cuts. Yet many Canadians remain unconvinced that debt represents the principal problem facing the country. Opinion polls indicate most Canadians consider unemployment a greater problem than the national debt (Angus Reid Group 1996; Greenspon 1995a, 1995b; McQuaig 1995:34-7). This was most clearly illustrated by the federal 1993 Liberal election victory, when the party promising job creation before deficit reduction won a majority government. Dissenting opinions can also be heard coming from what has come to be known as the popular sector – a coalition comprised of the labour movement, women's organizations, church groups, seniors groups, student organizations, community groups, and left academics – which places its emphasis on the demand for full employment and universal social programs (Cameron 1989:65).

## **1.2 Central Thesis**

This thesis applies Gramscian hegemonic theory to a study of the Canadian national debt debate. The concept of hegemony is used to account for how ruling groups attain the consent of subordinate groups, and is understood as the exercise of moral, intellectual and political leadership. A project is said to be hegemonic when its ideology becomes “common sense,” and when a strong majority of the public comes to see its material interests as tied to the hegemonic

project.

It is argued the debt debate has become the principal clash point for what is, in fact, a much broader ideological struggle regarding the role of government and the organization of the economy and society. The debt debate in Canada, like the debate in most other countries, pits two competing hegemonic projects against one another: a neo-conservative hegemonic project,<sup>2</sup> in which corporate class interests play a leading role, challenged by a counter-hegemonic project, waged by the popular sector.<sup>3</sup> Using the national debt debate as a case study, this thesis examines the conditions and strategies under which hegemony may be successfully established, maintained and challenged.

This thesis finds that the neo-conservative project in Canada is hegemonic, but inherently fragile. Neo-conservative hegemony resulted from favourable economic conditions, the structural power of the corporate class (derived from its dominant position in the realm of production), compelling moral and intellectual leadership, and effective strategy. This thesis provides a detailed account of these interconnecting factors, highlighting the strengths of the neo-conservative project. It is also argued the popular sector can learn from the success of the hegemonic project, and conditions and strategies are identified under which neo-conservatism may be challenged.

The neo-conservative project, now entering its third decade, has been remarkably successful in dominating public discourse concerning public debt specifically, and economics generally. Neo-conservative ideas regarding the origins of the debt and neo-conservative prescriptions with respect to deficit/debt reduction have become the new "common sense," accepted by much of the public and firmly supported by the state. In contrast, progressive solutions for deficit reduction receive scant consideration. Dominant debt discourse, moreover, effectively depoliticizes the debate. It makes no reference to conflicting interests, preferring universal and moralistic formulae such as: "We all need to tighten our belts."

Some of the conditions under which neo-conservatism became hegemonic were pre-

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<sup>2</sup> The items on the neo-conservative agenda include: North American Free Trade; zero inflation (also known as price stability), achieved through the imposition of high real interest rates; the dismantling of labour legislation; deregulation and privatization; tax "reform," understood as a flattening of tax rates, lower corporate taxes, and greater emphasis on consumption taxes; reductions in government program spending, with an emphasis on cuts to social programs; and the elimination of the deficit (and the eventual reduction of government debt). Some scholars refer to this policy program as a "neo-liberal agenda." There are differences between neo-conservatism and neo-liberalism, but these pertain mainly to social or "moral" issues. For our purposes, the terms are interchangeable.

<sup>3</sup> The institutional and individual actors which comprise these competing projects will be presented in chapter three.

existing; others were created. Conditions were favourable for a new paradigm in the mid-1970s, when the neo-conservative project was launched. Stagflation undermined the public's commitment to Keynesianism, while declining productivity and slower profit growth led to the withdrawal of corporate class support for the Keynesian project. In its place, leading members of the corporate class turned to an emerging neo-conservative project based on the goals of state retrenchment, a disciplined workforce, eroding real and social wages, and lowering public expectations about what can be collectively accomplished and provided. Winning public consent for a project of this nature is a formidable challenge. Thus, the neo-conservative project has employed the structural economic and political power of the corporate class to advance economic reforms that, in turn, create a favourable "conditioning framework" for the consolidation and further advancement of the neo-conservative policy program (Grinspun and Kreklewich 1994). Specifically, by facilitating capital mobility (thus increasing corporate class power) through free trade agreements and financial deregulation, and by further privatizing the process of money creation (hence increasing state dependence on financial markets), neo-conservative reforms have created an economic climate in which neo-conservative policies appear unavoidable. The neo-conservative project also capitalizes on the condition of rising public debt to legitimize further state retrenchment.

The hegemony of the neo-conservative project is reflected not only in state support for its ideas and policy prescriptions, but in the moral and intellectual leadership it exercises within civil society generally. Neo-conservative proponents defend their program with moral appeals to the national interest, courage, democracy, individual responsibility and fiscal prudence. The neo-conservative project derives intellectual authority and legitimacy from an extensive body of research and from numerous academics (including most university economists). These theories and intellectuals offer a comprehensive and coherent program in response to a clearly defined crisis, allowing the neo-conservative project to capture the intellectual initiative (Simeon 1987). Moreover, the conditions outlined above allow neo-conservative intellectuals to argue convincingly that "there is no alternative" to corporate policy preferences.

Strategically, the neo-conservative project has directed the resources and structural power of the corporate class towards an organized and multi-faceted persuasion campaign. Recognizing the importance of ideological legitimation, the corporate class has established and funds think tanks, business associations, and lobby groups with the aim of heightening public concern about the debt and convincing Canadians that government cutbacks are both necessary and inevitable. Corporate influence over the media, financial markets, political parties, and the state is also used

successfully to this end.

While neo-conservative hegemony has been attained, its maintenance is more fragile than was the case for the Keynesian project. It is argued neo-conservative hegemony remains inherently vulnerable due to the inability of the neo-conservative project to deliver material prosperity for most people. This concrete failure constitutes the “Achilles heel” of the neo-conservative project, and heightens the significance of the ideological battle between competing projects. Evidence is presented in chapters two and four establishing a connection between dominant ideological representations of the debt/deficit issue, on the one hand, and the material interest of the corporate class on the other. This thesis argues neo-conservative policies have been largely responsible for the debt’s accumulation, and that these policies – monetarism, regressive tax reform, free trade, and financial deregulation – have facilitated profit accumulation for the corporate class, while disciplining labour and eroding the material conditions and security of most Canadians. Similarly, the dominant approach to eliminating the deficit places the burden of deficit reduction primarily on poor and middle class Canadians. This reality may be used by the popular sector to put the neo-conservative project onto the ideological defensive.

Gramscian analysis identifies conditions and strategies needed to wage an effective counter-hegemonic project, with concrete implications for the Canadian popular sector. Hegemonic theory emphasizes the importance of: engaging in ideological battle within the institutions of civil society; forging broad-based coalitions that incorporate the interests of all subordinate classes and groups; capitalizing on the policy failures of the hegemonic project; and developing a rival world view that not only critiques the hegemonic project and links its policies to the material interests of the ruling class, but also proposes a credible, intellectually rigorous, and more hopeful and just alternative economic and social order. The debt debate in particular presents an important strategic opportunity for the popular sector. Traditionally, popular sector activists have tended to downplay the severity of the debt crisis. This thesis argues the position of the popular sector is strongest, however, when it seizes on the example of rising debt as proof of both the failure and the inequality of neo-conservative policies, and when it frames its alternative agenda around a vigorous deficit/debt reduction program based on progressive monetary and tax reform, financial re-regulation, growth and job creation (Stanford 1995).

### **1.3 Principal Schools of Thought and Controversies**

Notwithstanding the hegemony of neo-conservative ideas, controversies continue to mark

the debt debate. The neo-conservative project sees the debt at or approaching crisis levels, and presents the debt issue as the principal economic and political problem facing Canada. Popular sector critics generally acknowledge debt as a problem. However, they reject the view that the debt problem ranks above other critical problems facing society, such as unemployment, environmental decay, globalization and economic restructuring.

Right and Left<sup>4</sup> schools advance conflicting explanations for the debt's accumulation. The dominant school contends debt stems from years of government over-spending. To the extent that Right theorists acknowledge the role of high interest rates, this policy is justified on the grounds of either fighting inflation or attracting needed foreign capital (BCNI 1993; Frum 1995; Richardson 1994; Thiessen 1995). Left scholars argue that program spending relative to GDP has been constant for the last twenty years and attribute the debt's accumulation to high real interest rates, foregone tax revenues, the failure of the private sector to undertake productive investment, recessions and unemployment (Barlow and Campbell 1995; Cameron and Finn 1996; Chorney 1989; Chorney et al 1992; McQuaig 1995; Stanford 1995).

Right theorists maintain deficits can only be reduced by dramatic spending cuts. Increasing revenues is rejected as an acceptable policy option, and lowering interest rates dismissed as beyond the ability of the state (BCNI 1993, 1992a, 1994a; Coyne 1994, 1995d; Francis 1995; Grubel et al 1992; Richardson 1994). Left scholars and popular sector activists reject spending cuts and propose a variety of other approaches to deficit reduction. Some focus on monetary policy alternatives such as interest rate reduction, debt monetization, debt repatriation, and financial re-regulation (Barber 1992; Bienefeld 1992; Fortin 1993a, 1994; Hotson 1989, 1992; McQuaig 1995; Stanford 1995). Others propose progressive tax reforms designed to boost revenues (Brooks 1990, 1994; Brooks and McQuaig 1987, 1989; McQuaig 1987; OFL and OCSJ 1995). Many emphasize that fiscal, monetary, and industrial policies designed to boost employment rates are required if structural deficits are to be eliminated (CCPA and CHO!CES 1995, 1996a; ECEJ 1994, 1993a; Jackson et al 1989; McBride 1992).<sup>5</sup> Still others argue that debt

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<sup>4</sup> Throughout this thesis, "the neo-conservative project" may be referred to as "the hegemonic project." "The corporate class" or "dominant class" refers to the leading group advancing the neo-conservative project. "The Right" is understood here as those subscribing to the policy program of the neo-conservative project. The "popular sector project" may be referred to as "the counter-hegemonic project." "The Left" is understood as those who are allied with the popular sector project.

<sup>5</sup> Considerable debate exists regarding whether employment must be increased in order to reduce the deficit or whether, conversely, increased employment can only result from lower deficits/debt. Classical economists and neo-conservative theorists argue that government deficits represent a crowding-out of private sector investment (Grubel et al 1992) and that lower taxes and a "healthy fiscal environment" are

reduction is a red herring, so long as GDP is increasing at a greater rate than the debt (Chorney 1989; Rosenbluth 1992). Revolutionary socialists argue that debts are not the responsibility of working class people and should simply be canceled (Cleaver 1989).

Thus, fundamental questions remain at the heart of the debt debate: Is the debt reaching crisis proportions? Are public debts crowding out private investment? Which policies led to the debt's accumulation and who should carry the burden of its reduction? Are high real interest rates a cause or effect of growing debt? Can tax revenues be increased? Can and should interest rates be lowered? What can and should governments do to lower unemployment? Should government program spending be cut, and if so, by how much and how fast? This paper will not definitively resolve all of these questions. Rather, it examines the role these questions play in the debt debate.

#### **1.4 Areas Requiring Further Research**

Despite the volumes that have been written on debts and deficits, and Canada's federal debt in particular, a need for further research and writing exists. The literature is largely concerned with economic disagreements, rather than with the political dimensions of the debt debate. A review of the literature points in particular to a need for more research regarding: who has profited and who has lost as a result of the policies associated with rising debt (an issue of particular relevance to the question of whether the neo-conservative project can maintain hegemony); how competing Right and Left projects seek to advance their views on the debt (of particular relevance to the issue of how ideological projects succeed); the conditions and strategies under which the neo-conservative project has succeeded in gaining hegemonic acceptance of its views; and the conditions and strategies necessary for a more successful counter-hegemonic project.

These four points have been addressed by other writers. In particular, my understanding of these issues has been greatly advanced by the work of the Canadian Centre for Policy Alternatives (CCPA),<sup>6</sup> Linda McQuaig (a journalist and writer allied with the popular sector),<sup>7</sup>

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needed to encourage private investment (BCNI 1994b; Dept. of Finance 1994a, 1994b). In contrast, Keynesians such as James Tobin continue to defend the role of government spending (Tobin 1987). Contemporary Left scholars reject the "crowding-out" notion and argue that the private sector has chosen to divert its capital away from productive investments and towards more lucrative international financial markets (Bienefeld 1992; ECEJ 1995a; Dillon 1994; Rosenbluth 1992; Stanford 1995; Strange 1986; Wachtel 1990).

<sup>6</sup> The CCPA began producing work in the mid-1980s by Ed Finn and Harold Chorney that sought to defend public spending and critique government interest rate policy.

<sup>7</sup> McQuaig's 1995 book, Shooting the Hippo: Death by Deficit and Other Canadian Myths, examines the role played by the mainstream media and corporate-backed think tanks in advancing the neo-



Maude Barlow (Chair of the Council of Canadians) and Bruce Campbell (Executive Director of the CCPA),<sup>8</sup> and Jim Stanford (an economist with the Canadian Auto Workers).<sup>9</sup> It is my intention to build on their work.

I believe this thesis contributes an original perspective to the literature on Canadian debt. It applies Gramscian hegemonic theory to a detailed analysis of the Canadian debt debate, a study which, to the best of my knowledge, has not been undertaken.<sup>10</sup> This theoretical framework serves to identify conditions and strategies under which neo-conservative hegemony was achieved; it points to conditions and strategies under which this hegemony may be challenged; and it directs our attention towards the link between concrete advantages conferred to the corporate class and the ideological depiction of the debt in the dominant discourse. Central to my analysis is the connection between material interests and the process of ideological legitimation. Given the failure of the neo-conservative project to solidify its version of “common sense” with concrete concessions to the subordinate classes, the project remains vulnerable at the ideological level.

### 1.5 Scope and Outline

The Canadian federal debt debate is only part of a much broader political-economic transformation. The neo-conservative hegemonic project is a global enterprise impacting upon much more than the politics of debt. It is being advanced in most countries, by most international governmental organizations (such as the IMF, World Bank, and World Trade Organization), and at the sub-national level. Likewise, the counter-hegemonic project is being waged by popular sector activists at both a provincial and trans-national level. In many Third World countries an intensive debt debate has been waged since the early 1980s, preceding the Canadian debt debate

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conservative project, and offers an excellent popular history of monetary policy. She argues that the debt resulted almost entirely from the Bank of Canada's high real interest rate policy over the last fifteen years.

<sup>8</sup> Barlow and Campbell's 1995 book, Straight Through the Heart: How the Liberals Abandoned the Just Society, is concerned with how debates about the deficit and social policy are being played out, in Canadian society in general and within the Liberal Party in particular. It provides a fascinating behind-the-scenes look at the first two years of Liberal government and, like McQuaig's work, offers valuable insights with respect to how the neo-conservative project is advanced.

<sup>9</sup> Stanford (1995) approaches the debt debate from a Gramscian perspective. He argues Canada does face a debt crisis, and urges the Left to seize upon this condition as an opportunity to challenge the hegemony of the neo-conservative project, and to advance a radical approach to deficit/debt reduction.

<sup>10</sup> David Robinson, a researcher with the Council of Canadians, is in the process of writing a PhD dissertation which applies Gramscian theory to a study of how the Canadian media covers economic issues.

by five to ten years.<sup>11</sup> Thus, in the course of my analysis, I will occasionally draw upon provincial and international examples. However, I have directed most of my attention to the debate surrounding the Canadian national public debt.

The remainder of this introduction outlines the research methodology I have employed and presents the theoretical framework I have adopted. Chapter two provides context to the debt debate by way of examining: how competing hegemonic projects explain the debt's growth; who holds federal debt and why proportional holdings have changed; and who has experienced material gains and losses in the course of the debt's accumulation. The evidence surveyed in this last section suggests a weak material basis for the maintenance of the neo-conservative project.

Chapters three and four examine how the debt debate has been played out in the public and political arenas. It is in these chapters that I apply more directly Gramscian hegemonic theory to the public discourse concerning the debt, and seek to explain how the neo-conservative approach to debt and deficits has become hegemonic. Chapter three identifies the key players in the debt debate, the economic assumptions central to the neo-conservative project, the "conditioning framework" supporting the hegemony of neo-conservative ideas, the underlying moral and intellectual strength of the neo-conservative project, and the strategies employed by the corporate class to gain ideological dominance. It examines in a concentrated manner a few specific "clash-points" around which the competing hegemonic projects have faced-off.

Chapter four focuses on one over-riding debate – the conflict over deficit reduction. It outlines competing approaches to deficit reduction and investigates the political factors that lead to the selection of some policies over others. It returns to the material question of who benefits and who loses as a result of the government's chosen approach to deficit reduction. This final section again points to concrete advantages conferred to the corporate class, but also illustrates how implementation of neo-conservative policies may serve to undermine public consent.

Finally, chapter five seeks to draw lessons from these encounters. It reviews the strengths of the neo-conservative project, and outlines the conditions and strategies under which Left policy alternatives might gain wider popular and state acceptance.

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<sup>11</sup> The Third World debates pitted states and international institutions advocating structural adjustment policies against those who insisted the poor should not be held responsible for a debt not of their making (ECEJ 1990; GATT-Fly 1987; Pollin 1989; Shaw 1988).

## **1.6 Research Methodology**

My research has consisted of literature and newspaper reviews, policy and data analysis, and interviews.

Interviews were conducted in Vancouver, Toronto, and Ottawa for the purpose of gaining added insight into how the neo-conservative approach to deficit reduction became dominant. (A list of these interviews is provided in the final section of the bibliography.) In an effort to better understand the arguments made by competing hegemonic projects, and to clarify how these projects seek to advance their respective positions, I interviewed members of interest groups. Interviews with state officials were conducted with the aim of gaining greater insight into how and why government chooses the policies it does.

As the bibliography demonstrates, the literature surveyed consists of both academic and popular work. I have reviewed the theoretical literature, collected much of the material produced by key actors within both the neo-conservative and popular sector coalitions, and I have assembled relevant government policy documents and statements.

In the course of my public discourse research I closely followed mainstream media coverage dealing with debt/deficits, social policy and federal budgets over the past two years, and tracked down particularly influential pieces, such as Eric Malling's W5 program on New Zealand's "debt crisis." Seeking to assess the ideological strength of the hegemonic project, I reviewed public opinion surveys dealing with debt and government policy. I also examined periodical indexes on the subject of public debt. This index search reveals the periods at which public discourse concerning the federal debt became particularly acute.

I reviewed figures from the Department of Finance, Statistics Canada, and the Bank of Canada, and compared this with data produced by neo-conservative and popular sector sources. This exercise sheds light on controversies regarding debt measurement, and has furthered my understanding of how actors use data as an ideological tool. Data was also reviewed to determine who holds federal debt.<sup>12</sup> Finally, I compared debt trends to those of other key economic indicators, namely GDP, interest rates, corporate profits, unemployment, and poverty rates.

## **1.7 Theoretical Framework**

This thesis makes use of a Marxist-Gramscian theoretical framework. In such a

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<sup>12</sup> In an effort to better understand how government bonds and securities are traded, I spent one morning in the trading room of the Hongkong Bank of Canada.

framework the neo-conservative emphasis upon debt and deficit is viewed as an integral component of a hegemonic project advanced by the global corporate class and which has concrete implications for the development of a counter-hegemonic project on the part of the popular sector.

Other possible theoretical approaches were considered and rejected. Pluralism fails to explain the cutbacks that have marked the last 15 years, or the fact that a majority of Canadians continue to demand, without success, that unemployment be addressed before deficit reduction. Popular sector groups have had some success in limiting the speed and depth of government cutbacks (a point to which I will return in chapter four). Pluralist theory cannot explain, however, why Left solutions for deficit reduction have, thus far, received virtually no state consideration.

Statism is similarly inappropriate. A statist theory that understands state institutions as acting in their own interests fails to explain why the state is voluntarily dismantling itself in the name of deficit reduction. A statist theory that views state institutions acting in the national interest makes sense only if one sees the debt's accumulation as a neutral phenomenon and cutbacks as an economic imperative. Evidence to be reviewed, however, leads to the rejection of this proposition.

Rational choice theory accepts the free market as a given and believes the state faces limited policy options (i.e. the state must adopt policies that encourage private investment). However, policies such as privatization, deregulation, tax reductions, and spending cuts – derivatives of rational choice theory – need not be accepted as “necessary” in some objective sense. Rather it shall be argued that these policies represent political choices adopted in the interests of the capitalist class and legitimated by a prolonged and intense persuasion campaign in the media and other civil institutions.

As well as adopting a Gramscian theoretical approach, this thesis borrows some useful concepts from recent work by neo-Marxist scholars, particularly those from the structural-functional school. Thus, a brief review of Marxist structural-functional theory is called for.

Structural-functionalism offers us a greater understanding of some important state activities. Brought to prominence in Canada with the 1977 publication of Leo Panitch's The Canadian State, structural-functional theory holds that the state acts with relative autonomy on behalf of the long-term interests of the capitalist class (Panitch 1977:4). Specifically, state activities include:<sup>13</sup> facilitating capital accumulation;<sup>14</sup> legitimating the capitalist system in the

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<sup>13</sup> To be clear, I am not adopting a functionalist understanding of the state. Panitch's 1977 work has been criticized for its functionalism – the presumption “that the state must perform specific functions and would do so whether it was relatively autonomous or completely entwined with the capitalist class” (Albo and Jenson 1989:196). However, as political-economist Ian Gough writes, “Whilst we must reject any

eyes of subordinate classes; and, when necessary, engaging in the coercion and suppression of militant segments of subordinate classes who challenge the capitalist system or undermine accumulation (Ibid:8). Supplementary activities of the state include the maintenance of legal order, organizing and coordinating the capitalist class, and disorganizing the subordinate classes (Mahon 1977:198). Examples of this last activity include such divide-and-rule tactics as scapegoating the poor and unemployed; labour laws and certification procedures that pit workers against one another; or social policy reforms that pit students against UI recipients against pensioners, all forced to compete for a shrinking pie.

While the state acts on behalf of capital, legitimation has traditionally resulted in the state offering some concessions to subordinate classes. These concessions may take a material/concrete form, such as the provision of social programs, but when possible legitimation takes only rhetorical form, such as the use of ideological persuasion.<sup>15</sup> Indeed, legitimation only becomes necessary when political pressure from subordinate classes threatens the stability of the capitalist system (Whitaker 1992:33). Thus, class and popular sector struggles can affect political changes. Scholars such as Carl Cuneo, Rianne Mahon, Reg Whitaker, and Panitch, seeking to escape criticisms of implicit functionalism, have argued more recently that today's social programs are very much the product of such struggles (Cuneo 1979 and 1980; Mahon 1977; Whitaker 1992:36; Panitch 1977; Albo and Jenson 1989:197).<sup>16</sup>

Structural-functionalists hold that the state acts with "relative autonomy." Like modified

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functionalist explanation of the...state, it is still useful to delineate the functions of the state, so long as they are used to indicate tendencies at work within the capitalist state" (cited in McBride 1992:19). Thus, the state activities (or functions) listed here do not describe what states are inherently designed to do. Rather, they merely describe what states have done given a dominant capitalist paradigm, and they provide a useful benchmark for understanding the state's record, particularly since the mid-1970s.

<sup>14</sup> This function would include a range of policies, including: the provision of a "healthy" fiscal and monetary climate; the extension of government loans, credits, tax-breaks and subsidies; the use of immigration policies to ensure a steady supply of labour; covering the social costs of accumulation through medicare and education; and the provision of infrastructure too costly for the private sector to finance alone (Panitch 1977:14; Whitaker 1992:31,42).

<sup>15</sup> There is an inherent tension between the activities of accumulation and legitimation, as they are often in competition for state resources. According to McBride, an increased emphasis upon ideological (rather than concrete) legitimation since the 1970s is one way the state has sought to reconcile this contradiction (1992:17-9). Under the category of ideological legitimation, McBride points to the state's use of: "theory, documentation and information, argument, mystification, public relations manipulation, diversionary appeals (e.g. 'scapegoating'), co-opting critics, and token or placebo policies designed to create the impression of responding to problems but in reality doing little to resolve them" (Ibid.:21). As we shall see, the debt debate offers evidence of the state using all of these tactics.

<sup>16</sup> Albo and Jenson argue the work of these scholars, while more open to the role played by class struggle within civil society, remains functionalist, as their work continues to see the state inevitably and necessarily acting "as the guarantor of the capitalist system" (1989:199).

pluralists and statist, this Marxist school observes the capitalist class to be fragmented, often short-sighted, and not immune to intra-class conflicts. Thus, it is argued a degree of state autonomy is required in order to ensure the long-term interests and stability of the capitalist system, even if this means going against the immediate demands of some fractions of the capitalist class (Panitch 1977:4). Of course, structural-functionalism emerged in the late 1970s, when a case for broad state autonomy could still be plausibly made. Since then, the corporate class has become a great deal less fragmented. A central component of the neo-conservative project has been to diminish the relative autonomy of the state, and the record since the mid-1980s – including large-scale privatization and deregulation, the implementation of free trade, state retrenchment, provincial “balanced budget legislation,” and an attempt to embed a narrow anti-inflation mandate for the Bank of Canada into the constitution – does indeed reveal a dramatic decrease in state autonomy. Nevertheless, an understanding of relative state autonomy helps to explain why the state has not adopted in total the policy recommendations of the neo-conservative project, and why the state remains sensitive to, and is sometimes constrained by, popular sector initiatives.

#### 1.7.1 Gramscian Hegemonic Theory:

Gramscian hegemonic theory seeks to explain how competing projects relate to the balance of class forces in society at large (Albo and Jensen 1989:203). This approach sees the state and public being pulled by shifts in dominant paradigms; the state is seen not as functionalist, but rather, as reflecting competing hegemonic projects. In the post-WWII years, Keynesian ideas enjoyed hegemonic status. “Behind such ideas and values stood a particular alignment of class forces” (Haiven et al 1990:1). Hegemonic theory emphasizes the rise of neo-conservative assumptions over the past twenty years gradually taking hold of the state and large sections of the public, who come to see hegemonic ideas as truths or, in Gramscian terms, “common sense.” In contrast to structural-functionalism, Gramscian theory focuses on human agency, ideological struggle, and how these, in turn, shape the state (Albo and Jensen 1989:200-3).

Antonio Gramsci’s theory of hegemony is particularly applicable to a study of the debt debate. It grants considerable importance to the power of ideas; it emphasizes the relationship of ideas to material interests, and examines the use of ideas to legitimize hegemonic programs (Bocock 1986; Simon 1982).

Gramsci’s approach to Marxism emphasizes ideological superstructures over the economic base, and civil society over the state (Bocock 1986:35; Mouffe 1979:3). Gramsci was concerned

with the power of ideology, and the interdependence of the economic, political and cultural spheres (Bocock 1986:21). As Robert Bocock explains, Gramsci's theory of hegemony was a rejection of "economism" – the belief that economic factors drive all political events (Ibid.:11). Economism, according to Gramsci, "tended to promote a passive attitude of waiting for the inevitable economic collapse and thus discouraged the exercise of political initiatives" (Simon 1982:12).

Gramsci's study of the process of legitimation has advanced our understanding of how class relations are reproduced. As Stephen McBride explains, Gramsci "sought to understand the means, other than repression and coercion, by which a dominant group maintained its advantaged position in society" (1992:21). How is it, for example, that most people in Western countries see capitalism as legitimate, the only alternative, even natural? The answer, according to Gramsci, was that, "a social group could sustain supremacy by exercising intellectual and moral leadership based on hegemonic consent" (Ibid). This is accomplished in the following ways:

First, a central aspect of hegemonic rule is persuasion and organizing the consent of subordinate groups and classes. Consent is organized through political and ideological leadership, and hence the content of the ruling ideas and the means of establishing their dominance are of major interest. Second, however, hegemony does not operate solely at the level of ideas. It also assumes a material basis for acceptance of the dominant group's position. This implies that the ruling group takes into account the interests of other classes and has found ways of combining them with its own. This situation enables the ruling group to present its actions and policies plausibly as being in the interests of the people at large. Third, once successfully established, hegemony is virtually unnoticed in everyday political, cultural, and economic life. (Ibid:21-2)

Thus, hegemony is understood as intellectual, moral and political leadership. Hegemony has been established when, "'spontaneous' consent [is] given by the great masses of the population to the general direction imposed on social life by the dominant fundamental group; this consent is 'historically' caused by the prestige (and subsequent confidence) which the dominant group enjoys because of its position and function in the world of production" (Gramsci 1971:12). Ideas become hegemonic when they are no longer seen as ideological. A group or class is said to be hegemonic when it has succeeded in universalizing its ideology and interests – the ruling class's interests are viewed as "the national interest" and its ideas are seen as natural, neutral and inevitable. "For Gramsci hegemonic leadership fundamentally involved producing a world-view, a philosophy and moral outlook, which other subordinate and allied classes, and groups, in a

society accepted” (Bocock 1986:46).<sup>17</sup> Finally, Gramsci was quite clear that the maintenance of popular consent requires both ideological hegemony and material concessions. He wrote, “The fact of hegemony undoubtedly presupposes that the interests and strivings of the groups over which the hegemony will be exercised are taken account of, that a certain balance of compromises be formed, that, in other words, the leading group makes some sacrifices of an economico-corporative kind” (Gramsci 1968:154-5). It is with respect to this final point, as we examine in chapters two and three, that the maintenance of neo-conservative hegemony is vulnerable. Moreover, the failure of the neo-conservative project to concretely incorporate the interests of subordinate classes undermines its ability to exist “virtually unnoticed” on the ideological front.

Gramsci viewed the state as the site of “coercive power.” Civil society, however, was understood as the site of “hegemonic leadership” (Bocock 1986:28). As Roger Simon writes, “The concept of civil society as a sphere of class and popular-democratic struggles, and of the contest for hegemony between the two fundamental classes, adds a new dimension to Marxism” (1982:28). Civil society, in Gramscian terms, is understood as all those societal institutions where ideological struggles are played out: religious organizations, educational institutions, unions, voluntary organizations, political movements and parties,<sup>18</sup> and the media (Bocock 1986:12; Simon 1982:26). Hegemony is achieved when a class or group of classes exercises control over both the state and civil society (Bocock 1986:63). Furthermore, in order to *maintain* hegemonic control – in order to achieve what Gramsci called a “historic bloc” – a hegemonic group must control the institutions of production (Simon 1982:27).

The goal of a socialist counter-hegemonic project, according to Gramsci, must be to engage in ideological struggle within the institutions of civil society – to claim intellectual and moral leadership. The work of activists in this struggle is to challenge what Gramsci called “common sense” – the hegemonic ideas of the dominant class – and move people towards “good sense” – understood as a more coherent outlook or world-view (Gramsci 1968:60; Simon 1982:25-6).<sup>19</sup>

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<sup>17</sup> Gramsci, like other Marxists, rejects using the term “ideology” to describe his world-view, as traditionally Marxists have conceived of ideologies as false world-views advanced by ruling classes. Rather, Gramsci refers to the socialist world-view he hopes to see advanced by the working class and its allies as a moral-political philosophy (Gramsci 1968:60; Bocock 1986:69). I do not view the term “ideology” as having negative connotations.

<sup>18</sup> The importance of political parties to ideological projects is outlined in the work of Janine Brodie and Jane Jenson. They argue parties play a critical role in building “a common class solidarity” (1989).

<sup>19</sup> The Ontario Tories have given their program of cutbacks and state retrenchment the title “The Common Sense Revolution.” The name is no doubt coincidental and not intended as a reference to



What draws many Marxist scholars to Gramscian hegemonic theory is its usefulness in identifying conditions for altering the balance of forces. As Simon explains, hegemonic theory offers more than an analysis of conflict – it proposes strategies for change (1982:18). Gramsci valued ideas, and argued that they mattered as much as material circumstances; historical and economic conditions limit what can be accomplished, but within these parameters, Gramsci contends, people can undertake collective action (Bocock 1986:51). Hegemonic theory holds that labour and social movements can mobilize around a counter-hegemonic project, particularly when the dominant ideology precludes offering material/concrete concessions (McBride 1992:22). The key is that hegemonic ideas change over time, leaving room for human agency (Albo and Jenson 1989:203).

Gramsci's work highlights the need to form popular sector alliances that go beyond narrow class interests (Bocock 1986:16; Simon 1982:23-4).<sup>20</sup> He argued that the working class must enter into coalitions with other oppressed groups and incorporate their issues into a wider socialist world-view. Gramsci saw class as very important, and believed that the working class would ultimately lead a counter-hegemonic revolution (Simon 1982:22), but he also proposed that groups other than classes, such as national movements and the women's movement, "may become potential agents of change" (Bocock 1986:16).<sup>21</sup> Thus, if popular sector movements are to carry the public from "common sense" to "good sense" they must develop and advance a coherent ideology that synthesizes the needs and aspirations of diverse social movements (Simon 1982).

Gramsci believed that popular struggles (perhaps over issues such as deficit reduction) can become sites for dramatic change, particularly if the labour movement can find ways "to link these popular democratic struggles with its socialist objectives, building an alliance which will enable it to achieve a position of national leadership (hegemony)" (Simon 1982:18). Gramsci argued, however, that the struggle to attain hegemony must be waged strategically. Gramsci advocated a

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Gramsci – it is however, in Gramscian terms, appropriate.

<sup>20</sup> Indeed, Gramsci would contend that *all* hegemonic projects must form alliances – or hegemonic blocs – incorporating the interests of numerous classes and groups.

<sup>21</sup> This idea has been the subject of detailed theoretical work by post-Marxist scholars Ernesto Laclau and Chantal Mouffe. They reject "essentialist" notions of class and contend that the working class does not innately know its interests. Laclau and Mouffe argue that other groups may be key agents of political change, such as the women's movement, anti-racist movement, gay and lesbian rights movement, disability rights movement, peace movement, and the environmental movement. They warn that no inherent connection exists between the subordinate classes and these new social movements. Rather, these connections must be developed (Laclau and Mouffe 1985; Mouffe 1988; Bocock 1986:103-6).

“war of position,” the aim of which is to “try to achieve hegemony for the proletariat in civil society before the capture of state power” (Bocock 1986:27).<sup>22</sup> Gramsci understood a socialist revolution not as a single historical event – a “sharp rupture at a single moment when state power passes from one class to another” – but rather as “a process of expanding the hegemony of the working class – of the building up of a new historic bloc” (Simon 1982:28).

### 1.7.2 Applications of Gramscian Hegemonic Theory:

While hegemonic theory has not, to my knowledge, been applied to an examination of the Canadian debt debate, it has been applied to other studies in political-economy.

Hegemonic scholars have used Gramscian theory to heighten our understanding of the New Right and of the global transition from Keynesianism to monetarism. Like many others, Gramscian scholars identify the mid-1970s as a turning point. Keynesian full-employment policies and the provision of social welfare programs were found to result in greater labour militancy and reduced rates of capital and profit accumulation. The Keynesian post-WWII settlement unravelled and the neo-conservative project was launched ( McBride 1992:15-16; Whitaker 1992:39). Hegemonic scholars analyzing the Canadian situation contend that, between 1975 and 1984, a battle between Keynesian and neo-conservative/monetarist ideas was waged, and ultimately won by the neo-conservative hegemonic project (McBride and Shields 1993:164). The success of the neo-conservative project resulted not only from the intellectual and moral strength of its ideas, but also from its ability to capitalize on and create favourable economic conditions, and to employ the economic and political influence of the corporate class in defense of its ideas. McBride notes, however, that the transition from Keynesianism to neo-conservatism did not “occur in a neat and tidy or automatic fashion. In fact, the response was an untidy conflict between competing interests and their organizations, ideas, and proposals and was characterized by considerable uncertainty on the part of politicians and other state officials” (McBride 1992:24).

The last twenty years have witnessed a fundamental re-ordering of the state’s activities. As Larry Haiven, McBride and John Shields explain, the degree to which the state pursues its various activities reflects whatever hegemonic project is dominant at that time (Haiven et al 1990:1).

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<sup>22</sup> Indeed many socialists have pointed to the limitations of Left electoral victories that precede an effective counter-hegemonic struggle within civil society. The experience of recent NDP provincial governments provides a clear example: faced with a public that has not been moved from “common sense” to “good sense,” these governments have been unable and/or unwilling to implement key progressive policy alternatives or to challenge fundamental interests of the corporate class.

During the Keynesian era, the state emphasized concrete legitimation programs to maintain consent. Once the neo-conservative hegemonic project took hold of the state, a much greater emphasis was placed on accumulation services to capital – facilitated primarily by disciplining labour – and on ideological legitimation (Ibid: chapter 1; McBride 1992:21-4).<sup>23</sup>

Another development since the mid-1970s has been an increased coordination on the part of the corporate class. Corporate Canada has become much less fragmented, more focussed on long-term objectives, and less immune to intra-class conflicts (Langille 1987). Many of the country's largest corporations established the Business Council on National Issues (BCNI) to advance their collective policy preferences, and funding was extended to think tanks dedicated to promoting neo-conservative ideas. The result, in Gramscian terms, has been a strengthening of the neo-conservative project, a greater capacity to engage in ideological battle, leading to wider public acceptance of neo-conservative ideas, and greater state willingness to adopt policies advocated by the dominant class.

McBride, in his book *Not Working*, applies a Gramscian analysis to his study of unemployment in Canada. His comparative research found that “where business was dominant and labour was weak,” as was the case in Canada, a Keynesian commitment to full employment was abandoned in the mid-1970s (1992:27, 52-5). McBride argues that “Canada, since 1975, has pursued relatively restrictive fiscal and monetary policies. Inflation has been identified as the principal economic problem, and its control has been seen as the chief economic policy priority” (Ibid.:50). McBride contends that this policy shift was the product of a neo-conservative hegemonic project. He maintains that unemployment was a policy choice, favoured by the corporate class, designed to moderate wages and other labour demands (Ibid.:45).

A number of scholars have adopted a hegemonic approach to their study of Thatcherism. Peter Hall (though he does not define himself as a Gramscian) has examined the rise of neo-conservatism and monetarism in Britain in terms of the relationship between ideas and policy-making (Hall 1993). Hall finds that policy paradigms (what Gramscians would call hegemonic projects)<sup>24</sup> can achieve dominance if attention can be drawn to the failures of past policy

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<sup>23</sup> Scholars such as Stanford and John Dillon (a researcher with the ECEJ) contend that the last twenty years has witnessed a fundamental shift in how the capitalist class derives its profits; less from investment in the “real economy” and much more from speculative investment in the “paper economy” (Stanford 1995; CAW 1995b; ECEJ 1995a). This shift helps to explain why the state has been open to cutting some business subsidies (although few tax expenditures), and why the state appears less committed to sharing the social/labour costs of accumulation.

<sup>24</sup> A paradigm is understood as a set of related ideas. A hegemonic project is a set of ideas and policy

paradigms; “the locus of expert authority” can be shifted; and a new policy paradigm can be taken up and advanced within the context of electoral competitions. Conditions in Britain during the 1970s and 80s lent themselves to a paradigm shift, and the above strategies were adopted by the New Right. Thatcherism succeeded, according to Hall, because of its ability to: point to high inflation and stagnant growth as a failure on the part of Keynesianism; shift the locus of expert authority on macroeconomic issues to the Bank of England and outside research institutes, which favoured monetarism; make macroeconomic management “the subject of intense public debate” in the media; and carry the monetarist project forward through the political and electoral campaigns of Thatcher herself (Hall 1993:285-6). Thus, Hall directs our attention to the importance of political parties, think tanks, and the media – institutions based in civil society – which together played a critical role in precipitating a paradigm shift:

This process of policy change did not take place primarily within the confines of the state itself. On the contrary, it began with a shift in the locus of authority away from the Treasury towards a growing marketplace of economic ideas outside the state. The ensuing struggle to replace one policy paradigm with another was a society-wide affair, mediated by the press, deeply imbricated with electoral competition, and fought in the public arena. (Hall 1993:287)

Stuart Hall (not to be confused with Peter) applies an explicit Gramscian analysis to his study of the rise of Thatcherism. He contends, “The Thatcherites know they must ‘win’ in civil society as well as in the state,” and that this requires political, moral and intellectual leadership, as well as economic dominance (in Jessop et al 1988:103). The goal of the Thatcher revolution, according to Stuart Hall, is not only to remake the state, but “to form a new common sense” (Ibid.). Hall, like other Gramscian theorists, believes the Left can learn important lessons from the success of the Thatcher project. Moreover, Stuart Hall (like Peter Hall) argues that a counter-hegemonic project can find success by zeroing in on “the yawning discrepancy between Thatcherism’s ideological advances and its economic failures” (Ibid.:104).

Bob Jessop et al argue Thatcherism succeeded due to effective strategy (Ibid.:vii). They contend: “Considered as a social movement, Thatcherism was flanked and supported by new pressure groups, think tanks, an ideological reorientation of the mass media and the passage of some key social democratic intellectuals to the new right” (Ibid.:19). Thatcherism was further aided by disarray within the Left leadership – as trade union, the Labour Party and left intellectual leaders grappled over the legacy of Keynesianism (Ibid.) – and by a failure of those “forces

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preferences, advanced by a hegemonic bloc – an alliance of classes and groups who see their interest served by the policy program being promoted.

opposed to Thatcherism to unify around a shared alternative economic and political strategy” (Ibid.:66). Like Stuart Hall, Jessop et al believe Thatcherism can be defeated by a clear alternative vision – a “socialist morality” – capable of offering more than a return to the Keynesian welfare state (Ibid.:69-97).

The evidence examined in the chapters that follow reveals strong similarities between the rise of Thatcherism in Britain and the attainment of neo-conservative hegemony in Canada. And as with the work of Peter Hall, Stuart Hall, and Jessop et al, the application of Gramscian theory to the Canadian debt debate serves to identify conditions and strategies under which hegemony may be successfully challenged.

## **Chapter Two: Competing Explanations for the Growth of Public Debt – Setting the Context for the Current Debate**

The debate over the origins of public debt has become sharply contested ground in the ideological battle between competing hegemonic projects. Both the neo-conservative and popular sector projects appreciate that the public's understanding of the causes of the debt's growth will influence the approach to deficit/debt reduction the public is willing to support. Thus, an understanding of the origins of public debt provides essential context to the current debt debate.

This thesis rejects the neo-conservative contention that debt stems from years of government over-spending, and finds support for the popular sector argument that rising debt results from high real interest rates, foregone taxes, and years of high unemployment. Moreover, it is argued these factors result, in turn, from neo-conservative policy choices.

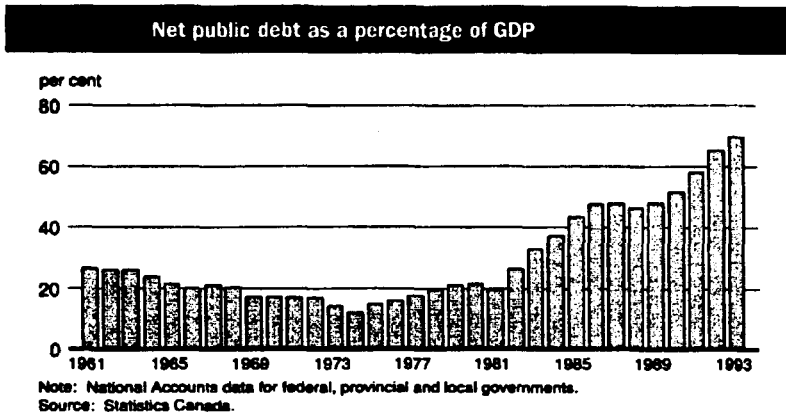
Central to the analysis adopted in this thesis is the link between "common sense" representations of the debt and material interests. This chapter undertakes a class-based analysis of the federal debt's accumulation. An understanding of the policies that led to rising public debt is critical to determining who has benefited and who has lost in the course of the debt's growth. By establishing which policy choices caused the rise in public debt, who holds federal debt, why proportional federal debt holdings have changed in the course of the debt's accumulation, and by correlating the growth of public debt with other economic trends, this chapter finds that both the growth of public debt, and the policies associated with rising debt, have conferred disproportionate material benefits to the corporate class. Conversely, poor and middle class Canadians have disproportionately borne the costs of policies responsible for rising debt. In this respect, the history of rising debt is typical of the wider neo-conservative project's inability to integrate subordinate classes through material concessions, and suggests that the ideological dominance of neo-conservatism remains vulnerable.

The Minister of Finance estimates the federal deficit in 1996-97 (the fiscal year beginning April 1) will be \$24.3 billion (Martin 1996b). According to the Department of Finance, in fiscal year 1994-95, the gross federal debt, understood as the cumulative total of annual federal deficits, stood at \$582.9 billion, a figure equivalent to 73 per cent of Canada's GDP. The net federal debt, defined as the federal government's "gross public debt less the financial assets it owns," was \$546 billion. Interest payments on the federal debt that year consumed 34 cents of every federal tax dollar (Dept. of Finance 1995b:1,30). As of 1993-94, the combined debt of federal and

provincial governments was approximately \$700 billion, equal to nearly 100 per cent of GDP, or \$24,000 per capita (Dept. of Finance 1994b:73-5).

By any measure, Canada's public debt is very large, and its pace of growth since the mid-1970s has been dramatic. In 1974, the last year government (federal and provincial combined)

**Chart 2.1**



Source: Dept. of Finance (1994b:12)

posted a budget surplus (Ibid.:11), the gross federal debt was a manageable \$55.4 billion (Dept. of Finance 1992b:33). In 1984, the year the Conservatives were elected, the gross federal debt was \$243.8 billion. By 1993, when the Liberals regained power, the federal debt had reached \$548.1 billion (Dept. of Finance 1995b:30).<sup>1</sup>

## 2.1 The Dominant Explanation for the Debt's Accumulation:

### The New Common Sense

The conventional wisdom regarding why the national debt has grown can be reduced to a few phrases that now resonate as truth with most Canadians: government is too big; the government has been over-spending; the government cannot get its financial house in order; we have been living beyond our means. Household analogies have been popular among both neo-conservative politicians and media commentators. Examples include: the government cannot balance its cheque-book; we have been financing our consumption using a credit card and now the bill has come due; the cupboard is bare. Solutions commonly identified include: cutting "special interest" programs; eliminating administrative waste and political perks; and above all, cutting overly-generous social programs.

These notions have become the new common sense. While these ideas are promoted

<sup>1</sup> The above debt figures are calculated on a public accounts basis. Government debt can be reported on either a public or national accounts basis, and the two systems produce significantly different totals. The key difference between the two systems is that the public account includes future pension liabilities of governments to their employees. Thus, public accounts debt figures are larger than national accounts totals. Debt measurement is discussed further in chapter three.

primarily by neo-conservative media commentators and state officials, they are rooted in an expanding body of academic work. The neo-conservative political project derives its theoretical legitimacy from classical and monetarist ideas that have become "accepted truths" in most economics departments. These common sense explanations are further bolstered by moral appeals to the virtues of efficiency, individual responsibility, community (as opposed to "big government"), and traditional family financial prudence.

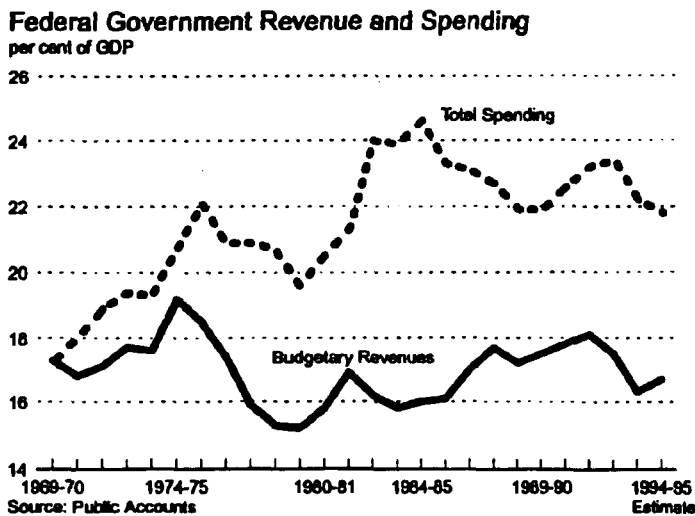
Right-wing media commentators regularly reiterate these "truths": "Canadians have had it with government's inability to live within its means and are eager to find new mechanisms to bring this country under control," writes Diane Francis (1995:13), who, as editor of the Financial Post and weekly columnist for Maclean's, is particularly well placed to influence popular perception and the political agenda. David Frum, in a feature written for Saturday Night during the lead-up to the 1995 Federal Budget, identifies social spending increases in the 1960s as the source of our current debt problems. "The Canadian government...embarked on a spending spree," writes Frum. "What seems to have happened is that the taxes necessary to fund the huge new government apparatuses of these [industrial] countries depressed their rates of economic growth" (Frum 1995:45-6). David Bond, Vice-President and Chief Economist of the Hongkong Bank of Canada and a columnist for the Vancouver Sun, blames "misguided policies" – from fishery and dairy subsidies to regional development initiatives, VIA Rail subsidies to UI – which he termed wasteful and "dumb." When asked about the role of monetary policy, Bond replied, "Governments spent more than they taxed – end of story" (interview 1995). Circumstances and conditions lend considerable plausibility to claims such as these. Middle class Canadians have seen their taxes increase. Most people have had some contact with government programs they felt were wasteful, "dumb," or even fraudulent, and can easily be encouraged to generalize from these experiences. And data does support the contention that growth rates since the 1970s have been depressed (see Table 2.2).

The dominant explanation for the debt's accumulation has been consistently advanced by business associations and corporate-backed think tanks. The BCNI contends, "At the heart of Canada's current macroeconomic problems...lies fifteen years of fiscal mismanagement" (1992b:6). During the lead-up to the 1995 Budget, then BCNI Chair J. Edward Newall told a Toronto audience, "We are not paying our own way. You could say we're putting the tab for our present high living on our grandchildren's VISA cards" (Newall 1994:16), a direct moral appeal. Businessman Marcel Coté, during a 1993 keynote address at a conference hosted by the federal



Auditor-General, placed the origins of the debt squarely on the shoulders of big government and rising expenditures. He argued that federalism and "special interest groups" had forced spending to increase faster than GDP, and that taxes, even while increasing between 1975 and 1992 from 30 to 42 per cent of GDP, could not keep pace with these expenditure pressures (Office of the Auditor-General 1993:10-12). The Fraser Institute's Robin Richardson writes, "The origins of

**Chart 2.2**



Source: Dept. of Finance (1995a)

Canada's all-government debt problem is spending beyond our means, year after year, and borrowing to make up the difference" (1994:4). And indeed, at a superficial level, conditions lend strength to such assertions. Neo-conservative commentators need only point to the gap between total government spending and revenues since the early 1970s, and the evidence seems to speak for itself.

Since the Conservatives came to power federally, the corporate class' explanation for the debt's accumulation has been reflected in state policy and official statements. Conservative Finance Minister Michael Wilson embraced the key components of the neo-conservative project in his 1984 policy document A New Direction for Canada: An Agenda for Economic Renewal. His policy documents and budget speeches from 1984 onward emphasized the central objective of putting the government's "fiscal house in order," and to do so primarily by way of expenditure cuts (McBride 1992:90; McQuaig 1991:12).

In October, 1994, the Liberal government announced its approach to deficit reduction with the release of its Purple Paper entitled A New Framework for Economic Policy. The Purple Paper echoes the dominant explanation for the debt's accumulation, stating, "Revenues from a structurally weaker economy have failed to match expenditures for the past 20 years, despite rising taxes... The nation as a whole has been spending more than it produces, thus having to borrow the difference abroad. A substantial portion of the borrowing represents the financing of

*consumption*, not productive investment for the future" (Dept. of Finance 1994b:11-2).<sup>2</sup>

Pete DeVries, Director of the Department of Finance's Fiscal Policy Division, offers an explanation for the growth of the federal debt similar to Frum. DeVries identifies policy choices in the 1950s and 60s as the root of our current problems. New spending programs were established when economic growth was strong. However, as productivity decreased in the 1970s, revenues dropped off. Simultaneously, rising inflation required higher interest rates. The result was the development of a structural imbalance between revenues and expenditures (interview 1995).

Most government and corporate class sources now acknowledge that compound interest rates have also played a critical role in the expansion of public debt. The Purple Paper states, "Interest payments on the federal portion of public debt now account for roughly 35 per cent of federal revenues... The compounding effect of debt service costs is now the sole factor driving up the ratio of federal government debt to GDP" (Dept. of Finance 1994b:12). Likewise, Frum writes:

If you add up total federal revenues over the life of the Mulroney governments, and subtract everything paid out for programmes, you'll see that, over their nine-year span, they posted a net operating surplus of \$1-billion. But over those nine years Canada sank \$266-billion deeper into debt all the same - all because of the compounding of interest on the pre-existing debt. (1995:45)

Nevertheless, the dominant view regards high interest rates as either: an inevitable consequence of growing debt, as buyers of government securities, fearful of rising taxes, debt monetization and the resulting inflation, or the government's future ability to repay, demand higher "risk premiums" in the form of more generous interest rates; necessary in order to attract foreign and domestic investors and prevent capital flight in an increasingly global economy; and/or a justifiable measure in order to fight inflation (Dept. of Finance 1994a:5; Bond 1995; Crow 1988, 1993; DeVries 1995; Laidler and Robson 1993, 1994, 1995; Lipsey 1990; Thiessen 1995; Walker 1994; York 1990). Overall, the dominant paradigm portrays high interest rates not as a cause of public debt, but as a symptom of government debt (which heightens investor concern), high taxes (which encourages capital flight and discourages productive investment), and over-spending (which, according to this school, is inflationary).

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<sup>2</sup> Terence Corcoran, the conservative *Globe and Mail* business columnist, called the Purple Paper a "half-decent effort" and gloated that it was near plagiarism of Michael Wilson's 1984 policy document, *A New Direction for Canada*. "On deficit and debt, taxation, unemployment insurance, training, R & D, government regulation, the value of the private sector, the need to get government out of sectors of the economy, Mr. Martin has laid out the Wilson agenda in remarkably lucid form. Mr. Wilson should sue" (Corcoran 1994:B2).

The language used when describing interest payments denies that high interest rates are a policy *choice*, emphasizing instead the ethical threat posed by government debt. As the Purple Paper states:

The debt and deficit are often portrayed as issues primarily of concern to financial markets and ideologues. The truth is that those who suffer most immediately from Canada's fiscal deterioration are the unemployed, the poorer regions of the country, and the average young to middle-aged family with a mortgage and other debt incurred to raise and educate their children... [T]he relentless compounding pressure of interest costs on the public debt is severely eroding the ability of the government to provide for Canada's less advantaged citizens and regions. The social consequences of debt are every bit as grim as the economic consequences. (Dept. of Finance 1994b:73)

Seeking to claim moral leadership, neo-conservative proponents position themselves as protectors of the poor and of valued social programs. And knowing that the material circumstances of many Canadians are eroding, and that this may threaten the ideological dominance of neo-conservatism, defenders of the hegemonic project lay blame for this condition at the feet of over-spending and the "inevitable" interest payments that result.

## **2.2 Development of a Counter-Hegemonic Explanation**

The dominant explanation for the debt's accumulation is contested. Over the past ten years, a number of explanations for the debt's accumulation have been proposed which conflict with the corporate class paradigm. On a few occasions, these studies have emerged from sources within government or the corporate sector. While rarely receiving wide public attention, these studies exist as weak links in the hegemonic project and, in recent years, have been assembled by popular sector groups in their effort to construct a competing paradigm. Indeed, the Left explanation for the debt's accumulation is most credible when it can point to sources from the dominant class, a testament to the intellectual leadership of the neo-conservative project.

The core case advanced by the counter-hegemonic project is that the debt was caused by high interest rates, foregone tax revenues, and persistently high unemployment - all products of deliberate neo-conservative policy choices. Consequently, neo-conservative policy prescriptions are viewed as unnecessary at best; at worse they are driven by quite a different agenda aimed at reconstituting society in the interests of the dominant class.

### **2.2.1 The Mimoto Study:**

Arguably the study most often cited by the popular sector is a paper written in 1990 by

Statistics Canada researchers Hideo Mimoto and Murray McIlveen (hence forth cited as the Mimoto study). The 1990 study was never published (a point to which I return in chapter three). However, it was obtained through the Freedom of Information Act and has been widely circulated within popular sector circles.

The findings of the 1990 study diverge significantly from the dominant explanation for the debt's growth. Entitled "The Federal Government Deficit, 1975-76 to 1988-89," the Mimoto study contends:

...from 1975-76, total [federal] revenue fell as a percentage of GDP and has remained well below the 19% level reached in 1974-75. Meanwhile, total expenditure rose, not just in dollar amounts but in relation to GDP - from 20% in 1974-75 to 24% by 1982-83 (although this ratio declined subsequently, starting in 1985-86, to approximately 21% in 1988-89)... It is demonstrated that 50% of the deficit incurred between 1975-76 and 1988-89 may be traced to the drop in revenue relative to GDP; 44% to an increase in debt charges relative to GDP; and 6% to programme spending at a higher level relative to GDP, than in 1974-75. (McIlveen and Mimoto 1990:3)

The Mimoto study notes that social program spending grew relative to GDP by 10 per cent (Ibid.:25). These increases, however, were mitigated by relative spending decreases in other program areas (Ibid.:43). Furthermore, the authors point out, spending increases for Old Age Security, UI and welfare can be explained by an aging population and the recession of the early 1980s (Ibid.:24). Increases in expenditures relative to GDP is traced principally to higher debt charges.

On the revenue side, the Mimoto study traces decreases relative to GDP largely "to a list of tax measures that were introduced, starting in the first half of the 1970s" (Ibid.:20).<sup>3</sup> Many of the tax measures examined by Mimoto do not benefit only high income earners or corporations (although some measures clearly favour these constituencies). The Mimoto study, however, reviews only a sampling of tax measures and does not review the consequences of any of the tax changes implemented by the Conservative government (a point to which I return shortly). The study finds personal income taxes as a proportion of total revenues have increased, while "the share of corporate income tax...started to drop from a 17% level [in 1977-78] to reach 11% in 1982-83, although as a more recent trend it has risen to 12.5% in 1988-89" (Ibid.:34). Corporate

<sup>3</sup> Table 3.3 in the Mimoto study lists many of these measures, including: the 1973 increase in the basic personal exemption; the 1973 indexation of income tax brackets to inflation; personal income tax cuts between 1973 and 1975; the 1974 \$1000 deduction for interest income; the 1974 investment tax credit; increases in personal employment expense deductions; and a series of corporate tax deductions. The study also identifies the transfer of tax points to the provinces for post-secondary education and health as a source of declining federal revenues (Ibid.:21).

income tax-to-GDP declined from 3.2 per cent in 1974-75 to 2 per cent during most of the 1980s (Ibid.:35). The study explains this decrease in the following way: "First, since the mid-1970s, tax measures reduced the tax base (corporate taxable earnings) relative to GDP and taxes payable relative to the tax base. Second, from the early 1980s, corporate profitability was noticeably reduced by the 1981-82 recession... Third, in 1974-75 the tax base was at an historical high, standing at 10% of GDP" (Ibid.).<sup>4</sup> Mimoto concludes that the drop in the ratio of corporate taxes was the single largest contributing factor behind the decline in revenues relative to GDP, accounting for 18 per cent of the debt's growth (Ibid.). A smaller share of the relative decline in revenues is attributed to a more sluggish economy (Ibid.:21).

A Canadian Economic Observer summary of the unpublished Mimoto study concludes:

Broadly speaking, government program spending as a share of GDP did not rise significantly over the whole period from 1975; in fact, it moderated compared to the preceding ten years, when social programs proliferated. Expenditures on social programs did not contribute significantly to the growth of government spending relative to GDP. Excluding the cost of unemployment insurance, which is intended to be self-financing over the business cycle, social program spending has not increased relative to GDP over the last 16 years. This moderation would have been more evident but for a sharp increase in interest payments on the public debt. Deficits also became steadily larger after 1975-76 initially more from a shortfall in revenues than higher spending. Much of this shortfall originated in numerous changes designed to reduce taxes and in the transfer of tax points to the provinces. (Mimoto and Cross 1991:3.1)

The article notes that spending on social programs increased rapidly between 1965 and 1975 as the government instituted numerous new social programs. However, "Despite these rapid increases in spending, federal revenues broadly kept pace with the growth of spending" (Ibid.:3.5).

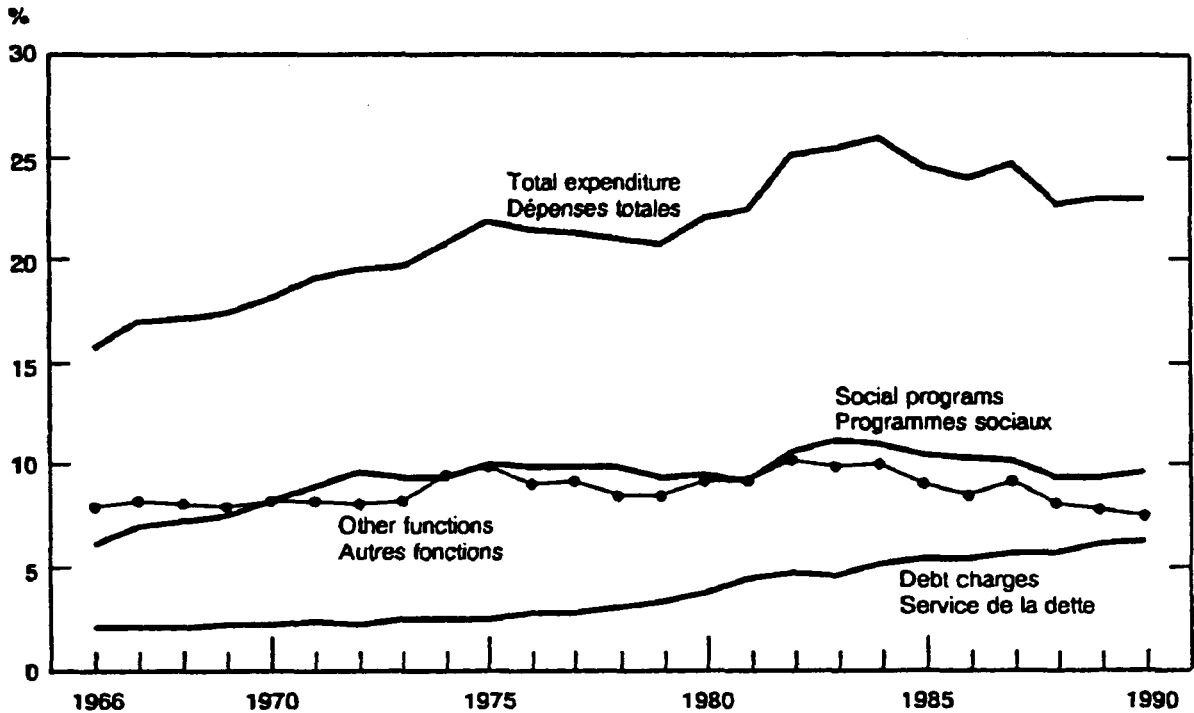
Between 1975 and 1991, the article finds that, while nominal revenues increased, revenues relative to GDP, "fell from a peak of 19.8% in 1974-75 to 18.7%, and at times dropped as low as 16%. Total spending jumped from \$31.5 billion in 1974-75 to \$155.5 billion in 1990-91, raising its ratio to GDP from 21% to over 25% between 1982-83 and 1984-85, although this percentage subsequently fell to under 23% by 1990-91" (Ibid.:3.8). However, the article contends, when interest payments are removed from this equation, "social programs and other spending have had a flat trend relative to GDP," with the exception of the 1981-82 recession

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<sup>4</sup> I contend that the decline in corporate profitability was merely cyclical. This point will be revisited shortly. In any event, Mimoto finds that changes to corporate income tax rates was the most significant factor behind the decline in the relative share of corporate revenues. The study concludes, "federal income tax collected from corporations dropped from 34.5% of taxable income in 1972-73 to 22% in 1985-86, although it rose to 25% the year after (Ibid.:36).

(Ibid.). Interest payments on the debt "have soared from about 2% of GDP in the first half of the 1970s to 6% today" (Ibid.). On the specific issue of tax measures enacted during the 1970s, the article notes that, "The Department of Finance estimated in 1979 that the cumulative effect of these changes was to lower federal revenues by \$14.2 billion; by comparison, the federal deficit was \$11.6 billion that year" (Ibid.:3.13).

**Chart 2.3: Ratios of Expenditures to GDP**



Source: Mimoto and Cross (1991:3.9).

### 2.2.2 Other Studies Supporting the Mimoto Findings:

The data concerning the origins of the debt is complex. Much of the data, however, lends itself to popular sector efforts to contest the simple explanation that "we are living beyond our means," and responsible use of the figures has led numerous analysts from the state and corporate sectors to offer testimony that is often contradictory and sometimes decidedly contrary to the dominant discourse.

Despite government efforts to dissociate itself from the Mimoto study (see chapter three) much of the government's own literature supports the study's key findings. The Purple Paper acknowledges:

The compounding effect of interest on the existing stock of federal debt has long since replaced program spending as the factor responsible for persistent

deficits and a rising debt to GDP ratio. Indeed, spending on federal programs, including all transfer payments, is lower today as a proportion of GDP than was the case in the mid-1970s. (Dept. of Finance 1994b:75)

Indeed, since at least 1988, the Department of Finance has been caught in a conundrum: on the one hand it seeks to emphasize over-spending in an effort to justify expenditure cuts; on the other it hopes to argue convincingly that decisive action has been taken to reduce expenditures, but that these measures have been undercut by other factors, namely interest charges. Finance has sought to defend its record by pointing to the operating budget surpluses attained since fiscal year 1987-88 (see Table 2.1). In 1991, a Finance report argued "the growth of the debt since 1984-85

year	Total Revenues	Total Program Spending	Operating Balance
1985/86	76.9	86.1	-9.2
1996/87	85.9	90.0	-4.1
1987/88	97.6	96.5	1.1
1988/89	104.1	99.7	4.4
1989/90	113.7	103.9	9.8
1990/91	119.4	108.8	10.6
1991/92	122.0	115.2	6.8
1992/93	120.4	122.6	-2.2
1993/94	116.0	120.0	-4.0
1994/95	123.3	118.7	4.6

Source: Bank of Canada Review. Winter 1995-96 (Table G1)

is *entirely* the result of compounding interest on the original debt" (Dept. of Finance 1991:1, emphasis added).

In 1995, the counter-hegemonic project received further validation of its debt accumulation thesis from two unlikely sources. In February, 1995, three economists from the Dominion Bond Rating Service released a brief report entitled "The Massive Federal Debt: How Did

it Happen?" According to the DBRS paper, the debt "exploded" between 1982 and 1984 due to the recession and high interest rates. From 1984 onward, the authors attribute the debt's growth exclusively to high interest rates. Indeed, the report notes that between 1984 and 1994, the federal government ran program surpluses totalling \$12.5 billion. However, debt payments during this same period totalled \$313 billion, thus increasing the federal net debt by \$300 billion to \$508 billion (Miron et al 1995:2). These findings are significant; they demonstrate that debt payments since 1984 outstrip both the previously accumulated debt and all federal program deficits. Indeed these figures lead to the inescapable conclusion that the Canadian public has already repaid its principle loan. The DBRS study concludes: "Of total debt outstanding as of March 31, 1994, the program expenditure imbalance accounted for a modest 16% or \$82 billion of the \$508 billion net debt... The remaining 84% of the debt is due to compounding interest on the relatively modest program expenditure deficiency" (Ibid.).

A few months later, the Royal Bank's chief economist, John McCallum, released a report that took direct aim at the Bank of Canada's high interest rate policy, blaming monetary policy for worsening the recession of the early 1990s. Entitled "Why Have Canadian Living Standards Declined in the 1990s?", the report contends higher unemployment has been "...due in large measure to the highly restrictive stance of Canadian monetary policy" (McCallum 1995:2). As we will see shortly, popular sector actors hold high unemployment responsible, not only for declining living standards, but also for rising debt.

### 2.2.3 Highlighting Foregone Taxes:

The popular sector case against foregone tax revenues is based, in large measure, upon evidence assembled by McQuaig and Osgoode Hall law professor Neil Brooks.<sup>5</sup> Their work, however, is rooted in earlier research dating from The Royal Commission on Taxation (the Carter Commission) of the late 1960s.

The contemporary debate over fair taxation was revitalized with the 1987 publication of McQuaig's best-selling book Behind Closed Doors: How the Rich Won Control of Canada's Tax System...And Ended Up Richer. McQuaig provides compelling evidence that, after deductions and loopholes, Canada's nominally progressive tax system is, in fact, regressive. She measures the impact of tax breaks and finds that, once incomes reach the \$200,000 level, the rate of taxation starts to drop (McQuaig 1987:7). Over the past thirty years, and particularly under the Conservatives, the overall trend has been a shift in the tax burden from the rich to the middle class and poor. The Carter Commission's attempt to recommend a more progressive tax system was fiercely opposed by the corporate class and shelved (McQuaig 1987:chapter 5; Wolfe 1988:357).<sup>6</sup> When Allan MacEachen, then Trudeau's finance minister, tried to implement progressive tax reform in 1981, powerful interest groups protested and MacEachen was moved to another portfolio (McQuaig 1987:chapter 8). Under the Conservatives, the progressivity of the tax system was further eroded by, among other things, reducing the number of tax brackets from ten to three (thereby reducing taxes for high income earners while adding more low-income people to the tax rolls), and by instituting the regressive GST (Ibid:xviii-xxv; Brooks and McQuaig 1987 and

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<sup>5</sup> Specific tax changes proposed by Brooks are discussed in chapter four.

<sup>6</sup> According to David Wolfe, the corporate campaign against the Carter recommendations involved briefs to parliament, mass letter-writing, and "strategic announcements of delays in major investment projects" (1988:358).



1989).<sup>7</sup>

University of Toronto political scientist David Wolfe reviews the connection between tax policy and deficit growth in an article entitled "Politics, the Deficit and Tax Reform." Wolfe's analysis relates directly to the Gramscian framework this thesis employs. His study begins with a review of the comparative literature, and finds that political parties and the balance of class forces have a clear affect on how the issue of public deficits is handled. He maintains that "social factors," such as the rate of unionization and the degree of class mobilization, are closely tied to the presence of Left and Right political parties (Wolfe 1988:350). The political/partisan make-up of a national government, in turn, influences fiscal choices. Wolfe cites the work of American scholar David Cameron, who argues, "Those countries having the highest incidence and most extended duration of leftist governments experienced the greatest increase in spending on social programs" (Ibid.). However, "Contrary to most popular expectations, he [Cameron] found no necessary correlation between high levels of public expenditure and the size of the deficits incurred by various governments. The more significant variable in predicting the size of the deficit was the relative taxing capacity of various governments" (Ibid.:351). Those countries with stable and enduring leftist governments tended to have higher taxes and lower deficits, despite large public sectors and extensive social programs. Conversely, "The nations in which non-leftist parties usually govern are more likely to experience a smaller, more miserly public economy...and a chronic fiscal crisis reflected in relatively large deficits...for they are more reluctant to levy high taxes, especially the taxes on income and wealth which fall most heavily on their upper-income supporters" (Ibid.:351-52).

Applying this analysis to Canada, Wolfe proposes that the post-WWII settlement, engineered by a centrist Liberal Party, allowed for expenditure increases but failed to adopt adequate levels of taxation, particularly corporate taxation: "The key to the success of the settlement (and the electoral fortunes of the Liberal party) was the perception by both sides [labour and business] that this new form of state intervention would ultimately work to their advantage" (Ibid.:354). On the revenue side, this arrangement led to the introduction of hundreds of corporate tax credits and deductions between 1972 and 1977 (Ibid.:362). Indeed, "During the second half of the decade [1970s], spending through the tax system is estimated to have grown at a rate of 42

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<sup>7</sup> On the issue of corporate taxation since the mid-1970s, a 1989 Statistics Canada study written by C. Bloskie notes, "Despite the growth in corporate income, such tax changes as special rate reductions, tax credits, accelerated capital cost allowances [deferred taxes], etc. have reduced the average effective tax rate of corporations" (1989:3.10).

percent, compared with a 30 percent rate of growth of direct expenditures" (Ibid.:365).

#### 2.2.4 Focusing on Unemployment:

The counter-hegemonic project blames much of the debt's growth on rising unemployment, and Left scholars have sought to attribute this disturbing trend to neo-conservative policy choices. Stanford has coined the phrase "the permanent recession" in reference to the period since the state's adoption of monetarism (1995:124).<sup>8</sup> While the causes of unemployment remain a point of ideological dispute, what remains unquestionable is that the last twenty years has witnessed declining growth levels and rising unemployment rates, placing increased fiscal pressures upon all levels of government.

In a study prepared for the CCPA, economists Diane Bellemare and Lise Poulin-Simon outline the impact of unemployment on national income and the public debt. They argue that each one per cent increase in unemployment costs the Canadian economy \$14.2 billion, and costs the various levels of government \$6.16 billion (Bellemare and Poulin-Simon 1994:7). Using this formula, they conclude that unemployment cost Canadian governments \$47.5 billion in 1993 – \$24.1 billion in lost direct taxes, \$15.5 billion in lost indirect taxes; and \$9.5 billion in additional expenses (Ibid.:8).<sup>9</sup>

Seeking to uncover the underlying causes of rising unemployment, Left scholars emphasize the consequences of high interest rates, the Canada-U.S. Free Trade Agreement and NAFTA, and financial deregulation. McBride argues in his study Not Working that rising unemployment rates since the early 1980s have resulted from deliberate policy choices (McBride 1992:217).

A consistent call emanating from the corporate class has been to eliminate inflation through a policy of high interest rates (chapter three discusses this issue in more detail). Conventional economic theory holds that higher interest rates restrict the rate of growth of the money supply, thereby maintaining the value of money (Laidler and Robson 1993:3). Some Left scholars contend, however, that it is not the size of the money supply that determines inflation, but the rate of unemployment. John Dillon, a researcher with the Ecumenical Coalition for Economic Justice (ECEJ), argues there is growing evidence that high interest rates do not restrict the money supply.

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<sup>8</sup> Stanford identifies 1981 as the year marking "the advent of monetarist, anti-inflation macroeconomic strategy in Canada (1995:124). Others place the state's adoption of monetarism in the late-1970s.

<sup>9</sup> Bellemare and Poulin-Simon operate on the assumption that the natural rate of unemployment is 3.5%. Thus, they calculate the annual costs of unemployment measuring only unemployment above that level.

He contends that throughout the 1980s and '90s, private banks have continued to steadily increase the money supply. High interest rates do indeed lower inflation, Dillon grants, but they do so by discouraging consumption and productive investment (while more of the money supply moves to financial markets); the resulting decline in employment is what keeps inflation in check (interview 1995).

The goal of controlling inflation became a central preoccupation of the state with its adoption of monetarism in the late-1970/early-1980s. In 1988, however, the Bank of Canada (with the approval of the federal government) launched a "war on inflation," aimed not at reducing inflation, but at eliminating it altogether (McQuaig 1995:chapter 3). This policy decision has had a devastating impact on employment.

**Table 2.2: Growth, Unemployment, Inflation, Government Deficit, Interest Rate and Investment in Canada, 1960 – 1992 (percentages)**

Period	Income Growth	Unemployment	Inflation	Government Deficit	Interest Rate	Investment
1960-69	2.8	4.9	2.8	0.3	3.2	18.4
1970-79	2.3	6.7	7.7	0.8	1.2	17.5
1980-89	1.7	9.3	5.7	4.5	6.6	15.5
1990-92	-2.0	10.0	2.3	5.5	8.0	13.1

Note: Income growth is the average annual percentage change of real gross national product (GNP) per working-age person. Unemployment is the average percentage of the labour force without a job. Inflation is the average annual percentage change of the GNP price index. The government deficit is the average annual combined deficit of all levels of government, expressed as a percentage of GNP. The real interest rate is the prime interest rate on business loans, minus the rate of inflation. Investment is non-housing private and public gross investment, expressed as a percentage of GNP. All data come from Statistics Canada publications.

Source: Pierre Fortin, "Let's Turn the Macroeconomic Policy Mix Upside Down!" *Policy Options* (July-August 1993), pp. 16 and 18.

The work of Pierre Fortin, an economist from the the Université du Québec a Montréal, has become quite popular in Left circles (despite the fact that he is a fiscal conservative). Fortin has become a vocal opponent of the Bank of Canada's high interest rate policy, arguing that monetary restraint prolonged and deepened the recessions of the early 1980s and '90s in Canada, relative to other industrialized nations (Fortin 1993a: 15).<sup>10</sup> As Table 2.2 illustrates, rising real interest rates in the 1980 and early 1990s, while indeed lowering inflation, is also correlated with declining growth, a reduction in investment, and a sharp increase in both unemployment and government deficits.

Stanford contends the Bank of Canada sets interest rates at a level designed to maintain the

<sup>10</sup> Fortin notes that, "Between 1987 and 1990, real short-term interest rates increased steadily from 3.5 to 9.5 per cent and the Canada-U.S. exchange rate appreciated by almost 20 per cent" (1993b:3). These increases discouraged consumer and business borrowing, and harmed Canadian exports.

"permanent recession." He argues that, after relatively strong growth and dropping unemployment in 1994, the Bank of Canada pulled interest rates back up in 1995, "and the Canadian economy stalled in its tracks" (Stanford 1995:127).

The CCPA, the Council and Canadians, the Action Canada Network, and individuals such as Barlow and Campbell, Duncan Cameron, Marjorie Cohen, McBride and Shields, and Mel Watkins, have all highlighted the costs of free trade in terms of rising unemployment (Cameron and Watkins 1993; Barlow and Campbell 1995:67-71; Campbell 1993a; McBride and Shields: chapter 4).

Left scholars contend that the free trade agreements have resulted in the "de-industrialization" of Canada (McBride and Shields 1993:145). While many job losses since 1988 were no doubt due to the recession, popular sector researchers insist that many job losses resulted from free trade and the associated economic restructuring. McBride and Shields compare the 1991 recession to the 1982 recession and find that, in Ontario, only 21.5 per cent of layoffs in 1982 resulted from complete plant closures, while 55 per cent of layoffs during the 1991 recession, following the Canada-U.S. Free Trade Agreement (FTA), stemmed from such closures (Ibid.:146). Barlow and Campbell contend that since the signing of the FTA in 1988:

...employment in the goods-producing sector - of which (excluding construction) almost two-fifths is exported - had dropped by 454,000 by 1994 [well into the economic recovery - s.k.]. Manufacturing accounted for 353,000 of these losses, a drop of 18 per cent of its workforce... There was a small net increase of 183,000 jobs in the service sector, absorbing only 40 percent of the jobs displaced in the goods sector. (1995:70-1)

The role played by financial deregulation in increasing unemployment levels has been the subject of research by, among others, Stanford, Dillon, and Manfred Bienefeld (CAW 1995b; Dillon 1994; ECEJ 1995a; Bienefeld 1992).

In the first twenty years after WWII, industrialized nations increased the regulation of the financial sector (Dillon 1994:9), a trend that continued until the late 1960s. Since then, financial markets have become increasingly internationalized, yet few new measures have been introduced to fill this regulatory vacuum. The result, according to Stanford, Dillon and Bienefeld, has been a steady diversion of capital away from productive investment and towards speculative financial markets capable of offering high rates of return (see Table 2.3). The cost has been high unemployment.

The internationalization and deregulation of financial markets over the last twenty-five

**Table 2.3**

<b>THE REAL ECONOMY AND THE PAPER ECONOMY</b> <b>Where would you rather invest?</b>	
Average long-term interest rate, 1994 (no risk)	8.63%
Average return on equity, Canadian non-financial business, 1994 (risk)	7.40%
Annual return on capital, John Henry currency speculation fund, 10 days during 1995 Mexican peso crisis	3240%
Annual return on capital, General Motors, 1994	2.5%
Change in average compensation, top 5 Canadian bank presidents, 1994	47%
Change in average hourly wage, Canadian workers, 1994	1%
<b>SOURCES:</b> Statistics Canada, <i>The Wall Street Journal</i> , corporate annual reports.	

Source: CAW (1995b:6)

years have been driven by three factors: the emergence of the Eurocurrency market,<sup>11</sup> the transition to floating exchange rates,<sup>12</sup> and technical innovations that have facilitated the rapid transfer of capital.

Huge sums of capital

have been diverted to the global currency market, where approximately \$1 trillion exchanges daily (Dillon 1994:8; McMurdy 1995:36). Technological innovations now enable investors to send money anywhere in the world, at any time of the day, in seconds, at virtually no cost (Wachtel 1990:15). Dillon notes that "The cost of a multimillion-dollar transfer across an ocean is just 18 cents" (1994:9). Furthermore, many transnational corporations now have "in-house banking," conducting their own securities and currency trading via computer (Courchene 1991:49). As large corporations derive a greater share of their profits from financial investments, many, including profitable businesses, are choosing to downsize their workforces.<sup>13</sup> As Stanford notes:

More and more profit is siphoned away from productive investors to financial investors. From 1960 to 1980, for example, the gross rate of return to capital (relative to Canada's fixed capital investments) averaged over 30 percent; about 70 percent of this was kept by "real" investors. During the 1990s, however, even though the *total* return to capital has increased, "financial" investors now take over half of the total [see Chart 2.4]. The return to *real* investors has actually declined. Even major industrial companies are trying to cash in on the paper economy. For example, General Motors and General Electric both made

<sup>11</sup> The Eurodollar market emerged in the late 1960s as a means for, "international banks to hold dollar deposits and issue dollar loans while remaining outside the jurisdiction of U.S. financial regulations" (Pollin 1989:55). Soon this new market was handling huge volumes of capital transactions and dealing in all the major currencies, almost entirely outside the reach of national financial authorities (Wachtel 1990:92).

<sup>12</sup> The Bretton Woods monetary regime collapsed in 1971 and the end of fixed exchange rates. By 1973 a new system of floating exchange rates had emerged, and along with this shift came new opportunities for speculators to gamble on international money markets (Wachtel 1990:15).

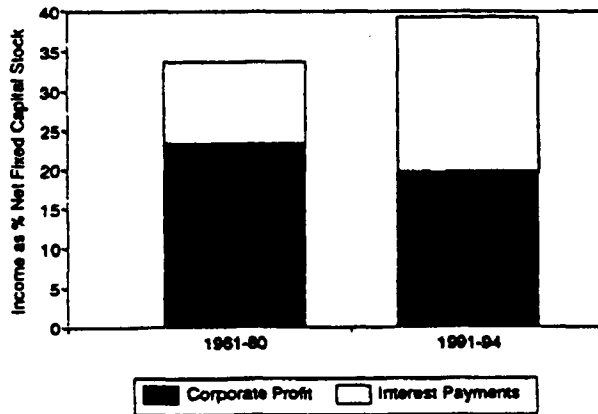
<sup>13</sup> In 1995, General Motors Canada made \$1.39-billion in profits but eliminated 2,500 jobs; Bell Canada made \$502-million in profits, but cut 3,170 jobs; CIBC made a profit of \$1.01-billion but cut 1,289 jobs; and the Bank of Montreal made \$986-million in profits, but cut 1,428 jobs (ECEJ 1996:9, citing the *Globe and Mail*, Feb. 6, 1996, A1).

more profits from their internal financial subsidiaries last year than they did from manufacturing real automotive or electrical products. (CAW 1995b:4)<sup>14</sup>

Financial deregulation has had a detrimental impact on the allocation of investment dollars within Canada. Bienefeld writes: "It is critical that people come to understand more clearly that the speculative excesses of interlocking, deregulated financial systems are at the heart of the current

**Chart 2.4**

**Total Return to Capital Invested  
Business Profit & Interest Payments**



Source: CAW (1995b:4)

economic crisis in which debt, asset price inflation and high interest rates are combining to destroy governments, businesses, jobs and farms" (Bienefeld 1992:54). According to the Ecumenical Coalition for Economic Justice's Dillon, deregulation prevents states from directing savings towards local and national investment, and denies states the option of insisting that investments be tied to real job creation (Dillon 1994).

Left scholars also contend deregulation has constrained the ability of states to pursue independent monetary policies (Bienefeld 1992:36; Campbell 1993b:225). Deregulation has resulted in currency volatility, and in interest rates being competitively bid up by national authorities seeking to attract investment dollars (Dillon 1994:12). The Economic Council of Canada notes, "Capital is moving more easily across borders in response to even modest interest rate differentials" (ECC 1989a:8). The end result: less productive investment, higher interest rates, increased unemployment, and hence, rising debt.

**2.3 Federal Debt Holdings**

Before reviewing who holds government debt, it is necessary to understand what public debt is – the form it takes. Of the 1994-95 gross federal debt of \$583 billion, approximately 20 per cent is borrowed from internal federal sources (mostly trustee federal employee pension plans). This is known as the non-market debt. The remaining amount, approximately \$438

<sup>14</sup> Stanford calculates the gross rate of return on capital as "corporate profits plus interest income (from National Income Accounts, GDP by income), divided each year by the Stats Can running tally of Canada's fixed private capital stock" (email 1996a).

billion, is known as market debt, and exists in the form of securities issued by the federal government and administered through the Bank of Canada. These government securities consist of: long term bonds, with a maturation period of anywhere between one and 30 years (these account for approximately 54 per cent of market debt); Treasury bills, with a maturation date between 30 and 360 days (accounting for approximately 39 per cent of market debt); and Canada Savings Bonds (accounting for just over 7 per cent of market debt) (Dept. of Finance 1995b:3).

It is impossible to know exactly who holds these market debt securities at any time, given that bonds and T-bills are constantly traded. However, the Bank of Canada is able to produce fairly accurate estimates, as it knows who these securities were originally issued to, and who debt returns are paid to upon maturity. The Bank is also able to determine how much of the market debt is held abroad, as interest payments leave the country and appear on the current account (DeVries interview 1995). All of these estimates are published quarterly in the Bank of Canada Review, and periodically by the Department of Finance. Table 2.4 lists the distribution of debt holdings over four-year intervals since 1970.

A review of Table 2.4 reveals that the distribution of government market debt has seen some significant changes over the last twenty-five years. Bank of Canada holdings in 1994 totalled only 5.8 per cent of market debt, down from 20.7 per cent in 1974. The debt holdings of individual Canadians (reflected in the proportion of CSBs) have declined from 38.9 per cent of total market debt in 1974 to only 7.5 per cent in 1994 (although individuals also hold government securities through group funds). Indeed, since 1986, CSBs have declined not only as a proportion of total debt, but in absolute dollars. Conversely, the share of market debt held by the charter banks went from 25.6 per cent in 1970, to 6.1 per cent in 1990, and then rebounded back to 17.1 per cent in 1994. Insurance companies, investment funds, and pension funds have also become large holders of government securities, although the share held by pension funds declined between 1990 and 1993.

Finally, Table 2.4 reveals a significant increase in the share of debt held abroad. Foreign-held debt grew from 2.2 per cent in 1974, to 10.1 per cent in 1978, and reached 25.2 per cent in 1994. Most commentators, from across the political spectrum, agree that foreign-held debt is detrimental to Canadian interests. First, the interest paid on foreign-held debt does not remain in Canada. Second, the more debt is held abroad, the less control Canadian governments have over monetary and fiscal policies, as volatile (and often highly political) international financial markets influence interest rate policy, the value of the dollar, and pass judgment on budgetary choices.

**Table 2.4: Distribution of Holdings of Government of Canada Securities (market debt)\***

	1970		1974		1978		1982		1986		1990		1994	
	\$bn	share	\$bn	share	\$bn	share	\$bn	share	\$bn	share	\$bn	share	\$bn	share
Bank of Canada	\$4.3	16.7%	\$7.0	20.7%	\$12.0	18.7%	\$15.5	13.8%	\$18.4	8.4%	\$20.4	6.4%	\$25.4	5.8%
Chartered Banks	\$6.6	25.6%	\$8.1	23.9%	\$11.5	17.9%	\$11.9	10.6%	\$17.5	7.9%	\$19.5	6.1%	\$74.4	17.1%
Investment Funds	\$0.03	0.1%	\$0.02	0.6%	\$0.1	0.2%	\$0.4	0.4%	\$3.0	1.4%	\$7.6	2.4%	\$28.5	6.5%
Insurance Companies (life and other)	\$1.1	4.3%	\$1.0	2.9%	\$3.5	5.4%	\$8.0	7.1%	\$17.6	8.0%	\$21.0	6.6%	\$37.5	8.6%
Trusted Pension Funds	\$0.3	1.2%	\$0.2	0.6%	\$1.6	2.4%	\$7.1	6.3%	\$19.5	8.8%	\$35.1	11.1%	\$41.8	9.6% (1993 data)
Non-Financial Corporations	\$0.1	0.4%	\$0.1	0.2%	\$0.3	0.5%	\$1.7	1.5%	\$5.5	2.5%	\$11.5	3.6%	\$13.1	3.0%
Canada Savings Bonds	\$7.4	28.8%	\$13.2	38.9%	\$20.2	31.4%	\$33.6	29.9%	\$45.2	20.5%	\$34.4	10.8%	\$32.6	7.5%
Non-Residents	\$0.7	2.8%	\$0.7	2.2%	\$6.5	10.1%	\$11.2	10.0%	\$35.1	15.9%	\$71.9	22.7%	\$109.7	25.2%
Total Market Debt Outstanding	\$25.7	100%	\$33.9	100%	\$64.3	100%	\$112.4	100%	\$220.4	100%	\$317.1	100%	\$435.4	100%

\* Table lists only current major ownership groups

Source: Bank of Canada Review, Autumn 1995 (Table G5), January 1988 (Table G5), and April 1982 (Table 22).



Indeed, neo-conservative policy advocates often use the growing level of foreign-held debt to heighten public concern, playing to fears that rising debt threatens Canadian sovereignty (Dept. of Finance 1994b:78).<sup>15</sup>

#### **2.4 Explaining the Changing Composition of Debt Holdings**

The state and corporate class, at least publicly, appear fairly uninterested in the question of who holds government debt. One Bank of Canada official interviewed rejected the notion that who holds the debt is of significance. In my review of the literature, I have been unable to find government or dominant class explanations for why Bank of Canada and personal debt holdings have proportionately declined, or for why relative charter bank, investment fund and pension fund holdings have increased in recent years (other than the relative decline in pension holdings since 1990). The simple answer is that debt securities have gone to where the money is: personal incomes have not increased significantly, therefore the share of debt held by individuals has declined; conversely, as banks, mutual funds and pension funds experience increases in their financial assets, their share of government debt has risen.

Popular sector scholars, however, offer more complex explanations for these distributional shifts. William Krehm, a vocal critic of the Bank of Canada and a member of the Committee on Monetary and Economic Reform (COMER), argues the increase in the share of debt held by charter banks stems from a recent decision by the Bank of International Settlements (a Geneva-based international monetary institution whose members are the central bankers of the industrialized nations). In 1988, the BIS rescinded the regulation obliging private banks to hold capital reserves representing a proportion of their holdings of government securities (Krehm 1993:19). In 1989, the Bank of Canada followed, abolishing these requirements for Canadian charter banks, who then dramatically increased their holdings of government bonds (Barlow and Campbell 1995:80). The loosening of rules governing pension funds likely explains the declining

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<sup>15</sup> The BCNI, in its 1993 paper "Canada's Looming Debt Crisis," argued Canada's net foreign debt, at \$300 billion or 43 per cent of GDP, was higher than any other G7 country (BCNI 1993:16). Interestingly, these figures, which combine government and private sector debt, represent one of the rare occasions that the BCNI expresses any interest in private debt levels. Whether the corporate class is indeed concerned about foreign-held debt is arguable. Sam Boutziouvis, the BCNI's senior associate economist (and one of the authors of "Canada's Looming Debt Crisis"), argues, "Foreign indebtedness in and of itself is not a bad thing, and in fact Canada has had a significant amount of foreign indebtedness since the Second World War, and it served Canada well... It needs foreign investment to support infrastructure projects...and build the country... It's just that from 1970, we were financing consumption, and we were paying non-Canadians for our consumption" (interview 1995).

share of debt held by these funds: in 1990, the Mulroney government passed legislation allowing pension funds to broaden their investment portfolios and to increase their foreign investments from 10 to 20 per cent by 1994 (ECEJ 1993a:121).

Government and corporate sources advance a common explanation for the increase in foreign-held debt. According to both the Bank of Canada and the Department of Finance, the increase in foreign borrowing, while not desirable, has been inevitable: larger debt payments have necessitated a growing reliance upon foreign lenders (Crow 1993:56). The 1994 Federal Purple Paper argues domestic savings levels in Canada are insufficient to finance interest payments on the national debt (Dept. of Finance 1994b:77; also see Crozier 1996).

Left critics counter that the increase in foreign-held debt is a consequence of financial deregulation and internationalization (Bienefeld 1992:36; Campbell 1993b:225), and propose that re-regulation could direct much more Canadian savings towards repatriation of the Canadian debt (ECEJ 1993a:121-3; CCPA and CHOICES 1995, 1996a).

Barlow and Campbell attribute the rise in foreign-held debt to the state's adoption of monetarism in the late 1970s. They point to a 1978 policy decision on the part of the Bank of Canada to significantly increase its borrowing on foreign markets: "In one year the share of the federal debt held by foreigners shot up..." (Barlow and Campbell 1995:79). According to Barlow and Campbell, the Bank of Canada allowed this increase, "because neo-liberal dogma counselled against...financing by the central bank" (Ibid.:81).

Gideon Rosenbluth explains the increase in foreign-held debt by pointing to rising real interest rates, and in particular, to a widening differential between Canadian and U.S. rates (1992:63). While Canadian and U.S. interest rate differentials may be minor on occasion, the trend in recent years reveals a clear widening of the gap. Economist Peter Spiro has followed this trend and arrives at the following conclusion:

The real borrowing cost differential between Canada and the United States has increased considerably in the 1990 to 1993 period relative to its historical average. The real differential between Canada and the United States averaged 310 basis points [3.1%] during this period, compared to 78 basis points in the years from 1980 to 1989. (Spiro 1994:16)

As McQuaig notes:

This discrepancy had enormous implications for Canada. The higher Canadian interest rates attracted foreign money into Canada, and the sudden flood of foreign money drove up the value of our dollar. The process then began to feed on itself, as yet more foreign money flowed in, attracted by the high interest rates and also now by the opportunity to speculate on the rising Canadian dollar. (1995:103)

In the age of deregulation, more of Canada's domestic savings is flocking to foreign markets. As the government seeks to re-attract loans with which to meet its debt payments by offering higher interest rates, the level of foreign-held debt increases, and a vicious cycle results.

## **2.5 Benefits Accrued from the Debt's Growth and Its Associated Policies**

Members of the corporate class have disproportionately benefited from the debt's accumulation, both directly, in the form of interest paid on debt holdings, and indirectly, from the policies that led to the debt's accumulation and that are now being implemented in the name of deficit reduction.

In the most obvious sense, those who hold government securities have profited from the debt's accumulation. Neo-conservative commentators are fond of arguing that virtually all Canadians benefit from debt holdings - that no class bias exists in the distribution of debt payments (or, for that matter, in the distribution of corporate profits).<sup>16</sup> They contend that working class Canadians, through their pension and mutual funds (as well as through more traditional vehicles such as Canada Savings Bonds), are reaping the rewards of debt payments.

Some workers are indeed realizing financial returns on their debt holdings. On balance, however, working class Canadians are not net beneficiaries of public debt payments. Federal employees hold approximately \$100 billion of the non-market federal debt through their superannuation fund (DeVries interview 1995). However, most of these same employees have seen their salaries frozen for over five years,<sup>17</sup> and thousands are now being laid-off in the name of deficit reduction. While a fairly wide cross-section of Canadians invest in CSBs, very little of the federal debt is now financed through these issues. Moreover, as McBride notes, "families with incomes of \$60,000 or over are more than twice as likely to own CSBs as families earning \$15,000 to \$24,999, and in 1984 families with wealth of over \$100,000 owned 73.6 per cent of the value of CSBs" (1992:98-9, based on data from Statistics Canada, The Distribution of Wealth in Canada, 1984). McQuaig rejects the claim that high interest rates and government debt payments benefit workers through their pension plans, noting: "...the wealthy tend to have much better pension plans than the less wealthy. This is certainly the case with private plans and

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<sup>16</sup> David Bond, defending corporate profits during a recent interview, argued, "It's not as if people are over here and corporations are over there. Who owns these corporations? Who are the shareholders? Just the wealthy?... We all do" (interview 1995).

<sup>17</sup> The day after the 1996 Budget, the Liberals announced they were prepared to return to collective bargaining.

RRSPs, but it is also the case with employee pension plans. More than half the workforce is not even covered by these workplace plans, and those who are tend to be in the higher ranks of the employed" (1995:272). According to Monica Townson, of paid workers in 1993, 46.8 per cent of men were covered by a registered pension plan, and only 41.9 per cent of women (speech 1996).

It is difficult to determine who precisely holds financial assets, particularly since the emergence of large pension and investment funds. According to Brooks, however, wealth, including financial wealth, remains highly concentrated in Canada: "The wealthiest 1% of families in Canada owned about 25% of our national wealth in 1989. The top 10% of wealthy families owned over 85% of the equity in Canadian businesses" (Brooks 1990:4). While these figures cannot lead to the conclusion that the richest 10 per cent of Canadians own 85 per cent of domestic held market debt, it is reasonable to suppose that wealthy Canadians hold controlling shares of the investment funds, banks, and other corporations dealing in government securities. Ultimately, debt charges represent a net transfer of wealth, through the tax system, to bondholders, "who are disproportionately from the more affluent sector of society" (McBride 1992:99).

Given that the debt's accumulation was greatly exacerbated by a policy of high interest rates, a case can be made that benefits accrued, not simply to those who held government securities, but to all those who are net owners of financial wealth. It could be argued that anyone whose savings and investments outstrip what they owe benefited from high interest rates.

Who has benefited most from price stability and high interest rates? As McQuaig notes, "The war on inflation impacts very differently on different classes" (speech 1995b): the poor, as net debtors,<sup>18</sup> face higher borrowing costs and suffer most from the unemployment associated with high interest rates; the rich, as net creditors, profit from high interest rates, while price stability protects the value of their financial assets (McQuaig 1995:82-4). McQuaig maintains:

...high interest rates in Canada have given a disproportionate benefit to the rich. In 1992, Canadians with incomes between \$15,000 and \$20,000 received interest income averaging \$1,500 per person – an amount that largely reflected the interest collected by seniors in this low-income group. But rich Canadians, with incomes over \$250,000, enjoyed interest income that year averaging \$51,000 per person. The benefit enjoyed by this upper income group was thus thirty-four times the size of that received by the low income group. (Ibid.:84, based on Revenue Canada's Taxation Statistics, 1993)<sup>19</sup>

<sup>18</sup> McQuaig contends that one quarter of Canadians are net debtors (speech 1995b).

<sup>19</sup> Of course many Canadians are both debtors and creditors. Many workers profit from higher interest rates through their personal and pension fund investments, even while they pay more interest on their personal loans, more of their tax dollars go to pay federal debt charges, and their wages are undercut by rising unemployment. Most Canadians have been, on balance, negatively impacted by the war on

In a similar vein, McBride argues:

Real interest rates (the nominal rate of interest minus the inflation rate) had become negative in 1974-5. In this situation lenders of money, in general those with large amounts of it, were in effect subsidizing borrowers. After 1975, real interest rates recovered and, despite some faltering in 1977-8, became consistently positive from the early 1980s onward [see Table 2.2 above]. Since positive real interest rates maintain and expand the value of money, a result that particularly benefits the affluent, post-1975 monetary policy performed a classic accumulation service. (1992:96)

McBride acknowledges that high interest rates have an "ambiguous" impact on accumulation, as firms that are dependent on consumer demand and/or chose to seek financing are negatively affected by higher interest rates (1992:96). It is important in this regard not to view the corporate sector as homogeneous: many firms, particularly small ones, have gone bankrupt in recent years, paying a high price indeed for rising interest rates and declining consumer demand. However, corporations that derive significant profits from the paper economy (primarily larger corporations) benefit from high rates. Furthermore, as outlined shortly, even corporations active in the real economy stand to benefit from the long-term consequences of high interest rates.

Canada's private banks have been the clearest benefactors of Canada's growing public debt. A CAW fact sheet on bank profits argues:

Banks have profited handsomely from the public debt, and from the extremely high interest rates which they charge on loans to the federal government. For example, changes in the 1990s to federal banking regulations allowed the banks to cash in on the big interest payments that the federal government hands out. As a result, the federal government debt to Canada's chartered banks increased by 500 percent - from \$15 billion at the beginning of 1988 to almost \$75 billion at the end of 1994. With artificially high interest rates, the banks make a killing on these loans. Their high profits represent, in large part, a direct transfer of income from Canadian taxpayers to the banks' coffers. (CAW 1995a)

The charter banks have profited from: the interest paid on their debt holdings; the high interest rates the Bank of Canada allows them to charge other borrowers; the government decision to let private banks assume a greater role in the creation of money; and from the deregulation of the financial sector and the resulting revenues made speculating on international financial markets.

Corporations and high income earners also gained significantly from the tax policies Mimoto and others now hold responsible for depressing government revenues and boosting federal debt. While all Canadians benefit from some tax expenditures, many of these deductions

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inflation. Supporters of the war on inflation argue that inflation harms those on fixed incomes, particularly seniors (Laidler and Robson 1993:15). However, this ceases to be a concern when unions and the popular sector win collective agreements and social programs that are indexed to inflation.

and loopholes offer savings to the wealthy and corporations alone. Indeed, the history of foregone taxes and tax expenditures since the mid 1970s has led some observers to question the state and dominant class's real interest in deficit reduction. McBride writes:

To the extent that these [tax expenditure] measures favour the affluent, their scope and prevalence seem symptomatic of the state's determination to stimulate accumulation. Since the revenues foregone exceed the size of the deficit, the government's obsession with reducing the deficit, primarily by expenditure restraint, appears increasingly ideological in origin and decreasingly based on even the pretence of scientific economic theory. Such a focus seems to rest more on reducing the scope of the state per se and increasing the autonomy of market forces than on balancing the budget. (1992:102)

In a similar vein, McQuaig, during a recent Vancouver speech, noted few objections have been heard from Bay Street sources regarding Mike Harris's plan to direct \$4 billion of his planned \$6 billion in expenditure cuts, not to deficit reduction, but to a promised 30 per cent income tax reduction - leading McQuaig to the conclusion: "The Rich don't care about the deficit" (speech 1995b).<sup>20</sup>

Finally, if we accept that greater unemployment was a policy choice, and that it played a critical role in accelerating the growth of the federal debt, we must ask: who has benefited from

**Table 2.5**

<b>THE PERMANENT RECESSION: Before and After</b>		
	<b>Average: 1950-1980</b>	<b>Average: 1981-1994</b>
Real Short-Term Interest Rate	1.1%	6.1%
Real Interest Rate on Federal Debt	3.9%	7.7%
Unemployment Rate	5.3%	9.8%
Economic Growth Rate	5.0%	2.4%
Federal Deficit (as share of GDP)	0.3%	4.5%
Annual Change, Real Wages <sup>1</sup>	2.4%	-0.8%
Share of Capital in GDP <sup>2</sup>	11.1%	13.8%
<b>NOTES:</b> 1. Change in average weekly wages less change in CPI. 2. After-tax corporate profits plus interest and investment income, divided by GDP.		

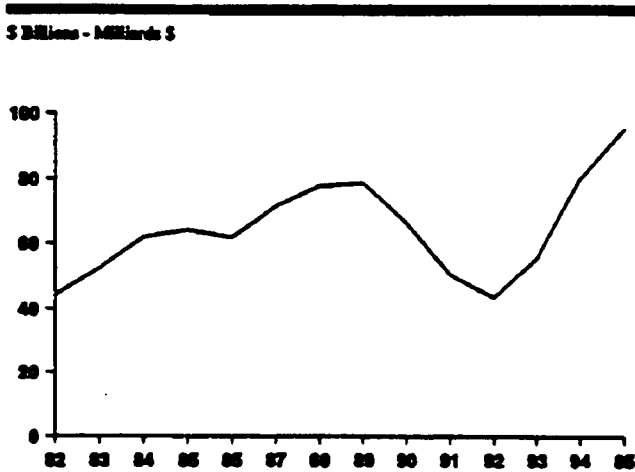
Source: Stanford (1995:126)

<sup>20</sup> During an interview, the BCNI's Sam Boutziouvis claimed the Harris government should not have promised to lower taxes. To my knowledge, however, the BCNI has never offered this criticism publicly.

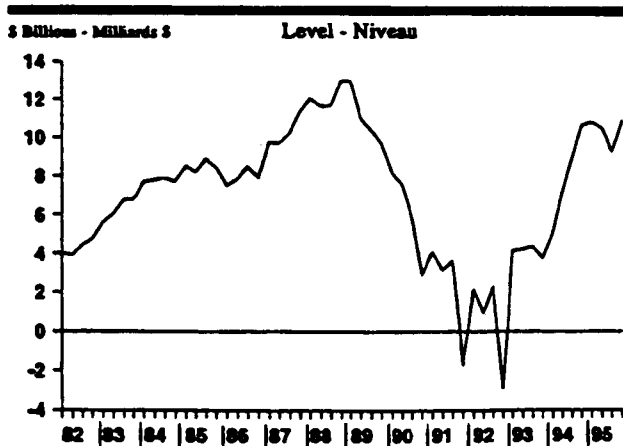
higher unemployment? Marx held that capitalism requires "a reserve army of labour" in order to moderate wage and other labour demands, and to ensure continued corporate profitability. As we will see shortly, the rising trend in unemployment has indeed had this effect. Real wages have been flat since the mid-1970s, thus holding down corporate operating costs.

The same neo-conservative policies that led to the accumulation of public debt have also facilitated profit accumulation. Again, it is important not to view the corporate sector as

**Chart 2.5: Annual Corporate Operating Profits, 1982 – 1995**



**Chart 2.6: Quarterly Corporate After-Tax Profits, 1982 – 1995**



Source: Statistics Canada, Financial Statistics for Enterprises (Cat. No. 61-008), Fourth Quarter 1995, pp. 8, 9.

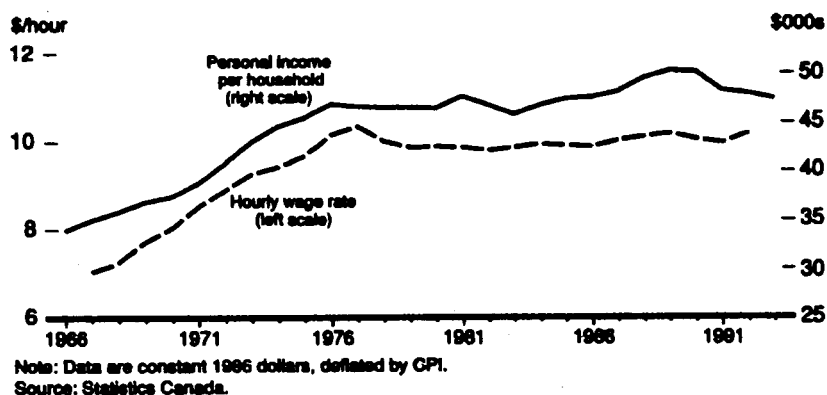
monolithic: many firms have experienced declining returns and record numbers have gone bankrupt. Corporate profits declined sharply during the recessions of the early 1980s and '90s. However, the overall trend in corporate profits since the early 1980s has been upward (particularly for many of Canada's largest corporations), and current corporate operating profits are higher than they have ever been (see Chart 2.5). Moreover, capital as a share of GDP has increased since the state's adoption of monetarism (see Table 2.5). The dramatic increase in profits between 1992 and the present can be viewed as the ultimate pay-off of a twenty year process of state downsizing and corporate restructuring. The neo-conservative project, assessed accordingly, has come to fruition; financial investments reap handsome returns, while capital investments benefit from an effectively disciplined workforce. (We return to the issue of corporate profits in chapter four.)

## 2.6 Paying the Price for Debt Accumulation

Contrary to the new "common sense," most Canadians have not been "living beyond their means". As the evidence regarding interest payments and recent operating surpluses demonstrates, Canadians have not been financing consumption through public deficits. Poor and middle class Canadians, moreover, have paid a price for the policies associated with the debt's accumulation. The costs attached to neo-conservative policy choices have been high, and they have not been equally shared. The material reviewed thus far indicates the same neo-conservative policies responsible for the debt's accumulation have also reduced growth, increased unemployment, depressed wages and income, and transferred income through the tax system and high interest rates from poorer to more affluent Canadians.

As Chart 2.7 indicates, "Since the middle of the 1970s, the average hourly wage and the incomes of Canadian households have stagnated in real terms" (Dept. of Finance 1994b:27).

**Chart 2.7: Measures of Real Income**



Source: Dept. of Finance (1994b:27)

When average weekly earnings are examined (see Tables 2.5 and 2.6), a real decline is apparent. Real average weekly earnings declined seven of the past 12 years (and were unchanged for one year), and these figures represent only those with jobs. According to the Royal Bank's John McCallum, when the

entire population (employed and unemployed) is considered, "in each of the first five years of the 1990s, Canada's per capita disposable income has fallen... *[A]ll of the declining per capita income of the 1990s can be explained by a reduction in the share of the population that had a job*" (1995:1). The Purple Paper notes that since the mid-1970s, "Despite increasing numbers of two-earner families and growing resort to part-time work to make ends meet, the purchasing power of the average household has improved only slightly, if at all. Many young people consequently sense that theirs is the first generation since the Great Depression to be less well-off than their parents" (Dept. of Finance 1994b:27-8).

Rising corporate profits and increasing financial returns on the one hand; depressed



wages, rising unemployment and social program cutbacks on the other – these trends are having an effect upon the distribution of wealth and income. Canada is witnessing a widening gap between the rich and poor. Barlow and Campbell cite a Statistics Canada study that found between 1973 and 1993, the richest 30 per cent of Canadian families saw their share of the nation's income increase by 5.4 per cent, while the poorest 50 per cent of Canadian families saw their share of the country's income drop by 9 per cent. Barlow and Campbell calculate this to mean a transfer of \$14 billion from low-income to high-income Canadians (1995:72).

**Table 2.6: Real Changes in Average Weekly Earnings**

year	average weekly earnings (annual % change)*	consumer price index (annual % change)	average real weekly earnings (annual % change)**
1984	4.2	4.4	-0.2
1985	3.5	3.9	-0.4
1986	3.0	4.2	-1.2
1987	3.8	4.4	-0.6
1988	4.4	4.0	0.4
1989	5.1	5.0	0.1
1990	4.5	4.8	-0.3
1991	4.6	5.6	-1.0
1992	3.5	1.5	2.0
1993	1.8	1.8	0.0
1994	1.9	0.2	1.7
1995	1.0	2.1	-1.1

Industrial aggregate, including overtime (Statistics Canada tables list actual dollar amounts. I have calculated the annual percentage change.)  
 \*\* Average weekly earnings annual per cent change less CPI annual per cent change

Source: Statistics Canada. Canadian Economic Observer: Statistical Summary (Cat. # 11-010), March 1996; and Canadian Economic Observer: Historical Statistical Supplement, 1994/95 (Cat. # 11-210).

As the income gap widens, more people are living in poverty. According to the latest Campaign 2000 report on child poverty in Canada, prepared by the Canadian Council on Social Development, 14.5 per cent of Canadian children lived in poverty (below the Statistics Canada low-income cutoff) in 1989. By 1992, this figure had grown to 18.9 per cent (CCSD 1994). In 1990, 76 per cent of single mothers with children under seven lived in poverty – whether they receive social assistance or work for minimum wage, their family income remains well below the poverty line (ECEJ 1993a:9). Fifteen years ago food banks were virtually unknown to most Canadians – today they are used by over 2.3 million people (Ibid.).

Ultimately, poor and middle class Canadians have paid a disproportionate price for the neo-conservative policies responsible for the debt's accumulation. They have not been net beneficiaries of tax changes over the past twenty years. It is they who have seen their disposable incomes and real wages decline. As net debtors, low-income Canadians have suffered from higher interest rates. And it is the poor and middle class who have borne most of the cost of rising unemployment. These concrete/material issues underscore the fragility of the neo-conservative project, and may yet present a significant challenge to neo-conservatism's ideological dominance.

## **2.7 Explaining the Debt's Growth - Hegemonic Theory Revisited**

Given the role of neo-conservative policy choices in accelerating the accumulation of public debt – personal and corporate tax reductions, high interest rates and the war on inflation, financial deregulation, and the free trade agreements – and the charged rhetoric regarding government over-spending despite empirical evidence disputing the claim that "we are living beyond our means," many popular sector activists have sought to advance an alternative explanation for the role of dominant debt discourse. Many argue that "debt hysteria" – a term often used by the popular sector – is ultimately designed to legitimize an attack on social programs and the public sector. Some contend that the debt's accumulation was itself encouraged to this end (Ralph 1995:7). The CCPA, in a popularized booklet entitled "The Deficit Made Me Do It," notes, "In the United States...David Stockwell and other officials in the Reagan administration now openly admit that, at the behest of their corporate friends, they deliberately increased the deficit so that it would justify later cuts in social program funding" (Chorney, Hotson and Seccareccia 1992:17).<sup>21</sup>

Why should the corporate class seek to undercut social programs and restrain the role of government? Why would businesses advance policies that increase unemployment while simultaneously exacerbating the public debt problem? Hegemonic scholars answer this question in the context of the shift from Keynesianism to monetarism, pointing to the underlying objectives of the neo-conservative project, and the link between material interests and ideological depictions of

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<sup>21</sup> According to this line of thinking, the Newt Gingrich "Contract with America" is understood as the planned legacy of the Reagan years; stage two of a long-term project to downsize the state and roll back the social wage. The original Stockwell confession emerged from a revealing *Atlantic Monthly* interview in the 1980s. Insider testimony of this sort has never been made public in Canada. McQuaig notes that, "There is no evidence that the Mulroney Tories deliberately enlarged the deficit in order to push the need for spending cuts... Of course, in Canada this wasn't even necessary, since John Crow was doing the job for the Tories, keeping the deficit swollen with his zero inflation policy" (1995:108).

the debt. Hegemonic theory understands dominant debt discourse as a veiled attack on the social wage and real wages, designed to increase corporate bargaining power and discipline labour.

Stanford maintains that, "Permanent unemployment was reestablished in order to repair the 'damage' done to the profit system by 30 years of full employment, rising wages, growing unions, and an increasingly interventionist public sector" (1995:124-5). Evidence for this can be found, according to Stanford, in the behaviour of financial markets themselves: "Investors and financial pundits have become well aware of the link between continued corporate profitability and permanent slackness in the economy; in the 1990s stock markets have tended to decline on news that unemployment has fallen, and vice versa" (Ibid.:127).<sup>22</sup>

This view is shared by McBride, who sees the attack on real wages and the social wage as parallel components of a neo-conservative hegemonic project designed to discipline labour: "...among business and its political allies, the perception grew in the 1970s that concrete legitimization expenditures could no longer be afforded and that they contributed to the economic crisis" (1992:57).

Many anti-poverty activists have come to similar conclusions, and now explain expenditure cuts as part of a "low wage strategy" (Swanson interview 1995; ELP 1994). They contend that cutting UI and welfare (and the implementation of workfare schemes) are principally designed to force thousands of people into accepting minimum wage jobs (or below minimum wage, if these positions are subsidized by governments), thereby depressing wage rates generally and boosting employer profits.

Labour can be disciplined through a variety of policy instruments, all with direct consequences for public debt and its "common sense" representation. Wage demands can be moderated by a high unemployment rate – yet higher unemployment increases the debt by reducing government revenues and placing greater demands on social programs. The key policy tools used to lower employment levels – namely monetary restraint and financial deregulation – also increase public debt charges. As social programs are rolled back, workers are less able to rely on a public safety net, and the resulting insecurity further moderates labour demands. The principal justification for social program cutbacks has become the deficit reduction imperative. As Stanford explains, "The strategy of permanent recession must also involve a radical downsizing of

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<sup>22</sup> Further evidence of this correlation was provided on March 8, 1996. Following announcements of stronger than expected job growth in both Canada and the U.S., the Toronto and New York stock exchanges both dropped by approximately 3 per cent, the third largest single-day drop of the century. The markets recovered most of this decline in subsequent days, but it was nevertheless a telling event.

the protections offered by the welfare state; conveniently, the impact of the permanent recession on public finance provided ample fiscal motives for downsizing, in addition to the underlying political-economic motives" (1995:125).

## **2.8 Chapter Conclusion**

This chapter has argued that direct government program spending has been responsible for only a small percentage of the federal debt's growth. As Fortin writes, "The conclusion that discretionary fiscal policy by itself has not contributed much on net to the debt explosion in Canada may appear to contradict the conventional wisdom. It does. The conventional wisdom is simply inconsistent with the facts" (1995:4). This chapter finds strong evidence in support of the popular sector thesis that the debt resulted primarily from high interest rates, foregone taxes, and unemployment – all stemming, in large measure, from neo-conservative policy choices.

If program expenditures are not the principal cause of the debt's accumulation, why are they so commonly held responsible, and why are spending cuts presented as the only viable approach to deficit reduction? Harold Chorney contends that the popular discourse emphasis on over-spending and the need for restraint is nothing new: "...business has held a consistent viewpoint during the last sixty years on the public debt and deficit financing. Business has promoted the notion that most government economic intervention is misguided. The attack against deficit financing is essentially an attack against the growth of government" (Chorney 1989:7).

This chapter reviewed who has benefited and who has lost in the course of the debt's accumulation. In so doing, we established a clear link between the accumulation of public debt and the "common sense" explanation for the debt's growth, on the one hand, and the material and ideological interests of the corporate class on the other. The analysis presented here directly challenges the notion that "we have all been living beyond our means," and that we must all now "tighten our belts." Moreover, it provides basic evidence pointing to the "Achilles heel" of neo-conservatism; despite its hegemonic status, the neo-conservative project has not integrated the material interest of subordinate groups.

### **Chapter Three: The Debt Debate Played-Out**

“It intrigues me how this has somehow become sort of conventional wisdom. But it seems to me unless we get to the root of why this is happening, it’s going to be very difficult for us to put forward a policy prescription, no matter how carefully we explain the theory of it.”

- Monica Townson, commenting on the dominance of neo-conservative debt discourse during a roundtable discussion at the Canadian Centre for Policy Alternatives (in Bienefeld et al 1993:5).

While chapter two was largely concerned with economics, this chapter examines how the debt debate has been played-out in the public and political arena. In this chapter I apply more directly Gramsci’s theory of hegemony to public discourse concerning the debt, and seek to determine how neo-conservative ideas regarding public debt became conventional wisdom.

Given the inability of the neo-conservative project to integrate the material interests of subordinate classes, the ideological battle between competing projects gains added significance. Recognizing the importance of ideological legitimation, the neo-conservative project has directed the resources and structural power of the corporate class towards the building of conditions favourable to neo-conservative ideas, the development of institutions capable of reinforcing these ideas, and towards an organized and multi-faceted persuasion campaign. It is argued neo-conservative ideas have become "common sense" due mainly to the neo-conservative coalition's structural power and resources, derived from its dominant position in the world of production. This structural advantage allows the neo-conservative project to shape conditions, dominate public discourse through its influence over the state, political parties, research institutes, the media and capital markets, and it lends the neo-conservative project tremendous intellectual authority.

Despite the ideological dominance of neo-conservatism, however, it is not unchallenged. The clash points between competing projects examined in the last section of this chapter demonstrate how the neo-conservative project employs its influence and power. But these encounters also reveal a deepening counter-hegemonic analysis, and illustrate that popular sector ideas, bolstered by the material vulnerability of the hegemonic project and other neo-conservative policy failures, are reaching a sizable audience.

### **3.1 Key Players in the Debt Debate**

The Canadian debt debate pits two competing projects against one another: a neo-conservative hegemonic project led by the corporate class and its allies, challenged by a counter-hegemonic project waged by the popular sector. A thorough understanding of the debt debate requires some familiarity with the central participants that make up these coalitions, particularly those organizations that have successfully promoted neo-conservative ideas and policies. Much of the strength of the neo-conservative project stems from the structural power and financial resources of its coalition partners, and upon its ability to solidly unite these players around a coherent program.

#### **3.1.1 The Neo-Conservative Coalition:**

The Canadian corporate class is understood here as the principal owners and senior executives of the largest corporations in Canada (both domestic and foreign owned), private financial institutions, media conglomerates and family empires. The corporate class does not include small and medium size companies (although many are ideological allies of the corporate class), the fundamental distinction hinging on political and economic power – the ability to influence public policy (Barlow and Campbell 1995:43). Allies of the corporate class are those who see their interests as tied to the corporate class. The contemporary neo-conservative coalition emerged in Canada in the mid-1970s, and has come to incorporate: business associations such as the BCNI, the Canadian Manufacturers Association, chambers of commerce and boards of trade; research institutes such as the Fraser Institute and C.D. Howe Institute; right-wing lobby groups such as the Canadian Taxpayers' Federation and the National Citizens' Coalition; major print and broadcast media chains such as Hollinger, Southam, Thomson, and Western International Communications;<sup>1</sup> prominent economists and academics such as John Crispo, Richard Lipsey, Robert York, Richard Harris and Thomas Courchene; and political parties such as the Reform Party, the Conservative Party, the Liberal Party (excepting a handful of dissident voices), and some prominent New Democrats (such as John Richards). As the neo-conservative project has taken hold of the state, the hegemonic bloc has come to include senior officials and researchers with the Bank of Canada, the Department of Finance,<sup>2</sup> other key economic ministries and

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<sup>1</sup> Barlow and Campbell report that, in 1991, Thomson, Southam and Hollinger owned 87 percent of Canada's daily newspapers (1995:55).

<sup>2</sup> It could well be argued that the ideological "conversion" of Bank and Finance officials occurred in the

research bureaus (such as Statistics Canada), and senior cabinet ministers (whatever their inclinations before winning office).

Founded in 1976, the BCNI describes itself as “the senior voice of Canadian business on public policy issues.” As Langille explains in his study of the Business Council, the BCNI brings together the principal Canadian capitalist fractions.<sup>3</sup> Its membership consists of the chief executive officers of 150 of Canada’s largest corporations. Modeled on the U.S. Business Roundtable, the BCNI was initiated in response to growing concern among many in the Canadian corporate elite that the business class was losing influence with both government and the public; a sentiment fuelled by Trudeau’s more nationalist and interventionist programs (such as the Foreign Investment Review Agency), and by NDP leader David Lewis’s popular campaign against “corporate welfare bums” (Langille 1987:43-47). Cognizant of a political culture favourable to state intervention in the economy, the BCNI, under the leadership of its president Thomas d’Aquino, has carefully and successfully advanced the neo-conservative agenda (Ibid.:44).

The BCNI has been remarkably successful in influencing public policy. As evidence, Langille points to the following:

They [the government] have maintained emphasis on fiscal and monetary restraint in order to constrain inflation and reduce the government’s deficit. The government accepted the BCNI’s suggestion of an incomes policy, and imposed it on public sector employees. The government also heeded the BCNI’s advice warning against extensive job creation programs...The Business Council wrote their own competition legislation for the government and had it accepted with few amendments. They orchestrated a new energy accord whereby federal and provincial governments restored windfall profits to the oil companies. The BCNI also helped abort an industrial strategy that would have had the federal government take a leading role in economic restructuring. And finally, the Business Council on National Issues has been steering the country towards a comprehensive free trade agreement with the United States [successfully as we now know – s.k.]. (Langille 1987:72)

The efforts of the BCNI have been complemented by the work of two principal right-wing think tanks – the C.D. Howe Institute and the Fraser Institute.<sup>4</sup> These institutes take the business of ideas seriously. Where the BCNI directs most of its attention towards lobbying senior politicians and state officials, these research institutes focus on producing reports for

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early stages of the development of the neo-conservative project.

<sup>3</sup> Langille argues that the BCNI represents all the elements of the traditional staples fractions - CEOs from the financial and resource sectors, both domestic and multinational (1987:50).

<sup>4</sup> Neo-conservative ideas have also been promoted, to a lesser degree, by other research institutes, such as the Conference Board of Canada and, until becoming itself a victim of expenditure cuts, the state-funded Economic Council of Canada.

public and media consumption. Their work lends academic legitimacy to the neo-conservative policy program. They organize conferences, seminars and other events, offer media commentary, and publish books and reports on a wide range of public policy issues. As Fraser Institute director Michael Walker said in 1974, "If you really want to change the world you have to change the ideological fabric of the world" (quoted in Barlow and Campbell 1995:41). Gramsci would concur.

Originally fairly Keynesian in orientation, by the late 1970s the C.D. Howe Institute "shifted its policy positions into line with the emerging neo-liberal orthodoxy" (Ibid.:51). Its sponsors include many of the largest corporations in Canada as well as wealthy individuals (Ibid.). The institute's executive director, Thomas Kierans, now administers an annual budget of just under \$2 million (C.D. Howe Institute 1995:15). The C.D. Howe Institute's senior researchers David Laidler, William Scarth, and William Robson have become prominent defenders of both fiscal and monetary restraint.

Founded in 1974, the Vancouver-based Fraser Institute describes itself as "an independent Canadian economic and social research and educational organization. It has as its objective the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians" (Fraser Institute 1995a). It too is funded by large corporations and, like the C.D. Howe Institute, its board of directors is principally made up of corporate presidents, CEOs and other senior executives, evincing strong cross-over with the membership of the BCNI.<sup>5</sup> The Fraser Institute is both more openly ideological than the C.D. Howe Institute and more focused on public "education" (Barlow and Campbell 1995:53-4). With a budget of over \$2 million (Fraser Institute 1995a:20) and a staff of over twenty (Ibid.:23), the Fraser Institute has become an influential advocate of neo-conservative policy options. The elimination of public debt through expenditure and social program cuts has become a key focus of the institute's work. Indeed, in 1994, the Fraser Institute established (and remains home to) the International Centre for the Study of Public Debt (ICSPD), headed by economist Robin Richardson (former chief economist with the Canadian Taxpayers' Federation).

The Fraser Institute appreciates that hegemonic projects do not attain instant success. Chairman R.J. Addington wrote in the institute's 1993 annual report:

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<sup>5</sup> Included on the Fraser Institute's board are magazine columnist Barbara Amiel-Black, wife of Conrad Black, and David Radler, president of Hollinger, establishing a clear connection between Black's media chain and the institute.



As a recent extensive story on the Institute in *Saturday Night* magazine noted, much of what today passes for conventional wisdom about the need for restraint in government spending, the rationalization of social programs, and the need to reduce taxes, is a reflection of the Institute's work during these past two decades... On many fronts, both intellectual and political debate is framed around our core ideas... We understand that it takes time to change the intellectual consensus, that it takes time to move the focus of ideas and public attention from where it is to where it ought to be... If you are going to change the ideas of a society then you have got to be in the ideas business.

(Addington 1994:1)<sup>6</sup>

Patience has paid off for the Fraser Institute. Marjorie Cohen notes, "Over the past 10 years or so, the Fraser Institute's image shifted from a comic example of ultra-right hyperbole to the representation of reason, responsibility and authority on economic and social issues" (1995:30).

The media component of the neo-conservative hegemonic bloc includes both key outlets and chains, but also prominent individual broadcasters, editorialists, commentators and columnists. Among these: commentators such as David Frum; columnists such as Peter Cook, Terence Corcoran, Andrew Coyne, Diane Francis, and Deidre McMurdy; and broadcasters such as Eric Malling, Michael Campbell, and Mike Duffy. These broadcasters in particular have developed a folksy style and, like the federal Reform Party, portray themselves as populists – speaking "common sense" and defending the interests of ordinary working people.

The media also provides a platform for prominent spokespeople representing the corporate sector, particularly the financial industry. Chief economists from the financial sector, such as Jeffrey Rubin (Wood Gundy), Patti Croft (Canada Trust) and David Bond, have themselves become media personalities – important spokespeople for the neo-conservative project, portrayed as "objective" authorities.

Finally, the neo-conservative project has been taken up by right-wing political parties and politicians. Traditionally supported at the federal level by the Conservative Party, the neo-conservative project is now advocated in full by the Reform Party, and in large measure by the Liberal Party. The Prime Minister and cabinet ministers holding senior economic portfolios are clearly aligned with the neo-conservative policy platform (as we will see in chapter four). The Liberal caucus is split. Herb Grubel, the Reform Party's deputy finance critic, claims Paul Martin requested of Grubel "that the Reform Party be hard on his [Martin's] spending and insist that there be more spending cuts...because while 75 per cent of the Liberal caucus believe that there is

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<sup>6</sup>According to Addington, Margaret Thatcher claimed during a 1993 address to a Fraser Institute gathering that she had "taken her cues from the Institute of Economic Affairs, our sister organization in London" (1994:1).

a debt crisis, only 40 per cent of the cabinet feels that way” (Grubel interview 1995). At the provincial level, the neo-conservative project has been greatly advanced by the populist appeal of Ralph Klein in Alberta and Mike Harris in Ontario, and more moderately promoted by others.

### 3.1.2 The Popular Sector Coalition:

The counter-hegemonic project is waged by those groups and individuals who oppose state retrenchment, fiscal and monetary restraint, deregulated markets, and trade liberalization. Allies of the popular sector are those who believe the neo-conservative order will bolster the relative power of the corporate class, undermine past popular sector gains, and increase and entrench inequality. They understand the hegemonic project as contrary to the material interests of subordinate groups. The contemporary Canadian popular sector coalition challenging the neo-conservative project is comprised of: the labour movement, from activist rank and file members to national unions and federations such as the Canadian Labour Congress (CLC); local and national women’s organizations such as the National Action Committee on the Status of Women (NAC); national citizens’ organizations and lobby groups such as The Council of Canadians; national coalitions such as the Action Canada Network (ACN); local and national anti-poverty groups, such as Vancouver’s End Legislated Poverty and the National Anti-Poverty Organization (NAPO); church groups, from local progressive congregations (such as First United in Vancouver) to national organizations such as the Ecumenical Coalition for Economic Justice (ECEJ); seniors’ groups such as the Council of Senior Citizens’ Organizations; student organizations, from campus-based anti-cuts and public interest research groups to the national Canadian Federation of Students (CFS); aboriginal groups and other groups representing people of colour, such as Vancouver’s MOSAIC and BC’s United Native Nations; groups representing people with disabilities, such as DAWN-Canada (the Disabled Women’s Network); gay and lesbian organizations and groups fighting for increased AIDS funding, such as AIDS Action Now and Vancouver’s December 9th Coalition; Third World solidarity and development groups such as Oxfam and CUSO; Left research institutes such as the CCPA and local social planning councils; Left academics; Left publications, such as Canadian Forum, This Magazine, and Canadian Dimension, community radio stations such as Vancouver’s CO-OP Radio, as well as Left journalists and columnists (including a few writing for the mainstream press); the NDP (though a strong case can be made that provincial NDP governments are not, and do not see themselves as, members of the popular sector coalition); and more radical Left political parties,

such as the International Socialists and the Green Party.<sup>7</sup>

At a national level, the popular sector has most often been represented by the leadership of the CLC, Council of Canadians, ACN, NAPO, NAC, CFS, and CCPA. National actions against expenditure cuts generally involve cooperation on the part of these groups. The Council of Canadians and Action Canada Network (formerly the Pro-Canada Network) were both founded in the mid-1980s, initially in opposition to a Canada-U.S. free trade agreement. In recent years both groups have broadened their mandates and now organize in opposition to the wider neo-conservative agenda. The ACN is a coalition of other organizations – social justice organizations, provincial and national unions, and labour federations. The Council of Canadians and its chair, Maude Barlow, have become a particularly prominent voice in the public debt debate. With a growing membership of approximately 50,000, the Council of Canadians has assumed the lead role in speaking for individual Canadians concerned about state retrenchment. The CCPA (based out of the same Ottawa office building as the Council of Canadians, ACN, and Canadian Forum) is a think tank funded primarily by unions, although its membership consists of both organizations and individuals. The CCPA undertakes and commissions some original research, and acts as a clearing-house for research conducted by other popular sector groups. It has produced much of the popular sector's literature challenging "common sense" discourse, packaging counter-hegemonic research into readable reports and booklets.

The NDP, the closest political ally of the popular sector, does not play a major role in the coalition. The party failed to adequately voice popular sector concerns during the 1988 free trade debate, and lost its official party status at the federal level in 1993. Furthermore, the debt/deficit issue has been a source of debate within the party, particularly in provincial wings where the NDP has formed the government, undermining the party's ability to speak clearly on the debt issue. In recent years the party has been split between those who argue deficit reduction should be the first priority of government, and those who continue to believe in the principal objective of full employment attained through government intervention and investment.<sup>8</sup> While the NDP continues to speak out against federal social program cuts, the policy choices of provincial NDP

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<sup>7</sup> While some of the above organizations include individual and organizational members from Quebec, the Quebec popular sector is largely separate, comprised of its own national organizations and labour federations, brought together under the coalition umbrella of Solidarité Populaire Québec.

<sup>8</sup> The federal party attempted to bridge this gap with its 1993 election document "Canada Works When Canadians Work: A Full-Employment Strategy to Control Debt and Deficits," which advocated: job creation programs, fair tax reform, "creating conditions for sustained low interest rates," and "eliminat[ing] unnecessary spending" (NDP 1993:5).

governments (including wage freezes, lay-offs, hospital closures and welfare cuts) have not helped to heal divisions within the party. The result of this division: many NDP members have directed their political activism towards work with other popular sector groups; the party leadership has rarely been a visible partner in popular sector coalition work; and the popular sector has been left without a strong national party willing and able to advance its ideas in the context of electoral competition.<sup>9</sup>

Ultimately, the neo-conservative coalition is both more solid and powerful than its popular sector counterpart. While the popular sector message is carried by a host of alternative magazines and newsletters, most have a circulation well below 10,000, hardly rivalling the mass audience reached daily by corporate media outlets. A fundamental imbalance exists between these coalitions with respect to financial resources. Where the neo-conservative project is able to call upon the resources of Canada's largest corporations, the popular sector has at its disposal only the monies it can raise from individual and union contributions. Unions are the only institutional source of significant capital for the popular sector, yet many unions face a declining membership and a multitude of financial demands. Moreover, union dues in Canada total only \$1 billion annually (Barlow and Campbell 1995:63), less than the Royal Bank's profits for each of the last two years.

The strength of the neo-conservative coalition also rests on its position of dominance in the realm of production. This provides the neo-conservative project with a tremendous structural advantage, as it has the power to back up its ideas with the real threat of a capital strike or, less likely, with rewards for those political jurisdictions that implement neo-conservative policies.

While the popular sector is now represented by numerous local and national organizations, these organizations tend to have difficulty sustaining themselves. Local popular sector coalitions often go through the tiresome task of re-forming each time an action is required. A number of provincial and national coalitions are struggling to maintain their existence, including the ACN.<sup>10</sup> Tensions between unions and community groups continue to hamper the

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<sup>9</sup> During a 1993 CCPA roundtable discussion, a group of Left political-economists lamented the Ontario NDP record, arguing that Rae's insistence that he had no alternative to spending cuts "discredit[ed] all the work that we do in the eyes of the public, in the eyes of the media and everybody else, in terms of trying to come up with an alternative to neoconservative thinking" (Chorney in Bienefeld et al 1993:17).

<sup>10</sup> The BC chapter of the ACN has not met for a year, although specific issue-oriented popular sector coalitions have continued to meet.

work of popular sector coalition building. Popular sector coalitions are less solid than coalitions developed around the interests of the corporate class. The corporate class is more homogeneous than the wider society, better able to recognize its shared interests, and better equipped to organize in defence of these interests. Moreover, the corporate class has larger fortunes to defend and extend, while ordinary citizens often see little point in pouring personal time and money into campaigns with few tangible benefits. As NAPO president Jean Swanson notes, “The Right is much more class conscious than we are. They will do more to preserve their class interests than the Left” (interview 1995b). Indeed, CCPA president Duncan Cameron argues the corporate class’s ideological commitment to the neo-conservative project is so thorough, that some corporations have “died on their swords,” paying the ultimate price in defence of free trade, monetary restraint, and declining consumer demand (interview 1995c). This class consciousness has extended beyond the corporate class to envelop many small and medium-sized business owners, who support neo-conservative policies despite the fact that (as we saw in chapter two) the consequence is often bankruptcy.

### **3.2 Ideological Strength of the Neo-Conservative Project**

#### **3.2.1 Key Hegemonic Ideas and Assumptions:**

Before examining the debt debate as it has been played out in recent years, it is necessary to outline in greater detail some of the core neo-conservative arguments with respect to public debt and deficits, and to understand the conditional, moral and intellectual strength of these propositions. The previous chapter reviewed the neo-conservative explanation for the debt’s accumulation. This section presents further key assumptions and propositions that underlie the neo-conservative project, including: the debt is reaching crisis levels - the country may soon hit a “debt wall”; the debt prevents Canada from lowering interest rates, and the foreign debt threatens Canadian sovereignty; the debt discourages and “crowds-out” private sector investment; the debt represents an unfair burden on future generations; the government has no room to raise taxes; the country cannot escape its debt crisis through increased economic growth; and the private sector, left free of government interference, will undertake productive investment, leading to increased growth and job creation. Combined, these arguments underscore the central neo-conservative contention that the need for dramatic spending cuts is both inescapable and urgent. Most of these arguments will be discussed in subsequent sections, but elaboration is required regarding a few underlying assumptions essential to our understanding of the debt debate.

The “debt wall” argument hinges on the premise that Canada’s public debt has grown so large, and investors have become so concerned, the government will soon be unable to find willing lenders. The BCNI, in its report to the first ministers entitled “Canada’s Looming Debt Crisis,” argues that, given a rising debt-to-GDP ratio and growing foreign-held debt:

Canada is threatened by the possibility of a serious loss of confidence in domestic and international financial markets... Further declines in credit ratings threaten... There is a growing risk that big government deficits will unsettle financial markets and spark a loss of confidence in our currency. If this happens, the consequences will be disastrous; a run-up in interest rates, diminished business investment, fewer jobs, and a much slower - or even aborted - economic recovery. (1993:3)

The C.D. Howe Institute’s William Scarth explains the “crowding-out” proposition thus: “If large amounts of government debt push interest rates up, private borrowing may be squeezed” (1994:9). The Reform Party’s Herb Grubel (who has written extensively for both the C.D. Howe Institute and Fraser Institute) argues that government over-spending and taxation crowds-out private investment by depressing private consumption and savings, and discouraging investment due to fears of “ever-rising rates of taxation” (1992:2). Robert Crozier, an occasional contributor to the Fraser Institute’s monthly magazine, argues government borrowing distorts the entire economy and depresses economic performance. Crozier also argues that “the savings of the private sector are now being almost wholly absorbed by the huge deficits in the government sector, leaving little available for domestic needs” (1994:4). Underlying this proposition is the premise that opens the Reform Party’s “Taxpayers’ Budget”: that “A dollar left in the hands of a consumer, investor, entrepreneur, or taxpayer is more productive than the same dollar in the hands of a bureaucrat, a lobbyist, or a politician” (Reform Party 1995).<sup>11</sup>

Neo-conservative proponents maintain the debt must be reduced in order to protect living standards and, on occasion, argue their opposition to public debt is based on an ethical desire to maintain government services. David Bond claims his public work against growing government debt is motivated by a belief that debt and debt payments are a barrier to prosperity. Servicing the debt leads to higher taxes, reduced programs, and thus, a lower standard of living (interview 1995). Bond argues that the debt must be cut in order to defend the future of social programs.<sup>12</sup>

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<sup>11</sup> For a more academic discussion of the “crowding out” issue, see Modigliani and Sperling (1986), Kormendi and Meguire (1986), and Feldstein and Elmendorf (1990).

<sup>12</sup> Bond cited John Richards when making the argument that debt must be reduced in order to defend social programs, stressing Richards’ Left credentials. This argument appears to me an opportunistic appeal to the moral high ground, coming from people who, on other occasions, argue government spending “distorts” the economy and social programs are a “disincentive to work.”

The above propositions have been largely accepted by the state, and state institutions have sought to legitimize these arguments in the eyes of the public. Tiff Macklem, assistant chief of research at the Bank of Canada, has produced simulations designed to illustrate the costs of increased public debt. His economic models demonstrate that government debt transfers income from future generations to current generations - leading to lower future output and consumption; increases interest rates, as "nervous" investors demand higher "risk premiums"; and results in higher taxes, thus further "distorting" the economy (Macklem et al 1995; Macklem interview 1995).

The Liberal's 1994 Purple Paper<sup>13</sup> supports many of these same propositions:

Chronic deficits cause taxes, and the expectation of future taxes, to increase in order to cover the increasing cost of debt service. Other things being equal, the prospect of rising taxes discourages investors and entrepreneurs, thus diminishing future growth and job prospects. And higher taxes themselves distort economic behaviour in ways that are detrimental to efficiency and growth...

Debt and deficits cause real interest rates to increase once the level of debt becomes viewed as excessive by financial markets. High interest rates deter investment since they increase its cost. Reduced investment today translates to lower productivity and lower job growth tomorrow...

Debt, and its resulting interest cost, squeezes out government spending on programs that Canadians value... The debt constraint is now so severe that many important initiatives cannot be undertaken. (Government deficits also 'crowd-out' the private sector by inducing higher interest rates.)...

The accumulation of debt has a significant moral dimension. To the extent debt has been incurred to finance annual consumption rather than public investment - and that has been the case - the debt represents a dead-weight burden on the future. Since the borrowed funds were not, for the most part, invested in ways that would give an extra boost to Canada's future growth, there will not be sufficient future 'surplus' to cover the ongoing stream of debt service cost. That cost will have to be paid by our children and grandchildren out of their future incomes. (Dept. of Finance 1994b:76-8)

The Purple Paper rules out deficit reduction strategies other than expenditure cuts. It claims the country cannot out-grow its debt problem, as it did after WWII (when the net federal debt-to-GDP ratio exceeded 100 per cent):

The economic conditions that prevailed in the postwar years were very different from those of today... They were years of high economic growth and low interest rates... Unfortunately, the momentum of debt itself is undermining Canada's growth potential through the drag of high real interest rates and high taxes, as well as the squeezing out of public investment that would lead to a more productive economy in the longer run. Consequently,

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<sup>13</sup> The Purple Paper's principal author was Peter Nicholson, former senior vice-president at the Bank of Nova Scotia, who was recruited by Martin to oversee the government's attack on the deficit (Barlow and Campbell 1995:121).

Canada's public debt problem cannot be solved by growth alone. (Ibid:79-81).

The document also rejects taxes increases:

The scope for higher taxes is extremely limited. In fact, the ultimate goal must be to *lower* the overall burden of taxation in Canada over time. Total taxes levied by all levels of government - expressed as a percentage of GDP - are already very high relative to our immediate competing jurisdiction (the United States) and the gap has been widening... Many believe, erroneously, that the tax burden on business has diminished. The opposite is the case... Total business taxation has risen sharply as a percentage of pre-tax profit. (Ibid.:84-5)

The only solution, according to the Purple Paper, is to "boost the operating surplus as quickly as possible to counteract compound interest and stabilize the situation" (Ibid.:84).

These rather technical assertions made by the government and other neo-conservative sources derive considerable strength from current conditions, which do indeed reinforce the notion that Canadian taxes must be competitive, that the judgement of financial markets does matter, and that only the private sector can create jobs.

Underlying much of the neo-conservative project is a final assumption – a core proposition requiring something of a leap of faith: that the free market can deliver increased jobs and growth. When I asked Bond whether financial deregulation and the rise of new financial markets were resulting in too much capital being diverted from real investment to speculative investment, he replied simply: "I believe that markets work" (interview 1995). Likewise, an interviewee at the Bank of Canada, when pressured on whether financial markets were setting interest rates at a level incompatible with low unemployment, responded: "Ultimately, all this depends on what we think about capitalism. I believe markets work – even financial markets." Many advocates of neo-conservative policies are not motivated by simple material interests. Rather, they are ideologues; they are convinced that their program offers increased prosperity for the many. Ultimately, the neo-conservative project rests on the central proposition that if government "interference" in the economy is reduced and decisive action is taken to reduce the deficit and debt, the result will be increased private sector investment, and thus, more jobs (BCNI 1993:5). Given the present material weakness of the neo-conservative project, ideological dominance depends on these futuristic appeals to prosperity. Most of the public, however, are not ideologues in this sense. Therefore, at a certain point, Gramscian theory suggests the hegemonic project must deliver on these promises. It is on the basis of this last proposition that the neo-conservative project will, at the material level, succeed or fail.



### 3.2.2 The Conditioning Framework:

The neo-conservative project began at a time when conditions were favourable for a new paradigm. Stagflation was causing Keynesianism to fall into disrepute. Yet these conditions alone were, in Canada, insufficient to propel the neo-conservative project forward.<sup>14</sup> The critical strength of the neo-conservative project, however, beyond its ability to capitalize on favourable economic conditions, is its ability to mobilize the resources of the corporate class in order to build favourable conditions. The corporate class, due to its dominant position in the world of production, is able to foster the conditions that in turn legitimize corporate policy preferences. Gramsci wrote, "If not all entrepreneurs, at least an *elite* among them must have the capacity to be an organizer of society in general...because of the need to create the conditions most favourable to the expansion of their own class" (1971:5-6). This has been the role of the the BNCI in particular, promoting policies that increase both the power (as well as the material rewards) of the corporate class.

Political economists Ricardo Grinspun and Robert Kreklewich examine how free trade agreements and other neo-conservative policies "serve as a restructuring tool or, put differently, as a conditioning institutional framework that promotes and consolidates neoliberal restructuring" (1994:33). Free trade in particular, by shifting economic and political power to the corporate class, bolsters the notion that progressive policy options cannot be implemented without suffering severe capital flight, and thus, reinforces the ideological contention that there is no alternative to corporate policy preferences – a consequence Grinspun and Kreklewich find fundamentally undemocratic (Ibid.). Implementation of neo-conservative policies initiates a slide down a slippery slope, whereupon the inevitability of neo-conservative policies becomes a self-fulfilling prophesy.

Given a political culture favourable to state intervention in the economy, the neo-conservative project pursued its agenda "via the back door" – securing policy changes that would, in turn, extend and consolidate neo-conservative reforms (Ibid.:36). Grinspun and Kreklewich note the presence of both formal and informal conditioning frameworks, trade agreements being

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<sup>14</sup> Grinspun and Kreklewich note that the neo-conservative project took longer to achieve hegemony in Canada, as compared with the U.S. or Britain: "The Mulroney Conservatives could not muster massive support in 1984 for the implementation of a neoconservative agenda. Indeed the Conservatives did much to distance themselves from Reaganism in that campaign" (1994:35).

an example of the former, and financial deregulation an example of the latter.<sup>15</sup> The debt crisis – also a creation of neo-conservative policy choices (as we saw in chapter two) – has become a critical informal conditioning framework. The real roots of the debt crisis are never clearly explained in the dominant discourse, but the crisis is popularly understood as a condition demanding dramatic state action, and is used to justify further neo-conservative policies.

A final political consequence of these neo-conservative reforms is that they serve to consolidate the neo-conservative coalition, while undermining (though not fatally) the popular sector coalition. Those who benefit from policies such as free trade and financial deregulation (such as financial asset holders, mobile capitalists and some exporters) become solid members of the hegemonic bloc. In contrast, these same policies, by exacerbating unemployment, potentially weaken the labour movement, a central member of the popular sector coalition (Ibid.:40-41).

### 3.2.3 Intellectual and Moral Leadership:

Gramsci observed that the advancement and maintenance of any hegemonic project requires the support of intellectuals, "which every class creates alongside itself" (Gramsci 1971:6).<sup>16</sup> He viewed these intellectuals as "the dominant group's 'deputies' exercising the subaltern functions of social hegemony and political government" (Ibid.:12). The hegemony of the neo-conservative project is, to a significant degree, a product of its intellectual leadership. The dominance of monetarist thinking within most university economics departments serves to strengthen the legitimacy of hegemonic ideas. The intellectual leadership, "neutrality," and "objectivity" of the neo-conservative project is greatly enhanced by the advocacy role played by prominent neo-classical economists. These academics, in the classroom, in submissions to parliamentary hearings, and through public commentary, effectively equate the policy preferences of the corporate class with the national interest. "Everywhere in the western world, market theorists hold the intellectual and political initiative" (Simeon 1987:177). But how did neo-conservative intellectuals seize leadership in the eyes of state officials and the public?

Political scientist Richard Simeon (1987) provides valuable insights in response to this question, based on his experience as a research coordinator for the Royal Commission on the

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<sup>15</sup> Financial deregulation is understood as an informal conditioning framework because, while no legal agreements exist, and financial deregulation is never explained as a consequence of policy choices, financial markets are identified as restricting state policy options (Grinspun and Kreklewich 1994:36).

<sup>16</sup> Gramsci believed all people are potential intellectuals, but observed that only some are delegated with this "function" (1971:9).

Economic Union and Development Prospects for Canada (the Macdonald Commission). Noting that "the [Macdonald] Report's analysis of economic matters reflects in virtually every respect the current conventional wisdom of contemporary mainstream neo-classical economists" (Ibid.:171), Simeon seeks to explain why the Commissioners privileged these ideas. He concludes, "given their definition of the problems to be addressed, *there was no credible alternative before the Commissioners* . Their choice, ultimately, was between the economics model, or no model at all" (Ibid.:173). The Commissioners understood economic conditions to be near crisis, characterized by declining productivity, an inability to "adjust," and an "increasingly competitive world environment," and believed "Canada simply could not go on as before, nor could we avoid seeing the Canadian economy in anything other than an international context" (Ibid.). Given the economic nature of the problem, the Commissioners turned to economists, who in turn offered an alternative model that directly addressed these conditions and imperatives, and that was "buttressed by an enormous and compelling body of theory and research" (Ibid.:174). While popular sector groups presented alternatives to the Macdonald Commission, their prescriptions did not address the imperatives as understood by the Commissioners; they dealt with issues of social justice, but not with those of economic growth and efficiency (Ibid.). Having accepted the problem as defined by proponents of the corporate class (an understandable choice given the leadership position of the corporate class in the world of production), the "logic" of trade liberalization and neo-conservative economic restructuring necessarily followed. The Commissioners were,

...in many cases, reluctantly brought to the position they eventually adopted... In the end, there was only one set of alternatives which appeared credible [and coherent – s.k.] to the Commissioners. They did not so much cynically ignore the views of the 'popular' sector as conclude that it did not address what they had come to believe was the central question. They thus became captives of a set of ideas which are close to hegemonic. (Ibid.:178)

◊ Thus, the intellectual strength of the neo-conservative project stems from a clear definition of the economic problems facing society, a coherent policy agenda around which an intellectual "consensus" is built, and a large body of research supporting neo-conservative ideas. In contrast, the popular sector is often positioned as defending the status quo, as lacking intellectual confidence and initiative in the post-Keynesian era, and as unable to effectively tackle the issue of economic production (as opposed to distribution). ◊

The neo-conservative project also lays claim to moral leadership. Neo-conservative proponents seek to identify their program and themselves with moral virtues valued by the public,

and frequently defend their policy preferences on moral grounds. The neo-conservative project stresses virtues such as: courage (i.e. the courage to face down entrenched and special interests), decisiveness and resoluteness (virtues commonly associated with premiers Klein and Harris, and often with Finance Minister Martin), and fiscal responsibility and prudence. Expenditure cuts are defended as necessary so as not to "burden future generations" with massive debt, and as needed in order to "free people from welfare dependence." The C.D. Howe Institute's Kierans recently wrote, "We will explain the immorality of the debt. It is immoral to redirect the fruits of our economic union to foreign and domestic capital because it deprives Canadians of choices to consume or invest" (Kierans 1995:2). At other times, neo-conservatives position themselves as champions of family and community, claiming the role of guarantor of social security from the state. The alternative social and economic order advocated by neo-conservatives is described as more democratic, transferring political and economic power "closer to home," and holding the spending and taxation of governments in check through popular referenda and recall legislation.

• The neo-conservative project has also successfully divorced the debt debate (and debates around issues such as free trade and monetary policy) from considerations of conflicting class interests. Neo-conservative policies are effectively portrayed as in the national interest – a perception aided by the wider hegemony of liberalism and a common discomfort (particularly on the part of the media) to discuss issues in class terms. •

The moral authority of the neo-conservative project is further strengthened by the ideological zeal with which it is promoted by many of its leading advocates, and for some by its association with the Christian Right. This is evident, for example, in the role played by Reform leader Preston Manning: his views may be vehemently rejected and his party ridiculed by some, but Manning himself is seen as acting on the basis of principle, conviction and integrity.

Nevertheless, the moral strength of the neo-conservative project remains less secure than its intellectual leadership. The neo-conservative project is hegemonic, but its hegemony stems mainly from the public perception that its ideas and policy prescriptions are inevitable, not necessarily that they are desirable. Moreover, defending social program cuts (even for the stated reason of saving them) is morally tenuous at best. The moral "courage" of the neo-conservative project is undermined when popular sector activists ask how courageous it is to "beat up on the poor, the unemployed, the uneducated or those in need of health services" (Brooks 1995b:11), and when neo-conservative policies are effectively equated with corporate "special interests." •

The neo-conservative project has employed numerous effective strategies in defence of its

program. Even the best strategies, however, must be based upon an underlying moral and intellectual strength if a project is to attain hegemony. In this respect, the neo-conservative project has been very successful.

### **3.3 Methods of Persuasion Employed by the Hegemonic Project**

Appreciating the significance of ideological battle, the hegemonic project has directed the resources and influence of the corporate class towards a multi-faceted persuasion campaign within the institutions of civil society. The hegemonic project funds think tanks committed to promoting neo-conservative ideas. Its influence over the media serves to provide a platform for prominent neo-conservative advocates, and through sheer repetition, effectively fosters the perception of neo-conservative ideas as "common sense." Corporate class influence over financial markets serves to create a sense of impending crisis and lost sovereignty, thereby building a condition that legitimizes neo-conservative policy prescriptions. Canada's largest corporations extend significant financing to their political allies, ensuring their policy preferences are promoted and implemented. And the ideological conversion of the state has meant government resources and activities further legitimize neo-conservative ideas. With respect to all these methods of persuasion, neo-conservatism is aided by the structural power of the corporate class, which lends to the hegemonic project its financing, its prestige, and its ability to shape economic conditions.

#### **3.3.1 The Role Played by Think Tanks and the BCNI:**

As we have seen, the Fraser Institute and the C.D. Howe Institute understand themselves to be in the ideas business. Much of their work consists of building popular support for both fiscal and monetary restraint, with the Fraser Institute tending to concentrate on the former and the C.D. Howe Institute on the latter. They have been very effective in this work, due mainly to the perception of these institutes and their researchers as "objective" scholars seeking to serve the national interest.

Richardson, director of the Fraser Institute's ICSPD, claims his goal is to "inform Canadians about the magnitude of Canada's all-government debt problem and propose *responsible* and *efficient* ways to reduce total all-government debt" (Richardson 1994:7, emphasis added). Richardson writes a monthly column which is picked up by papers from across the country, and claims to do between 60 and 80 media interviews a year (interview 1995).

Much of the Fraser Institute's public "education" work is directed towards students (an

activity rarely undertaken by either the C.D. Howe Institute or BCNI). The institute regularly sends professors information regarding upcoming events and newly released publications. Students are invited to attend day-long seminars on public policy issues. Attendance at these events garners a free lunch and complimentary one year subscriptions to both the Fraser Forum, the Fraser Institute's monthly magazine, and the Canadian Student Review, a quarterly newsletter written principally by and for student members of the institute. As Cohen explains, students are attracted to these seminars by more than free rewards: "The discussion of ideas, being in step with current events, and meeting key people among the elite are the things that draw students to these events" (1995:31). The Fraser Institute is committed to developing and supporting young neo-conservatives. Every summer, the institute invites 20 young people with identified leadership abilities to a two-day Student Leaders' Colloquium, and some are granted summer internships.

In 1995, the keynote address at the Fraser Institute's student seminars was delivered by Ezra Levant, a prominent young neo-conservative whose soon-to-be published book YouthQuake (written while interning at the institute) emphasizes inter-generational dimensions to the debt debate. Levant tells students that the debt debate pits young people against baby-boomers and seniors, and he equates the battle today's youth must wage to eliminate the debt with past movements for civil rights and against the Vietnam War (Fraser Institute student seminar 1995), appealing to the desire of many young people to join a meaningful struggle. This generational appeal has been taken up by other neo-conservative proponents. During an interview with Grubel (who had recently returned from a Fraser Institute conference on this issue) I was warned that, as the baby-boomers retire, taxes and CPP contributions will grow by 50 per cent. Grubel referred to this as "massive theft of one generation by another... You guys [young people] should be on the barricades, mobilizing for a government that will take action on these issues head on!" (1995).

The C.D. Howe Institute has produced a series of publications, and hosted academic conferences, aimed at legitimizing the Bank of Canada's war on inflation. The C.D. Howe Institute first weighed into the debate in 1990, with the publication of Zero Inflation: The Goal of Price Stability (Lipsey 1990). As Tom Kierans writes, the book "presents an explicit endorsement of Bank of Canada Governor John Crow's policy of zero inflation" (Ibid.:v). Richard Lipsey, the collection's editor, while acknowledging that attaining zero inflation will entail costs, rejects any notion that these costs fall unevenly on different classes, insisting that inflation hurts everyone (Ibid.:19-22). To the extent this argument is found credible, neo-

conservative proponents are able to claim credit for improving the material condition of ordinary Canadians. Later in 1990, the C.D. Howe Institute published Taking Aim: The Debate on Zero Inflation (York 1990). While this collection includes a couple of critical pieces, it offers little in the way of an actual debate. Since 1990, the C.D. Howe Institute's Laidler and Robson have produced a series of reports defending the the goal of zero inflation (1993, 1994, 1995). Barlow and Campbell argue the C.D. Howe Institute has played a key role in giving the goal of zero inflation "a gloss of academic 'objectivity'" (1995:77). The Bank of Canada's war on inflation has also received strong support from both the Fraser Institute and BCNI. An article by Walker written on the occasion of Crow's retirement as Governor carries the title "Well Done, John Crow" (Walker 1994). A 1994 BCNI report noted the Bank's battle to achieve price stability "was consistently supported by the Business Council" (1994b:5).

The C.D. Howe Institute also produces reports intended to legitimize spending cuts, emphasizing moral appeals to democracy and courage, and the promise of future prosperity. Limits to Government: Controlling Deficits and Debt in Canada (Grubel et al 1992) advocates constitutional limitations on deficits and spending as a necessary measure to "curb the power of special interest groups" (Ibid.:vii). It opens with the modest warning that growing debt and spending "deprive Canadians of their economic rights and threaten the stability of the economy and possibly the future of democracy in Canada" (Ibid.:1). "Deficit Reduction: Costs and Benefits" (Scarth 1994) argues "Deficit reduction is a classic example of long-term gain for short-term pain," and that the government cannot out-grow its deficit without spending cuts (Ibid.:1,3). And "The Courage to Act: Fixing Canada's Budget and Social Policy Deficits" (Kierans and Robson 1994), released in the lead-up to the 1995 Budget, calls on the Liberals to act decisively to eliminate the deficit. As Kierans notes in the C.D. Howe Institute's 1994 annual report, "This has been a time of high visibility for the C.D. Howe Institute. In recent months, our studies have reverberated in newspaper editorials across the country, on television news, and in parliamentary debates" (Kierans 1995:2). Indeed, the C.D. Howe Institute's researchers have effectively captured much of the public debate, offering "impartial" commentary to a wide audience.

The BCNI, though principally a lobby organization, also seeks to influence popular opinion in favour of spending cuts. BCNI reports always garner considerable media attention. When the Council released its "Ten Point Growth and Employment Strategy for Canada" in the Fall of 1994, it was greeted with headlines such as: "Business leaders unveil blueprint for economy: Report calls for deficit reduction without raising taxes," in the Globe; "Erasing deficit

seen as best job strategy,” in the Financial Post; “Chop spending to cut deficit,” in the Montreal Gazette; and “Cut social spending to reduce debt, business leaders urge,” in the Ottawa Citizen (BCNI 1994b, press package). The BCNI’s Boutziouvis believes their reports and presentations have influenced popular opinion:

Constant addresses by my chief executive and by member chief executives of the Business Council...helped elevate the [debt] issue higher in the priorities of the public. It got to a point in polling at the end of '93 where, despite the recession, despite the high unemployment rate, the deficit/debt issue was actually quite high in the priorities of the public. So, did we have an effect there? I believe that we did. (interview 1995)

Beyond seeking to influence popular opinion, the BCNI, Fraser Institute and C.D. Howe Institute also engage in direct lobbying of politicians and state officials. Boutziouvis acknowledges that the BCNI’s access to these people is fairly good: “The BCNI, which has the 150 largest corporations behind it as members, self-generates access, because we represent such a large part of the economy. Over the years, my chief executive has cultivated relationships at the senior levels of government in several key departments” (interview 1995).

In 1993, the BCNI produced an influential report entitled “Canada’s Looming Debt Crisis.” Now available to the public, the report was originally a confidential document prepared for a series of private briefings with federal and provincial governments. During January and February, 1993, a team from the BCNI took the report on the road, visiting the premiers of New Brunswick, Quebec, Saskatchewan, British Columbia, Nova Scotia, and Manitoba, the finance minister of Ontario, Kim Campbell and Jean Charest, and the Liberal shadow cabinet (then still in opposition). Boutziouvis feels these presentations made a difference: “By and large it was acknowledged that there was a problem, and that it needed to be looked at more seriously than the premiers and finance officials had looked at it in the past... The international comparative statistics... had a very positive effect ” (interview 1995).

Beyond making submissions to parliamentary committees regarding the urgent need to cut expenditures, neo-conservative think tanks also offer political advice to governments on how cuts can be implemented. In a revealing article prepared for the Institute for International Economics (a Washington D.C.-based think tank that undertakes academic work legitimizing global economic liberalization), John Williamson and Stephan Haggard urge their colleagues to tackle the question of how to win popular support for the elite economic “consensus”:

Given that belief in the benefits of [neo-liberal] economic reform is much less widely held among politicians than among economists, and is even less widely



endorsed by the general public, let alone by specific interests that stand to lose, the question of *strategy* of economic reform becomes central. Economists cannot luxuriate in political agnosticism, telling themselves self-righteously that they have done their duty once they have offered a menu of policies to politicians. Rather, they must be concerned with the conditions under which their advice is followed, and this implies a need to concern themselves with questions of political economy. (1994:531)

The C.D. Howe and Fraser institutes have taken this advice to heart. The C.D. Howe Institute's Kierans and Robson, in their report "The Courage to Act," recommend the following:

Speed and broad scope are essential attributes of a package that will be credible to Canadians. A commitment to substantially completing a reform package by the end of the current Parliament will increase public confidence that it will be carried out. The more ambitious the scope of the program, the greater will be the public perception that real progress is being made. These qualities are important from both an economic and a political point of view. (1994:9)

Kierans and Robson encourage the government to be resolute, warning that, "The fierceness with which 'loser' interest groups or provinces will fight the plan will be directly proportional to their prospects for killing it. If the government's intention of proceeding is clear, those affected will more quickly direct their attention to making the best of changed circumstances" (Ibid.).

On December 13, 1993, the Fraser Institute's Michael Walker and Isabella Horry participated in a day-long meeting with Finance Minister Martin (Horry and Walker 1994:5). Their comments, later reprinted in the Fraser Forum, outline not only where to cut, but also the political challenges confronting the Liberals. Horry and Walker note that, "for a very wide range of income levels the benefits received by families exceed the current taxes the family faces... 47 percent of the electorate are net beneficiaries of the current system of taxation and expenditures" (Ibid.:5-6). For Horry and Walker this represents a serious problem, as many Canadians will oppose "necessary" program cutbacks. This problem is compounded by the fact that even many wealthier Canadians benefit from spending on health, education, and culture (Ibid.:7).

Underlying their advice is a frank acknowledgement that neo-conservative economic reform lacks a strong material basis. Horry and Walker contend that Canadians are benefiting from programs paid for by future taxpayers through deficit financing (an arguable proposition given recent operating surpluses). Thus, their advice to Martin: do not base cutback decisions on popular surveys or referenda (Ibid.:8) (a telling recommendation, considering neo-conservative support for referenda on spending and taxation); cut programs where expenditure growth has been recent and above average, namely "entitlement and income support programs," foreign aid, environment, housing, and immigration assistance (Ibid.:9-11); maintain "basic" government

services, namely “fundamental services such as defence, the maintenance of law and order, and the provision of infrastructure in both physical capital and knowledge capital” (Ibid.:11); clawback social welfare benefits from those with above-average income, including UI and CPP benefits (Ibid.:17-9); and cut programs that proportionately benefit higher-income earners, such as post-secondary education, culture and recreation, and health care (Ibid.:21). Key to the institute’s recommendations is the elimination of universality. Interestingly, Horry and Walker advise that, for now, “families with incomes below the national average ought not to be affected when social welfare programs are restructured” (Ibid.:17). The objective of the above recommendations seems to be to undermine the social solidarity across class and other cleavages that currently supports many state programs and facilitates popular sector coalition building.

Some of the Fraser Institute’s strategic advice has come full circle. In the late 1980s, the institute brought Sir Roger Douglas, the architect of New Zealand’s neo-conservative policy program, to Canada for a speaking tour. A few years later, Premier Ralph Klein hired Douglas to advise him on how to effectively implement neo-conservative reforms and social program cutbacks (Dobbin 1995:8). The Klein approach to cutbacks has become, in turn, a model for the new Ontario Conservative government. Shortly after Harris’s election victory, the Globe and Mail ran an opinion piece by three Alberta professors entitled “Seven Lessons Mike Harris Could Learn from Ralph Klein” (Bruce et al 1995). The lessons, developed in the course of research funded by the Donner Foundation (the same foundation that finances the Fraser Institute’s International Centre for the Study of Public Debt), include: engage in public consultations, which “reaffirm the electorate’s acceptance of the general policy direction,” give “the government a forum to ‘educate’ a large number of public-opinion leaders and, by presenting a fairly united front to non-participants, reinforce the short-term credibility the government need[s] to proceed with its program”; and “cut fast, cut deep,” to ensure little time for bureaucratic or public resistance” (Ibid.). The circle closed in the Fall of 1995, when the Fraser Institute hosted a business luncheon featuring Tom Long, the chair of the Ontario Conservatives’ 1995 election campaign, who shared with his Vancouver audience what he believed to be the secret of Harris’s success: “The message of the election of Mike Harris as Premier of Ontario, in my opinion, can be summarized in two words: ideas matter” (Long 1995:5). (We will return to Long’s conclusions in chapter five.)

Years of lobbying on the part of the Fraser Institute, the C.D. Howe Institute and the BCNI, as well as a gradual ideological shift within state institutions, has culminated in fairly

close ties between these corporate institutions and state departments. For example, the BCNI's d'Aquino has worked in Ottawa policy circles for many years, and for a time was an assistant to Trudeau. His wife, Susan Peterson, is Director of Social Policy at the Department of Finance (Cameron interview 1995c). Both the Minister of Finance and Bank of Canada Governor have addressed recent Fraser Institute gatherings. When I asked Pete DeVries, the Finance official responsible for assembling the federal budget, if the Department considers deficit reduction ideas proposed by groups in civil society, he responded:

The ones [proposals] that come in, the majority, are assessed and responded to and taken into consideration in developing the overall budget plans. When we put a budget together, and when you are looking for areas to hit, to cutback, to restructure...you look at those. The Fraser Institute, just to give you an example, has a prize whereby people write in their suggestions as to how one could reduce the deficit. In the first two years, each of the suggestions that came in, the serious ones...well over a hundred, were assessed by the applicable department and sent back to the Minister of Finance... And in some cases these ideas have been taken into consideration. (interview 1995)

The C.D. Howe Institute and Bank of Canada cooperate quite closely. The Bank of Canada's Macklem originally presented his debt simulations at the C.D. Howe Institute conference "Deficit Reduction: What Pain, What Gain?," and the C.D. Howe Institute's Robson and Scarth are thanked in the Macklem study acknowledgements (Macklem et al 1995). Indeed, Macklem's simulations and findings are strikingly similar to those presented by Scarth in his report "Deficit Reduction: Costs and Benefits" (1994). The C.D. Howe Institute's support for zero inflation also earned it a high profile associate: upon completion of his term as Governor of the Bank of Canada in 1994, John Crow became a "fellow-in-residence" at the institute (C.D. Howe Institute 1995).

The CCPA's Duncan Cameron worked for two years at Finance during the 1960s. He recalls that, at that time, the department was "full of socialists...and Keynesians" (interview 1995c). Cameron claims Finance officials have now "all bought into this international markets argument," which says monetary policy must satisfy bond markets (Ibid.). Few Left-leaning people remain at Finance. Keynesian solutions were discredited by the inability of the old Finance Department to deal effectively with inflation (Ibid.). Finance officials today are recruited from classical economics departments, neo-conservative assumptions with respect to monetary and fiscal policy have become the new consensus, and an affinity exists with the lobby groups and think tanks representing corporate class interests.

### 3.3.2 Using Debt Data to Heighten Public Concern - Deconstructing the Numbers Game:

It is undeniable that the national debt is very large. Furthermore, to the extent that debt and deficits diminish state sovereignty, transfer income to the rentier class, and constrain government spending – and they do – deficit/debt reduction should be pursued. That said, however, public debt is not as large as some neo-conservative sources suggest. Determining the precise size of government debt is again a matter of ideological dispute, with competing projects advancing debt figures integrally tied to their policy preferences. Neo-conservative actors tend to advance inflated debt figures, which are then used to legitimize dramatic expenditure cuts, and which, when contrasted with Department of Finance data, allow state figures to appear moderate in comparison. Traditionally, the popular sector has contested these figures, understanding their ideological function. Ironically, however, the popular sector may be served by public concern over rising debt, provided it can effectively link debt growth to neo-conservative policy choices.

When reporting debt figures, the media generally use Finance data – either the gross federal debt (\$582.9 billion in 1994-95), calculated on a public accounts basis, or the net federal debt (\$546 billion in 1994-95). Use of these figures, however, reflects a choice on the part of government and the media. Other measurements place public debt at considerably lower levels.

For example, the federal debt could be reported on a national accounts basis which, unlike the public accounts data, does not include future federal employee pension liabilities – a reasonable exclusion given that the public accounts do not include current or future federal superannuation fund income (Dept. of Finance 1992b:4). The difference is significant: “in 1993, the combined federal and provincial debt on a national accounts basis was approximately 70 per cent of GDP as compared with almost 100 per cent of GDP on a public accounts basis” (Dept. of Finance 1994b:12).

Similarly, the net federal debt is calculated as gross federal debt less the government’s *financial* assets. The government, however, has many non-financial assets with considerable value and revenue-generating capability. Chorney argues, “The fact is that government debt represents investment in public assets. The total wealth of our public sector including our network of roads, expressways, rapid transit systems, hospitals, airports, ports, power plants, public buildings, universities, schools, crown lands and natural resources represent enormous wealth producing assets” (1989:54-5). However, according to Chorney, the public accounts value all these real assets at only one dollar (Ibid.:55).

Seeking to rectify these figures, some Left researchers argue government debt recording

should distinguish between operational expenses and capital investment expenditures (as the latter hardly represent a burden on future generations) and, like private firms, include only capital investment depreciation in its deficit and debt calculations (Chorney et al 1992; McQuaig 1995:49). Many place greater value on deficit- and debt-to-GDP ratios. Yet even these ratios are problematic, particularly when comparing Canadian public debt to that of other countries. For example, McQuaig notes that Canadian government debt includes “debt run up to finance costly hydro-electric projects on behalf of provincially owned utilities. In the United States, most hydro utilities are privately owned...so the debt remains private in the U.S., while public in Canada. But...this does not represent a greater burden for Canadian taxpayers” (1995:46).

Neo-conservative sources dismiss these arguments. The Fraser Institute’s Walker rejects the notion of relating debt to public assets: “The national debt has been incurred for the most part to support spending – very few assets have been directly acquired as a result of this borrowing... The readily saleable assets we have are dwarfed by the national debt. For all practical purposes, the national debt is much more like a credit card balance than a mortgage” (1995a:26).

For the past two years, the Fraser Institute has produced its own calculation of government debt, contained in its report “Inside Canada’s Government Debt Problem and the Way Out” (Richardson 1994 and 1995). In 1994, the institute put total all-government gross debt at \$1.76 trillion (Richardson 1994:5), significantly higher than the \$700 billion Finance estimates as the combined value of federal and provincial debt.<sup>17</sup> This total was arrived at by including: the debts of all levels of government (including municipalities and hospitals); the debts of crown corporations; CPP/QPP “unfunded liabilities” (representing approximately one third of the institute’s total debt figure); “unfunded liabilities” of provincial workers’ compensation boards; “contingent liabilities” for aboriginal land claims; and contingent liabilities for guaranteed loans to businesses and students (Ibid.:8). On the basis of these figures, the Fraser Institute concludes Canada’s debt has reached crisis levels, and that the country has “joined the Third World” (Ibid.:5).<sup>18</sup>

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<sup>17</sup> Interestingly, the 1994 Fraser Institute figure for total all-government debt comes much closer to the estimated value of total private sector debt; corporations, households and financial institutions carry combined debts of about \$1.6 trillion (Dobbin 1995:11). When asked whether he had any concerns about private sector debt, Richardson responded, “I haven’t looked at that,” and claimed not to know whether private debt was higher or lower than government debt (interview 1995).

<sup>18</sup> I asked Richardson whether it was reasonable to equate Canada’s debt to that of the poorest Third World countries, considering our debt is owed largely to Canadians and in Canadian dollars. He replied that, while the Third World situation was different, “a dollar is a dollar when it is owed’ (interview 1995).

In the Fall of 1995, Richardson updated his study, placing the new total for all-government debt at \$3.1 trillion: “Each Canadian [is] on the hook for \$104,919” (Fraser Institute press release 1995b). How did the institute’s total nearly double in one year? Primarily by incorporating estimates for “unfunded Old Age Security” liabilities and “unfunded liabilities of the provincial medicare system” (Richardson 1995a:22).

There are numerous faults with the Fraser Institute’s debt study: it does not account for real state assets; it includes the debts of crown corporations and debt arising from capital investment, without recognition that these investments increase revenue-generating potential; it assumes that all public debt must be repaid, including debt the government owes to itself (i.e. debt held by the Bank of Canada); it calculates “unfunded” CPP/QPP liabilities without regard for the fact that these are pay-as-you-go plans into which workers and employers are constantly making contributions; and it draws an artificial distinction between public and private debt. To elaborate on this last point: if pensions, workers’ compensation and post-secondary education become fully self-financed by individual fees and premiums, as the institute recommends (Richardson 1994:46-8), private costs and debt-loads will increase dramatically.

Nevertheless, deconstructing the Fraser Institute’s debt figures misses the point. Richardson acknowledges that he seeks to “adopt the broadest possible measure of government debt” (1994:8). The purpose of these calculations is not economic edification but political persuasion, a point not lost on some financial columnists. While most media granted the Fraser Institute report limited attention, the Financial Post’s Neville Nankivell defended the study, arguing, “It’s aim was to draw needed public attention to the seriousness of Canada’s growing debt problem... If our debt ratios keep worsening, eventually we’ll hit the wall” (1994). The Vancouver Sun gave the 1995 study front page coverage in its business section, under the headline “Debt study flips us into poor house” (Bramham 1995a). While the Hongkong Bank’s David Bond questions the economic merit of including everything, he maintains “It is a useful exercise, because it makes people understand...the magnitude of government activity and potential liabilities... What Mike [Walker] and Robin [Richardson] are doing is...driving home a point” (interview 1995).

In the context of this Left-Right debate over debt calculations, particularly given the near invisibility of Left criticism of government accounting, the Department of Finance figures appear reasonable and moderate. Thus, it is these numbers that generally prevail in the media. Popular sector actors, while right to question the motivation behind neo-conservative debt figures, are

caught in a strategic "Catch-22" (as frequently happens when structurally disadvantaged and attempting to challenge "common sense"): on the one hand, popular sector advocates seek to dispute these debt figures in order to undermine the claim that spending cuts are "inevitable"; on the other, doing so encourages the perception that the Left does not take seriously the debt problem, and thus, misses the strategic opportunity to highlight rising debt as evidence of neo-conservative policy failure.

### 3.3.3 The Role Played by the Media - Getting the Public On Board:

The Vancouver Board of Trade chose the Department of Finance's federal net debt figure for its debt clock, unveiled in 1991. A large digital running total of federal debt, the debt clock was, for a time, on public display in Vancouver's downtown seabus terminal and later moved to the lobby of the Hongkong Bank of Canada. In 1995, it was transferred to the news studio of BCTV, Western International Communications' flagship television station (WIC claims its BCTV evening news is the second-most-watched local news program in North America). As many as three times a day (including during BCTV's national early evening news), as the business report wraps up and the news goes to commercials, the debt clock takes centre-screen for a few seconds, giving the audience the up-to-the-second national debt total.

Media reporting of the debt/deficit issue has served to heighten public concern and legitimize program cuts. Left criticism of dominant debt discourse is generally ignored or quickly dismissed. "Denying the deficit problem," insisted the Globe's Andrew Coyne on CBC Radio's "Morningside" one Friday, "is akin to denying the Holocaust" (McQuaig speech 1995a).

Media opposition to public deficits is nothing new. Chorney and James McPherson review Canadian press coverage of the debt/deficit issue between 1925 and 1989 and find that the Canadian business community has always reacted negatively and vocally to deficit financing. "Literally thousands of articles and editorials in the commercial press since the early 1900s have decried government deficits and called for cuts in public services along with balanced budgets" (Chorney et al 1992:7). Chorney notes, in particular, strong similarities between the current debt debate and that which marked the 1930s (Chorney 1989:3).

During the Depression, arguments based upon classical economics prevailed in the press. Business leaders assured the public that the Depression would be short-lived and that the priority

of government should be to eliminate public deficits (Ibid.:11).<sup>19</sup> In 1933, the Financial Post ran headlines such as: “Completely Balanced Accounts Urgently Needed to Maintain Complete Confidence in Nation’s Financial Security” (Ibid.:13), and “The First Step to Recovery – a Balanced Federal Budget” (Ibid.:14). The Post’s editorial position was that only a balanced budget could restore business confidence, and thus, boost employment.<sup>20</sup> This sentiment was echoed by business leaders and the government of the day, all of whom rejected Keynesian policy prescriptions, even as the Depression lengthened (Ibid.:15).

During WWII, other than occasional warnings in Saturday Night, the Canadian press and business community demonstrated a shift towards Keynesianism (Ibid.:18). Throughout the 1950s, '60s and early '70s, there is little indication of debate on the issue of public debt, likely a reflection of Canada’s declining debt-to-GDP ratio (Ibid.). After 1975, however, as this ratio begins to increase, “the business press explodes with articles on public debt” (Ibid.:21).

In recent years, media warnings have become even more pronounced. The Globe and Mail and Financial Post have strong editorial positions in support of dramatic program cuts. In the Fall of 1994, the Globe called upon the federal government to eliminate the deficit within three years (Coyne 1994). The Post regularly runs headlines such as: “Debt trap deepens” (October 22/24, 1994), “Study puts debt crisis odds at 50%” (January 19, 1994), “Group sounds fiscal crisis alarm” (November 9, 1993), and “A debt crisis may be the discipline Canada needs” (October 13, 1993) (Canadian Business and Current Affairs index). The Globe has also taken a strong position in support of Mike Harris’s approach to deficit reduction. The day after Harris’s inaugural Throne Speech (at which thousands of protesters clashed with police), the Globe ran editorials entitled “Is Mike Harris really heartless?” and “Beyond public and private” (listed in the attached bibliography). The former argues Harris “is cutting because, unlike his predecessor, he can count” (1995). The latter, seeking to cast the neo-conservative program in moralistic terms, insists, in the age of state downsizing, “We must keep in mind what the public service originally

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<sup>19</sup> Chorney notes that, during the Depression, the Canadian government continued to pay dividends and interest to C.N.R. bond and share holders, even while the private C.P.R. stopped or reduced dividend payments: “It is revealing that the Canadian government spent more on meeting C.N.R. deficits, which benefited bondholders, than on relief throughout the entire period 1930 through 1936” (Chorney 1989:13).

<sup>20</sup> The Index to the Financial Post, 1907-1948 lists 59 citations under the heading “Debts, Public,” including headlines such as: “Our indebtedness must be reduced (Oct. 31, 1914); “Canada’s national debt is growing to appalling figures: may be three billion dollars” (May 26, 1917); “People must discharge debt of the nation: Governments seem doomed to inevitable inefficiency” (April 12, 1919); and “It costs \$16 a head to pay interest on our national debt” (Dec. 29, 1922).



replaced: neighbourly support, civic aid, the extended family... If we looked at things this way we might view the food banks in our cities and towns not as a shame but as a source of community devotion and pride" (1995).

A review of the Canadian Business and Current Affairs index reveals a rise in debt stories since 1990. Between 1982 and 1995, the CBCA lists 336 titles under the subject key words "Government, Finance, Deficit"; 134 from the Globe and Mail and 80 from the Financial Post. The yearly distribution of these titles was as follows: 1982 – 14; 1983 – 3; 1984 – 18; 1985 – 3; 1986 – 0; 1987 – 0; 1988 – 4; 1989 – 13; 1990 – 7; 1991 – 61; 1992 – 71; 1993 – 46; 1994 – 61; 1995 – 34. The Fraser Institute, which monitors TV coverage, also notes a growth in debt stories since the late 1980s:

No doubt public awareness of the deficit has been influenced by increased media attention to the issue. Since 1988, network [CBC and CTV] coverage of the deficit has more than doubled. For instance, 30 CBC stories mentioned the deficit during 1988... In 1989, the deficit was a major focus of no less than 78 stories. A similar trend occurred on CTV. (Miljan 1990:1)

The Fraser Institute's Miljan adds that, "Because a consensus seems to exist that the deficit is a problem and steps must be taken to reduce it, there is less attention given to conflict. While many may have disagreed with the specifics of Wilson's plan, most did agree that tough decisions would have to be made" (Ibid.:2).

Some argue that increased media attention merely reflects the growing size of the debt (Crow 1993:57). However, renewed media emphasis seems incongruent with other indicators. For example, the number of debt-related stories started to increase just as the federal government began running operating surpluses, and the number of stories has grown even while the deficit-to-GDP ratio has declined.

Moreover, media coverage is far from balanced:

Nova Scotia journalist Parker Barss-Donham, surveying economic stories from the Canadian Press wire service over the last year, found that the Fraser and Howe Institutes were quoted four times more frequently than centre and left think tanks. Indeed, the Fraser was quoted in 140 news stories, while the Canadian Centre for Policy Alternatives was quoted in 16. (Barlow and Campbell 1995:145)

Some media reports have been particularly influential in shaping the public and political debate. In February, 1993, CTV's "W5" presented a special one hour documentary on New Zealand's public debt.<sup>21</sup> Host Eric Malling opened the program by declaring the outcome of the

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<sup>21</sup> The W5 program inspired the title for McQuaig's 1995 book Shooting the Hippo. The documentary

upcoming Canadian election irrelevant:

In my opinion none of it really matters. Economists are predicting that sometime in the next year, maybe 2 years, the Deputy Minister of Finance is going to walk into cabinet – it doesn't matter whose cabinet – and announce that Canada's credit has run out. Now that matters; our lives will change dramatically. Scare mongering? Well, Canada now has more foreign debt than any other developed country. We're getting down there with Mexico and Brazil; and their credit ran out. Can't happen to us? Well, it did happen to a country very much like ours – New Zealand. (W5)

The program alleges New Zealand “hit the debt wall” in 1984, was unable to find lenders to finance the country's debt, and was forced to implement a harsh but necessary austerity program of government cutbacks and privatization. “The country's credit card ran out,” insists David Lange, New Zealand's former Prime Minister (Ibid.). Malling emphasizes that there was no alternative to drastic spending cuts, noting that New Zealand's austerity program was imposed by a Labour government: “David Lange was a socialist all right – he threw out the U.S. Navy; broke with South Africa; championed women's rights. But with debt, there was no choice” (Ibid.).

The W5 program sparked a Left-Right debate on the New Zealand experience that continues to this day. Left critics dispute that New Zealand actually hit “the debt wall,” claiming that the country merely experienced a temporary foreign exchange crisis, precipitated by rumours of an impending devaluation during the 1984 election (Cameron and Finn 1996:16; McQuaig 1995:21-2). Cameron and Finn note that New Zealand's total public debt in 1984 was only \$12 billion (1996:16). Murray Dobbin, whose CBC radio “Ideas” program on the New Zealand experience constitutes, to my knowledge, the major media's only coverage of this issue from a Left perspective, claims the neo-conservative program adopted in New Zealand since 1984 has had harmful social and economic consequences. Once an economically strong country with a well-developed system of social programs, Dobbin claims that after 1984: unemployment rose from four to 12 per cent; youth suicide more than doubled; over 25 per cent of children now live in poverty; user fees were implemented for health care and education; crime, prostitution and family violence increased; and the economic gap between rich and poor considerably widened (Dobbin 1995:8-9). Furthermore, “After ten years of slashing, selling off [\$16 billion of] public property, and giving handouts to the rich, New Zealand's debt is nearly three times as high as it was in 1984 when it started down the neoconservative road” (Ibid.:8). Nor has state retrenchment produced increased growth and investment. McQuaig cites a UN study claiming New Zealand's

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alleges New Zealand's debt crisis was so severe that a public zoo could not afford to expand its pens, and was forced to shoot a baby hippo.

GDP has declined since 1984 (1995:25). McQuaig presents a convincing case that W5's Malling was aware of the above information, but chose to omit it from his report (Ibid.:22-6). The Fraser Institute defends the neo-conservative interpretation of events. Walker contends the New Zealand High Commission, so upset with Dobbin's inaccuracies, has issued a formal complaint with the Canadian government regarding CBC's coverage of Dobbin's analysis (Fraser Institute 1995c). Indeed, Walker repeated his dismissal of Dobbin's analysis three times during the Fraser Institute's 1995 Vancouver Student Seminar on Public Policy Issues (Ibid.), acutely aware that this data represents a direct challenge to the neo-conservative promise of future prosperity, and casts doubt on the ability of the neo-conservative project to effectively reduce the debt.

Left critiques notwithstanding, the W5 program had a significant impact. The program's first airing attracted an audience of 1.7 million (McQuaig 1995:2). Tom Kierans "was so impressed by the...show that he took the unusual step of sending a video of it to all Howe members" (Ibid.:27). The program was shown in special screenings to both the Saskatchewan and Ontario NDP caucuses and, according to a few reports, influenced these NDP governments in their decision to prioritize expenditure restraint (Dobbin 1995:8; McQuaig 1995:2; Townson in Bienefeld et al 1993:4).<sup>22</sup>

Media presentation of the debt issue is not monolithic. As McQuaig notes:

To suggest that every word in the media is watched over and controlled by the elite would be naive. The media are made up of tens of thousands of individuals from a variety of backgrounds and outlooks... But to imagine that, because of this, the media constitute an independent marketplace of ideas - where all the salient facts are clearly presented and the best arguments ultimately win - is even more naive. At the most basic level, we must always remember that virtually all media outlets are owned by rich, powerful members of the elite. To assume that this fact has no influence on the ideas they present would be equivalent to assuming that, should the entire media be owned by, say, labour unions, women's groups or social workers, this would have no impact on the editorial content. (1995:12)

Moreover, the very format adopted by the broadcast media favours dominant ideas. As Noam Chomsky argues, when talking on radio or television, "you must meet the criteria of concision" (in Achbar and Wintonick 1992). This results in a structural bias favouring conventional wisdom. If a commentator supports favoured truths, little evidence is required and simple sound-bites provide adequate defence of one's position. If one challenges "common sense," however, the format makes presenting evidence difficult, if not impossible; time works against the counter-

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<sup>22</sup> Dobbin contends these NDP screenings were organized on the instructions of Rae and Romanow themselves.

hegemonic project. Thus, while some dissident opinions are heard on the news or read in commercial newspapers, the overwhelming view in the media is that there is no alternative to spending cuts. Through pure repetition, this view has become “common sense.”

### 3.3.4 Using Influence Over Financial Markets to Build a Sense of Crisis:

The behaviour of financial institutions and markets, and how this behaviour is interpreted by state and corporate actors, impacts directly on the debt debate within civil society.<sup>9</sup> The ability of large financial players and bond rating agencies to influence financial market behaviour enables corporate elites to leverage neo-conservative policies from the state, even while convincing the public that such policies are inescapable. \*

The dominant view of financial markets is that they are models of ideal competition. Maclean's columnist Deidre McMurdy describes international currency markets, for example, as “classically perfect... [T]he foreign exchange market is pure precisely because it is so massive, so impartial and impersonal” (1995:36). McMurdy maintains that international money markets do not lie about the value of a currency, and that the beauty of an unregulated currency market is that it takes power “away from a political agenda” (Ibid).

McMurdy's understanding of international foreign exchange markets as apolitical stands in stark contrast to that of John Dillon, who maintains that investors are not a neutral force: “Far from being expressions of harmless invisible hands, financial markets are in fact dominated by relatively few traders who control huge pools of capital on behalf of millionaire investors in 'hedge funds' or the largest banks and corporations” (Dillon 1994:8). These creditors, whether investing in currencies or government securities, generally insist upon government spending cuts, further deregulation, trade liberalization, and high interest rates – all policies designed to boost profit accumulation. Failure to abide by these demands is to risk capital flight and lower credit ratings (Ibid:8-9; ECEJ 1993a:120; Phillips 1994:65).

Peter Hall, in his study of the rise of Thatcherism, notes the role played by financial markets: “Little noticed but especially important in the 1975-79 period was the pressure that the financial markets, notably for government debt and foreign exchange, placed on the government. Many of the ad hoc adjustments towards monetarism made by the 1974-79 Labour government were forced on it by the behaviour of the financial markets” (Hall 1993:288).

A similar influence has been evident in Canada. During his 1990 Budget speech, Michael Wilson twice referred to Canada's diminished sovereignty due to our reliance on foreign

borrowing (Best 1990:B2). During the debate surrounding the 1995 federal Budget, Canadians were once again bombarded by claims that international financial markets insisted upon major spending cuts. We were warned that failure to do so would result in capital flight, a reduced credit rating, and thus higher interest rates. The Liberal government delivered what the international markets were demanding. For about half a week the Canadian dollar was stable and interest rates went down. Then market uncertainty returned and interest rates went back up.<sup>23</sup>

International credit rating agencies, such as Moody's and Standard and Poor's, have a significant influence on state monetary and fiscal policies. These companies rate the credit risk of government (and private sector) bonds. While a credit rating downgrade is of little real significance in terms of investor risk – a Moody's Triple A rating represents a risk of under three-tenths of one per cent over ten years, while a rating of Aa1 (a notch lower) represents a default risk of five-tenths of one per cent over ten years (McQuaig 1995:42) – downgrades, and even threats of downgrades, are used by the commercial media, corporate lobby groups and the government to heighten public concern and justify expenditure cuts. The BCNI, in its 1993 report to the premiers, used downgrades by Standard and Poor's and concerns expressed by Moody's to warn Canadian governments that failure to reassure these agencies (and international financial markets generally) could result in "an inability to borrow abroad...severe austerity programs, or...assistance from the International Monetary Fund" (BCNI 1993:11,20-2). Downgrades are explained in the dominant discourse as evidence that Canada is acting with insufficient urgency to bring down its public deficit. Thus, credit rating downgrades serve to further legitimize the neo-conservative program. Perhaps this explains why, according to McQuaig, Moody's chief Canadian analyst, Vincent Truglia, is lobbied by members of the Canadian financial community who wish to see Canadian government bonds downgraded: "...anxious to portray Canada's debt situation as far more precarious than it is... the Canadian financial community is always hounding him to *downgrade* Canada's credit rating" (1995:43). After issuing a "special commentary" on Canada in 1993 claiming that Canada's debt was "grossly exaggerated," Truglia confided to McQuaig, "one Canadian...from a very large financial institution in Canada called me up on the telephone screaming at me, literally screaming at me" (Ibid.:44).<sup>24</sup> In 1995, as we will see,

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<sup>23</sup> In more recent months, interest rates have declined somewhat. In real terms, however, they remain quite high. The decline reflects, in part, lower rates in the U.S. (not unusual for a U.S. election year). Other possible explanations are discussed later.

<sup>24</sup> The 1993 "special commentary" is now hard to come by; it is not in most public libraries, and Moody's would not, despite repeated requests, send a copy in the mail.

Moody's revisited its optimistic assessment and did downgrade Canada's credit rating.

Finally, the charter banks have a close relationship with the Bank of Canada, and may be able to influence monetary policy according to commercial bank preferences. While evidence of influence is difficult to establish (given the secrecy of the central bank and private financial institutions), there is without question frequent contact between Bank of Canada and private bank officials.<sup>25</sup> Moreover, as the charter banks are the country's major source of savings, and the principal buyers of T-bills every Tuesday, they hold considerable leverage over the central bank with respect to interest rate and reserve requirement policies, particularly when monetarist ideology at the Bank of Canada precludes financing the public debt through direct Bank of Canada loans to governments. Political Scientist Robert Ascah notes that the private banks, due to their "vast holdings of maturing government paper," are able to influence monetary policy (1983:35). If charter bank profits are any indication,<sup>26</sup> Bank of Canada policy in recent years has served private financial institutions very well.

Ultimately, financial institutions and markets, by keeping real interest rates high and currency and bond markets volatile, contribute to a popular perception that the national deficit and debt cannot be reduced by monetary means and that only fiscal restraint remains a viable option.

### 3.3.5 Using Political Financing to Win Party/State Support:

Electoral politics requires significant financial resources. Individuals tend to give donations to those political parties that most reflect their political values and policy preferences. Corporations, however, also make political contributions with the aim of increasing their political influence with governments and politicians. This explains why many of Canada's largest corporations give financial donations to the Liberal, Conservative and Reform Parties (see Table 3.2). When governing parties and politicians owe their electoral success, in large measure, to the financial support of the corporate class, they are more apt to advocate neo-conservative policies in electoral competitions and more inclined to promote neo-conservative policies once in power.

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<sup>25</sup> During my interview with David Bond, he claimed he calls Bank of Canada Governor Gordon Thiessen "Gord-o" when they speak on the phone (1995).

<sup>26</sup> The big six charter banks made record profits in the last two years; over \$4-billion in 1994 and over \$5-billion in 1995 (Partridge 1994; "Bank profits..." 1995).

	<b>Liberal</b>	<b>PC</b>	<b>Reform</b>	<b>NDP</b>
Total Corporate Donations	\$5,980,286	\$2,060,476	\$569,907	\$127,920
Total Individual Donations	\$5,708,233	\$2,070,590	\$3,407,299	\$3,988,621
Total Trade Union Donations	\$10,731	\$0	\$0	\$808,595
Total Donations from Organizations Including Constituencies	\$65,154	\$0	\$798,048	\$589,541
Total Donations	\$11,764,405	\$4,131,066	\$5,675,018	\$5,514,676
Corporate Donations as a % of Total	50.8%	50%	10%	1%

Source: Daphne Bramham, "Corporate donors cold-shoulder Reform," Vancouver Sun, Feb. 10, 1996, p. A4 (based on data from the Chief Electoral Officer).

Leading into the 1993 election, the Conservative Party raised \$13.2 million in corporate donations, \$5 million more than the Liberals (Bramham 1996), a reflection of the Conservatives' commitment to the neo-conservative program. Corporations were no doubt apprehensive

about the Liberal election platform. Nevertheless, the Liberals did receive substantial corporate backing, particularly from financial corporations, who made up the thirteen largest contributors to the 1993 Liberal election campaign (Barlow and Campbell 1995:57). In 1994 (the latest figures

available),

corporate

Canada gave

\$5.98 million

to the Liberal

Party, almost

three times

more than to

any other party

(Bramham

1996),

signaling

corporate

confidence that

the Liberals are

**Table 3.2: Top 20 Corporate Donors – 1994**

<b>Company Name</b>	<b>Liberal</b>	<b>Tories</b>	<b>Reform</b>	<b>NDP</b>	<b>Total</b>
John Labatt Ltd.	\$50,000	\$50,000	\$25,000	0	\$125,000
Canadian Pacific Ltd.	\$52,214	\$23,500	\$40,350	0	\$116,064
Wood Gundy Inc.	\$65,897	\$40,000	\$10,000	0	\$115,897
SNC Lavalin Inc.	\$81,414	\$30,114	\$120	\$1,000	\$112,848
ScotiaMcLeod Inc.	\$66,310	\$39,604	0	0	\$105,914
Toronto-Dominion Bank	\$42,181	\$40,742	\$20,000	0	\$102,923
Imperial Oil Ltd.	\$30,000	\$30,000	\$30,000	0	\$90,000
CIBC	\$49,340	\$40,199	0	0	\$89,539
RBC Dominion Securities	\$44,826	\$43,590	0	\$800	\$89,216
Bombardier Inc.	\$61,074	\$27,377	0	0	\$88,451
Bank of Montreal	\$45,744	\$40,000	\$200	0	\$85,944
Imasco Ltd.	\$42,654	\$21,979	\$20,000	0	\$84,633
Royal Bank of Canada	\$44,466	\$40,000	0	0	\$84,466
Bank of Nova Scotia	\$44,153	\$40,195	0	0	\$84,349
Toronto Dominion Securities	\$40,000	\$40,000	0	0	\$80,000
Nova Corp. of Alberta	\$33,664	\$34,089	0	0	\$67,753
BCE Inc.	\$39,837	\$25,000	0	0	\$64,837
Molson Companies	\$32,890	\$15,000	\$15,000	0	\$62,890
Power Corp. du Canada	\$37,379	\$20,000	\$5,000	0	\$62,379
Rogers Group of Companies	\$61,560	0	0	0	\$61,560

Source: Daphne Bramham, "Corporate donors cold-shoulder Reform," Vancouver Sun, Feb. 10, 1996:A4 (based on data from the Chief Electoral Officer).

defending the neo-conservative program.<sup>27</sup> As tables 3.1 and 3.2 indicate, the Liberals and Conservatives received 50 per cent of their funding from corporations, while the Reform Party received considerably less. Lower corporate donations for Reform likely reflects a combination of factors: tradition; a belief that the Reform Party is unlikely to ever win government; and the fact that the Reform Party is already firmly behind the neo-conservative program, thus making financial encouragement unnecessary. In any event, corporate Canada's lack of financial support for Reform may be changing. Grubel claims that, after the release of the Reform Party's "Taxpayers' Budget," a group of Reform MPs were invited to Toronto by members of the business establishment, who indicated "they liked what they saw." A few months later, prominent businessman Trevor Eyton hosted a large dinner for Manning. According to Grubel, members of the Toronto business establishment have been holding back money they used to give to the Conservatives, and are now directing more towards Reform (interview 1995).

### 3.3.6 Using the Resources and Influence of the State:

Once a hegemonic project wins the support of the state, many more instruments are made available for the purpose of ideological legitimation (McBride 1992:106-16). As the Canadian state has moved from Keynesianism to monetarism, it has sought to justify its reduced commitment to full employment, and its determination to cut expenditures, adding a powerful voice to the influential appeals of neo-conservative actors within civil society.

Among the persuasive tools available, the state can use the occasion of Budget and Throne speeches to explain and defend its policy choices (Ibid.:109); establish royal commissions and task forces designed to amass evidence in support of policy preferences (Ibid.:111); undertake public consultations, maintaining the appearance of democratic participation, even while strictly limiting the terms of debate (Ibid.:114); direct considerable financial resources towards advertising (Ibid.:115); and implement program changes in such a way as to disorganize popular sector opposition.

As noted in chapter two, federal policy papers, Budget speeches and Throne speeches

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<sup>27</sup> The corporate class abandonment of the Conservatives in favour of the Liberals should not come as a surprise. Gramsci understood this as quite a normal occurrence in the process of maintaining hegemony. When the ruling class's hegemony faces a crisis, stemming from political scandal or a surge in popular disapproval (as was certainly the case by the end of Mulroney's term), "the traditional ruling class...changes men and programmes and, with greater speed than is achieved by the subordinate classes, reabsorbs the control that was slipping from its grasp" (Gramsci 1971:210).



since 1984 have emphasized the central need to reduce the deficit through expenditure cuts. Wilson's 1984 policy paper, A New Direction for Canada, stated, "Controlling the deficit must be our priority for this year and each year of our mandate" (in ECEJ 1993a:34). Stressing a common sense imperative, the document insists that reducing the deficit through expenditure cuts, "is not a matter of ideology. It is an inescapable reality we have to deal with" (in Chorney 1992a:115). Many scholars have also pointed to the pivotal role played by the Macdonald Commission in legitimizing the neo-conservative policy program. The Liberals have been partial to sending House of Commons committees on the road to engage in public consultations.

Within the state apparatus are a large number of economic research offices capable of offering further "scientific" evidence in support of dominant paradigms. The Canadian federal state has at its disposal the resources of the Bank of Canada, the Department of Finance, other economic ministries, and Statistics Canada. In the era of budget cuts, many of these research bureaus are sensitive to the need to "toe the party line." As noted earlier, state researchers have developed professional links with neo-conservative think tanks (such as the close association between the C.D. Howe Institute and the Bank of Canada), and have developed sophisticated economic arguments and models in defence of neo-conservative policy options (such as the Macklem simulation). The scientific value of these models is questionable – as Noam Chomsky recently told a Vancouver audience, "Any honest economist will tell you they can construct a model to give you just about any answer you want" (speech 1996) – but their usefulness in building a hegemonic project is not.

As discussed with respect to "conditioning frameworks," the neo-conservative project is advanced, to a significant degree, by the activities of government itself. When the state acts according to neo-conservative assumptions, and claims it has no alternative, popular perception starts to view these choices as inescapable (this is particularly true with NDP governments). Moreover, federal policies that increase taxes paid by low- and middle- income Canadians, while simultaneously cutting services and programs, have the effect of increasing anti-government sentiments. The implementation of neo-conservative policies has shifted the political landscape (including bolstering conservative populism as practiced by the Reform Party and the Alberta and Ontario Conservatives). As the BCNI's Boutziouvis explains:

People have seen their after-tax family incomes stagnate and drop in some parts of the country over the past decade, and so when people have less money in their pockets, and then see the collateral effect of less government services for their dollar... they begin to ask questions... This is being

manifested in rejection of traditional parties and in support for new approaches in which government will get out of the face of people...” (interview 1995)

This observation should serve as a warning to popular sector groups: while deteriorating material conditions present the popular sector with a condition on which it may capitalize, it is equally likely that far right politicians and neo-conservative populists will capitalize on this circumstance.

The nature and timing of government cutbacks can disorganize the popular sector. By separating reforms to pensions, UI, and funding for post-secondary education, health and welfare, the government discourages the formation of broad-based coalitions. Similarly, off-loading cutbacks to the provinces ensures program changes are implemented piece-meal across the country, thereby diminishing the potential for coordinated national protests. Finally, by ending the universality of many social programs – as was done in the 1980s with tax clawbacks to family allowance and old age security, and changes to the UI system – the state undermines social solidarity – the shared stake most Canadians have in these programs (ECEJ 1993a:12-22; Gray 1990).<sup>28</sup>

### **3.4 Clash Points Between Competing Hegemonic Projects**

Many on the Left contend, somewhat cynically, that there is no public debt debate. Nevertheless, while neo-conservative debt discourse clearly dominates public policy discussions, there have been moments of public conflict between the competing hegemonic projects; occasions when popular sector analysis has reached a broad audience. As we examine a selection of recent clash points – intellectual/ideological sites of struggle – between the competing hegemonic projects, use of the various methods of persuasion just outlined will become more apparent. We will also further our understanding of how, thus far, the popular sector has attempted to challenge the neo-conservative project.

On occasions when the competing projects meet, defenders of the neo-conservative project (generally representatives of the Fraser or C.D. Howe institutes or prominent neo-conservative media commentators) use their privileged access to the media to challenge the moral and intellectual authority of those advancing popular sector ideas. Neo-conservative proponents frequently ignore or flippantly dismiss popular sector ideas, but when significant ideological challenges present themselves, neo-conservative activists employ ridicule, emphasize the gap

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<sup>28</sup> Grattan Gray refers to this approach to policy reform as “social policy by stealth” (1990).

between popular sector ideas and "common sense," and on occasion, have sought to suppress information (betraying a telling lack of confidence). The more staid defenders of neo-conservatism (generally state officials) simply point to existing conditions, economic constraints, and prevailing theories, thereby deflecting popular sector ideas as "unrealistic."

For its part, the popular sector has undertaken and gathered substantial research challenging "common sense" discourse. Popular sector groups and individuals attempt to publicize this information wherever possible, but such efforts are limited by the popular sector's lack of structural power. Nevertheless, the material weakness of the neo-conservative project undermines its moral leadership – its claim of fairness and compassion – and its promise of prosperity. This vulnerability has sustained (and perhaps strengthened) the position of popular sector ideas in numerous institutions: churches, colleges and universities, unions, and tellingly, in public opinion polls.

#### 3.4.1 The Controversy Surrounding the Mimoto Study – Suppressing Public Discourse:

Mimoto's 1990 Statistics Canada study (outlined in chapter two) has emerged in recent years as a focal point in the debate over the origins of the debt. Recall that the study attributes 94 per cent of the federal debt to increases in interest payments and decreases in revenues, relative to GDP. Initially, the study was quietly suppressed (McQuaig 1995:55-62; Russell 1991a). However, it was later obtained through the Freedom of Information Act, and has been widely circulated among popular sector groups.<sup>29</sup> In early 1995, the StatsCan study, as it came to be known, finally captured public attention, becoming a direct point of contact between competing hegemonic projects. Neo-conservative proponents first tried to deny the study's existence and later targeted the study for harsh rebuttal. The controversy over the StatsCan study is telling; all sides in the debt debate understand that the public's acceptance or rejection of the study's findings relates directly to the deficit reduction policies the public will be prepared to endorse.

In 1989, Mimoto sent an early draft of his study to a number of economists seeking feedback. The study's acknowledgements indicate Mimoto solicited over 20 peer reviews

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<sup>29</sup> The 1990 study and associated peer reviews were originally obtained by Ottawa lawyer Ken Rubin through the Freedom of Information Act. I was first given a photocopy of the study by Mary Rowles, director of research at the BC Federation of Labour, in the Fall of 1994. I later received a second copy from David Robinson at the Council of Canadians. This second copy was a newer version, with marginal notes removed and cleaner charts. The disclaimer attached to my earlier copy was gone, and in its place was an official Statistics Canada cover page, indicating this version was very close to publication.

(Mimoto and McIlveen 1990:6). These reviews were very encouraging. David Perry of the Canadian Tax Foundation wrote, "I felt that it was a useful and well done study that identified clearly the factors contributing to the current fiscal position of the federal government" (CTF letter 1989). The Economic Council of Canada found, "The paper provides a very useful perspective on the recent growth in federal revenues and expenditures. The study makes a contribution to current discussions on the deficit, and, as such, I believe it should be made widely available" (EEC letter 1989b). Jim Frank, chief economist at the Conference Board of Canada, responded, "Basically I think the approach is alright and the conclusions are interesting because they focus on the impact of changes in ratios..." (Conference Board of Canada letter 1990).<sup>30</sup> The Canadian Council on Social Development wrote, "We have found your research to be interesting and of great relevance to present policy concerns... Therefore, we hope that the article will be published quickly" (CCSD letter 1990).

In 1991 a summary of the study appeared in the Canadian Economic Observer (CEO) prior to the full study's publication, and generated a quick response from the Department of Finance. "Kevin Lynch, a powerful assistant deputy minister... wrote a scathing letter to Statistics Canada head Ivan Fellegi outlining the department's objections to the study... Lynch wanted to make sure the study was effectively removed from public debate" (McQuaig 1995:60). Fellegi obliged, and in August, 1991, the CEO published a two-page "Note Regarding the Article 'The Growth of the Federal Debt'" – otherwise known as a retraction.<sup>31</sup> The full study was never published.

The CEO retraction is a fairly weak rebuttal. It states that the original article, "ignored or gave insufficient attention to some important points, and to that extent appears to have added to controversy rather than reduced it" (Statistics Canada Aug. 1991:3.17). Specifically, the retraction makes the unfounded claim that Mimoto's position that growth in program spending did not cause the debt "was not argued in the body of the article and should not have appeared in the conclusion" (Ibid.). The retraction also faults the study for using 1975-76 as its base year, arguing that 1975 was a post-WWII peak for revenues.<sup>32</sup> It takes issue with Mimoto's

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<sup>30</sup> Frank does suggest that Mimoto "play" with the 1974-75 benchmark, and cautions that increased taxes may affect economic performance.

<sup>31</sup> McQuaig contends that Fellegi called assistant chief statistician Stewart Wells back from a holiday to write the retraction, and "after a few heated verbal battles with Fellegi," Wells complied (1995:61-2).

<sup>32</sup> This point is also made by Pete DeVries, who contends, "The time period this report looked at gave very skewed results, because the period they looked at was when the federal government had made major structural changes in the financing of some programs, and so revenues did fall off quite a bit."

assessment of tax reform, claiming corporate taxes proportionately declined due to lower corporate profits. The note concludes, "Statistics Canada regrets any inconvenience that may have been caused by these aspects of the article" (Ibid.).

Four years later, Mimoto is philosophical about the controversy. "I'm just a humble civil servant," Mimoto insists (interview 1995a). As such, he is not at liberty to publicly defend his work. He does offer the modest suggestion, however, that "the retraction contains some confusion" (Ibid.), an observation not lost on anyone who has read both the original article and the retraction. Mimoto acknowledges that his statements on taxes "did draw fair fire" (Ibid.), but he stands by his work and his conclusions. The original study defends the use of 1975-76 as a base year, as this is when large annual structural deficits began (McIlveen and Mimoto 1990:5).

Nevertheless, the authors have clearly been shaken by the political reaction to their work. Mimoto, while very generous with his time during two telephone interviews, was reluctant to meet in person. He regrets introducing percentages – attributing 50 per cent of the debt to reduced revenues and 44 per cent to increased interest payments – not because the percentages are wrong, but because "it caused too much controversy between the Left and the Right" (interview 1995a). Philip Cross, co-author of the original 1991 CEO article, when contacted by phone, distanced himself from the study and was rather hostile when asked to recall the associated controversy. Cross accuses the Left of taking the study too far, and now argues that "understanding the origins of the debt's accumulation doesn't mean we can avoid cuts. There is nothing in the study to help us get out of debt" (interview 1995).<sup>33</sup> Four years after the CEO article, Cross contends, "These studies haven't helped the debate at all. There is too much stupidity. I wouldn't publish them again. This is just special interest groups being childish" (Ibid.). McQuaig writes of the affair, "The deficit establishment had succeeded in squelching Mimoto's bold attempt to bring a little light into the dark reaches of the deficit debate" (1995:62). But not for long.

For a few years, the Mimoto study was distributed informally among popular sector groups. Mimoto recalls this period with some curiosity: "Things were quiet for a few years. I thought it would be hot, but everything was quiet...until 1995" (interview 1995a). The first to

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DeVries notes in particular the transfer of tax points to the provinces, and social programs offered through the tax system, such as the child tax credit (interview 1995).

<sup>33</sup> Mimoto, however, clearly sees a connection between the origins of the debt, on the one hand, and deficit reduction on the other. His motivation in undertaking the study was to foster debate "based on a close examination of the facts" (1990:5), and the original study includes simulations examining different approaches to deficit reduction (Ibid.:30).

publicly report on the study's findings and the political interference that blocked its publication was Frances Russell, a columnist with the Winnipeg Free Press (Russell 1991a, and 1991b). Russell suggests Statistics Canada's retraction, and its refusal to publish the full Mimoto study, stems from "successive slashes in Statistics Canada's budget which have made the agency reliant on contracts from the federal Treasury Board," and more vulnerable to political "intimidation" (1991a). Russell's articles, while circulated among popular sector groups, appear to have garnered little public attention. Two years later, Dobbin cited the study in a Globe and Mail opinion piece (1993), but this too failed to generate public debate. Undeterred, popular sector groups, particularly the ACN and Council of Canadians, began citing the study more frequently.<sup>34</sup>

Left activists have misquoted parts of the study, and in so doing, weaken efforts to reclaim intellectual leadership. Citing Mimoto's study, many have claimed that social programs account for only two per cent of the debt's accumulation (Dobbin 1993 and 1995:7; OSSTF 1994).<sup>35</sup> The study clearly states, however, that social spending increases relative to GDP were responsible for 10 per cent of debt growth (Mimoto and McIlveen 1990:25), but these increases were mitigated by relative spending decreases in other areas, thus total program spending is held responsible for only six per cent of the debt.<sup>36</sup> Similarly, many Left activists refer to the Mimoto study when arguing that 50 per cent of the debt results from "huge tax breaks to the wealthy and to large corporations" (Dobbin 1995:6). In fact, the study attributes 50 per cent of the debt's growth to "the drop in the ratio of total revenue to GDP from 1975-76" (1990:18). While this drop reflects, in large part, tax measures benefiting primarily the wealthy and large corporations,

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<sup>34</sup> Statistics Canada did not take kindly to groups citing the agency in reference to Mimoto's work. After attributing the 50 and 44 per cent figures to Statistics Canada in three newspaper articles, BC Federation of Labour president Ken Georgetti received a letter from the agency requesting that he "desist from attributing the data you are using to Statistics Canada" (Barrett letter 1994). Georgetti wrote back that he was "well aware that this is an unpublished study," and offered: "If you insist, I will begin to point out anytime I refer to this study, that a watered down version of it was published and then repudiated by Statistics Canada; that the repudiation was viewed by many as evidence of political interference; that the study was reviewed favourably by many mainstream economic research organizations; and that it is now only available to the public through the access to information process" (Georgetti 1994). Statistics Canada did not pursue the matter further.

<sup>35</sup> The Council of Canadians, ACN and many of its affiliated groups have used the two per cent statistic in numerous political leaflets.

<sup>36</sup> Dobbin seems to have started this trend. He arrives at the two per cent figure by assuming that if program spending was responsible for six per cent of the debt's accumulation, and social programs represent approximately one third of program expenditures, then social programs must represent two per cent of the debt. The problem, however, is that Mimoto was interested in proportional changes in spending relative to GDP.

some measures reduced taxes for all Canadians (see chapter two). These inaccurate citations have provided some neo-conservative actors with easy targets.

The fiercest public attacks of the Mimoto study have come from Globe and Mail columnist and editorial writer Andrew Coyne. As Mimoto is not permitted to defend his work publicly, the task of rebutting Coyne has fallen to others. In January and February, 1995, an angry debate erupted onto the pages of the Globe between Coyne and the Council of Canadians' Maude Barlow and David Robinson. The debate began on January 9, with a Coyne column accusing the Council of Canadians of "fabricating" a "non-existent" StatsCan study. The Council responded by sending Coyne a copy of the study, and in a letter to the editor offered Globe readers a summary of the study's contents and history. The letter concludes by calling for a "real national debate about the origins of the federal debt" (Barlow and Robinson 1995b).

Coyne, not restricted to the letters page, responded with a two-page rebuttal, consisting of two articles: one entitled "Make the rich pay? They already do!"; the other "The little StatsCan study that wasn't" (1995c and 1995d). His rebuttal is as much an overall attack on the popular sector as a refutation of Mimoto. He begins:

Where narcissism substitutes for thought, it often reveals itself in a refusal to deal with the arguments an opponent is actually making in favour of those it is more satisfying to suppose he is making. This is the approved method of debate among the more paranoid reaches of the left, for whom it is better to disclose, with appropriate melodrama, the 'real' motives behind their opponents' position rather than to offer a convincing rebuttal. (1995d)

Thus, Coyne seeks to establish himself as the voice of reason, a victim of unfair accusations, and an honourable debater prepared to deal with the real issues. (Ironically, nowhere in Coyne's rebuttal does he address Mimoto's underlying thesis; namely, that program spending relative to GDP has been flat and that interest payments are responsible for expenditure increases.)

Coyne insists that "governments today take more in taxes than at any time in our history" (a true statement but, in relative terms, meaningless), and contends there is no evidence that wealthy Canadians and corporations are not paying their "fair" share (Ibid.). Coyne argues the Canadian income tax system remains "classically progressive," with higher income-earners paying higher income tax rates. "What is more," Coyne adds, "the system has become more progressive over time" (Ibid.). Coyne dismisses raising taxes and closing loopholes as a means of reducing the deficit, claiming, "In 1992, there were 25,660 tax filers reporting more than \$100,000 in earnings, with a combined income of \$49.31-billion. Even if every dollar of income above that \$100,000 threshold were confiscated, it would yield at most another \$15.5-billion in

federal and provincial revenues” (Ibid.). On corporate taxes, Coyne insists the proportional decline in tax revenues reflects lower corporate profits, although he acknowledges that the federal tax rate imposed on corporate income has declined (Ibid.). He stresses that corporations pay other taxes (a point he fails to make with respect to individuals), and concludes, “It is a childish fantasy to pretend they are a piggybank we can crack open to pay off our debts” (Ibid.).

In his critique of the Mimoto study (1995c), Coyne zeros in on the popular sector’s misuse of the StatsCan report: the claim that social spending accounted for only two per cent of the debt’s growth, and the assertion that 50 per cent of the debt resulted from tax breaks to the rich and corporations. An effective tactician, Coyne (who by now has carefully read the full Mimoto study) uses citations from the original work to discredit Left propositions.<sup>37</sup> He also faults Mimoto, claiming the study is flawed because expenditures and revenues are measured relative to GDP (rather than in absolute terms), and because it uses 1975 as a base year (Ibid.). Coyne concludes, “A complete misrepresentation of an early version of a discredited study: that is the basis for the Council’s ‘2 per cent’ claim. Case closed” (Ibid.).<sup>38</sup>

But the debate was not quite closed. The Globe printed a brief letter from CLC economist Andrew Jackson pointing out that Coyne had failed to consider personal taxes other than income taxes, and that income reported on tax returns bears only a loose resemblance to actual income: “Only 75 per cent of capital gains income is included in pre-tax income, for example, and the net business income declared for personal income tax purposes is reduced by a wide range of special provisions regarding depreciation and expenses” (Jackson 1995).<sup>39</sup> Two weeks later, after some intense lobbying by the Council of Canadians, the Globe printed a final response from Barlow and Robinson (1995a), that sought to rehabilitate the integrity of Mimoto’s study. The letter notes Statistics Canada did publish the shorter version of Mimoto’s work, references the study’s peer reviews, and cites other state reports confirming Mimoto’s findings (see chapter two).<sup>40</sup>

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<sup>37</sup> David Robinson, in hindsight, believes the Left should refrain from using the two per cent figure, and argues the assertion that “50 per cent of the debt resulted from tax breaks to the rich” is too polemical (interview 1995).

<sup>38</sup> Coyne, while no doubt a proponent of the free exchange of ideas, has an unusual habit of declaring debates over.

<sup>39</sup> Another letter, written by F.P. Hughes, noted that the Globe itself frequently runs advertisements for books on tax avoidance.

<sup>40</sup> In the months that followed, the CCPA published more detailed critiques of Coyne’s articles, but these responses were no longer part of a public debate. In one, Bruce Campbell argues the Mimoto study represents a threat to the neo-conservative project, because it challenges the notion that there is no alternative to state retrenchment and social program cuts (1995:14). In another, James Clancy further deconstructs Coyne’s taxation data. Building on the argument made by Jackson, Clancy finds that, “as



While unable to engage in the debate surrounding his study, Mimoto has followed it closely from the sidelines. He claims, in hindsight, he would have made the study much simpler; just three curves – program expenditures, revenues and interest payments relative to GDP – and let the chart speak for itself. He regrets that the debate he sought to assist “has become a shouting match” (interview 1995b).

For a time, the controversy over Mimoto’s study was something of a shouting match, but not without effect. The popular sector’s contention that social programs are not principally responsible for the debt, and that foregone taxes and high interest rates are, did, briefly, find its way to a large national audience. Moreover, Mimoto’s data continues to be used by popular sector activists in less prominent debates within civil and educational institutions. Proponents of the neo-conservative project, both within the state and civil institutions, fairly effectively contained the message of the Mimoto study. Nevertheless, a few ideas – central to the counter-hegemonic project – reached many Canadians.

#### 3.4.2 The Debate Surrounding Linda McQuaig’s Book:

The release of McQuaig’s 1995 book Shooting the Hippo: Death by Deficit and Other Canadian Myths, like her earlier book on the tax system (1987), sparked considerable debate. The book challenges much of the dominant discourse and has itself become a focal point of the conflict between competing hegemonic projects.

McQuaig’s work confronts a number of the dominant debt assumptions we have examined. Its principal target, however, is the Bank of Canada’s interest rate policy which, McQuaig contends, “has been virtually left out of the deficit debate” (1995:51). According to McQuaig, in the late 1980s the federal deficit was well on its way to disappearing, until John Crow declared war on inflation, driving up interest payments and precipitating a made in Canada recession (Ibid.: chapter three).<sup>41</sup> McQuaig characterizes this decision as an abandonment of the central bank’s original mandate and early tradition, which involved fostering economic growth and full employment as well as controlling inflation (McQuaig 1995:81, 223-5).<sup>42</sup> While Crow’s

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one’s income goes up, a lesser proportion becomes subject to a tax. A person earning between \$10,000 and \$15,000 will find that 96.4% of his or her ‘total income’ is taxable, while the taxable portion of a \$250,000-and-up income is only slightly above 85%” (1995:19).

<sup>41</sup> Crow announced his decision to pursue the goal of zero inflation in 1988 while delivering the Eric J. Hansen Memorial Lecture at the University of Alberta (Crow 1988).

<sup>42</sup> McQuaig argues that, while the Bank and Finance at times disagreed over the speed of inflation reduction, Finance Minister Wilson was “fundamentally in accord” with Crow’s efforts (1995:93).

predecessor, Gerald Bouey, also pursued a policy of high interest rates in the early 1980s, McQuaig understands that Bouey faced “significant inflationary momentum” (Ibid.:93). Crow’s decision was different – an “obsession” according to McQuaig – as inflation in 1988 was only four per cent (Ibid.:94). No country had ever sustained zero inflation over an extended period of time, thus, Crow’s policy decision amounted to turning Canada into an economic “experiment” (McQuaig speech 1995b). The architects of the war on inflation understood, moreover, that attaining price stability would result in – and depend on – higher unemployment. McQuaig cites a 1990 paper written by Bank of Canada researcher Jack Selody (Technical Report No. 54), which “argues that unemployment ‘acts as a signal to individuals to change their expectations about future wage and salary increases’” (1995:151).

McQuaig’s great skill is her ability to popularize complex economic issues; she writes economic books that read like novels. This approach has both strengths and weaknesses. On the one hand, it renders important economic ideas understandable for many Canadians, offers a compelling read, and sells a lot of books, thereby carrying popular sector arguments to a wide audience. On the other hand, McQuaig’s format results in theoretical simplification; specifically, economic debates are personalized around characters such as Crow, rather than contextualized in terms of class and/or institutional theory. While McQuaig notes that “Crow’s war on inflation has been a boon to creditors, but it has been a disaster for debtors” (Ibid.:86), she is reluctant to use the term class, except when making historical references (Ibid.:chapter five).<sup>43</sup> Stanford argues it is misplaced to blame high interest rates on individual central bankers; real rate increases reflect a global political and economic conversion to monetarism, and the Left is advised to challenge this transition (speech 1994). Failure to do so limits, from a Gramscian perspective, the development of a coherent alternative world view.

As with the Mimoto study, spokespeople for the neo-conservative project sought to discredit McQuaig’s work, painting her as irrational, the book as conspiratorial, and its readers as unwilling to come to terms with reality. Maclean’s carried a review of the book under the headline “An Attack on the Gospel,” claiming, “The thrust of McQuaig’s argument, which she makes passionately but seldom persuasively, is that the only thing standing between ordinary Canadians and a cradle-to-grave social utopia is a small group of conspirators who seek to transform Canada

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<sup>43</sup> Interestingly, McQuaig frequently speaks of class during her speeches. The fact that she chooses not to speak of class in her book is a testament to the strength of liberal hegemony (of which neo-conservatism is but one variety), which renders it illegitimate to speak of class – to do so is to risk marginalization.

into a lean, mean, market-driven economy” (Wilson-Smith 1995). The Globe’s Coyne is harsher still. In a column entitled “Contrary to popular belief, sometimes the conventional wisdom is right,” Coyne employs ridicule by likening McQuaig’s views to the assertion that “the sun sets in the east” (1995a). He refers to those who seek to debate the debt crisis as “crackpots” opposed to the consensus arrived at by the field of economics and all political parties. Defending the Bank of Canada, Coyne writes:

The Bank is ‘obsessed’ with fighting inflation for the same reason that the fire department is ‘obsessed’ with fighting fires: because that’s its job... If someone were to suggest that the fire department should put less emphasis on fighting fires, and more on planting trees and picking up litter, we would not say she had shown a sophisticated understanding of the many priorities a modern fire department must embrace... If she were to write an entire book on this thesis, we wouldn’t say she had overturned conventional wisdom. We’d say she was out of her mind. (Ibid.)

From a Gramscian perspective, Coyne’s review can be understood as an attempt to portray neo-conservative policy choices as non-ideological, reasonable and inevitable. Echoing the Maclean’s review, Coyne proclaims McQuaig’s thesis “conspiracy theory,” and concludes “some things are not worth debating” (Ibid.).

More staid state officials opt for a strategy of remaining above the public fray, and seek to appear disinterested in the arguments of marginal critics. When I requested an interview with a Bank of Canada official willing to respond to McQuaig’s charges, a spokesperson informed me that it was Bank policy not to respond to individual accusations. Yet, in interviews with both Bank and Finance officials, it was clear they were familiar with McQuaig (and other critics such as Hotson), and on occasion mentioned them directly.<sup>44</sup>

Notwithstanding these dismissals, Shooting the Hippo has captured considerable public attention. The hard-cover version was the second best selling non-fiction book in Canada in 1995, having spent 30 weeks in the top ten list, much of this in the number one spot (“National Bestsellers for 1995”). The book is now out in soft-cover and is again near the top of the bestseller list. McQuaig has been touring the country and is now a very popular speaker. Her latest Vancouver appearance, organized by the Council of Canadians, attracted approximately 300 people, many of whom applauded when McQuaig asserted that “a class war is going on” (McQuaig speech 1995b). McQuaig can take considerable credit for bringing monetary policy into the light of public debate.

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<sup>44</sup> Similarly, Barlow contends that the Prime Minister’s Office purchased 15 copies of her latest book, Straight Through the Heart (speech 1995).

### 3.4.3 Further Debates Surrounding Monetary Policy and the Bank of Canada:

McQuaig has not been alone in advancing a public critique of the Bank of Canada. The Committee on Monetary and Economic Reform (COMER), founded by the late John Hotson, has been challenging Bank policy since the late 1980s. Two recent books have advanced critical assessments of the Bank: one by COMER activist William Krehm, A Power Unto Itself (1993); the other Michael Babad and Catherine Mulroney's Where the Buck Stops: The Dollar, Democracy, and the Bank of Canada (1995). In recent years, Bank policy has been sharply criticized by the CCPA, ECEJ, and economists such as Fortin and Chorney.

Popular sector critics fault the Bank of Canada for its single-minded pursuit of price stability through high interest rates, refusing to finance more of the public debt through direct Bank of Canada loans (debt monetization), and pleading powerlessness in the face of calls for lower interest rates. As outlined in chapter two, many hold the Bank's policy of high real interest rates responsible for perpetuating a "permanent recession," for directing capital from productive to speculative investment, and for increasing the national debt (ECEJ 1995a:2).<sup>45</sup> They attack the Bank's position that the natural rate of unemployment (the NAIRU, or non-accelerating inflation rate of unemployment) currently rests between eight and nine per cent.<sup>46</sup> The CCPA's Cameron, in a 1995 letter to Governor Thiessen, wrote, "It appears you have intervened to slow the economy as we approach that [NAIRU] range of unemployment. In effect, you have designated well over one million unemployed Canadians to play the role of 'inflation fighters'" (letter 1995a). Chorney rejects the view that debt monetization is inherently inflationary, claiming the historical record provides ample evidence of high debt monetization without uncomfortable levels of inflation (1989:68). Chorney, Hotson and Krehm argue that inflation can be easily avoided if Bank of Canada debt monetization is accompanied by the re-imposition of reserve requirements on charter banks (Chorney et al 1992:9; Krehm 1993:19). The CCPA and ECEJ also cite the historical record when denouncing the high real interest rates of the past ten years, claiming the average real interest rate between 1933 and 1985 was 1.4 per cent (Chorney et al 1992:8; ECEJ

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<sup>45</sup> On the issue of productive versus speculative investment, the ECEJ quotes Magna International owner Frank Stronach asking, "Why would you pour a foundation, buy machines, hire employees if you can make just as much money buying bonds?" (ECEJ 1995a:2).

<sup>46</sup> In a 1994 Bank of Canada research paper entitled "The Causes of Unemployment in Canada," Stephen Poloz writes, "The current judgment of the Bank's staff is that the NAIRU in Canada has risen somewhat since Rose (1988) reported that it was around 8 per cent at the end of 1987" (1994:14).

1993a:118).

The Bank of Canada defends its policies, as have the Finance Department and numerous neo-conservative actors in civil society. When launching the war on inflation in 1988, Governor Crow insisted that merely controlling inflation was “ultimately not credible,” and that only price stability would “generate and warrant confidence in the future value of money” (1988:4). Throughout his tenure as governor, Crow steadfastly refused to ease monetary policy as a means of reducing government deficits, and rejected calls for debt monetization: “Printing money to fill the gap between expenditures and taxes is not a way out. An attempt to tax through inflation would ruin confidence in money and damage economic growth” (Crow 1993:57). Governor Thiessen argues, “We do not seek price stability as some abstract goal unrelated to the needs of Canadians. On the contrary, price stability is the best contribution that monetary policy can make to Canada’s prosperity. It will help the economy to operate more efficiently and avoid cycles of boom and bust” (1995:5). Zero inflation, Thiessen contends, assists individuals and businesses in making investment decisions (Ibid.:6). Thiessen insists the Bank cannot unilaterally lower interest rates:

Canada is tied to international financial markets... When interest rates rise in international markets...those pressures are bound to affect us. Second, contrary to widely held beliefs, the Bank of Canada cannot set interest rates at any arbitrary level it pleases. Interest rates are determined primarily by the views of savers, investors and borrowers - both domestic and foreign - as to what constitutes a fair return in financial markets. (Ibid.:6-7).

Thus, the Bank defends its policies on two grounds. First, it pleads powerlessness in the face of prevailing economic conditions. Second, it justifies price stability with the promise of future investment and growth. So convinced has the state become that fighting inflation should be the sole objective of the Bank, an attempt was made to put this reformed Bank mandate into the constitution. The Mulroney government included such a proposal in the original draft of the 1991 Charlottetown Accord, but was forced to withdraw the proposal in the course of subsequent negotiations (McBride and Shields 1993:109). Had this plan been accepted, a new condition favouring neo-conservative policies would have been created.

Finance acknowledges that the pursuit of price stability “deepened the 1991 recession,” but insists that “price discipline must now be maintained to secure the benefits of the sacrifice” (Dept. of Finance 1994b:13). Like the Bank, Finance claims the government cannot unilaterally lower interest rates. The only means of lowering interest rates, the Purple Paper holds, is by “sustained fiscal discipline” (1994b.:14). In a letter to Duncan Cameron, Finance Minister Martin

contends, “Lenders could view any effort to push down short-term rates without further reductions in government spending as a sign that the Bank has abandoned its commitment to low inflation,” and would subsequently push up long-term rates (Martin letter 1995c:2).

In early 1996, Thiessen offered limited hope for lower interest rates. While affirming the Bank's commitment to an inflation target of one to three per cent (current state policy), he told a Toronto audience:

New information regarding either private or public-sector spending that suggested a weaker economy, and consequently less inflation pressure, would lead to a revision in the direction of easier monetary conditions... I can offer some comfort to those who worry about the possibility of a weak economy as a result of fiscal measures and about the ability of monetary policy to respond to fiscal restraint... If fiscal progress is significant, and is seen by the markets as lasting, there is a good chance that risk premiums would be reduced and the resulting decline in medium and long-term interest rates would encourage increased private-sector spending on areas of housing, consumer durables and business investment. (1996)

Indeed, interest rates have come down slightly in 1996. This likely stems from the Bank's desire to stave off a credibility crisis, particularly in light of the poor growth rate in 1995. As we will see in the next chapter, the Liberal government has become anxious regarding the private sector's failure, thus far, to fill the vacuum of state retrenchment with renewed levels of investment. Hence, the Bank is surely under pressure to encourage the private sector to deliver increased jobs and growth.

The Bank of Canada has consistently received strong support from the BCNI, C.D. Howe Institute, Fraser Institute and neo-conservative spokespeople. According to Bank defenders, high interest rates were necessary in the late 1980s. Boutziouvis argues, “Inflation in Toronto was well above the national rate...which necessitated the clampdown” (interview 1995). Similarly, Bond insists the economy was “overheating” in the late 1980s: “We had to boil inflation out of the economy... It's not going to happen by little fairies” (interview 1995). The Globe's Peter Cook defends high interest rates as both unavoidable and desirable. In a column entitled “Good, good, interest rates are going up,” Cook insists high rates help financial asset holders (including pension funds), and have the added political benefit of making it “less easy to postpone the inevitable” reduction in the size of government (1994).

Supporters of the Bank accuse the Left of scapegoating Crow. Bond argues, “Blaming it [the deficit] on Johnny Crow and his desire to bring about price stability is saying, ‘Well the Bank is so independent it can do whatever the hell it wants.’ Now that is, to put it in the most

charitable term, bullshit” (interview 1995). The Reform Party’s Grubel refers to popular sector critiques of monetary policy as “the Left’s magic bullet,” at odds with “standard economic theory” as understood and accepted by virtually all academic economics departments (interview 1995). On the suggestion that the Bank of Canada re-assume a larger role in money creation and re-impose reserve requirements, Grubel argues the private banks would pass this new burden onto their customers by lowering the interest offered on deposits,<sup>47</sup> a consequence Grubel refers to as “a hidden tax” (Ibid.).<sup>48</sup>

The strongest defence of Bank policy has come from the C.D. Howe Institute. Appealing to the hegemonic project's intellectual leadership, Laidler and Robson argue the pursuit of price stability “was preceded by changes in academic and broader public opinion about the seriousness of inflation as a socioeconomic problem” (1993:11). Seeking to claim the moral high ground, Laidler and Robson maintain inflation results in “arbitrary redistributive effects,” impacting in particular people on fixed incomes, and unacceptable complications in accounting, asset valuation and taxation (consuming undue economic resources) (Ibid.:15-16). In 1995, Laidler and Robson, seeking to refute calls for lower interest rates, issued another report arguing “pronounced easing with the express purpose of spurring faster economic growth...would threaten higher inflation and, consequently, likely produce higher interest rates” (1995:1). They dismiss Left proposals for monetary reform as “back-of-the-envelope calculations making imaginative use of faster growth and lower interest costs” (Ibid.:3). Ultimately, they conclude, “the fiscal problem requires a fiscal solution” (Ibid.:12).

Understanding that price stability's promise of future prosperity is ideologically tenuous at best, Laidler and Robson argue that the Bank’s pursuit of zero inflation should be “insulated” from parliamentary and electoral politics, as “democratic politics has an inherent inflationary bias” (1993:34-5). Because low inflation benefits everyone only slightly and over the long term, they posit, politicians tend not to view price stability as a high priority. Thus, attempts should continue to simplify the Bank’s mandate “to emphasize the pursuit of price stability,” through a “simple act

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<sup>47</sup> This is a spurious argument, considering that many depositors already receive close to zero interest on their chequing and savings accounts.

<sup>48</sup> This view is echoed by Laidler and Robson, who refer to reserve requirements as “a disguised tax levied on the charter banks and their customers” (1995:12). However, there seems to be some confusion in neo-conservative circles as to whether lowering interest rates constitutes “a hidden tax.” In contrast to Grubel and the C.D. Howe Institute, former BCNI chair J. Edward Newall, in a speech to the Investment Dealers Association of Canada, declared high interest rates “a hidden tax on every Canadian, undermining consumption and economic growth” (Newall 1994:12).

of parliament” if not through constitutional change (Ibid.:124).

Participants in the counter-hegemonic project have developed rejoinders to much of the above. Bank of Canada critics insist inflation levels in the five per cent range are not problematic. Fortin rejects the notion that the marginal benefits of reducing inflation, when inflation is already low, exceed the marginal unemployment costs (1993b:3). He contends “zero inflation is suboptimal” (Ibid.:14). Similarly, Stanford argues only those whose profits come from the paper economy fear inflation: “In the real economy, on the other hand, modest inflation (of say 5% or less) is at worst a minor irritant. Sure, it means that we have to make sure wages and pensions are indexed. But if real employment and output can be expanded at the cost of mild inflation, it is clear that the benefits of faster growth outweigh the costs of mild inflation” (CAW 1995b:3).

Others have proposed that if high inflation threatens, policy instruments other than high interest rates can and should be employed. Chorney grants that inflation was high in Toronto during the 1980s, but suggests this was driven by real estate speculation, and thus, state policy should have addressed this problem directly (1989:71).

The counter-hegemonic project rejects the notion that the state cannot, in the age of capital mobility, lower interest rates. Fortin and Chorney hold that a policy of lowering real interest rates would, temporarily, have the effect of inducing portfolio capital flight. They contend, however, that this does not present a problem. The Canadian dollar would depreciate slightly, but this would help exports (Chorney 1989:69; Fortin 1993a:17). Fortin, who argues the deficit should be eliminated by lowering interest rates to foster five per cent growth, maintains the bank “has all the leverage it needs to lower the whole structure of interest rates if it wishes” (1994:18). He insists this would not result in significant or sustained capital flight because, “By itself the *level* of the exchange rate is totally irrelevant to the investment decision. What really matters is...the expected *change* in the exchange rate during the holding period” (Ibid.:20). Fortin believes his proposal would result in a one-time one per cent increase in inflation.

Finally, Left scholars challenge the logic of high interest rates – the assumption that, once inflation is eliminated, rates will fall and increased growth will follow. Cohen notes, “Canada has now had ten years of remarkably stable price levels. The strategy so ardently followed by the Bank of Canada and successive governments, despite party changes, simply has not worked” (speech 1994:3). By voicing the fact that unemployment and real interest rates remain high, despite low inflation, popular sector advocates cast doubt on the ability of the neo-conservative project to deliver prosperity.



#### 3.4.4 The Debt Debate Enters the Church:

Given the competing claims to moral authority underlying the debt debate, it is not surprising to find the debt debate has entered many Canadian religious organizations. Church hierarchies, in particular, have become sites of struggle between competing hegemonic projects. Numerous faiths have longstanding positions with respect to usury and caring for the poor, but many religious hierarchies have a longstanding tradition of developing close ties with business and political elites. The debt debate touches on both these tendencies.

The work of the Ecumenical Coalition for Economic Justice has been cited throughout this thesis. Other religious organizations have, on occasion, spoken up publicly on the issues of deficit reduction and the growing gap between rich and poor, and such efforts have provoked angry reactions from allies of the corporate class. In the midst of the 1982 recession, the Canadian Conference of Catholic Bishops (over the objections of G. Emmett Cardinal Carter, Archbishop of Toronto) issued a surprisingly political and strong economic statement. The bishops declared, “First, unemployment, rather, than inflation, should be recognized as the number one problem to be tackled in overcoming the present crisis” (cited in McQuaig 1995:241). More recently, dozens of religious leaders (Christian, Jewish and Islamic) issued a public letter to Prime Minister Chrétien. Writing just a few weeks before the 1995 Budget, the clerics expressed “a deep and growing concern with the current framework of the debate. In the midst of such an affluent society, the fundamental question is not how to cut our financial support for these [social] programs to reduce the deficit but rather how can we fulfill our responsibility to our neighbours in need through strengthened support of these programs” (Best et al, letter 1995a). The letter condemned policy choices that place an “increasing burden on the poor, unemployed, young parents, students, workers, and women,” and called for a renewed commitment to full employment (Ibid.).

Just before Christmas, 1995, the moderator of the United Church, Marion Best, sent a letter to all United Church ministers, signed by all 13 presidents of the United Church Conferences, with a request that the letter be read to all congregations. It begins:

We have chosen to come into your celebrations of the birth of Jesus because we are convinced that it is time for each member and for each congregation to draw on the gift of The Prince of Peace to stop a growing war against the poor in our society... The very first priority must be to stop the slashing of the safety net... The social safety net that we as a society wove under the feet of our neighbours and ourselves was and is the means by which we joined God

in making justice and love concrete among us... In many provinces, the cuts are happening with little thought to how people will cope. Some political leaders use dangerous rhetoric - dividing our communities into those of 'us' who have enough income to be taxed and 'them' - people who are sick, disabled, unemployed, in need of education, medical care, or enough income to survive. (Best et al, letter 1995b)

The Globe reacted angrily to the United Church letter. In its final editorial of 1995, the Globe sought to reclaim moral leadership from the church: "Was it moral for Canada's churches to ignore the predictable crisis of public finance embedded in skyrocketing deficits in the 1980s and 1990s? Does the United Church win any credibility by ignoring the consequences for future social programs in failing to reverse the slide to insolvency now?" ("The ways and means of rectitude" 1995).

Other church representatives have accepted the deficit reduction imperative. In the Fall of 1995, Toronto Archbishop Cardinal Carter invited Ontario Premier Mike Harris to give the keynote address at an annual fundraising dinner for a Catholic foundation. Just as the \$150-a-plate dinner was being cleared, a young man from the Catholic Worker movement went to the microphone and "invited the attendees to get to know personally the marginalized and poor living among us; to touch their pain and to stand in solidarity with them... to understand the importance of working to alleviate the structural sources of social poverty" (Arsenault 1995). The audience was not particularly receptive to the man's message. "As security guards forcibly escorted him out of the hall...the crowd applauded... When the chairperson began introducing approximately 40 dignitaries seated at the head table, Harris received a rousing applause, exceeding even that given the cardinal" (Ibid.).

#### 3.4.5 To Tax or Cut:

The competing hegemonic projects advance two very different views on the issue of taxes. Neo-conservative proponents argue that Canadians will not and cannot tolerate tax increases, while popular sector groups have struggled to highlight unpaid individual and corporate taxes. The debate heated up during the months preceding the release of the 1995 Budget, with neo-conservatives insisting the deficit must be reduced exclusively through spending cuts, and popular sector proponents contending the government should close tax loopholes before cutting social programs.

The corporate class has become increasingly uncomfortable with the perception that

corporations and wealthy Canadians are benefiting from favourable tax policies.<sup>49</sup> In response to critics who note that corporate income taxes have accounted for a steadily declining share of federal revenues for the last thirty years, the BCNI released a publication entitled “Does Canadian Business Pay its Fair Share of Income Taxes?” (BCNI 1992a). The document argues that corporate profits are down,<sup>50</sup> personal incomes are up, corporations pay other kinds of taxes such as payroll and property taxes, and lastly, increasing corporate taxes would hurt Canada’s competitiveness. While corporate profits have increased significantly since 1992, Bond and Boutziouvis both contend corporate profits are high only in comparison to recent years (interviews 1995). The Fraser Institute, in a recent article entitled “Myths About Corporations and Taxes,” likens the demand for increased taxes on corporations and the wealthy to a “pogrom” (Palda 1996:22). The Fraser Institute insists corporate income tax deductions reflect the fact that a significant share of corporate income comes from subsidiaries that have already paid taxes; losses carried over from the previous year; and the reinvestment of profits into new machinery and equipment (the Fraser Institute says nothing about the use of profits for mergers and take-overs) (Ibid.:22-3).

The fall in corporate taxes cannot be explained as easily as the BCNI proposes, and Left researchers have sought to demonstrate that the personal tax system is not progressive. Seeking to capitalize on a widely held belief that the tax system is unfair, popular sector groups insist that thousands of profitable corporations and high income-earners avoid paying income taxes. The CCPA and ACN have assembled and distributed data alleging that 62,480 profitable companies (with total profits of over \$12 billion) paid no income tax in 1991; corporations owe over \$40 billion in deferred taxes (on which no interest is charged); and 98,347 individuals earning over \$100,000 paid no income tax in 1992 (CCPA 1995g). The CCPA insists the personal tax system, when all taxes are considered, is not progressive. Citing a study by Carleton University

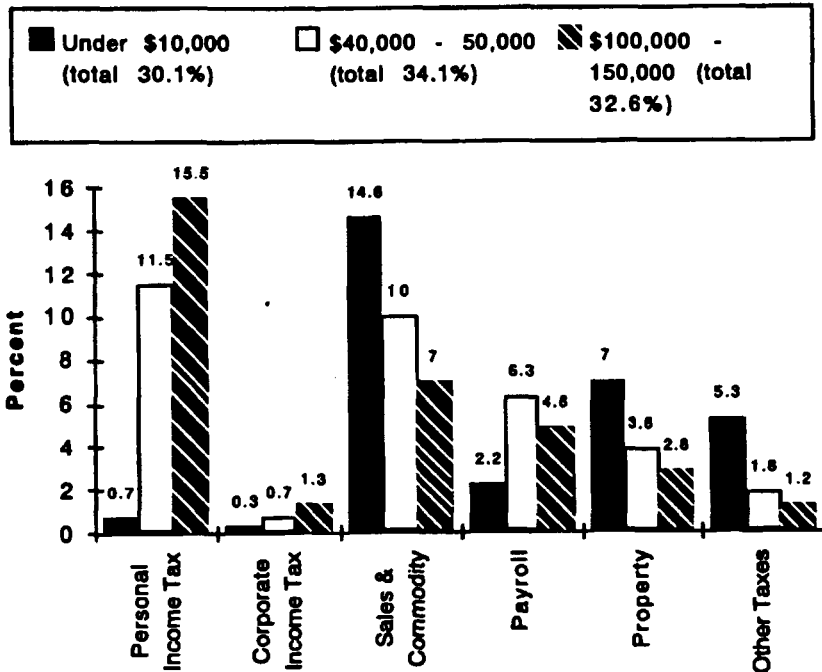
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<sup>49</sup> The Royal Bank has become particularly sensitive to charges that it is not paying its fair share of taxes. After citing the Royal Bank as an example of a corporation that has failed to pay its due, Ken Georgetti received a letter from the bank’s legal firm: “...we write to you in connection with your participation and that of your organization...with the campaign of Action Canada Network relating to the so-called ‘corporate free ride.’ As you will be aware, Action Canada Network has repeatedly published accounts alleging that the Royal Bank paid no taxes in 1992. These accounts are untrue and are damaging to our client’s reputation.” The firm enclosed a copy of the bank’s annual report showing taxes paid, and instructed Georgetti to “cease and desist forthwith any further publication of untrue and damaging information” (Osborne letter 1994).

<sup>50</sup> The BCNI claims corporate profits declined from 11.7 per cent of GDP in the 1950s to less than 10 per cent of GDP in the 1980s (1992:6-7).

**Chart 3.1**

**TAX AMOUNTS BY INCOME**



Source: Carleton University Study

Source: Cameron and Finn (1996:26)

researchers Irwin Gillespie, Frank Vermaeten and Arndt Vermaeten (see Chart 3.1), the CCPA reports that “when sales taxes, property taxes, payroll taxes and other taxes are taken into account, and not just our income taxes, the richest Canadians are being taxed only slightly more than are the poorest - and even less than middle-income earners” (Cameron and Finn 1996:26).

Unions have also demanded more corporate taxation. In 1994, the Ontario Federation of Labour and the Ontario Coalition for Social Justice began distributing a booklet entitled “Unfair Shares: Corporations and Taxation in Canada,” which lists over 400 corporations paying “little or no income tax” and over 300 corporations “owing \$5-million or more in deferred taxes” (OFL and OCSJ). The BC Federation of Labour, which sponsors an annual “Corporate Tax Freedom Day” in late January (a response to the Fraser Institute’s July “Tax Freedom Day”), contends that between 1980 and 1992, “untaxed corporate profits [totalled] more than \$167 billion” (press release 1996). Seeking to undermine the ethical authority of the government, popular sector groups have targeted Finance Minister Paul Martin for special attention, arguing that in 1990, Martin’s company, the CSL Group Inc., made a pre-tax profit of over \$19 million, paid no income taxes, and received tax credits equalling \$400,000 (Sorensen 1994). Finally, the popular sector message has received unlikely support from dissident Liberal MP George Baker, who went public in the Fall of 1994 with a list of tax loopholes which, he contends, if closed would save the government over \$9 billion (Baker 1995a:16-7).

As we have seen, Finance maintains the government has little or no room to raise taxes. Even so, neo-conservative organizations argued fiercely in the lead-up to the 1995 Budget that taxes must not be raised. The Reform Party and Canadian Taxpayers' Federation organized a national "tax revolt," culminating in 19 public rallies during February, 1995, and the gathering of 230,000 signatures on the CTF's "No New Taxes" petition (Piatkowski 1995:24). The audience for this campaign was clearly not the Minister of Finance, who had already proclaimed that spending cuts, not tax increases, "must bear the brunt of fiscal adjustment" (1994b:86). Rather, the anti-tax campaign was designed for an audience in civil society; it sought to counter popular sector claims that the tax system leaves some under-taxed. In policy terms, this neo-conservative effort has been successful in staving off progressive tax increases. However, the popular sector message with respect to taxes has had an impact; a growing number of Canadians have come to view the tax system as biased in favour of upper-income earners and corporations (CCPA 1995j).

#### 3.4.6 The Lead-Up to the 1995 Budget:

Between October 1994, when then Human Resources Minister Lloyd Axworthy released the government's Green Paper on the Social Security Review (SSR), and February 1995, when Martin brought down his second Budget, the conflict between competing hegemonic projects reached a contemporary climax. Popular sector groups organized in opposition to the Green Paper proposals, and sustained considerable mobilization through to the Budget's release. Running parallel to these efforts, members of the neo-conservative coalition endeavored to heighten public anxiety over rising debt and taxation levels, employing all the methods of persuasion at their disposal. Throughout this period, Martin sought to prepare Canadians for a Budget billed as a critical turning point for the country. As the debate unfolded within civil society, renewed public attention was directed towards issues of social policy, taxation, and the origins of the debt. Debate over the SSR and the Budget evolved into a struggle between competing societal visions. By the Budget's release on February 27, despite popular sector ideas reaching a fairly widespread audience, the neo-conservative project had effectively raised public concern regarding the debt to an historic high, thereby preparing the country for a Budget that was "necessarily" tough.

The SSR was interpreted by the popular sector as an attempt to reduce the deficit through social program cuts. Thus, local and national popular sector groups began to prepare for the release of Axworthy's Green Paper during the spring and summer of 1994: the CFS undertook to

organize a national student strike; the Council of Canadians launched its “Standing on Guard for Canada’s Social Programs” campaign; the ACN acted as a national clearing-house for informational on social programs, taxes and the deficit; the CCPA and CHO!CES (a Winnipeg-based social justice coalition) began national consultations with popular sector groups for an Alternative Federal Budget; and groups across the country began meeting to plan actions and develop educational materials.

Stressing the need to “help Canadians find and keep jobs” and to develop an “affordable” social security system (Ministry of Human Resources Development 1994a:10), Axworthy’s Green Paper proposed to significantly restructure the UI, post-secondary education and social assistance systems (Ibid.:85-89). Shortly after the Green Paper’s release, the House of Commons Standing Committee on Human Resources Development was sent across the country to hear public reactions. The Commons Committee met with protests organized by popular sector groups in every province. In Vancouver, Toronto and Montreal, demonstrators disrupted the hearings (taking over the hearings for two hours in Vancouver and overturning tables in Toronto and Montreal), capturing national media attention each time. Popular sector groups also gave hundreds of presentations before the Committee. In total, over 1,300 briefs were submitted, the vast majority of which were opposed to the Axworthy proposals, and many sought to redirect the Committee’s attention towards monetary and tax reform (Ralph 1995:18).

It can be argued that traveling Commons Committees are an effective means of preoccupying popular sector groups. Certainly the impact these hearings have on public policy outcomes is minimal at best. However, popular sector mobilization during the SSR was partially successful. The final report of the Commons Committee rejected both workfare and a two-tiered UI system (Barlow and Campbell 1995:186), and many of the specific proposals in Axworthy’s Green Paper were temporarily shelved. The state was forced to pull back and devise a new approach. As we shall see, the 1995 Budget moved to a system of reduced block funding for many social programs, off-loading the specific task of cost cutting to the provinces, and transferring political heat to a lower level of government. Nevertheless, the mobilization against the SSR was an important experience for the counter-hegemonic project – a step forward in terms of analysis, education and coalition building.

In the months that followed, other events briefly brought the popular sector message to a national audience. On January 25, 1995, the CFS held its National Day of Student Strike and Action. Across the country, over 60,000 students protested cuts to post-secondary education and

social programs, and demanded that corporations pay more taxes (Hughes et al 1995). In early February, the CCPA and CHO!CES released the Alternative Federal Budget (AFB), presenting to Canadians a very different approach to deficit reduction; one that maintained and extended social programs and that understood full employment as the first priority of government (we return to the AFB in chapter four). The Council of Canadians held a pre-Budget press conference, at which it assembled a group of MPs from the Liberal Party, NDP and Bloc Quebecois, all committed to defending social spending. The group included veteran Liberal MP Warren Allmand, and Maria Minna, a discouraged Liberal member of the House of Commons Standing Committee on Human Resources Development, highlighting for a national audience splits within the Liberal Party.<sup>51</sup>

As this popular sector organizing was unfolding, the neo-conservative coalition was engaged in its own education and mobilization campaign. Government spokespeople, including Martin and Axworthy, “warned that, if Canada didn’t take the hard fiscal medicine, the international financial markets and the International Monetary Fund would force even harder medicine upon us” (Barlow and Campbell 1995:137). Finance gave careful consideration to the selling of the 1995 Budget. According to Barlow and Campbell, Martin gave a \$180,000 communications strategy contract to Earncliffe Research and Communications. After extensive polling and focus groups, the firm “came up with a tight and disciplined strategy that Martin and [Deputy Minister] Dodge followed to the letter” (Ibid:121). The strategy consisted of: first, the release of the Purple Paper and Martin’s dramatic presentation to the Finance Committee in October, 1994, during which he declared, “We are in hock up to our eyeballs,” and insisted that the government would meet its deficit targets “come hell or high water” (Ibid.); and second, raising public fear of tax increases, which was done through a series of public announcements, despite the fact the government had no intention of doing this (Ibid.:122). When the Budget failed to produce these expected tax increases, “the harshest budget in Canadian history appear[ed] moderate” (Ibid.).<sup>52</sup>

The commercial media and corporate-backed think tanks also sought to prepare Canadians

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<sup>51</sup> Within the federal Liberal caucus, as we see in chapter four, an internal debate was underway regarding social programs, taxes and the deficit imperative. Barlow and Campbell report that, for a time in the Fall of 1994, Axworthy and Martin “were not on speaking terms” (1995:118).

<sup>52</sup> The Earncliffe focus groups did indicate that Canadians wanted the banks taxed more, “so they were singled out by Martin for a capital-assets tax... On budget day, Jean Chrétien personally called the nation’s bank presidents and asked them not to put his deficit-fighting budget in jeopardy by speaking out publicly... The bank presidents held their tongues” (Barlow and Campbell 1995:122).

for a budget that would be "unavoidably" tough. In early December, 1994, the Globe gave Coyne two full pages to outline "the Globe Plan" for eliminating the deficit in three years (Coyne 1994a). Arguing the Liberal target of reducing the deficit to three per cent of GDP by 1996-97 was inadequate, and that "lower interest rates cannot be counted upon to bail us out," Coyne insisted "The fight against the deficit and the debt should be fought exclusively on the spending side" (Ibid.:D1).

A Fraser Institute's conference, "Hitting the Wall - Is Canada Bankrupt?", held in the Fall of 1994, attracted numerous parliamentarians and journalists, and successfully influenced public discourse. According to the Fraser Institute's chair:

The Institute's intent in hosting the conference was to provide a public presentation to the Minister of Finance and the federal cabinet as they began to approach the final construction of the 1995-96 federal budget. The Institute hoped that by publicly bringing to Canada the experience of other countries, the federal cabinet might be influenced by the evidence to take serious action to stem the slide in the country's finances. I think it fair to say that the conference had the most dramatic effect of this kind that could be imagined, and it created a tremendous opportunity for the government. First, the event had been taped by the parliamentary channel, CPAC, for airing... Second, two of the journalists who attended..., John Fund from the *Wall Street Journal* and Thomas Donlan from *Barron's Magazine*, ...wrote very stern reflective editorials on Canada's circumstances. Canadian and international attention began to focus on our debt problem. The consequence in Canada was dramatic. The currency fell, interest rates were hiked and in the face of the demand from capital markets to do something about the deficit, the Prime Minister was moved to make his first press conference in eight months to deliver assurances that the fiscal affairs of the country were going to be well managed. (Addington 1995:2)

Fund's Wall Street Journal editorial, printed in mid-January, 1995, quickly became a story itself. Using information collected from the Fraser Institute conference and Coyne,<sup>53</sup> Fund argued Canada "has become an honorary member of the Third World in the unmanageability of its debt problem," and that "Canada could hit the debt wall...and have to call in the International Monetary Fund" (cited in Barlow and Campbell 1995:139). The next day the editorial was reprinted in the Globe, the Vancouver Sun and other newspapers across the country (Ibid.; and Bramham 1995b). Fund himself was perfectly prepared to offer solutions to anyone willing to listen:

Interviewed by the television networks and radio phone-in shows, Mr. Fund gave...advice on how to avoid hitting the debt wall and a tax revolt: legislated tax and spending limits, dramatic government cuts, elimination of all social

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<sup>53</sup> Barlow and Campbell contend Fund is a friend of Andrew Coyne, and that Coyne "provided him with information for his piece" (1995:139).



transfers to the top half of income earners, and the transfer of services such as welfare to the charitable sector. (Barlow and Campbell 1995:139)

Throughout the lead-up to the 1995 Budget, spokespeople from the business elite issued public threats. BCNI Chair J. Edward Newall declared any attempt to increase corporate taxes would be met with “fierce resistance - and will lead to an immediate cut in investment spending in Canada” (Newall 1994:12). Richard Thomson, chairman of the Toronto Dominion Bank, cautioned that “Canada was in danger of a Mexico-like crash unless it did something about its debt” (in Barlow and Campbell 1995:140). As these warnings escalated, the dollar fell and interest rates rose, all of which became the backdrop to Martin's presentation of the Budget plan to his cabinet colleagues (Ibid.:141). Finally, two weeks before the Budget, Moody's issued a warning that “Canada is in imminent danger of losing its treasured triple-A credit rating on most of its debt” (“Canada's credit rating in jeopardy” 1995) – an announcement neo-conservative proponents quickly capitalized on. The ideological groundwork had been laid for the most austere Budget in Canadian history.

Throughout the Fall of 1994 and the first two months of 1995, the neo-conservative coalition effectively employed virtually all the methods of persuasion at its disposal. The neo-conservative message dominated in the media, with popular sector efforts such as the January student strike and the AFB garnering little media attention.<sup>54</sup> Just before the 1995 Budget release, after months of warnings from the financial sector and media commentators, “an Angus Reid poll showed that for the first time in its history the deficit was the top priority for a plurality of Canadians” (Barlow and Campbell 1995:141). In contrast to the pre-Budget excitement, the Budget itself appeared reasonable to most Canadians: tough but fair. The government's polling “revealed that 69 percent of respondents believed the budget was ‘on the right track’; 83 percent of high-income respondents felt ‘it was on the right track’” (Ibid.:144).

Nevertheless, it would be wrong to declare this period a failure for the popular sector

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<sup>54</sup> Indeed, an examination of media attention granted to the January 25 student strike and the Reform Party/CTF tax revolt provides a telling comparison. The student action, with over 60,000 participants, garnered a front-page picture of 18 people in the Globe above the caption “Strike out” (no story accompanied the picture). Similarly, the Halifax Mail-Star showed 14 students at a rally with approximately 2,500 people in attendance, and the Vancouver Province showed eight at a rally with 6,000. Broadcast and print reports emphasized “disappointing turnouts” and claimed only students were in attendance, when there was representation from much of the popular sector (Hughes et al 1995). Days later, in contrast, the media gave extensive front-page coverage (including advance promotion of local rallies) to the Reform Party/CTF tax rallies, which over the next two weeks mobilized less than 17,000 people (Piatkowski 1995).

project, as successful hegemonic projects must be measured over the long term. The lead-up to the 1995 Budget witnessed extensive educational work undertaken by popular sector groups on campuses, in unions, and in the wider community. The Liberal caucus experienced some disarray, magnified on June 6, 1995, when Liberal MP Warren Allmand voted against Bill C-76 (the Budget Implementation Bill incorporating the Canada Health and Social Transfer and legislating public sector lay-offs). Left groups such as the Council of Canadians saw their membership grow dramatically (The Council claims its membership in 1995 was growing by nearly 1000 per month).<sup>55</sup> And the popular sector did succeed in getting more of its ideas into the public debate.<sup>56</sup> Arguably, both the popular sector and neo-conservative coalitions emerged from the 1995 Budget debate stronger and more cohesive.

In contrast to the 1995 Budget period, the lead-up to the 1996 Budget was remarkably subdued. Few media reports carried dire warnings. Indeed, Globe business columnist Peter Cook found this pre-Budget calm quite worrisome. In early December, 1995, Cook wrote: "Disturbingly, next year's budget, due in two months, has been preceded by none of the crisis rhetoric that preceded this year's. Because the Liberals are not budget cutters by conviction, rhetoric is needed to steel them to the task as much as to prepare public opinion, and its absence may be ominous" (1995). In many respects, this more recent period has been a time of program consolidation for both the neo-conservative and popular sector projects (at least at the federal level). As the Liberals prepared a "stay the course" budget, popular sector groups sought to build on some of their more successful actions from the previous year. The CCPA and CHOICES again coordinated the writing and release of an Alternative Federal Budget, and the CFS organized another national day of student action.<sup>57</sup>

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<sup>55</sup> The right-wing Canadian Taxpayers' Federation also saw its membership grow during this period to approximately 85,000. Its recruitment efforts, spearheaded by over 60 commissioned salespeople, resembles, according to journalist Scott Piatkowski, a "pyramid sales scheme" (1995).

<sup>56</sup> A telling Gramscian moment occurred during CBC radio's "The House" the weekend after the 1995 Budget release. Reporter Jason Moscovitz, collecting live public reaction to the Budget at a North Winnipeg diner, asked an older man what he thought of the Budget. In response, the man told Moscovitz about his copy of "Unfair Shares."

<sup>57</sup> This second national day of student action, held on February 7, 1996, mobilized an equal number of students (according to CFS and media reports), but garnered considerably more and better media coverage than the 1995 action (due in large measure to a violent confrontation between students and police at the Toronto demonstration). Television reports emphasized large crowds, noted student opposition to all social program cuts (not just education), and highlighted the students' demand that corporations pay more taxes. The Globe again minimized the action; it had no picture and a small article on page four. Indeed, the Globe's cover article the day after the student action featured a University of Western Ontario psychology professor who manages to make his lectures, delivered to 1,200 students,

### 3.4.7 What the Polls Say – the Popular Score Card Thus Far:

The neo-conservative project has been very successful in heightening public concern regarding government debt. Virtually all Canadians accept that deficits and debt represent a serious problem. Notwithstanding popular support for deficit reduction, however, public opinion continues to offer some hope for the counter-hegemonic project. Opinion polls fluctuate and respond easily to events of the day. However, an examination of opinion trends in recent years tells us something about how the competing hegemonic projects fair in the struggle for the hearts and minds of Canadians. It is not at all clear that a consensus exists with respect to how deficits and debt should be reduced. Furthermore, when Canadians are asked to choose between or rank deficit reduction, job creation and the maintenance of social program spending, the fragility of the neo-conservative project is revealed.

Public opinion regarding the 1995 Budget began shifting within weeks of its release. "In late March [1995], one-third of the respondents to a Compass poll gave Martin's budget a failing grade and another third gave it only a C/D grade" (Barlow and Campbell 1995: 145). The CCPA has started to commission its own polls through Vector Research and Development. In the Spring of 1995, a Vector poll found "Canadians would not be opposed to higher taxes, if they could be sure that the money would be directed to services they support" (CCPA 1995b). Another found strong support for the CCPA/CHOICES Alternative Federal Budget; although only one in seven respondents had heard of the AFB, when told of its details, 64 per cent preferred it to the Liberal Budget. The same poll also found a majority of Canadians felt the wealthy and corporations emerged as winners from the Liberal Budget, while 60 per cent believed the poor emerged as losers (CCPA 1995j).

McQuaig argues that, despite more than ten years of intense neo-conservative persuasion, strong support for social programs persists. "An Angus Reid poll, taken in late April 1993...found that almost 80 per cent of Canadians opposed any funding cuts to medicare, and almost 90 per cent opposed any funding cuts to education" (McQuaig 1995:34). According to Environics, which conducts a regular poll asking Canadians what they consider to be the most important issue facing the nation, unemployment consistently ranks as a greater problem than the deficit. In October 1994, just as the 1995 Budget debate was getting underway, "a mere 10 per

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a captivating multi-media experience (Galt 1996).

cent of Canadians said the deficit was the most important issue facing the country, while 38 per cent ranked unemployment first" (Ibid.:35).

This same trend has been found by the Angus Reid Group, which regularly surveys Canadians using "an 'open-ended' question at the beginning of the interview asking them to name the issues which they believe are the most important for Canada today" (Angus Reid Group, press release, 1996). As Table 3.3 indicates, concern regarding both unemployment and the

**Table 3.3: Canadians' Public Policy Priorities,**

**Feb. 1988 to March 1996**

(percentage of respondents who named the following issues in response to the question: "To begin with, thinking of the issues presently confronting Canada, which one do you feel should receive the greatest attention from Canada's leaders? What other issues do you think are important for Canada right now?")

	F e b '88	J u n '89	J u n '90	J u n '91	J u n '92	J u n '93	N o v '93	J u n '94	D e c '94	F e b '95	J u n '95	D e c '95	M a r '96
Unemployment/ Jobs	18	14	6	14	24	38	58	33	28	29	34	31	44
Nat'l Unity/ Quebec/Const.	2	4	52	38	55	6	6	17	33	35	22	41	31
Deficit/ Debt	5	13	7	12	4	21	33	18	29	48	28	24	26
Economy (general)	10	10	22	31	44	36	21	21	21	20	22	26	21
Health/Social Services	6	9	4	4	4	8	14	7	10	13	19	14	17

Note: Table lists only issues recently identified by over 10 per cent of respondents. Figures represent "total mentions": up to three issues were accepted from each respondent, therefore, percents may exceed 100.

Source: Angus Reid Group. "National Angus Reid/Southam News Poll." Press release, March 30, 1996.

**Table 3.4: Canadians' Public Policy Priorities,**

**March 1996 Responses By Population Groupings**

	Canada	Gender		Income		
		Men	Women	< \$30K	\$30K-\$59K	\$60K +
Unemployment	44	43	45	49	46	38
Unity/ Quebec/ Constitution	31	36	26	24	31	40
Deficit/Debt	26	31	22	18	29	34
The Economy	21	24	19	17	19	29
Health Care	12	7	16	14	12	9
Education	7	5	10	10	7	6

Note: Table lists only those issues identified by over 10 per cent of respondents. Up to three issues were accepted from each respondent, therefore, percents may exceed 100.

Source: Angus Reid Group. "National Angus Reid/Southam News Poll." Press release, March 30, 1996.

deficit has grown since 1988. However, excluding the months immediately prior to the release of the 1995 Budget, unemployment consistently ranks as a greater concern to Canadians than the deficit. The unemployment issue "was cited 'top-of-mind' by 44 percent of those surveyed at the end of March [1996]" (Ibid.). In contrast, "One in four (26%) Canadians polled attached very high 'top-of-mind' priority to the country's fiscal situation... The deficit/debt is also of relatively greater concern to men (31% versus 22% among women) and to higher income Canadians (34% compared to 18% among their lower income counterparts" (Ibid.).

Two recent studies have analyzed public opinion trends. One, conducted by Canadian Policy Research Networks, reviewed 15 years of public opinion surveys. It found that, "A majority of Canadians, seven in 10, see social programs as essential to Canadian identity"; "ninety-four per cent say national standards are essential in health care. Eighty-eight per cent said the same thing about post-secondary education and 78 per cent viewed standards as essential in social-assistance programming"; and, "Almost 2 in 3 would rather increase taxes or the deficit than reduce spending on education" (CPRN 1995). Throughout 1994, Ekos Research Associates conducted "one of the most comprehensive public-opinion studies ever undertaken in Canada" (Greenspon 1995a). The Ekos study, entitled "Rethinking Government," is revealing, as it examined underlying values, and compares the attitudes of the general public to those of "elite decision makers." Among its findings: "Canadians have lost much of their confidence in politicians and government, but they generally retain their faith in the idea of a strong and active government"; "[the public] still strongly believes that Ottawa must do whatever is necessary to ensure jobs for people willing and able to work"; "Although the deficit increasingly concerns Canadians, they seem disinclined to give up much in fighting it"; "The country is increasingly riven by social-class differences. These are replacing regional and linguistic differences as the main cleavage in Canadian politics"; and "Elite Canadians...tend to demonstrate 'an unremitting focus on fiscal issues.' They give far less credence than the general public to social and cultural objectives" (Ibid.).

The inability of the neo-conservative project to deliver material prosperity and economic security represents an perpetual challenge to the maintenance of hegemony, and forces neo-conservative activists to re-double their efforts on the ideological front. Proponents of the neo-conservative project are acutely aware of the challenge they face in this regard. The BCNI struggles to persuade the public that corporate policy preferences are linked to future employment benefits and prosperity (Boutziouvis interview 1995), but people's willingness to accept such

future-oriented promises is inherently unstable. The public's sense of insecurity and dissatisfaction will not necessarily bolster the strength of the popular sector, but it does point to a potential opening for a counter-hegemonic effort to undermine the legitimacy of neo-conservatism.

### **3.5 Chapter Conclusion**

The material examined in this chapter offers evidence that the contemporary Canadian debt debate does indeed pit two competing hegemonic projects against one another. A case has been made that the neo-conservative project has succeeded in becoming hegemonic – gaining control of the public policy agenda and dominating public discourse. The attainment of hegemony has resulted from the neo-conservative coalition capitalizing on and building favourable political-economic conditions, developing a strong intellectual and (somewhat less) compelling moral basis, and effectively employing numerous methods of persuasion. With respect to each of these factors, the neo-conservative project has been substantially aided by the structural power and influence of the corporate class.

Thus far, the neo-conservative project has successfully maintained its ideological dominance. Yet this dominance is challenged by the popular sector coalition, and despite the very lopsided nature of the debt debate, fundamental popular sector ideas are reaching a widening audience. Moreover, as public opinion surveys illustrate, the ideological success of the neo-conservative project is qualified. The public does view government debt as a major concern. But public concern regarding unemployment is more pronounced, and the public remains committed to social programs. These material concerns represent an underlying threat to the maintenance of neo-conservative hegemony.

## Chapter Four: Competing Approaches to Deficit Reduction

"Not to act now to put our fiscal house in order would be to abandon the purposes for which our Party exists and this government stands – competence, compassion, reform and hope. The debt and deficit are not inventions of ideology. They are facts of arithmetic. The quicksand of compound interest is *real*. The *last* thing Canadians *need* is another lecture on the dangers of the deficit. The *only* thing Canadians *want* is clear action."

- Finance Minister Paul Martin, delivering his 1995 Budget Speech (1995b:2).

This chapter examines one final battle – the debate over how the federal government should eliminate the deficit. This examination provides a clearer understanding of how the state responds to the demands of competing hegemonic projects. It demonstrates how the neo-conservative project effectively deflects popular sector deficit reduction ideas, stressing their incompatibility with prevailing conditions, but also how the popular sector project has successfully constrained the state's pursuit of neo-conservative policy choices. We examine how the government legitimizes its choices, using rhetoric emphasizing the moral and conditional imperative for deficit reduction, positioning its approach as moderate (in contrast to that of the Reform Party), incorporating placebo policies, and extending the promise of prosperity.

This chapter finds the federal government has pursued a neo-conservative policy program, emphasizing spending cuts and privatization, with the effect of further eroding the material circumstances of most Canadians. However, the federal government has not embraced the neo-conservative project in its entirety, either in content or rhetoric. Ideological divisions within the Liberal Party, popular sector resistance, the threat of Quebec separation, and the underlying material weakness of the neo-conservative project have combined to limit full implementation of the neo-conservative approach to deficit reduction.

The final section of this chapter evaluates the government's approach to deficit reduction, casting doubt on the ability of neo-conservatism to lower the debt-to-GDP ratio and to deliver on the promise of future prosperity. It is suggested these concrete policy failures present the popular sector with a strategic opportunity to undermine the ideological dominance of neo-conservatism.

### 4.1 The Neo-Conservative Approach to Deficit/Debt Reduction

While the Liberal government has endorsed the major policy assumptions of the neo-conservative program, its rate of deficit reduction lags approximately two years behind what most neo-conservative advocates recommend, it has not implemented some of the neo-conservative

project's more dramatic privatization proposals (particularly with respect to health, education and public pensions), and thus far, the Liberals have rejected calls for constitutional/legislative limits on spending and taxation. The following review of neo-conservative policy recommendations illustrates that the federal government's implementation of neo-conservative reforms is indeed qualified. Neo-conservative demands for radical expenditure cuts serve an ideological function for the government; namely, they allow the government to appear reasonable and moderate. These demands also offer a lesson for the popular sector; namely, that things could be worse.

As outlined in previous chapters, neo-conservative proponents flatly reject monetary and tax reforms, arguing that only dramatic spending cuts can stave off a debt crisis. In the lead-up to the 1995 Budget, the Globe and Mail and Reform Party both advanced proposals to eliminate the federal deficit within three years. Coyne's "Globe Plan" declares the principle of universality "unaffordable," arguing, "the only moral basis of redistribution is need" (1994:D1). Coyne proposes to cut program spending by \$24 billion over three years, taking total program spending to below \$100 billion. He advocates eliminating all regional development agencies and the infrastructure program. While he proposes to reduce or cut many business subsidies, his largest savings come from social programs, cutting farm income support by \$1.3 billion, foreign aid by \$350 million, seniors' benefits by \$1 billion (mainly by making these benefits income tested), UI by \$6 billion, and health, education and welfare by \$3.5 billion (Ibid.:D5).

The Reform Party's "Taxpayers' Budget" makes similar recommendations: cut program spending by \$25 billion over three years – \$10 billion from government operating costs<sup>1</sup> and \$15 billion from social programs (1995:39), which Reform accuses of "crowding out the traditional role of families, communities and local organizations in the delivery of personal security" (Ibid.:19).<sup>2</sup>

The BCNI, in its submission to the Commons Finance Committee in the Fall of 1994, voiced approval for Martin's Purple Paper. The Council insisted, however, that the 1995 Budget

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<sup>1</sup> Among the cuts to government operating expenses, Reform proposes to: eliminate all funding for official languages programs and multiculturalism; significantly reduce foreign aid; privatize crown corporations (including the CBC); and eliminate funding for "special interest groups." Reform opposes any cuts to the justice department, Solicitor General's budget, or Veterans' Affairs (1995:41-3).

<sup>2</sup> Among the social program cuts proposed: \$800 million from Indian and Northern Affairs; \$3 billion from OAS (a 15 per cent cut); \$3.4 billion from UI (a 22 per cent cut); \$200 million from post-secondary education; \$800 million from health; \$2.5 billion from welfare (a 34 per cent cut); and \$3 billion from equalization payments. Reform also proposes that health, education and welfare be entirely transferred to provincial jurisdiction, with some agreement on "core" services (1995:44-5). Finally, Reform argues the CPP should be phased out and replaced with "super-RRSPs" (nd).



lay out “a credible plan to eliminate the structural deficit by 1998-99 at the very latest,” and that it “forego the temptation to resort to taxes as a way of achieving deficit reduction targets” (BCNI 1994a:4-5).

The Fraser Institute’s recommendations are more dramatic, given that it places the debt at \$3 trillion. It demands that governments disclose Canada’s “real” debt situation, and calls on the governments to follow the example of New Zealand. The Fraser Institute’s Richardson recommends: ending the practice of loan guarantees for businesses and students; privatizing all self-supporting crown corporations and many services provided by “government monopolies”; making public pension and workers’ compensation plans fully funded through premiums; ending all transfers to individuals with incomes above the provincial/territorial average (including CPP); instituting “co-insurance” for health care, whereby people with incomes over \$20,000 add the cost of health services received to their taxable income; eliminating all subsidies to business; and making post-secondary education fully self-financed through tuition fees and private contributions (Richardson 1994:45-8).

In recent years, the neo-conservative project has also attempted to embed its program into binding legislation. Neo-conservatives such as Diane Francis (1995) and Richardson (1994:48; 1995b) call for legislation outlawing government deficits, and advocate constitutional limitations on government spending and taxation. As discussed in chapter three, the neo-conservative project has also sought to embed a narrow Bank of Canada mandate into legislation.<sup>3</sup>

As governments adopt the neo-conservative approach to deficit reduction, and as many provincial governments achieve balanced budgets, neo-conservative proponents have increasingly emphasized the need to reduce the debt itself, seeking a new ideological imperative by which to advance their policy proposals. In the Fall of 1995, Coyne published another two-page feature, this one entitled “Envisioning a sustainable debt” (1995b). “It’s time to forget about the deficit,” wrote Coyne. “We need a new goal, beyond a balanced budget. We need to decide how much debt we can afford and develop our budgets with that in mind” (Ibid.:D1). Coyne proposes three guiding principles for a new debt reduction regime: no tax increases except by referendum; no spending increases except to keep pace with inflation and population; and no inflation beyond two per cent annually (in order to keep long-term interest rates down) (Ibid.). Richardson argues:

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<sup>3</sup> Many popular sector advocates also understand the FTA and NAFTA as attempts to embed the neo-conservative project into international treaties (McBride and Shields 1993:chapter 4). Indeed, Barlow refers to the NAFTA as a “Corporate Charter of Rights and Freedoms” (Barlow 1992).

With 6 provinces expecting surpluses this year, it is important to shift the focus to debt elimination and away from deficits. Continued public pressure to eliminate the debt coupled with legislation to prohibit deficits, tough penalties on politicians for non-compliance, and long term debt elimination plans with built-in taxpayer protection will ensure that Canada's long-term public debt problem will eventually be resolved without Canada having a major financial crisis. (1995b:21)

As progress is made in reducing the federal deficit, neo-conservative proponents warn that fiscal relief is not on the horizon. According to the BCNI's Boutziouvis, "Over the long term...governments have to continue with more of the same. It's not going to be easy. Fiscal restraint will be the watch-word for the rest of the '90s and into the decade beyond. We need several years of balanced budgets or budget surpluses...in order to rectify over-spending and over-consumption on the part of governments over the past 20 years" (interview 1995).

These neo-conservative demands serve two important functions. First, as these calls come to dominate civil society, they pull the government further to the Right. Second, the dominance of neo-conservative deficit reduction solutions gives the government the appearance of moderation.<sup>4</sup> Indeed, given the strength of the neo-conservative project, the Liberals are often portrayed as acting with insufficient haste.

## **4.2 Popular Sector Deficit Reduction Proposals**

The popular sector has advanced a number of "progressive" deficit reduction solutions, ranging from tax and monetary reforms, to job creation and financial re-regulation, many of which were incorporated in the 1995 and 1996 Alternative Federal Budgets. In the ideological battle between competing projects, the popular sector's principal challenge has been to demonstrate that credible alternatives exist – alternatives carrying equal intellectual authority and based on a stronger moral grounding. These proposals, however, receive little media attention and are dismissed by the federal government and neo-conservative actors. Neo-conservative hegemony is not based on a lack of alternatives. Rather it is sustained by the structural power of the corporate class, and by the conditions favouring neo-conservative ideological dominance.

### **4.2.1 The Alternative Federal Budget:**

The AFB process has brought together Left academics, labour economists and popular

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<sup>4</sup> When the Reform Party released its alternative budget a week before the Liberals' 1995 Budget, Martin denounced the Reform plan, claiming it "lacked heart," and would hurt "an awful lot of people." Martin argued it was "nonsense to make social programs the scapegoat for the deficit" (Freeman 1995b).

**Table 4.1: Alternative Federal Budget: Revenue Proposals**

(in millions of dollars)

	1996/97	1997/98
<b>Corporate Tax Changes</b>		
Minimum corporate tax	528	
Halve SR & ED credit	272	
Limit deductibility of high salaries	50	
Eliminate meals and entertainment deduction	245	
Eliminate lobbying deduction	50	
Excess profits tax on financial institutions	300	
Surtax on foreign interest	300	
Tax overseas earnings of life insurance companies	85	
<b>Personal Tax Changes</b>		
<b>1. Tax Expenditures</b>		
Eliminate capital gains exclusion		300
Eliminate stock option income deduction	25	
Limit RRSPs and RPPs	500	
Eliminate capital gains farm exemption	200	
Eliminate capital gains small business exemption		785
Eliminate meals and entertainment deduction	50	
Implement low-income (child) tax credit	-845	-780
<b>2. Personal Tax Rates</b>		
Institute two new high-income tax brackets	775	
Wealth tax	1,394	1,394
End low-income surtax	-550	
Increase cigarette/tobacco tax		350
Eliminate GST on books	-47	
Increase gas tax		525
<b>Collection of Back Taxes</b>	660	
<b>Total</b>	<b>3,992</b>	<b>2,574</b>
Source: Canadian Centre for Policy Alternatives and CHOICES. <i>Alternative Federal Budget 1996</i> , p. 16.		

sector activists from across the country. Seeking to claim intellectual legitimacy, the authors of the 1995 AFB solicited and received endorsements from 50 university economists, who "certified that the alternative budget's monetary and fiscal plan was viable" (Barlow and Campbell 1995:164). The 1996 AFB was "officially endorsed by 137 Canadian economists and political economists" (CCPA 1996:3). Seeking to re-assert the moral authority of the Left, those who participated in drafting the AFBs adopted as guiding principles the goals of full employment, the strengthening of social programs and other public services, a more equitable distribution of income and wealth, a fairer tax system, the elimination of poverty, the promotion of gender equality, the protection of basic human rights (economic, social, political and cultural) at home and abroad, and environmental improvement (CCPA and CHOICES 1995:1). Appreciating the virtues of prudence and responsibility, the AFBs also accepted the Liberals' deficit reduction targets. The approach taken to reach these targets, however, differs markedly from the government's.

The AFBs aim to create 400,000 jobs a year, increase funding for social programs, and eliminate the deficit and reduce the debt-to-GDP ratio to 60 per cent within five years. They propose to accomplish this by lowering nominal interest rates by one per cent; increasing Bank of Canada holdings of federal debt to 15 per cent; allowing the dollar to depreciate to 70 cents U.S.; implementing new job creation programs; developing legislation to redistribute work time; closing tax loopholes; and imposing new taxes on those most able to pay (1995:3; 1996a:3-5). The job creation programs include: a national child care program; an ecological infrastructure program; a national social housing and housing retrofit program; research and development funding; and other regional and community development initiatives – all of which would total \$2.9 billion in 1996-97 and \$3.4 billion in 1997-98 (1996a:6-7). The tax changes proposed in the 1996 AFB are listed in Table 4.1. While the AFB claims 80 per cent of the additional revenue needed to finance its program will come from higher growth, 20 per cent is to come from new taxes and the closing of various tax loopholes (1996a: 17). It proposes a tax on wealth transfers (an inheritance tax) equal to the U.S. rate, and two new high-income tax brackets. With respect to corporate taxes, the AFB advocates a minimum corporate tax, an “excess profits tax” for financial institutions, eliminating the meals and entertainment deduction, tightening the rules regarding research and development credits, and cancelling the lobbying expense deduction (Ibid.:16-8).

#### 4.2.2 Tax Reform Proposals:

The popular sector rejects the notion that there is no room to raise taxes. Taxes collected by all levels of government in Canada were equivalent to 36.3 per cent of GDP in 1993, higher than the U.S. level of 30 per cent of GDP (Dept. of Finance 1994a:81), but below the OECD average of 38.9 per cent (Brooks 1995a:25). Beyond the tax proposals in the AFBs, other revenue changes have been suggested. Among these: applying the GST to the buying and selling of stocks, generating as much as \$10 billion (CCPA 1995g); limiting RRSP contributions to \$8,000, generating \$1 billion more than the AFB proposal (ECEJ 1996:4); taxing dividends at full value, generating approximately \$1 billion (Ibid.); and taxing lottery and gambling winnings, generating approximately \$860 million (Ibid.). Brooks advocates: a tax on family trusts (raising between \$1–2 billion); cutting approximately \$8 billion in personal tax exemptions; eliminating approximately \$3 billion in corporate tax exemptions; a 0.5 per cent annual wealth tax on all holdings over \$1 million; and a wealth tax on all gifts and inheritances (1995b:5). Indeed, Brooks argues, “the almost complete absence of a serious discussion of this type of [inheritance] tax in

the popular media – in spite of the deficit problem – is an indication of how thoroughly business interests set the agenda for discussion of public policy in this country” (Ibid.).

Bob Blair, retired Chairman Emeritus of Nova Corporation, has recently emerged as an unlikely advocate of a wealth tax.<sup>5</sup> He argues that deficit reduction, as currently practised, fails to address the root problem, and proposes that the debt itself be substantially reduced. Blair notes that liquid assets in Canada total over \$2 trillion, and that households worth over \$1 million own almost \$4 trillion in total assets (speech 1995). In a move that defies both the neo-conservative project and his class interests, Blair proposes retiring the foreign-held debt (and perhaps more) through one-time “contributions” from the wealthy of up to \$500,000 (Ibid.).<sup>6</sup>

#### 4.2.3 Monetary Reform:

As we have seen, numerous popular sector researchers have called for lower interest rates, an increase in Bank of Canada loans to governments, the re-imposition of reserve requirements on the private banks, and a debt repatriation program designed to increase government control over interest rate policy.

Jack Biddell argues that the Bank of Canada should offer low-interest loans to provincial governments, claiming “the withdrawal of the provinces from private sector borrowing will enable the federal government to borrow at much lower rates” (1995:18). Hotson and Krehm argue that increasing Bank of Canada loans to governments could save billions in interest payments (Hotson 1992; Krehm 1993). Krehm notes that until the late 1960s, ceilings were placed on the rate of interest banks could pay depositors or charge borrowers. Today, the only ceiling is a criminal code prohibition outlawing interest in excess of 60 per cent (Krehm 1993:17). New ceilings might boost productive investment and prevent the speculative bidding-up of interest rates.

The popular sector has advanced the idea of debt repatriation as a means of re-establishing control over interest rate policy, and keeping debt payments in Canada and subject to Canadian taxes (CCPA and CHO!CES 1995:5-6; Cameron and Naylor in Bienefeld et al 1993:8-9).

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<sup>5</sup> Blair’s role in the debt debate is in sharp contrast to J. Edward Newall, the current CEO of Nova Corporation and past chair of the BCNI.

<sup>6</sup> Blair has offered to pay this amount himself, and argues retiring the debt in this way would be “good for business,” because debt payments would then be lower. He toured the country in 1995, advancing this proposal and garnered a fair amount of media interest. It is unclear whether Blair is advocating voluntary contributions or an involuntary tax.

Cameron argues pension and RRSP monies should be directed towards this end, and advocates an aggressive CSB campaign akin to the Victory Bond campaigns of WWI and WWII (interview 1995).<sup>7</sup>

#### 4.2.4 Employment Creation Proposals:

The popular sector contends a sustainable deficit and debt reduction strategy requires full employment, an approach aimed at increasing growth rather than precipitating a recession. Cohen argues the government should focus on consumer and producer confidence, rather than investor confidence (speech 1994:3). The AFBs aim to lower unemployment to between 7.5 and 8.2 per cent by 1997-98 (CCPA and CHO!CES 1996a:4). To lower unemployment further, others have proposed: terminating the FTA and NAFTA; establishing a new state bank or National Renewal Fund, capitalized initially by governments and pension funds, which would finance social investments such as a national housing program and a national daycare program (ECEJ 1993a:121); using state influence to ensure various sectors meet pre-determined employment targets (Cameron letter 1995b); and undertaking substantial new public investment. Noting that the private sector has refused to undertake necessary productive investment, Bob Dale, a researcher with the National Union of Public and General Employees, argues governments must undertake significant new investment in productive enterprise: "Not just token amounts, but something like \$150 billion over the next three or four years" (in Bienefeld et al 1993:14). Mario Seccareccia, seeking to rehabilitate Keynesianism, argues "Paradoxically, they [deficits] can only be eliminated through greater public spending of the type that will first generate high growth rates and output" (1995:64).

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<sup>7</sup> Critics of debt repatriation contend Canadian domestic savings is inadequate to finance such a project. Today's debate on this matter closely mirrors the debates that surrounded the WWI and WWII Victory Bond campaigns. Canada's Minister of Finance during WWI, Sir Thomas White, recalls that the three issues of Victory Bonds in 1917, 1918 and 1919 "raised an aggregate of more than seventeen hundred million dollars. That this astounding sum, which was almost twice the amount of all the deposits in all the chartered banks before the war, should have been made available for the purpose of the government from the savings of the people of Canada was probably as surprising to ourselves as to the outside world. Suggestions have not been wanting that Canada could have raised as large sums through public issues made to her own people before the war, but that we never suspected our ability to do it, and consequently always did our national borrowing in London and New York" (1921:58-9). (It is interesting to note what can be accomplished when the press, the banks, and other institutions within civil society are on side.)

#### 4.2.5 Financial Re-regulation:

As we saw in chapter two, a number of popular sector scholars have examined the connection between financial deregulation, on the one hand, and rising unemployment and interest rates on the other. They contend most of the above solutions hinge on the state's ability to restrict speculative capital transactions and redirect capital towards productive investment. In recent years, scholars such as Howard Wachtel (1990), the ECEJ's Dillon (Dillon 1994; ECEJ 1993a and 1993b), and the CAW's Stanford (1995) have developed proposals for financial re-regulation, aimed at re-altering prevailing conditions.

In an effort to discourage unproductive corporate mergers and take-overs (and subsequent downsizing), Wachtel suggests a high tax be placed on capital gains earned from the buying or selling of stocks just before or after a merger. Similarly, in order to reduce speculation in securities markets, Wachtel advises that stocks resold quickly be more heavily taxed. In short, Wachtel contends that lower capital gains taxes should only be extended to investments tied to real growth and job creation (1990:214-5). Not only would these proposals discourage speculative investments, they could also earn governments considerable new revenue.

To retain local savings for domestic production, the ECEJ recommends: placing financial firms and pension funds under democratic local control (1993b:3); establishing a National Renewal Fund (1993a:122); rescinding the legislation allowing pension funds and retirement plans to invest abroad;<sup>8</sup> and tighter controls on the behaviour of private banks. For example:

...banks could be prevented from using insured deposits to purchase speculative securities. Government could require banks to lend a percentage of the deposits covered by the Canada Deposit Insurance Corporation in local communities for mortgages and local development. Financial institutions could be required to provide low-interest loans for social housing and below-market loans for first-time home buyers in recognition of the protection they receive from deposit insurance. (Dillon 1994:12)

While some financial re-regulation can occur at the local and national level, other measures require international cooperation. Some have called for a new Bretton Woods conference aimed at lowering global interest rates and re-regulating financial markets (Dillon

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<sup>8</sup> The ECEJ argues that, in 1993, RRSP holdings in Canada totalled approximately \$100 billion. Trusteed pension funds totalled another \$200 billion (Cameron contends total pension fund capital is \$400-500 billion). The Conservative government changed the rules governing retirement funds, allowing up to 20 per cent of this money to be invested overseas (up from 10 per cent). The ECEJ and others believe this policy should be reversed (ECEJ 1993a:121). Twenty per cent of \$300 billion is \$60 billion. Interestingly, the government claims new foreign borrowing by Canadian governments and businesses in 1995 totalled only \$13 billion (Martin 1996a:8).

interview 1995). Wachtel proposes an international agreement to end the competitive bidding-up of interest rates. He contends such an agreement would be technically quite simple: “An agreement to remove the speculative bulge in interest rates is like the twice-yearly resetting of our clocks. Everyone agrees to change them at a specified time, on a specified day, and in a moment time has been reset in the world” (1990:221). A comparable monetary accord would result in the coordinated ratcheting down of interest rates.

In recent years, the idea of a Tobin Tax has also received renewed attention. First proposed by Nobel-winning economist James Tobin, the Tobin Tax would be a small UN-administered tax imposed on international currency transactions. In the lead-up to the 1995 G7 summit in Halifax, growing frustration over speculative swings in foreign-exchange markets led to the Tobin Tax receiving serious, if brief, consideration. According to supporters, a Tobin Tax would discourage speculation, restore some stability to exchange rates, and in the process raise considerable new revenue for the UN. With international currency transactions totalling approximately \$1 trillion a day, a one per cent tax could raise \$10 billion daily. A 0.5 per cent tax would raise \$1.5 trillion annually – enough to pay down the entire external debt of Less Developed Countries (Valpy 1995; ECEJ 1995a).

Most of these proposals, while practicable in economic terms, remain well beyond reach politically. As we shall see in a moment, neo-conservative opposition to these proposals hinges on the assertion that, in the age of capital mobility and technological advancement, states cannot impose new controls or taxes on capital without suffering severe capital flight. Yet, states do have power. As Panitch argues, “today’s globalization is both authored by states and is primarily about reorganizing, rather than by-passing states” (1994:63). While some international cooperation is surely desirable, individual states have powers to re-regulate capital and considerable leverage they chose not to wield. Ultimately, the problem is one of political will. Politicians tend to experience a loss of nerve when confronting the financial sector or officials from Finance and the Bank of Canada (Dillon interview 1995). Implementation of the progressive proposals outlined above will entail a fight with capital, something today’s states, given their current ideological dispositions, remain unprepared to undertake.

#### **4.3 Dismissing Popular Sector Solutions**

The above proposals receive little attention in the media, and are rejected outright by neo-



conservative proponents in civil society. The reaction from state officials is more complex. Efforts are made for legitimization purposes to appear open to all ideas. In practice, however, progressive deficit reduction proposals garner minimal state consideration; Left recommendations are dismissed as impossible, if not undesirable.

As we have seen, the Alternative Federal Budgets received virtually no media attention. The CCPA's Cameron submitted the 1995 AFB to Martin, and received a 17-page response. Martin rejected the view that the Bank can lower interest rates. He insisted his Budget was fair, noting that business subsidies had been cut by 60 per cent (Martin 1995c:5). He outlined new auditing measures designed to ensure all taxpayers pay what they owe (Ibid.:3). He claimed the government could not undertake new spending on infrastructure or housing (Ibid.:4). Then, point-by-point, Martin responded to the tax proposals contained in the AFB, explaining why each was impractical. He dismissed the idea of an inheritance tax, claiming the potential revenue was minimal, and that Canada already taxes wealth through capital gains taxes, property taxes, and real estate transfer taxes (Ibid.:11). He rejected the idea of tightening RRSP tax deductions, claiming, "The government wants to avoid too heavy a reliance on public pension and income support programs in the future" (Ibid.:11). Martin refused to impose a minimum corporate tax, arguing corporations pay several taxes to various levels of government (Ibid.:15), and he defended the meals and entertainment deduction as a "legitimate business expense incurred in the course of earning business income" (Ibid.:16). Finance's DeVries contends the government cannot close many tax loopholes: "There are certain tax exemptions that, depending on the type of income you make, you can take advantage of... But to try to stop all of that is an impossibility. You just can't structure your tax system in a way to do that" (interview 1995). An increase in tax rates is rejected as uncompetitive. DeVries insists:

When you take a look at Canadian tax rates vis a vis other countries, on the corporate side there is no room to raise taxes. The corporate sector, like the financial sector, is very fluid, given the type of economy we have, the multinational corporations we have – they can very easily move their expenses to Canada and their income to some other country to avoid paying taxes altogether... So you have got to have a tax system that is competitive with your major trading partners... On the personal side, there is a lot of evidence out there now, some of it is speculative and some hard evidence, that there is a lot of difficulty in trying to recruit young professionals...because of the tax rates. (interview 1995)<sup>9</sup>

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<sup>9</sup> Interestingly, one source at the Bank of Canada argued that Canadian taxes have not reached the peak of the Laffer Curve. His review of the evidence suggests that increasing tax rates would increase revenues, and conversely, that lowering tax rates would reduce revenues.

The government's response to the 1996 AFB was similar. Again, Martin made an effort to appear open. On the day of the AFB's release, four of its authors met for two hours with Martin. Again, the government insisted the AFB proposals were unworkable: interest rates could not be lowered at will, and if taxes were increased, businesses would leave (Cameron interview 1996).

The government does not deny that the NAIRU has been rising; however, this is explained as a product of rising taxes and labour market rigidities. As one Bank of Canada study contends, "the NAIRU has risen somewhat during the 1990s, mainly because of a steep rise in the rate of payroll taxation" (Poloz 1994:v). Other contributing factors fingered by the study include: skills mismatching, "disincentives" (such as UI), minimum wages, and unionization (Ibid.:2-12).<sup>10</sup> According to this analysis, rising unemployment has little to do with corporate restructuring or the growth of the paper economy, and much more to do with an inflexible and improperly trained workforce.<sup>11</sup> The solution to unemployment then, from the state's perspective, is to maintain "competitive tax rates," lower payroll taxes, help Canadians acquire skills, encourage Canadians "to adapt to new opportunities," and create "a healthy fiscal and monetary climate" (Dept. of Finance 1994b:1-5). "Good jobs," insists the Purple Paper, "cannot be created by fiat" (Ibid.:v). Martin's deficit targets, "are not ends in themselves," concludes the Purple Paper. "Rather, they are among the necessary means towards the overarching objective of providing more and better jobs" (Ibid.:87).

The government has expressed some interest in the idea of debt repatriation. In an effort to boost CSB sales, the Liberals established a Canadian Debt Retail Agency, complete with a toll-free number and internet site. CSBs can now be applied to RRSPs, and three-year escalating CSBs are now available ("Debt Imagination" 1995). The new Debt Retail Agency, however, is staffed by only four people (Ibid.). These limited initiatives are an anomaly; they result from a perceived need to appear to be taking action to reduce external debt. The concept of debt repatriation is ultimately antithetical to the neo-conservative project, a view eventually revealed in interviews with state officials and neo-conservative proponents in civil society. One source at the Bank of Canada argued the debt repatriation debate was misguided. He claimed that financing

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<sup>10</sup> This analysis was reiterated by Martin in a second letter to Cameron (1995d) and in another letter received from Bank of Canada spokesperson Pierre Duguay (1995).

<sup>11</sup> The study acknowledges there were, "possibly...some additional temporary effects coming from relative price shocks due to trade liberalization and tax reform" (Poloz 1994:14).

more government debt domestically would merely force private borrowers to seek increased financing abroad: "The basic issue is, if we are spending more than we are earning, as a country, somebody has got to be borrowing abroad." The Hongkong Bank's Bond goes further, arguing that debt repatriation is both unattainable and undesirable. He agrees that if less debt was held abroad, we would have more control over interest rate policy, but insists there is not enough Canadian RRSP and pension capital to repatriate the bulk of the \$250 billion federal and provincial foreign-held debt, and that mandating people to hold CSBs would take needed money away from the private sector – including "widows" (interview 1995). Bond also opposes these mandated repatriation plans for another, more political reason: "Do I want to make it easier for the government to sell debt, or do I want to make it as difficult as all shit for the government to sell debt? I would like to make it virtually impossible, because then guess what happens to the deficit? It goes to zip" (ibid.) – an interesting acknowledgement of the conditioning framework.

Neo-conservative actors deny that financial markets can or should be re-regulated. They insist efforts to control or tax monies made on financial markets would be unenforceable (Bond interview 1995). The idea of a Tobin Tax has been harshly received in financial circles. Business reporters Terence Corcoran and Deidre McMurdy have both condemned the plan (Corcoran 1995:B2; McMurdy 1995:36). Corcoran claims the Tobin proposal will "never fly" and calls the tax inflationary.<sup>12</sup> Others, while not hostile to the Tobin proposal, believe its implementation unlikely, given existing conditions. Economist Sylvia Ostry holds that deregulation and technological developments have made the administration of a Tobin Tax near impossible (Valpy 1995:A2). There were reports that prior to the 1995 G7 meeting, Liberal cabinet ministers Axworthy and Andre Ouellet supported the Tobin Tax. However, Martin opposed the idea (CBC Radio, "The House," 1995) and by the time G7 leaders met, the proposal had been effectively removed from the agenda.

Recommendations that the Bank of Canada reassume a greater role in money creation and government lending, and that private banks be allowed a reduced role in money creation, are strongly rejected by neo-conservative scholars. As we saw in chapter three, Grubel, Laidler and Robson oppose reinstating reserve requirements, claiming this would force the banks to charge

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<sup>12</sup> Corcoran writes, "Outside of a small band of nomadic ideologues - latter-day world federalists, socialists, slippery internationalists and global governists who will never abandon the search for the next big opportunity to boost inflation and raise taxes - the Tobin Tax has no support" (1995:B2). I fail to see why this tax would be more inflationary than the uncertainty caused by currency fluctuations, nor do I believe concerns regarding inflation outweigh the Tobin Tax's numerous benefits.

higher interest on loans and give lower interest on deposits, thereby punishing consumers. Bond insists such a move, by decreasing the capital available for loans, would “put the economy into a modest tailspin” (interview 1995). If, on the other hand, reserve requirements are not imposed, increasing Bank of Canada loans to the government will, according to Bond, increase the money supply and cause “one shit of a lot of inflation” (Ibid.). This has become the prevailing view at the Bank of Canada. One Bank source insisted that increased Bank lending to the government would cause “hyper-inflation.”

Neo-conservative advocates are equally unequivocal that the Bank of Canada cannot lower interest rates. Boutziouvis insists: “This idea has been tried all around the world. In today’s world of open financial markets, if the Bank of Canada was to try to print money, and was to try to take control of its interest rates and force them to be lowered, the response would be swift and it would be deadly - our dollar would collapse... They [the private sector] would punish the Canadian economy” (interview 1995). As we saw in chapter three, this logic is accepted by the Bank.

#### **4.4 The Federal Government’s Approach to Deficit Reduction**

##### **4.4.1 The Record Since 1984:**

As we have seen, the Conservatives argued deficit reduction must be the first priority of government. They were strong promoters of the neo-conservative project, taking significant steps in the areas of spending restraint, social program cuts, privatization, regressive tax reform, inflation control, and trade liberalization.<sup>13</sup> Nevertheless, the Conservatives were constrained in their pursuit of a neo-conservative agenda. In Parliament, the government faced a Liberal opposition still committed to social programs and an NDP with official party status. In society at

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<sup>13</sup> Marjorie Cohen, with the assistance of Judy Morrison and Darcian Smith, outlines many of the measures implemented by the Conservatives and Liberals in a four-page chronology of federal government cutbacks between 1985 and 1995. Included among the Conservative policy changes: cuts to the Canada Mortgage and Housing Corporation, social housing, Official Development Assistance, Via Rail, the CBC, and advocacy groups; the elimination of 15,000 civil service jobs; the implementation of the \$100,000 capital gains tax exemption; the imposition of the GST; lowering the corporate income tax rate from 36 to 33 per cent (and lower still for manufacturing companies and small businesses); transforming the personal income tax structure from 10 brackets to three; the tax clawback of Old Age Security for people with incomes over \$50,000, and the clawback and eventual elimination of the Family Allowance; the elimination of federal contributions to the UI program; a cap on CAP transfers to the provinces, and a freeze on EPF transfers for health and post-secondary education; the elimination of numerous government organizations (such as the Economic Council of Canada); and annual privatization announcements (Cohen 1995/96).

large, the Conservatives faced a population still evincing strong support for universal social programs and government job creation. The neo-conservative hegemonic project was less advanced, and the dominant consensus less ubiquitous; the government had to proceed carefully.<sup>14</sup> Conditions were more favourable during the Conservatives' second term, principally due to the Canada-U.S. FTA, allowing for easier implementation of neo-conservative reforms.

By the time the Liberals were elected in 1993, the hegemonic project was even further advanced. While the public, having just lived through the worse recession since the 1930s, was expressing renewed concern regarding unemployment – a condition the Liberals incorporated into their Red Book – a stronger consensus existed in the media with respect to neo-conservative assumptions, and in Parliament the new government faced an opposition that was to its Right.<sup>15</sup> Despite having been elected on the promise of job creation, the Liberals have implemented the neo-conservative agenda – particularly expenditure cuts – with a speed and depth unmatched by their predecessors. Barlow and Campbell contend that between the writing of the Liberal Red Book and the release of the 1995 Budget the leadership of the Liberal Party went from seeing jobs and growth as a precondition for deficit reduction, to seeing deficit reduction as a precondition for jobs and growth (1995:135). The BCNI's d'Aquino, commenting on this transformation, claimed, “The Liberal government is now in the camp of correct economic thinking...it's an historic position for the Liberals” (in Barlow and Campbell 1995:135).<sup>16</sup> Economic conditions, relating primarily to trade liberalization and the internationalization of financial markets, bolstered the position of neo-conservatives within the Liberal Party, who argued convincingly that the government must meet the demands of corporate capital.

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<sup>14</sup> The government was forced to withdraw one early initiative, the de-indexing of OAS in 1985, due to strong opposition from seniors, but ultimately succeeded during the second Conservative term.

<sup>15</sup> This remodelled Parliament has had an impact on public discourse. A survey of MPs questions and comments in the House of Commons during 1994, conducted by the CCPA, found that, “politicians were obsessed with three issues – the deficit, crime, and Quebec. A total of 259 questions or statements on these three subjects were recorded in Hansard's Question Period reports... In sharp contrast, there were only 27 questions or statements about unemployment, 13 about poverty, 12 about plant closures, 18 about health care, 19 about interest rates, and 10 about pollution. No questions at all were asked about homelessness, about bank profits, about drug prices, about wages, about human rights...” (CCPA “Deficit, Crime, Quebec Dominate Question Period During 1994,” 1995).

<sup>16</sup> Chapter four of Barlow and Campbell's book outlines the battle that took place during the early 1990s between “business Liberals” and “social Liberals” – a battle the business Liberals eventually won. Barlow and Campbell identify the Liberal's 1991 Aylmer, Quebec policy conference as a key turning point. Roy MacLaren, a prominent member of the Liberal's right-wing camp, allegedly emerged from the conference and declared, “Eat your heart out, Lloyd Axworthy” (1995:94). After the 1993 election, key economic portfolios went to business Liberals: Finance to Martin; Industry to John Manley; Trade to MacLaren; and Transport to Doug Young.

The Liberal's first Budget cut transfers to the provinces for health, post-secondary education and social assistance by \$1.5 billion per year, announced UI cuts of \$2.4 billion, and extended the freeze on federal employee salaries until 1997 (Cohen, Morrison and Smith 1995/96). These measures, however, paled in comparison to the restructuring instituted by the 1995 Budget.

The 1995 Budget outlined spending cuts (including reductions in planned spending) of over \$25 billion over three years (Martin 1995a:4). It announced that for fiscal year 1996-97, transfer payments for health, post-secondary education and social assistance would be rolled into the new Canada Health and Social Transfer (CHST), with funding cut by \$7 billion in the first two years. Critics contend the CHST will also mean the end of national standards governing these program areas, allowing provincial governments to experiment with new user fees, workfare, and privatization (and dispersing popular sector organizing across the country). The 1995 Budget announced layoffs of over 45,000 public sector workers, not including layoffs at crown corporations being downsized (such as the CBC) or privatized (such as CN Rail, Petro-Canada, and airports). It also included the implementation of a new immigration fee – dubbed a “head-tax” by opponents – of \$975. The Western Grain Transport Subsidy was eliminated. Martin declared the government's intention to cut the UI program by 10 per cent. Some new taxes were imposed, but these were largely symbolic: corporate taxes were increased by \$300 million; a temporary tax of \$100 million was levied on the banks; and the gas tax was increased by 1.5 cents per litre. No changes were made to the personal income tax system. Overall, as Martin was proud to point out, the Budget cut \$7 in spending for every \$1 raised in new revenue (Martin 1995b).<sup>17</sup>

The 1996 Budget consolidated the cutbacks announced the previous year. Yet, in rhetorical terms, the 1996 Budget, and the Throne Speech that preceded it, marked a significant shift – pointing to the material vulnerability of the neo-conservative program.<sup>18</sup> The 1996 Throne Speech emphasized, not deficit reduction, but the need for social and job security, and job creation, particularly for youth (Greenspon and Delacourt 1996). In the parliamentary debate that followed, Chrétien said the government had taken significant action to reduce the deficit, and he called on the private sector to now deliver on job creation.

On March 6, Paul Martin released the 1996 Budget. CBC's news coverage began with

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<sup>17</sup> The 1996 Budget extended this 7-to-1 ratio until 1998-99.

<sup>18</sup> The comments that follow are based primarily upon CBC news coverage of these events.

snapshots of demonstrations against federal and provincial cutbacks. The media quickly dubbed the 1996 Budget a “stay the course” program. CBC declared the Budget “more political than economic,” given the possibility of an election within the year and a growing popular sentiment that budget-cutting had gone far enough. The Budget offered nothing of substance in the area of job creation. Indeed, for the first time in recent memory, the Budget did not include unemployment forecasts. The government indicated a continued commitment to keep inflation between one and three per cent, and the Budget contained no new personal or corporate taxes.<sup>19</sup> The new cuts announced, however, were significantly less than those included in the 1995 Budget (Martin 1996b).

With respect to deficit reduction, Martin declared, “The attack on the deficit is irrevocable and irreversible... We will balance the books” (Ibid.). The Finance Minister said the deficit would continue to decline year after year, dropping to \$24.3 billion (equal to the Red Book promise of 3 per cent of GDP) in 1996-97, and to \$17 billion (or 2 per cent of GDP) in fiscal year 1997-98. The Budget included further spending cuts of \$1.9 billion, planned for 1998-99, representing a 3.5 per cent cut for most departments. This cut, added to the expenditure cuts of the first two Liberal budgets, will drop total program spending from \$120 billion in 1993-94 to \$105.5 billion in 1998-99. By 1998-99, program spending relative to GDP will fall to 12 per cent, its lowest level in 50 years (Ibid.).

The 1996 Budget speech emphasized the heightened concerns many Canadians feel with respect to job security, yet in concrete terms offered little hope for lower unemployment. Martin estimated growth increases of only 1.8 per cent in 1996 and 2.6 per cent in 1997. The only specific job creation measure announced was a \$315 million youth training and summer employment initiative. The current approach to job creation is to implore the private sector to deliver greater investment (Ibid.).

Some significant new social program measures were contained in the 1996 Budget.

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<sup>19</sup> The revenue measures announced in the Budget included: a one year extension of the 12 per cent surcharge on bank profits (in clear response to popular outrage after two years of record bank profits); the extension of the \$13,500 ceiling on RRSP contributions until the year 2003; increased tax credits for tuition and other education expenses (a minimal concession given rising tuition costs stemming from post-secondary funding cuts); an increase in allowable deductions for charitable donations (no doubt designed to encourage more charitable activity in the era of government cutbacks); an end to tax benefits for venture capital corporations; and tighter rules for tax deferrals in the resource sector. The government also changed the tax rules with respect to child support payments; after years of lobbying from single mothers, the government will no longer tax child support payments, and parents paying child support will no longer be able to claim tax deductions (this measure will likely save the government money, as parents claiming the credit were usually in a higher tax bracket).

Martin declared that funding for the CHST will be unchanged at the levels announced in the 1995 Budget for its first two years (therefore reduced by \$2.5 billion in 1996-97, and a further \$4.5 billion in 1997-98). CHST funding will be frozen for the following two years (1998-99 to 2002-03) at \$25.1 billion. Then, for the next three years, CHST funding will slowly increase to \$27.4 billion (still significantly lower than federal funding for health, post-secondary education and welfare before the 1995 Budget). Following the lead of some provinces, Martin announced a doubling of the child tax credit for the working poor over the next two years, and more tax credit support for people caring for disabled dependents at home.<sup>20</sup> The most significant announcement concerned old age benefits: beginning in 2001, Old Age Security and the Guaranteed Income Supplement will be combined into a new Seniors' Benefit. This new program – targeted on the basis of family need – represents the end of universality for pensions.<sup>21</sup>

While the Liberal government has not adopted the neo-conservative project to the letter, it is in full agreement with the basic assumptions. Furthermore, these premises are no longer the focus of debate within state institutions. According to DeVries, there is a broad consensus regarding the government's overall approach:

The policy debates were more back in the '80s, when the deficit problem wasn't front page news. That's when there was more of a feeling that when you are in a downturn, you go back to Keynesian economics. I think a lot of that has gone out the window. The view now, given the high debt levels, is, regardless of the economic situation, you still have to get the fiscal situation under control... We operate on the assumption that we can't increase tax rates any more, and a general feeling that you will lose any support for whatever measures you take in a Budget if you raise tax rates... That then leaves you primarily looking at stuff on the spending side. (interview 1995)

The Liberal approach has not satisfied all neo-conservative advocates. Publicly, the Liberals have been criticized for moving too slowly. In December 1995, when Martin announced his new deficit reduction target of two per cent of GDP by 1997-98, the Globe condemned the

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<sup>20</sup> According to many anti-poverty activists, increasing child tax credits to the working poor is tied to a low-wage strategy designed to increase the pool of workers willing or forced to work for minimum wage (Swanson interview 1995). The tax credit for families caring for disabled dependents can be viewed as a minimal measure designed to mitigate larger cuts to health and social services.

<sup>21</sup> According to Martin, the new Seniors' Benefit will be tax free and indexed to inflation. Spouses will have their income assessed as a couple; low-income seniors will see their benefits increase, while seniors with a family income above \$45,000 will receive reduced benefits. Couples with incomes above \$75,000 and individuals with incomes over \$52,000 will not receive the new Seniors' Benefit. Martin claimed that, under the new program, 75 per cent of seniors will be as well or better off. No doubt anticipating opposition from women's groups with respect to the family assessment, Martin noted that couples would receive individual cheques, with family benefits split evenly.



target as too little, too late (“Mr. Martin’s deficit target” 1995). The Fraser Institute’s Walker, in an article entitled “Sober Second Thoughts About the 1995 Budget,” maintained the Budget “was not tough” (1995:21), and noted that total spending (including interest payments) increased in 1995-96 by \$600 million (Ibid.:19). In the context of these criticisms, the Liberals appear moderate.

Privately, however, it is clear most neo-conservative actors are pleased with the Liberals. The BCNI’s Boutziouvis said, “Over the past year, there has been a significant improvement..in public sector finances, both federally and provincially... Things have moved in a positive direction... The outlook is quite bright” (interview 1995). The Fraser Institute’s Richardson claims, “The Liberals are doing good. We would like to see them do more, but they are moving in the right direction” (interview 1995). Even Grubel had qualified praise for the 1995 Budget. He “congratulated the government on decreasing program spending in absolute dollars for the first time in the post-war period,” and applauds the move towards bloc funding, which he claims will “let local people control their money,...take power away from Left elites, and... let democracy work” (interview 1995).

#### 4.4.2 Selling the Liberal Approach:

The BCNI and Fraser Institute may be pleased with recent fiscal developments, and most media reaction to the last two budgets has been favourable – “tough but fair” is the dominant verdict. Selling the Budgets to the wider public, however, presents a challenge, given a growing sense of material insecurity.

As the preceding summary of recent Budgets demonstrates, the federal government has, with the exception of token gestures, consistently refused to consider revenue or monetary solutions for reducing the deficit. The overriding approach, by the government’s own admission, has been to cut expenditures, particularly social spending. Yet the Liberals have taken pains to portray their approach as balanced and fair. During the 1996 Budget Speech, Martin sought to distinguish the Liberal approach from that of the Reform Party, rejecting what he termed “draconian” measures aimed at balancing the budget “overnight” (Martin 1996b).

The Liberal Budgets have included a number of placebo policies. Increases in child tax credits and tuition deductions, for example, are relatively inexpensive measures designed to demonstrate sympathy for the growing financial anxiety felt by many Canadians. Similarly, to appear tough on the banks, the Liberals levied a temporary surcharge on their profits. Mike

Barton, the legislative assistant to MP David Walker (the Parliamentary Secretary to the Minister of Finance), acknowledges the bank tax has political, rather than revenue value: "It [the tax] doesn't make a hell of a lot of difference to the banks. They'll find some other way of writing it off. But in a political sense it helps us" (interview 1995).

Public consultations are central to the Liberals' legitimization program. While traveling House of Commons committees give the appearance of openness and public participation, their impact on policy outcomes is dubious. Barton offers a rather cynical description of the pre-Budget Finance Committee consultations: "We invite a lot of prominent groups – the Canadian Labour Congress, the National Anti-Poverty Organization, Wood Gundy, the Dominion Bond Raters... Then we hit the road... You're pretty damn sure what they are going to say... The consultations have political reasons... It's good to have ideas thrown on the table to test the reaction" (interview 1995). Barton acknowledges that some ideas are floated only to ensure the final product is not as harsh as anticipated.<sup>22</sup>

In concrete terms, these placebo policies, consultative measures and rhetorical nuances are meaningless. With respect to the process of ideological legitimation, however, they provide a telling indication of the hegemonic project's confidence, and represent necessary symbolic concessions to subordinate groups.

#### 4.4.3 Factors Constraining Full Adoption of the Neo-Conservative Project:

Ideological dissent has limited implementation of the neo-conservative program. The public, and even some elements of the Liberal Party itself, has remained resistant to the neo-conservative project. This was made evident by the popular rejection of free trade in the 1988 election, and again by the public's choice of jobs over deficit reduction in the 1993 election. Keynesian policies have become tightly enmeshed in Canada's political culture and the state apparatus, making cutbacks a more difficult proposition (Haiven et al 1990:9). As the opinion surveys reviewed in chapter three attest, the dominance of neo-conservative ideas has not

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<sup>22</sup> That parliamentary committees serve principally a legitimization function was confirmed by a communications strategy document leaked from the Ministry of Human Resources Development shortly before the Commons Standing Committee on HRD began cross-country hearings in the Fall of 1994. The document outlines the objectives of the consultation process, stating the hearings should: "prepare Canadians for trade-offs"; "build understanding that choices will be necessary"; and "demonstrate that the government is choosing to govern in a new way" (Ministry of HRD 1994b:7). Noticeably absent from the list of objectives is any indication that the public was to provide the government with advice or guidance.

translated into total popular acceptance of neo-conservative policies.

The Liberal Party's pursuit of the neo-conservative project has been constrained, in small measure, by divisions within the party itself.<sup>23</sup> As we have seen, social Liberals within the government's caucus – such as Warren Allmand, George Baker and Maria Minna – have publicly challenged the government's chosen approach to deficit reduction. Allmand claims his decision to vote against Bill C-76 received quiet support from other caucus members, including “a couple of cabinet ministers” (interview 1995).<sup>24</sup> Baker admits his research on tax expenditures is “not received very well” by Martin, and “as for large corporations making big profits and paying no taxes – they aren't ever going to attack that” (interview 1995b).<sup>25</sup> However, Baker claims he has received support within caucus, and that he and his supporters have set up an informal group that meets regularly.<sup>26</sup>

The Liberals have also been constrained by the threat of Quebec separatism. The government understands that the Bloc Québécois and Parti Québécois will use cutbacks to their advantage. Prior to the 1995 Quebec referendum, the Liberals likely assumed that a solid no vote would allow them to put this constraint behind them. The narrow margin of victory for the no side, however, means this constraint persists. According to Globe Quebec correspondent Rhéal

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<sup>23</sup> Indeed, according to Barlow and Campbell, internal Liberal debates have “been the backdrop against which most great social change in Canada has taken place” (1995:8-9). This is not to say that social Liberals are responsible for Canada's social programs. Rather, the balance of forces within society at large has influenced the balance of forces within the party. Barlow and Campbell contend the Liberals tend to follow, not lead (Ibid.:10). Thus, Mackenzie King's social program initiatives were a response to growing support for the CCF (Ibid.:20). Conversely, as power shifts back to corporations, business Liberals reassume a dominant role within the party (Ibid.:23-4).

<sup>24</sup> Allmand's opposition to the 1995 Budget made him something of a folk hero in some circles. When I interviewed him in the summer of 1995, a foot-high pile of support letters from across the country sat on his desk. Allmand supports popular sector calls for tax and monetary reform. He argues the MPs who dominate caucus “aren't real Liberals,” and he said, “The whole country has been brainwashed. The [Milton] Friedman school of economics dominates.” He remains cautiously optimistic, however. He claims there is vigorous debate in caucus on these matters, insists debt repatriation and monetization are still being considered. Moreover, Allmand argues, the government's approach to deficit reduction will not work: it will merely precipitate another recession and increase public resistance. “If we continue down this path,” Allmand concluded, “things are going to get much worse for people. We are going to have a revolution! People say Marxism is dead, but it won't be. We will have a few people driving Mercedes and everyone else will be riding bicycles” (interview 1995).

<sup>25</sup> Baker's latest campaign is tackling Bill S-9, a new tax measure that will allow Canadian corporations and individuals paying U.S. taxes (such as U.S. inheritance taxes) to deduct these “expenses” from their Canadian taxes. Baker claims this new Bill will cost the government about \$1.5 billion annually (interview 1995).

<sup>26</sup> Baker claims Martin refers to this group as “Chairman George and the Revolutionary Front.” Asked what this group intends to do if it proves impossible to change the direction of government policy from within caucus, Baker replied, “Stay in touch” (interview 1995).

Séguin, the next referendum “will pit a powerful social movement emerging in Quebec against neo-liberalism, with sovereigntists taking up the social-democratic mantle against what they call the right-wing policies of the federalists” (1995).<sup>27</sup>

Finally, the Liberal program has been, and may continue to be, constrained by the counter-hegemonic project. As cutbacks erode the material circumstances of many Canadians, and when these cutbacks meet with large protests, the popular debate slowly begins to shift. On the eve of Martin’s third Budget speech, CBC’s National Magazine ran a special on “the costs of cost-cutting” (CBC, March 5, 1996). The piece included an unusually high percentage of Left commentators from academia and the labour movement. They noted that, while deficit reduction targets were being met, the government was not delivering on its election promises of jobs and growth. Conflicting approaches to deficit reduction were presented during a debate between the Fraser Institute’s Walker and the CAW’s Stanford.

With talk of an early election, the Liberal government appears disinclined to campaign on a program of cutbacks. While criticism of the Liberals has, thus far, been fairly muted, particularly within Parliament, Barton expresses concern that the Liberals may yet “get shit for not creating new jobs, which we promised” (interview 1995). This feeling has no doubt been reinforced by signs of growing labour and popular resistance to retrenchment. The public support extended to the recent Calgary laundry workers’ strike (McGrath and Neu 1996) and the rotating strikes against the Harris government are surely making an impression in Ottawa.

The 1996 Budget offers some evidence of a restrained neo-conservative project. Making sense of the latest Budget is difficult. On the one hand, it continues down the road of deficit reduction through spending cuts and layoffs, ignores progressive policy alternatives for revenue and monetary policy, offers little hope to the unemployed, ends the universality of pensions and, while spending cuts relative to earlier Liberal budgets appear moderate, the 1996-97 fiscal year will see the implementation of the CHST and the first of two years of massive cuts to federal

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<sup>27</sup> Many Quebec sovereigntists speak in Gramscian terms when referring to their struggle. They refer to the separatist movement as “un projet de société” - a collective undertaking to build a more just and equitable society. When the Commons Committee on HRD was in Vancouver, the Fraser Institute presented its proposals for decentralizing and cutting social programs. During questioning, one Bloc MP vigorously challenged the Fraser Institute presenters, then remarked, “I hope the Liberals adopt your proposals, because that would be the greatest thing for the cause of sovereignty.” This moment was echoed the day after the Quebec referendum. CBC radio was providing live coverage of question period in the House of Commons. When Lucien Bouchard rose to ask his first post-referendum question, he did not ask about the Prime Minister’s constitutional plans, but whether the no vote would give the government a green light to proceed with massive cuts to UI. A second BQ MP rose and asked if Chrétien was now going to go ahead with plans to gut pensions.

funding for social assistance, health and post-secondary education. On the other hand, the 1996 Budget was arguably a turning point in hegemonic terms; the government was forced to back-off on further spending cuts, and to offer some minor material concessions. The rhetoric – which, in Gramscian terms, matters – was different from past years, with its reduced emphasis on deficit reduction and increased emphasis on social and job security. In concrete terms, the 1996 Budget remains highly restrictive. A case can be made, however, that it was not as restrictive as the Liberals had intended six months prior to its release.<sup>28</sup>

#### **4.5 Evaluation of the Federal Government's Approach**

##### **4.5.1 Will the Government Approach Work?**

It is worthwhile to examine whether the Liberal approach to deficit reduction will indeed achieve its stated objective; namely, balancing the federal budget and reducing the national debt. Predictably, the conflicting hegemonic projects advance competing answers to this question

The government's approach is indeed lowering the deficit, both in dollar amounts and relative to GDP. The government insists its approach is resulting in lower interest rates (Martin claims short-term rates declined 3 per cent between the 1995 and 1996 Budgets), and claims the debt-to-GDP ratio will begin to decline in 1997-98 (Martin 1996a:8). However, whether the Liberal approach will eliminate the deficit before the next recession imposes new stresses on the government's revenues and expenditures remains to be seen. More importantly, what impact will the government's chosen approach have on long-term growth rates, and hence, on the government's ability to lower the debt-to-GDP ratio?

Popular sector groups argue that a deficit reduction strategy based solely on expenditure cuts, government downsizing and privatization cannot work. They contend that, so long as interest rates (and hence debt charges) surpass the rate of economic growth, government debt will continue to rise as a proportion of GDP, unless the government runs consistent annual operating surpluses of approximately \$20 billion (ECEJ 1995a:2). According to the 1996 Budget estimates, the government operating surplus will reach \$26 billion in 1996-97, and \$35 billion in 1997-98

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<sup>28</sup> This trend is evident in the current U.S. primaries. Despite the emphasis in recent years on balancing the budget, climaxing with the 1994 congressional elections and Newt Gingrich's "Contract with America," the Republican presidential candidates have said very little about deficit reduction in 1996. They seem to have judged the public mood to be one of anxiety (and anger) over job losses. As Noam Chomsky noted during a recent Vancouver speech, outside of elite circles, people simply are not interested in the issue of deficit reduction. Hence, when election season starts, the deficit issue evaporates.

(Martin 1996a:6). However, government restraint is having the paradoxical effect of lowering growth,<sup>29</sup> thus calling into question the long-term sustainability of such an approach. Barlow and Campbell maintain, “When real interest rates exceed real growth by as much as they do now, stabilizing the debt quickly through spending cuts would require such a huge operating surplus as to be politically unfeasible” (1995:84).

The Liberal program is premised on the assumption that expenditure cuts will be rewarded by the private sector – that government downsizing will be met with increased private investment, and thus, job creation. The BCNI’s Boutziouvis maintains that the Liberal program is already paying off in terms of increased jobs and investment (interview 1995). He acknowledges that government downsizing will lead to a drop in GDP in the short-term, but insists the private sector and personal initiative are filling the void. He could not provide figures illustrating an increase in private sector investment, but claimed “it is happening anecdotally” (Ibid.). Anecdotally, however, many profitable corporations have continued to downsize their workforces.<sup>30</sup>

As we saw in chapter three, researchers such as the Bank of Canada’s Macklem have developed simulation models that illustrate the long-term benefits of deficit reduction. Yet, the “science” underlying these models is questionable. In the short-term, according to Macklem’s model, deficit reduction lowers disposable income, reduces consumption, and thus temporarily increases unemployment. In the long-term, however, deficit reduction leads to lower taxes, increased consumption, and thus higher incomes for future generations. I asked Macklem if his simulation incorporates the impact higher short-term unemployment will have on government revenues and expenditures. His answer was rather convoluted, but it seems not (interview 1995). The future promise of economic prosperity remains, and best, unproven.

#### 4.5.2 Winners and Losers – the Material Connection Revisited:

Chapter two examined who benefited and who lost in the course of the debt’s

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<sup>29</sup> A CCPA technical study, conducted in late 1995, “predicts that the...public spending cuts planned by the federal and provincial governments will reduce the Gross Domestic Product by at least...3% over the next three to four years” (“Martin’s 1995 Budget drags down Canada’s economy,” 1995/96).

<sup>30</sup> The assumption that the private sector will fill the investment void left by a retreating state is even more central to the Harris program in Ontario. “The Common Sense Revolution” is premised on the belief that tax cuts will encourage renewed private sector spending. The logic here even makes some neo-conservatives nervous. As noted earlier, Boutziouvis thinks the tax reduction plan is ill-advised, and notes that the Harris plan is premised on forecasts of five straight years of 4 per cent growth - a very unlikely scenario (interview 1995). Likewise, a source at the Bank of Canada argued that a deficit reduction plan based on extensive expenditure cuts and tax reductions would be unwise.

accumulation. It established a connection between the debt's growth and its explanation in the dominant discourse, and the material interests of the corporate class. Here we extend this exercise to the question of who has benefited and who has lost as a result of the government's approach to deficit reduction. As McQuaig notes, "The response to...deficit growth has not been to impose extra taxes on those who have benefited from the high interest rates; on the contrary, the response has been to cut social programs" (1995:273).

The dominant view holds that the burden of deficit reduction must be shared by all. The government insists one of its guiding principles is "fairness": "The government will ensure that the most vulnerable in society are not left behind. Expenditure reduction must not be an excuse to abandon those Canadians in greatest need" (Dept. of Finance 1994a:vi). The "Globe Plan" for deficit reduction concludes: "No one said this was going to be easy. Some farmers will lose their farms; some UI recipients will be forced onto welfare; some businesses will go bankrupt; some government workers will lose their jobs; and so on. We can only say that we have tried to distribute the cuts fairly" (Coynes 1994:D5). When I asked Boutziouvis how the BCNI and its membership are contributing to deficit reduction, he replied, "We did share [in the burden of deficit reduction] in the '95 Budget. Large corporations were hit pretty hard with tax increases, because of the perception that we were making such astronomical profits... A number of tax expenditures were reduced. And finally...in order to share the burden, all sorts of business subsidies were cut" (interview 1995). However, when asked if the BCNI membership could, in the era of government downsizing, guarantee Canadian investment, Boutziouvis replied:

Several private sector companies have increased their investments in this country... Investment has been coming... But the private sector cannot make those kinds of assurances. Investment is so easy to move around the globe, that such pacts cannot be made... The BCNI cannot, for example, say that we promise to keep our 150 companies in Canada if you get your policies right... But if you don't get your policies right, you will definitely see a loss of investment. (Ibid.)

One might expect a balanced approach to deficit reduction to cut tax expenditures as well as direct government expenditures. Barlow and Campbell cite a 1993 Finance document that estimates total tax expenditures to be \$90 billion, compared with direct program expenditures of \$120 billion. While some of these tax expenditures benefit all Canadians, and hence are very popular, many disproportionately benefit high-income earners and corporations.<sup>31</sup> Yet the 1995

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<sup>31</sup> For example, tax deduction for RRSPs and RPPs cost the federal government \$10 billion in 1992 (and provincial governments another \$5 billion). "50 percent of the [RRSP and RPP] benefits end up in the hands of the top 10 percent of income earners" (Barlow and Campbell 1995:160). However, the

Budget cut less than \$1 billion from these programs (Barlow and Campbell 1995:161).

Even proponents of spending cuts acknowledge there will be short-term costs, and when pressed, some will grant that the effects of government downsizing will not be equally felt. The C.D. Howe Institute's Scarth contends:

Deficit reduction is a classic example of long-term gain for short-term pain. Some of the main benefits are a higher standard of living and lower level of unemployment for future generations. The costs include a reduced living standard for many citizens today and a temporary increase in unemployment... [T]he net benefit of deficit reduction will be roughly equivalent to a permanent 3 percent increase in living standards for all generations. The net benefit will be even bigger if lower debt levels lead to a decrease in the risk premiums demanded by foreign holders of Canadian debt. (1994:1)<sup>32</sup>

Finance's DeVries admits: "Wage settlements are still very subdued, and in the public sector will continue to be subdued... I see real wages going down...and real incomes will also be coming down... I expect that to continue for some time" (interview 1995). Asked upon whom the burden of deficit reduction would fall, DeVries replied:

The public sector will continue to contract, and a lot of those services will not be picked up by the private sector... The main focus will be on the services and programs that are being delivered... There will be some fairly dramatic restructuring of expenditures in these areas...The burden is going to fall on those people who are the major beneficiaries of government programs: the people in the education system, the people on welfare, and the seniors. (Ibid.)<sup>33</sup>

Not everyone has felt the pinch of deficit reduction. As we saw in chapter two, corporate operating profits reached record levels in 1994 and 1995 (see Chart 2.5). At a time when so many are being asked to "tighten their belts," this trend causes defenders of the neo-conservative project some discomfort. Boutziouvis and Bond insist the 1994 growth in corporate profits was "a record increase," not an overall peak (interviews 1995). DeVries maintains, "Profits are squeezed right now. Not much is happening. They are back up to where they were prior to the last recession, and will mostly remain at that level, but over the next couple years I don't expect a major increase in profits" (interview 1995). Industry Minister Manley insists, "corporate profits

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government's only action with respect to RRSPs thus far has been to maintain a contribution ceiling of \$13,500 – a cap that only the very wealthiest Canadians can avail themselves of.

<sup>32</sup> According to Scarth's simulation, short-term unemployment caused by federal cutbacks will amount to "about one-half of one percentage point for each of several years" (1994:2). As with Macklem's simulation, there is no indication that Scarth incorporates this into his deficit calculations.

<sup>33</sup> As DeVries was showing me to the elevators, he commented on the security system at Finance. He claimed that before the 1991 Public Service Alliance strike, the Department did not have a security system. Then he added, "It's incredible how little security there is really, considering how all the most important decisions are made here." I interpreted this comment as a further reflection on the issue of who was being asked to carry the burden of deficit reduction.



as a percentage of gross domestic product are only slightly more than half what they were 20 years ago" (cited in Wells 1996:13), and Scotia Bank economist Aron Gampel argues that pretax profits in 1995 were 8.5 per cent of GDP, still less than the 9.2 per cent level in 1989 (Ibid.:14).

These claims, however, mask other significant trends. Corporate operating profits for the final quarter of 1994 "jumped 18.2% to \$23.8 billion... elevat[ing] operating profits to the highest level of the entire historical series" (Statistics Canada, Financial Statistics for Enterprises, Fourth Quarter 1994:8). Overall operating profits for 1994 reached \$78.4 billion, a 45.5 per cent increase over the previous year (Financial Statistics for Enterprises, Year 1994:8). Operating profits grew by 19 per cent in 1995,<sup>34</sup> reaching an historic high of \$95.2 billion (Financial Statistics for Enterprises, Fourth Quarter 1995:9).

After-tax profits remain slightly below their 1989 peak. However, after-tax profit figures include "all revenue and expense items" (Financial Statistics for Enterprises, Third Quarter 1995:8). According to Stanford, operating profits does not include general overhead, interest or R&D costs. The after-tax figure incorporates these costs, as well as taxes, and thus represents "the company's true bottom line (known as net income in an annual report) (Stanford 1996b). After-tax profits declined in the second and third quarters of 1995, a drop Statistics Canada explains accordingly:

First, total interest costs on borrowing in 1995 were significantly higher than in 1988 [the peak year for after-tax profits], while interest and dividend revenue fell over the same period. As well, capital gains...have been low or negative over the past few years compared to the gains posted in 1988. Finally, the effective income tax rate paid by corporations is slightly higher in 1995 than in the 1988 year. (Financial Statistics for Enterprises, Third Quarter 1995:8-9)

It is important to note that interest costs, while appearing as a loss with respect to a company's net income, are "still a return to the ownership (if not the management) of capital" (Stanford 1996a).

As for Manley's claim that corporate profits relative to GDP are about half what they were 20 years ago, Stanford finds when after-tax corporate profits are combined with interest and investment income (an appropriate inclusion considering the rise of the paper economy), the share of capital in GDP has been, on average, higher since 1981 than it was during the 1950-1980 Keynesian era (see Table 2.5): "The problem with taking corporate profits alone is that it misses the huge shift in power towards financial capital (as opposed to industrial capital)" (1996a).

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<sup>34</sup> The slower rate of profit growth in 1995 likely reflects declining growth stemming from fiscal and monetary restraint measures that year.

The data with respect to Canada's largest corporations – principally the membership of the BCNI – is more telling still. The Globe and Mail Report on Business noted in early 1995 that, “Profits at Canada’s biggest corporations climbed at such a torrid clip in 1994 that economists and chief executives across the country are still breathless... Aggregate after-tax profit grew a stunning 140 per cent for 122 of the country’s largest companies. That tallied up to profits of \$18.3-billion, compared with \$7.7-billion a year earlier” (Bourette and Clifford 1995:B1).<sup>35</sup> The dramatic increase in corporate profits experienced by Canada's largest corporations points to their unique interest in neo-conservative reforms, and to the cumulative effect of years of mergers and growing corporate concentration; while overall profits as a proportion of GDP may be down, these profits are garnered by a smaller pool of mega-corporations.

The incomes of top executives have likewise seen significant increases. The CCPA reports that, “While Canadian workers averaged less than a 2% wage increase in 1994, and many either had their pay rates frozen or rolled back, the executives of major corporations received huge raises in their compensation” (1995a). Indeed, many CEOs of Canada’s largest corporations saw 1994 pay increases of over 100 per cent (Ibid.). This trend has continued into 1995. Maclean's reports that, “wage settlements last year [1995] in the private sector averaged 1.9 per cent, which did not even pace inflation, while public-sector workers, on average, did not see a penny's increase on a dollar's labour. Meanwhile, executive-level compensation reached stratospheric levels” (Wells 1996:13).

The government’s approach to deficit reduction has the effect of widening the income gap between Canadians. The Vancouver Sun, in an article entitled “Gap between rich, poor grows as safety net cut,” reports that “The [Canadian Council on Social Development], using Statistics Canada data from 1981 to 1993, found that even after the redistribution on incomes through the income tax system and social programs, the poorest 40 per cent of families with children became poorer, while the richest 40 per cent became richer... The poorest 20 per cent lost the most while the richest 20 per cent gained the most” (Beauchesne 1995a:B6).<sup>36</sup> Those most directly affected by deficit reduction measures are poor and middle class Canadians: those who depend on government programs, who work in the public sector, farmers who rely on government

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<sup>35</sup> The 1995 Budget surcharges on corporate profits totalling \$400 million, viewed relative to these profits, appear less than onerous.

<sup>36</sup> On the same day this story appeared, another article by the same journalist carried the headline, “Rates too high, deficit action slow, IMF says,” in which the IMF urged the Canadian government to increase social program cuts (Beauchesne 1995b).

subsidies, and the owners and employees of small and medium sized businesses that depend on economic growth and consumer demand. As Table 4.2 indicates, the Canadian poverty rate fell

**Table 4.2:**

**Canada's Poverty Record**

**Estimates of the Number of People in Canada living in Poverty**

Year	Est. No. of People Living in Poverty	Poverty Rate
1980	3,871,000	16.0%
1981	3,910,000	16.0%
1982	4,265,000	17.3%
1983	4,653,000	18.6%
1984	4,737,000	18.8%
1985	4,494,000	17.7%
1986	4,254,000	16.6%
1987	4,253,000	16.4%
1988	4,040,000	15.4%
1989	3,770,000	14.1%
1990	4,179,000	15.4%
1991	4,543,000	16.5%
1992	4,757,000	17.0%
1993	5,143,000	18.0%
1994	4,941,000	17.1%

Source: Statistics Canada *Income Distribution by Size in Canada, 1994, 1995.*

Source: Ecumenical Coalition for Economic Justice (1996:3)

after the recession of the early 1980s, increased as we entered the recession of the 1990s, but has not significantly declined since. It is unlikely that poverty rates improved in 1995, given the economic slowdown and job growth of only 88,000 (ECEJ 1996:11). While the recession may be over, official unemployment continues to hover around 10 per cent. The jobless recovery is a product, in large part, of restraint in the government sector, and of profitable corporations that continue to downsize their workforces.<sup>37</sup>

According to Andrew Sharp of the Centre for the Study of Living Standards, the poorest quintile of Canadians received 91 per cent of their income from government transfers in 1993, while the next quintile received 36 per cent of their income from social programs (Little 1996). It is these Canadians who will experience the full impact of government spending cuts. NAPO president Jean Swanson insists, "It is impossible to cut \$16 billion from social programs without dramatically increasing poverty and deprivation" (1995a:4). Low and middle-income earners face cuts to welfare, reduced UI benefits, rising tuition, increased private debt loads, new user fees, perpetual recession-level unemployment, and general insecurity.

Conversely, corporations and the wealthiest Canadians have seen their profits and incomes increase, even as fiscal restraint has intensified. According to the evidence reviewed here, the dominant view that deficit reduction can be accomplished only through expenditure cuts is linked,

<sup>37</sup> Nowhere is the inequality of the dominant approach to deficit reduction more apparent than in Ontario. Among other measures, the Harris government cut welfare rates by over 21 per cent and will lay off 10,000 civil servants, while taxes are to be reduced by 30 per cent. As McQuaig noted in a recent Vancouver speech, the tax cut will mean little or nothing for low-income people, but it will transfer thousands of dollars to high-income earners (speech 1995b). According to the ECEJ, following the welfare cuts, food banks in some parts of Ontario saw increases in demand of up to 100 per cent (1996:15). The *Globe* reports that since the welfare cut, Toronto's homeless rate has increased by 23 per cent, with families accounting for the bulk of this increase. Ironically, Metro Toronto has been forced to spend more than double the welfare rate to house many of these families in motels (Philp 1996:A1).

once again, to the material interests of the corporate class.

While a counter-hegemonic project will not necessarily be able to capitalize on these trends, they do point to the inherent vulnerability of the neo-conservative project. It may be difficult to sustain hegemony if these conditions persist.

#### **4.6 Chapter Conclusion**

The neo-conservative approach to deficit reduction dominates public discourse and has, by and large, been adopted by the state. The counter-hegemonic project has no shortage of alternative deficit reduction strategies, but these ideas have been largely ignored by the media, and dismissed by the federal government. The government has employed various methods of ideological legitimation in an effort to build support for its choices: public consultations, concessional rhetoric, and placebo policies. The overall success of these efforts is a testament to the strength of the neo-conservative project. Many support the government's policy direction, while others accept the Liberal approach as unpleasant but inevitable (and fair when compared to the alternatives advanced by the Reform Party, the Globe and the Fraser Institute). Nevertheless, opposition to the neo-conservative approach to deficit reduction persists. This resistance – within the Liberal caucus, in Quebec, and within numerous institutions and constituencies within civil society at large – has prevented the full adoption of the neo-conservative project, and may indeed be halting the hegemonic project.

This chapter's evaluation of the government's approach to deficit reduction points to two conditions that may strengthen the position of the counter-hegemonic project. First, we have raised questions about the neo-conservative project's ability to successfully attain its stated objective; namely, deficit and debt reduction. Second, it has been argued that the neo-conservative approach to deficit reduction extends material benefits to the corporate class, while lowering the living standards of most Canadians. To the extent that the popular sector can successfully highlight this underlying inequality, the relative balance of forces may shift in favour of the counter-hegemonic project.

## **Chapter Five: Conditions and Strategies Under Which Hegemony is Successfully Established, Maintained and Challenged – Lessons and Conclusions**

“He was not offering people a *rival* world view; rather, he was offering a world view to people who had no other to pit against it.”

– Kenneth Burke, describing Hitler’s rhetoric (1957:218).

“Like chess, class warfare is a matter of strategy. Both depend on a clear assessment of the changing battlefield, and on thinking several moves ahead so that we can position our sources of strength and set up attacks on the weak points of the opponent. As in chess, we can learn much from errors in past games to plan future victories. Unlike chess, however, the starting positions of the two sides are highly unequal, and our own futures and those of most of the rest of the world rest on the outcome of the struggle.”

– Diana Ralph, speaking at the 1995 Learneds Conference to the Society for Socialist Studies.

The evidence examined in this thesis supports the assertion that the neo-conservative project has attained hegemony. The data regarding public opinion is complex, however, the public largely supports the notion that deficits must be eliminated and public debt reduced. State support for the neo-conservative project is considerably more solid. Governments have generally come to accept policy options as defined by the leadership of the corporate class. The success of the neo-conservative project, however, can be studied and understood by those seeking to rival its hegemony. The popular sector in Canada can derive important lessons from the rise of neo-conservatism, and by so doing, may develop strategies that undermine the neo-conservative claim to moral, intellectual and political leadership.

While the neo-conservative project is hegemonic, it is also fragile. The clash points examined in chapters three and four demonstrate that neo-conservatism has not gone unchallenged. There is indeed a war of position underway – an ideological battle between competing projects that is played out within the institutions of civil society. This debate is not a balanced one between players of equal strength and resources, but it is a debate nonetheless. Moreover, conditions are emerging which, if effectively capitalized on, may yet strengthen the position of the popular sector. First, the failure of neo-conservatism to establish a material basis for integrating subordinate groups into its project represents an inherent vulnerability, and may yet undermine its ideological strength. As the public opinion polls examined in chapter three demonstrate, the consent of poor and middle class Canadians cannot be taken for granted.

Second, the rise of public debt (and of public concern regarding the debt) has, thus far, been a condition on which the neo-conservative project has capitalized. However, this may not remain the case. To the extent that the popular sector can effectively reframe the causes and consequences of rising debt, the fact of public debt may be made another condition under which to challenge the moral and intellectual leadership of the neo-conservative project.

Finally, an effective challenge to neo-conservative hegemony will require more than capitalizing on emerging favourable conditions. It will also entail careful strategy. Gramscian analysis suggests a successful counter-hegemonic project will be one that credibly lays claim to moral and intellectual leadership in the context of ideological struggles within civil society, and one that offers a comprehensive, believable, and more hopeful rival world view. An effective war of position also depends on building and mobilizing a broad-based coalition, devising and implementing a comprehensive communication strategy, developing alternative economic institutions (reducing society's dependence on corporate capital), and on building a political party willing and able to advance the popular sector program in the context of electoral competition.

## **5.1 Understanding the Success of the Neo-Conservative Project**

### **5.1.1 Capitalizing On and Creating Favourable Conditions:**

Conditions were favourable in the mid-1970s, when the neo-conservative project was launched. Keynesianism (as practiced by Western governments) was falling into disrepute – inflation and unemployment were rising, while declining productivity was leading corporate class interests to rethink its tacit support for Keynesianism – a condition on which the neo-conservative project successfully capitalized (Hall 1993:285). The Left, which had come to depend on Keynesianism rather than a socialist analysis, was experiencing intellectual disarray. And technological advancements were opening up a new era for international financial markets and capital mobility.

By the mid to late-1980s, as the neo-conservative project approached hegemony, conditions were considerably more favourable, a product of successful organizing by the corporate class and its allies. During the years between the mid-1970s and mid-1980s, the business class became more cohesive, developed a clear and comprehensive policy agenda, and strategically advanced this agenda. Many items on the neo-conservative agenda – trade liberalization, financial deregulation, and monetarism – have in turn increased the relative strength of the corporate class, while further disciplining labour, creating a conditioning framework under

which neo-conservative policies appear unavoidable.

Public debt figures centrally in the evolution of the neo-conservative project. As chapter two established, the debt's accumulation can be attributed primarily to the state's adoption of the wider neo-conservative policy agenda. Despite this, the neo-conservative project has been able to use the condition of rising debt to its advantage, invoking the deficit reduction imperative and the threat of a "debt wall" as the foremost justification for the further advancement of the neo-conservative project.

State and government support for the neo-conservative project, while a product in part of effective lobbying and political financing, is also very much a consequence of ideological conversion. This conversion results, in large part, from current conditions and the structural strength of the corporate class, most notably the corporate class's control of economic investment and financial markets. The fiscal pressures associated with a growing public debt have effectively undermined the notion that governments can undertake significant investment and job creation. Concurrently, the deregulation and growth of international financial markets have reduced the relative autonomy of states with respect to monetary policy. As Barlow and Campbell write:

The success of the corporate sector in seeing its policy agenda implemented has been driven by the growth of its power. This power rests on its resources... It also rests on the instruments through which it exercises power – reward, punishment, and persuasion. For instance, the corporate sector's ability to persuade a government to adopt a given policy is a function of its power – the size of its production facilities and workforce, its financial resources, the tax revenues it generates, its ability to lobby political decision-makers, and its ability to punish the government by shifting production or investment to another jurisdiction. Advances in the corporate policy agenda in turn enhance corporate power. It is a self-reinforcing cycle. (1995:42)

The corporate class controls (though it does not necessarily own) the capital needed for both investment and debt financing. Thus, state and government leaders have arrived at the conclusion (reluctantly in some cases) that the policy demands of capital must be met – there is no alternative.

### 5.1.2 Intellectual and Moral Leadership:

Gramsci wrote that, "Intellectual and moral reform must be tied to a programme of economic reform" (1968:140). The neo-conservative project understands this well. At its core, the neo-conservative project is a program of economic reform pursued in the interests of the corporate class. But its success is due, in large measure, to its ability to assume the mantle of intellectual and moral leadership.

The neo-conservative economic reform agenda is coherent and comprehensive. As we saw in chapter three, the strength of the neo-conservative world view is derived from: its ability to clearly (though not correctly) define the problem/crisis; its promotion of a clear and consistent policy agenda that is seen as necessary and pro-active; the prestige lent to it by leading intellectuals and academics and an extensive body of theory; and from the credibility of its corporate class supporters. In the absence of a strong rival analysis and program, the neo-conservative project has effectively convinced many that corporate policy preferences – trade liberalization, price stability, deregulation, privatization, and balanced budgets – are a prerequisite for general prosperity and job creation. In Gramscian terms, the neo-conservative project has been very successful at equating the interests and goals of the corporate class with those of society at large.

Reaching for the moral high ground, the neo-conservative project emphasizes, among other things, the immorality of passing debt on to future generations, or of “bankrupting” the country and thus threatening the future of social programs. The neo-conservative project has successfully shifted the tone and language of moral/philosophical debate. As Mouffe explains, one objective of neo-conservatism is to redefine liberalism, “so as to reduce the central role played by democracy,” causing people to understand democracy in narrow individualist terms (1988:97). The Right understands democracy to be a potential impediment to its economic program. Thus, the Fraser Institute’s Walker warns Martin not to allow politics to interfere with his deficit reduction program; the C.D. Howe Institute lobbies to have a narrow Bank of Canada mandate embedded into the constitution; and neo-conservative proponents advocate constitutional limits on spending and taxation. The rhetoric of the Right redefines government, not as an instrument of society’s collective will, but as a barrier to democracy, thereby legitimizing state downsizing.

As for intellectual leadership, the corporate class takes the business of ideas seriously. With the help of the media, neo-conservatives have effectively positioned themselves as the brokers of new ideas, in contrast to the alleged “old ideas” of the Left (a remarkable feat considering the eighteenth century origins of most neo-conservative ideas). Naomi Klein, in an editorial accompanying a special issue of This Magazine focusing on several of the neo-conservative project’s most prominent spokespeople, contends these right ideologues successfully portray themselves as today’s source of radical ideas: “[I]f you want to adopt the persona of an iconoclast, the place to do it these days is on the right... They are the ones asking



what the country should look like in an 'ideal' world. The cost-cutters are...proposing something rather than just opposing it" (Klein 1995:5). Canada's largest corporations founded, and now fund, the C.D. Howe Institute and the Fraser Institute, understanding that these think tanks lend academic legitimacy to the neo-conservative project. Moreover, the leaders of these organizations appreciate that hegemonic projects take time; they have demonstrated remarkable patience, knowing that to change the "ideological fabric" of society is a long-term struggle. Finally, the neo-conservative project cares for its young (even while undermining the hopes of most young people). The Fraser Institute in particular has undertaken significant outreach to young people – something few unions or other popular sector groups have done – inviting students to join authoritative scholars in the pursuit of ideas.

### 5.1.3 Effective Strategy:

Building on its ideological strength, the neo-conservative project has pursued a multi-faceted strategy aimed at winning state/government support and persuading the public of the correctness of neo-conservative ideas and policies.

State support has been a product, in part, of intense political lobbying, something Canada's largest corporations do very well. Langille, in his study of the BCNI, finds:

Rather than merely reacting to government initiatives, the Business Council often takes pre-emptive or pro-active positions on upcoming policy issues... They gain an edge if they can define the issues in their own terms and upstage the government by presenting it with a comprehensive package of analysis and recommendations. With adequate foreknowledge, the Council is able not only to arrive at a suitable consensus within its own constituency, but to anticipate the positions of other groups and suggest a "satisfactory" compromise. (1987:55)

Corporate Canada also appreciates the importance of political parties as institutions within civil society capable of shifting the terms of political discourse. Substantial financial contributions have helped to ensure that the neo-conservative policy agenda is advanced within the context of electoral competition, and that, once in power, political parties of all stripes implement the neo-conservative program. This has served to further legitimize the argument that "there is no alternative" to corporate policy preferences.

The neo-conservative project appreciates the need to gain public support and has directed considerable resources towards the promotion of its ideas within civil society. Corporate-backed think tanks are as much concerned with public persuasion as they are with political lobbying. The public champions of the neo-conservative project are its media personalities – editorialists,

broadcasters, columnists, and financial and business commentators – backed by the more staid researchers who produce models illustrating the benefits of deficit reduction, or studies inflating the size of public debt.

Neo-conservative scholars and activists have given serious consideration to strategic questions of what works and what does not at an ideological level (and many of their conclusions are quite Gramscian). As we saw in chapter three, Williamson and Haggard of the Institute for International Economics have examined the experiences of 13 countries, drawing lessons for effectively implementing neo-conservative economic reforms. Not all the lessons derived are hard and fast – they depend on the conditions and the historical moment, not least upon how far advanced the neo-conservative project has become. Williamson and Haggard, pointing in particular to New Zealand and Australia, note the value of having neo-conservative economic reforms implemented by Labour governments. In both cases, these Labour governments did not run on a platform of economic “liberalization,” but became strong supporters of the neo-conservative project once in power, encouraging the popular perception of neo-conservative reforms as inevitable. New Zealand and Australia did, however, adopt different approaches for implementing the neo-conservative program. In Australia, reform was gradual, following a strategy of “curbing middle-class entitlements to social security through a series of income and asset tests,” thereby eroding universality (Williamson and Haggard 1994:533) – a strategy similar to that adopted by the Canadian federal government. In contrast, New Zealand acted quickly, using the occasion of the 1984 foreign-exchange crisis to launch its reform program. This strategy led to the re-election of the Labour government because, “the public was relieved to see a government that was prepared to take decisive action, even if it was not quite convinced that it liked the actions themselves” (Ibid.:549) – a phenomenon that certainly applies to Alberta and Ontario today. Williamson and Haggard acknowledge that New Zealand's reforms eventually led to increased unemployment and a transfer of income from the poorest to the richest, but note that when the Labour government was re-elected, these consequences were “still hardly evident at that time” (Ibid.:550).

Williamson and Haggard note that a crisis can help “shock” a country and “disorganize the interest groups” opposed to reform (Ibid.:562) – an important lesson for those who falsely assume crises will necessarily serve Left projects. They also highlight the value of external “help,” understood as “intellectual help and...conditional foreign aid,” which serves to further legitimize reforms (Ibid.:565) – a lesson Roger Douglas took to heart by providing advice to

Ralph Klein. Of particular interest to the popular sector, Williamson and Haggard note that, where opposition was strong and vocal, governments backed away from the implementation of neo-conservative reforms (Ibid.:574).

Tom Long's 1995 address to the Fraser Institute on "What the Conservative Win in Ontario Means for All of Canada" reveals analysis that is, in many respects, a neo-conservative parallel to Gramscian analysis. He contends Harris won by sticking to a clear program – the "Common Sense Revolution" (Long 1995:5). Long recommends that his colleagues develop electoral strategies that sell neo-conservative ideas rather than temper them:

Premier Harris set out to fundamentally move the goal posts by resetting the agenda and redefining conservatism as a popular, broad-based political philosophy. Confounding the conventional political wisdom that success in the province's political arena depended on blurring political lines and the distinctions between parties and avoiding controversial issues, Premier Harris's new conservative coalition was forged quite to the contrary – by sharply defining a clear policy agenda and aggressively contrasting the real differences that existed between our political parties... He published a bold, clear, and ambitious platform, what we called the Common Sense Revolution, in May 1994, a full year before election day. With the publication of that policy document, he launched the largest pre-writ campaign in Canadian history. He spent a total of nearly \$1 million to bypass the traditional channels of political communication, to go directly to the people through a province-wide bus tour, saturation-level television advertising, and a sophisticated interactive 1-800 telephone system. From May of '94 until the end of the campaign, Mike Harris printed and distributed 2.5 million copies of his plan. (Ibid.:5-6)

Harris's success, coming as he did from a third place standing in both the legislature and the polls, speaks to the importance of forging coalitions, developing a clear ideas-based program, doing large-scale grassroots outreach, using all the institutions of civil society, and following a well-conceived and adequately-financed communications strategy.

## **5.2 Implications for the Popular Sector**

This analysis of the success of the neo-conservative project points logically to a number of implications for the popular sector. If the popular sector hopes to successfully challenge the neo-conservative project, it too must capitalize on favourable conditions, claim moral and intellectual leadership, propose a clear world view, and engage in a strategic war of position.

### **5.2.1 Identifying Favourable Conditions:**

Grinspun and Kreklewich note the presence of "inherent contradictions" in the conditioning framework built by the neo-conservative project, offering "potential political

openings" for the popular sector (1994:34-5). Pointing in particular to the record with respect to free trade, Grinspun and Kreklewich suggest the neo-conservative project faces a potential credibility crisis. "A key contradiction relates to the wildly optimistic yet wholly unattainable claims of FTA proponents: 'free trade' will bring better and more jobs, higher income, growth and prosperity, sustainable development and environmental improvement" (Ibid.:52). As we have seen, such claims are made regarding the entire neo-conservative agenda, yet these assertions are being undermined as free trade, private and public sector downsizing, deregulation, and monetary and fiscal restraint lead to eroding material circumstances and increasing environmental decay,<sup>1</sup> "put[ting] proponents of FTAs and neoliberalism on the ideological defensive" (Ibid.:53).

A successful counter-hegemonic project will be one that identifies favourable conditions and capitalizes on the policy failures of neo-conservatism. These failures are held to be cultural (the inability of a Globalized free-market economy to incorporate diversity), environmental (the ecological disrespect displayed by the free-market economy), and political (the disregard for human and labour rights associated with neo-conservative regimes, and the efforts of the neo-conservative project to restrict democracy), but above all economic. The primary economic failure of the neo-conservative project is its inability to deliver material prosperity for the many. A second economic failure is that its policy objectives of liberating capital and increasing unemployment inevitably drive up real interest rates, lower state revenues, and depress real growth, thereby necessarily increasing the debt-to-GDP ratio. These failures represent conditional openings for challenging the maintenance of neo-conservative hegemony.

### 5.2.2 Claiming Intellectual and Moral Leadership:

The analysis presented thus far suggests that an effective effort to re-claim intellectual and moral leadership from the Right will be intellectually rigorous, carry with it academic legitimacy, offer a clear analysis of the current crisis (broadly defined to include the social, environmental and employment crisis, as well as the fiscal crisis), propose a credible program that addresses this crisis, and speak an ethical language.

The popular sector has now produced a substantial literature challenging "common sense" debt discourse and reframing the origins of rising debt. Too often this literature has dismissed

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<sup>1</sup> While the neo-conservative project is certainly vulnerable with respect to environmental sustainability, the popular sector project may be as well. The Alternative Federal Budgets and other popular sector programs have struggled to incorporate environmental issues; however, these efforts remain fairly unconvincing. The Left has yet to spell out concretely a pro-growth program that is ecologically sustainable.

"deficit hysteria" as a creation of neo-conservative propaganda, reinforcing the perception that the Left does not take the debt issue seriously, and thus, undermining the popular sector's claim to intellectual authority. More recently, however, the popular sector has advanced a range of credible deficit reduction proposals. The AFB decision to accept Martin's deficit reduction targets – while still advocating an increase in program spending – was, in this respect, an important turning point for the popular sector.

Stanford argues the Left's traditional dismissal of "deficit hysteria" is ill-advised.<sup>2</sup> He insists Canada does face a "debt crisis" (1995:116), and urges the popular sector to advance a rigorous analysis tied to a radical deficit/debt reduction program.

One can hardly blame hard-pressed labour or community groups for grasping whatever arguments were available, in their desperate struggle to defend programs and services that are of crucial importance to the real living standards of millions of Canadians. But it is nevertheless surprising and unfortunate that Canada's Left found itself in the position of implicitly or explicitly *defending* government deficits... Instead of defending deficits because they are preferable to cutbacks, it is time to turn a more critical and radical eye on the question of why Canada's governments no longer seem capable of financing programs that were implemented (and paid for) in decades gone by. Indeed, by developing an alternative, radical analysis of the causes of Canada's debt [focusing on a deliberate policy of "permanent recession"], we can simultaneously advance a more far-reaching agenda of possible solutions to chronic deficits and escalating debts. This would help to provide the Left with a stronger and less defensive platform from which to address fiscal issues. Rather than trying to dodge public concern about Canada's growing public debt, we can go on the offensive, arguing that the debt is a fundamental problem of our entire economic and social system, one that demands radical measures. (Ibid:115)

Rather than denying the debt crisis, a successful popular sector program would seize on the issue of public debt as undeniable proof of neo-conservative policy failures, challenge the inevitability of "permanent unemployment, slow growth, high interest rates, and 'lean-and-mean' production practices," and advocate a radical approach to eliminating deficits without cutbacks (Ibid.:130).

A successful, long-term hegemonic project is one that effectively persuades the bulk of society that its economic program corresponds to the national interest. The neo-conservative

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<sup>2</sup> Stanford contends the Left should cease advancing arguments that downplay the severity of the debt, including: private sector debt is higher than public sector debt; Canada's will not hit a "debt wall"; the debt was created by tax breaks to the rich in order to justify social program cutbacks; and public debt relative to GDP was higher after WWII (1995:114). He insists many of these Left arguments are non-sequiturs: high private sector debt does not justify high public sector debt; Canada may not hit a debt wall per se, but we do face higher interest rates; even if Canada taxed all corporate profits at 100 per cent, the revenue would not eliminate government deficits; and, the situation today cannot be compared to that which existed after WWII (Ibid.). According to Stanford, the public does not find such arguments convincing.

project has become dominant due to its ability to convince much of the public that debt represents a threat to growth and prosperity, and that neo-conservative deficit reduction measures will restore economic stability and growth. Hence, the future of the popular sector project hinges on its ability to argue convincingly that corporate class interests are not synonymous with the interests of most people, and that the promised positive results of neo-conservative reforms will not arrive.<sup>3</sup>

Gramscian theory holds that a successful counter-hegemonic project will reclaim moral leadership. Cameron argues the popular sector must return to an “ethical language” – one that counterpoises the neo-conservative order (based on individualism, competitiveness, inequality and austerity) with what he terms a “democratic vision” (based on the values of full employment, community, and solidarity) (interview 1995c). Similarly, Barlow and Campbell urge the Left to reclaim its traditional values: fairness, full employment, co-operation, cultural diversity, social justice, community, environmental stewardship, public accountability, and democracy (1995:244).<sup>4</sup>

The neo-conservative project gains moral authority when it speaks of offering democracy “closer to home,” and referenda governing spending and taxation. The Left – knowing that only a strong national state can effectively challenge the power of transnational capital, and that referenda held under conditions of neo-conservative ideological dominance will be lost – is caught in an ethical conundrum. The popular sector project emerges from this dilemma, however, when it reclaims the central importance of national governments as instruments of a collective will, emphasizes the need for strong national institutions and regulations capable of checking the power of corporations, and advocates for an electoral system incorporating proportional

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<sup>3</sup> To a certain extent, this may happen naturally, as people see corporate profits rise, even while their own living standards fall. There is, however, no guarantee that people will come to this conclusion. Gramsci warned against economism – the assumption that a working class revolution would occur “independently of the intentions of either of the two major classes” (Bocock 1986:42). The far right is equally adept at capitalizing on popular disaffection with present policies – witness the recent popularity of U.S. Republican candidate Patrick Buchanan, or the success of Canada’s Reform Party, Harris, and Klein. The antagonisms that result from layoffs, for example, may be harnessed by the popular sector struggle. But it is equally likely this anger will be co-opted by the far right – which blames layoffs on unions, immigrants and affirmative action – or will be internalized and directed towards spousal abuse, drug abuse or suicide (Mouffe 1988:96).

<sup>4</sup> Barlow also contends that the Left should challenge the undemocratic nature of the neo-conservative project. She argues that the claim “there is no alternative” is fundamentally undemocratic, because it denies citizens the opportunity to choose the kind of society they want to live in. She believes neo-conservative attempts to embed their program into the constitution and trade agreements should be labelled “fascism” (speech 1995b).

representation.

### 5.2.3 Developing a Rival World View:

Evidence reviewed thus far suggests the content of a convincing counter-hegemonic program must be part critique and analysis of the existing hegemonic paradigm, and part alternative vision. For the popular sector in Canada the implications are: first, continue to emphasize the real causes of the debt, while drawing a clear connection between the debt's accumulation and the widening gap between rich and poor; second, cast doubt upon the ability of the neo-conservative project to reduce the debt-to-GDP ratio (as we saw in chapter four); third, continue to highlight the failures of the neo-conservative project, in Canada and elsewhere; and fourth, propose a convincing and comprehensive alternative program.<sup>5</sup>

The popular sector has made important progress in developing an alternative program. In this regard, the production of the Alternative Federal Budgets stands out as a pivotal achievement for the popular sector. The AFB consultations and working groups pulled together over 50 national and regional unions and coalitions, and achieved a significant accomplishment in forging a consensus among these disparate groups. The AFBs were also endorsed by numerous academics, strengthening their claim to intellectual legitimacy. The AFBs do not represent a complete program, nor are they radical documents – the interest rate, job creation and social investment targets are quite moderate. Nevertheless, the AFBs lay the groundwork for a comprehensive alternative program – it is a credible, understandable, and a more hopeful model. A critical challenge for the popular sector project is to re-establish full employment as the central goal of public policy, and the AFBs are a significant step in this direction.<sup>6</sup>

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<sup>5</sup> Evidence also suggests that an effective rival program move beyond a defence of the post-WWII Keynesian-welfare model (an economic and social order that was not of the Left's making and that was never viewed as satisfactory by the popular sector. Gordon Laxer, in an analysis of Premier Klein's success, argues the Alberta Left has suffered because it is seen as only defending the status quo (1995:3). Gramsci, of course, believed only a socialist world view could unify the interests of all subordinate groups and classes. The analysis presented here supports this view. The emphasis on a rival world view, capable of reclaiming moral and intellectual leadership, and of integrating the material interests of subordinate classes, implies a socialist alternative project: one that understands the importance of production that is collective and public, distribution that is fair and equitable, economic, social and political organizations that are egalitarian and democratic, and an analysis that explicitly challenges corporate capital.

<sup>6</sup> The Council of Canadians' Citizens' Agenda stands out as another important document in the development of a rival program (Council of Canadians 1994).

#### 5.2.4 Strategic Considerations and the War of Position:

Beyond producing a credible and hopeful alternative program for economic and social reform, any hegemonic project, such as that being waged by the Canadian popular sector, must develop a coordinated strategy for promoting and explaining this program within civil society. Moreover, Gramsci's notion of the war of position highlights the importance, not only of effective ideological battle, but also of forging coalitions, mobilizing these coalitions, and of developing alternative institutions that decrease the structural power of the corporate class. Gramscian analysis also points to the need for a political party able to advance the ideas of the counter-hegemonic project.

The success of the popular sector project depends on the continuation and expansion of its educational work within civil society, taking the ideas of the Alternative Federal Budgets and any future programs to as wide an audience as possible. This entails, among other things, greater funding for current Left think tanks, and the establishment of new ones.<sup>7</sup> These alternative institutes are necessary if the Left is to successfully shift the "locus of expert authority" (Hall 1993:287).

Gramscian theory stresses the importance of forming a strong, broad-based coalition. In an era when only some people (and only some of the time) identify themselves in class terms, a broad-based coalition is a necessary precondition for building a mass movement capable of substantial mobilization (Cameron interview 1995c).

With respect to mobilization, Grinspun and Kreklewich suggest an effective counter-hegemonic project isolate and target the forces behind neo-conservative restructuring (1994:55). In the context of neo-conservative hegemony, this would imply a direct challenge to the corporations, business associations and think tanks behind the hegemonic project (Clark 1995:7).<sup>8</sup>

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<sup>7</sup> While most unions have research departments, there remains a need for research institutes that are accountable to the wider popular sector coalition, and that are seen as less tied to "narrow" interests by the media and public. Discussions aimed at establishing new progressive think tanks are currently underway in a number of Canadian cities.

<sup>8</sup> There does appear to be a move in this direction. The Council of Canadians has announced that its future campaigns will move beyond confronting governments, and start to directly challenge the corporations that benefit from spending cuts (Barlow, fundraising letter, 1995a). And as part of the popular sector mobilization against the Harris government, unions and community groups have organized rotating strikes. These "days of protest", first in London (Dec. 11, 1995), then in Hamilton (Feb. 23 and 24, 1996), and most recently in Kitchener (April 19, 1996), have mobilized thousands of popular sector activists, but have also struck directly at production, thereby undermining the ability of the neo-conservative project to deliver higher corporate profits.



Gramscian theorists advocate a “war of position” – emphasizing the need to sufficiently advance a hegemonic project within the institutions of civil society before attempting to capture the state and economy (Simon 1982:27). This applies to ideological struggle, but also to the development of alternative institutions. Stanford notes that a radical program for deficit/debt reduction – comprised of lower interest rates, job creation and the generation of substantial economic growth – if ever implemented by a progressive government:

...would immediately spark a crisis of confidence on the part of capital – both financial capital (fearing the impact of higher inflation and a lower currency on the real returns to financial investments) and industrial capital (considering the longer-run impacts of vibrant growth and high employment on the micro-level conditions of production and employment). Both the financial and real sides of the economy would experience a flight of capital. (1995:131)

Hence, Stanford advocates “a *maximum program* of institutional changes in the structure of capital markets which could help to reduce the vulnerability of the economy to a loss of investor confidence” (Ibid.). He recommends the development of “alternative institutions participating in the realm of both financial capital and real capital accumulation – institutions that are insulated from the profit-seeking imperative that currently drives financial market behaviour and real investment” (Ibid.).<sup>9</sup> These alternative, non-profit economic institutions are fundamental to a Gramscian war of position, as they bolster the relative strength of the popular sector and provide counter-hegemonic ideas with structural reinforcement (Ibid.:135, note 16).

An effective counter-hegemonic project also requires a mass-based party capable of advancing its ideas within the context of electoral competition. Successful hegemonic projects need a political party (or parties) to advance their favoured policies and to secure their implementation.<sup>10</sup> Barlow and Campbell contend, “At this time in our nation’s history, there is no political party with the capacity to address the issues of corporate rule... We now have to focus part of our work on building a political party that puts forward a real platform for dismantling corporate rule” (1995:239).<sup>11</sup>

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<sup>9</sup> Stanford proposes that “...publicly-controlled pools of capital (such as those associated with public auto insurance programs, credit unions, or pension funds) could in essence be directed to withdraw from the ever-more-flexible search for maximum rates of return, and instead be managed in a fashion which offered acceptable negotiated returns...more consistent with the need for a healthy macro-economy. Alternative investment mechanisms (such as social investment funds, a public investment bank, and other proposals) could be established to inject capital directly into strategic Canadian industries...” (1995:131-2).

<sup>10</sup> As Peter Hall notes in his study of Thatcherism, the rise of the monetarist paradigm in Britain was aided by Thatcher advancing this project within the context of electoral competition (see chapter one).

<sup>11</sup> In the Canadian context, this sub-project will, arguably, be most effectively advanced by waging the

### 5.3 Conclusion

This thesis set out to determine: how the neo-conservative project achieved hegemonic status; the link between the neo-conservative project and the material interests of the corporate class; and the conditions and strategies under which a counter-hegemonic project may successfully challenge neo-conservative dominance. Throughout this examination, the adoption of a Gramscian theoretical framework has been found applicable and useful. It understands ideological struggle in terms of competing hegemonic projects, jockeying for supremacy primarily within the institutions of civil society; emphasizes the role of ideas in the process of ideological conflict and legitimation; appreciates the connection between ideas and material interests; and lends itself to strategic considerations of how to alter the balance of forces within civil society.

The neo-conservative project has become hegemonic. It has been remarkably successful in winning public consent, and in seeing its policy preferences implemented by the state – a testament to its ideological dominance, its moral and intellectual leadership, and to a very effective persuasion strategy.

While the neo-conservative project is hegemonic, it is not unchallenged. The material examined in this thesis offers evidence of a ideological debate between competing hegemonic projects within many institutions in civil society. The debt debate has been played out on college and university campuses, in the major Canadian churches, and within political parties, particularly centre and centre-left parties. While the leadership of the Liberal Party is in accord with the neo-conservative project, significant tensions exist within the Liberal caucus. Similarly, the NDP, particularly its provincial wings, have been split by the debt debate. Even the Conservative Party has its prominent dissidents, such as Dalton Camp, who reject the neo-conservative program. The debt debate has also entered the labour movement, particularly public sector unions. Some union members and leaders accept the deficit reduction imperative and have agreed to wage and benefit rollbacks, while others reject this assumption and seek to challenge the neo-conservative project. Finally, the debt debate has been played out in the media, where the dominant discourse promotes neo-conservative assumptions and deficit reduction solutions, but where, on occasion, in the columns of progressive writers, in letters to the editor, on panel

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counter-hegemonic struggle within the NDP – pushing the party to adopt a clear socialist agenda and to carry forward the popular sector policy program.

debates, or on phone-in programs, the ideas of the popular sector find their way to a wide audience.

The ideological fragility of neo-conservative hegemony is evident in public opinion trends, in the results of recent elections (such as the 1993 federal election and the 1996 B.C. election, during which significant numbers of people rejected those platforms proposing dramatic state downsizing), and in recent demonstrations protesting government cutbacks. This ideological fragility is based on the material weakness of the neo-conservative project. The evidence examined in chapter two, and again at the end of chapter four, found a clear connection between, on the one hand, the ideological depiction of the debt in dominant discourse (whether the dominant explanation for the debt's accumulation or the dominant prescription for deficit reduction), and on the other, concrete advantages conferred to the corporate class. The "Achilles heel" of the neo-conservative project is its inability to offer subordinate classes anything beyond the promise of future prosperity.

Ultimately, the neo-conservative project's success stems from the structural power of the corporate class and the balance of forces at this time. Peter Hall notes that paradigm shifts are "more sociological than scientific" (1993:280), meaning that hegemonic success is less a product of *good* thinking than a reflection of the "positional advantages...affecting the power of one set of actors to impose its paradigm over others" (Ibid.). Cameron makes a similar distinction between the "correctness" of ideas versus the "force" of ideas (interview 1995c). The Canadian debt debate is less a story about economics (though it is that) than about politics. Progressive deficit reduction solutions are untried, not because they are wrong, but because they challenge the neo-conservative project and the material interests of the corporate class.

The principal task now facing the Left, according to Barlow and Campbell, is to change a political culture dominated by "corporate ideology" (1995:241). Above all, they warn, the popular sector must prepare for a long-term struggle: "There is no easy set of actions that will reverse the current trends in the short term, and any suggestion to the contrary would be dishonest. We should not be impatient. If we are correct that the new right took twenty years to build support for their views in the culture, we must realize the work that lies ahead of us" (Ibid.).

The challenge before the popular sector coalition is a formidable one, if it is to successfully counter the hegemony of neo-conservatism. First, it needs to develop a more clear and convincing alternative program – one that does more than list progressive deficit reduction

solutions. The popular sector has yet to offer a comprehensive counter-hegemonic world view – a program that proposes not only a credible plan for deficit/debt reduction, but also a hopeful model for the organization of society and the economy, an alternative approach to the organization of production and the generation of wealth (not just distribution), and a comprehensive plan for the attainment of full employment. Developing such an alternative vision – one capable of unifying all or most of the constituencies and groups that make up the popular sector – will be a difficult, long-term task. Second, the popular sector coalition must develop and agree upon a multi-faceted, well-financed communications strategy to ensure its alternative world view reaches the public. It may be aided in these tasks by the failure of the neo-conservative project to incorporate the material interest of subordinate groups. But this fact will itself be a matter of ideological dispute.

To conclude that the neo-conservative project is hegemonic is not to resolve that the war is over. As Simon notes, “Hegemony can never be taken for granted, but has to be continually fought for afresh” (1982:37). He concludes, “Periodically there may develop an organic crisis in which the historic bloc begins to disintegrate, creating the opportunity for a subordinate class to transcend its...limitations and build up a broad movement capable of challenging the existing order and achieving hegemony” (Ibid.:40).

Jean Swanson ended our interview by reminding me of the story of Rosa Parks. The beginning of the civil rights movement is often identified as the moment when Parks refused to give up her seat on a Montgomery, Alabama bus to a white man. The civil rights movement challenged a hegemonic project based on legalized white supremacy and was very successful. Parks, contrary to “common wisdom,” was not an “ordinary” woman. She had recently returned from a course at Highlander, a popular education and training centre founded by Myles Horton in the 1930s as a school for labour organizers. The civil rights movement erupted when it did because a popular sector infrastructure was already in place, and the training and education had begun. It was a counter-hegemonic project waiting for the right historical moment.

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