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online resource guide

THE CHANGING WORLD ECONOMY

Introduction

In a paradoxical sense, the current economic crisis in the world s financial markets has demonstrated the extent to which Canada is indeed a part of the global community. Most observers agree that a combination of international social, political, and financial events is the main reason for the dramatic drop in value of the Canadian dollar. In fact, the beginning of the current crisis can be traced back to the devaluation of Thailand s currency in 1997 an event directly related to globalization, the expansion of businesses beyond national borders throughout the world. On the positive side, globalization has resulted in an abundance of goods coming into our country and more business opportunities for Canadian companies internationally, but on the negative side it has also created additional pressure on the whole Canadian economy.

When global economic forces are at their best, money flows into a country, factories are built, lots of goods are produced, many people are employed, and these workers have money to spend. If, however, international investors begin to consider the economic health and climate of a country to be poor, they will invest less or begin to take their money out. This forces the countries that had been experiencing boom times and spending even more money to expand their thriving commercial and industrial bases to increase exports in order to meet debt obligations that were contracted during the good times. If, for a variety of reasons, foreign investors become nervous about the economic situation in a country, they may begin to withdraw their investments, and the economic reputation of the country declines. Consequently its currency depreciates, becoming less attractive for players in the international money markets. When money is treated like a commodity for example, oil, which is a generic product of equal value wherever it is produced and sold and if a currency is scarce, it is therefore in demand and worth more. This is the case with the U.S. dollar. However, when no one wants a country s dollars, yen, francs, or whatever, their value declines.

In a global economy, companies have access to many more customers by producing and selling goods and services not only for their own domestic market but also for markets in other countries. In Canada, for example, the global economy has created more customers for Canadian lumber, mining, and agricultural products. As a result, Canadian businesses have more access to international investors who will invest and therefore help develop Canadian companies. But when nations competing in the same markets as Canada have an economic crisis, it is also felt in Canada because we have an economic interdependence with these countries. Asian currencies, for example, have taken a beating over the last year. As a result, the prices of Asian products have been reduced, becoming more competitive on the international markets compared with Canadian goods. This can result in our exports being overpriced in these markets. When Canadian industries lose their customers around the world because of the increased competition in a global market, international investors will also pull out of Canada, forcing our dollar to drop.

Will Canada be able to survive the open borders of the global economy? Should we even try to compete in the same marketplace as the United States, the European Union, and Japan? Will the pressures of globalization force us to economize by reducing our standards for the environment, worker rights and safety, and health care? If the Canadian government is able to stop the slide of the Canadian dollar but is not able to address some of the larger questions associated with globalization we might just be buying time.

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Comprehensive News in Review Study Modules

Using both the print and non-print material from various issues of **News in Review**, teachers and students can create comprehensive, thematic modules that are excellent for research purposes, independent assignments, and small group study. We recommend the stories indicated below for the universal issues they represent and for the archival and historic material they contain.

Free Trade: Canada, the United States, and Mexico, April 1991
Hard Times, Disappearing Job, February 1992
Olympia & York: A Business Giant Stumbles, May 1992
Overdrawn: Understanding the Deficit, December 1994
China Today: A Correspondents View, September 1994
NAFTA: Going Continental, February 1994
Asian Economies: Toothless Tigers? February 1998
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Viva Yankee Dollars
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Inside Yeltsin s Russia

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Simplification

We hear in the news about the value of the Canadian dollar dropping and yet, in terms of the average person s immediate needs, the price of food and clothes does not seem to increase substantially here in Canada. So it is hard to understand how we are affected by the events people keep referring to as a global economic crisis. Like the whole field of economics, this situation may seem confusing, but some simple explanations can go a long way to making it easier to understand. After viewing this News in Review report and engaging in the activities below you will begin to have a better understanding of how the world economy works and how it affects ordinary Canadians. Proceed as indicated below.

1. A Chain Reaction: The Canadian dollar has been caught in an economic crisis that started on the other side of the world. While watching this News in Review story, make a list of the chain of events that have led to the current world economic crisis. The first event on your list should be the devaluation of Thailand s currency.

2. What People are Saying: Like all major events, people have very different opinions on the current economic crisis. While watching this story a second time, listen carefully to the statements of the people listed below and record the main points or arguments they make.

- Ruth Getter, senior vice president and chief economist, Toronto Dominion Bank
- Sylvia Ostrey, head of the Centre for International Studies, University of Toronto
- Jean Chrétien, Prime Minister
- Jeff Rubin, vice president and director of economics, Wood Gundy/ Canadian Imperial Bank of Commerce (CIBC)

Paul Martin, federal Minister of Finance
John McCallum, chief economist, Royal Bank of Canada

(a) What is the main difference between the arguments of Getter and Ostrey? Which explanation makes more sense to you? Could both these analysts be correct?
(b) Rubin, Martin, and McCallum all have differing opinions regarding the outcome of the current financial crisis. Which opinion do you think is the most valid? Suggest what might influence the opinions expressed publicly by these three men.

3. **The Canadian Flu** : During a final viewing of the video, consider the impact that the current economic crisis has had on Canada.
(a) In what ways have our economy and our daily lives been affected by the current crisis?
(b) In small groups, compare your findings. If the crisis continues, which sectors of the Canadian economy will be the hardest hit? How will the low value of the Canadian dollar affect your lives? What positive benefits could come out of the current economic crisis?

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The Lowly Loonie

In the past months the Canadian dollar has hit record lows, in comparison to the U.S. dollar, which is the strongest currency in the world. This drop in value has confused and frightened many people, and it has raised a number of questions. Why does the Canadian dollar keep dropping in value? How does the drop in value have an impact on our lives? Is there anything we can do about it? When you read the information below, consider which of the factors are within our control and which are not. In what ways have we truly become a global community?

Cycles

A nation s economy can be affected by cyclical events at home or abroad. When an economic change occurs it tends to initiate a cycle or chain reaction of events.

The Asia Meltdown Cycle

1. Fear of instability in Asia leads to international investors buying more U.S. dollars, which are secure in terms of their value.

2. The resulting rise in the value of the U.S. dollar (the currency against which most other currencies are measured) increases the amount that Asian countries owe international investors.

3. Since Asian countries must now pay more money in interest on their debts, there is even greater concern about their ability to pay off their debts.

4. This increased concern results in investors buying even more U.S. dollars.

This cycle directly affects Canada because any time there is increased demand for U.S. dollars the value of the U.S. dollar increases, and the value of the Canadian dollar decreases. This is because our dollar is so closely connected to the U.S. dollar.

The Commodity Crash Cycle

1. The strong U.S. dollar forces commodity prices to drop (because commodities are quoted in U.S. dollars).

2. Investors in the international money market in which currencies (money) are traded like commodities look at countries, like Canada, that sell a lot of commodities. They then sell off these (weaker) currencies.

3. When Canadian dollars are sold and U.S. dollars are bought the value of the U.S. dollar increases because there are fewer of them to buy. The value of the Canadian dollar decreases, however, because there are many more of them to be had.

Managing the Canadian Dollar

In addition to economic cycles, there are a number of other factors that have an impact on the value of our currency. The first factor is the demand for our dollar.

On the positive side, if foreigners want to buy goods that are made in Canada, they must exchange their francs, pesos, or whatever for Canadian dollars in order to pay for Canadian goods. An increase in demand for Canadian goods increases the demand for Canadian dollars, thereby raising the value of the Canadian dollar. The opposite is also true. If Canadians want to buy a German car, Canadian dollars are sold in order to buy German marks. This action puts downward pressure on the Canadian dollar and upward pressure on German marks. Of course, when a Canadian does buy a foreign car, he or she does not personally make the currency exchange in order to expedite the transaction. The consumer is insulated from all international currency transactions that make these purchases possible. But this is what goes on behind the scenes every day.

Another factor that puts upward pressure on our dollar (increases its value) is high interest rates. Individuals and financial institutions make money when they lend money by charging interest on the loans. When our interest rates are higher than other countries rates, international investors may want to put their money into our country because they make more interest.

As well, if our workforce and infrastructure are considered to be superior to those of other countries, businesses may want to build factories in our country. To do so they must pay for their factories here in Canadian dollars, which also puts upward pressure on our dollar.

On the negative side, if corporate taxes are considered to be too high, foreign companies may choose to build elsewhere, creating less opportunity for the buying of Canadian dollars.

The value of our dollar can also be negatively affected by speculation (buying in anticipation of a rise or fall in value of stock or a currency, as opposed to reacting to real changes in value). If investors speculate, for whatever reason, that the Canadian dollar will drop in value, they will sell off their Canadian dollars in favour of another currency. Their act of selling off our dollars in the money markets will again signal that they don t want Canadian dollars, making the Canadian dollar begin to look less valuable, and it will drop. This will make their speculation-prediction become a reality.

Defending the Canadian Dollar

Because the value of a currency can be determined largely by events outside the particular country, it is not always easy for governments to increase the value of their own currencies. One way the Government of Canada tried to defend our dollar was by actually buying Canadian dollars our own currency with our foreign reserves. (Every country holds foreign money in its central bank with which it buys foreign goods.) In the middle of the summer of 1998 our reserves of foreign currencies were worth approximately $22-billion U.S. When our dollar was under its greatest attack, sinking to around the 63-cent level, the Bank of Canada, (the federal government institution that prints money, loans money to charter banks, and is supposed to be independent of the government) was using up to $2-billion U.S. of our reserves a day to buy Canadian dollars on the open market to stop the slide. Ironically, one day in the fall of 1998 our dollar began to slide again. The reason? Foreign investors were concerned about the low level of foreign reserves in Canada only $16-billion U.S.

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What Is Globalization?

The world economy is undergoing a radical restructuring called *globalization*. In theory, globalization permits international companies free access to any country s marketplace. Countries like Canada pursue globalization because they want their companies to have open access to other countries marketplaces, to be able to sell to more customers. But in turn, they must permit open access to theirs. Reducing trade restrictions such as import taxes (also known as tariffs) allows for the free transfer of goods, services, and investments across national borders. Canada, the United States, and Mexico already have such an agreement through the North American Free Trade Agreement (NAFTA). The essence of globalization, however, is free trade throughout the world. Goods, services, and investments move freely to find the most competitive environment so that customers and investors benefit. Such an environment depends on numerous factors such as labour costs, government regulations like environmental controls on manufacturing, and the value of a nation s currency. Such factors can raise or lower the cost of goods and services to consumers. How do you feel about global free trade? Do you believe it will benefit Canadians or harm Canadians? Be prepared to express a well-founded opinion on this issue after reading the information below.

Opposing Viewpoints

Economists, politicians, activists, and ordinary citizens disagree about whether globalization is a good thing. Some economists believe world free trade is positive because it will force all companies to be more competitive, which will have a beneficial impact on consumers. For example, if a car is being built in Japan more cheaply than in Canada then our local producers will have to lower their prices or customers will buy the Japanese-built car. Those who support this point of view are also aware that if Canada were to increase tariffs on imported goods, then our exports would drop because other countries in return would place tariffs on our goods. Therefore, they believe that the increased competition resulting from world free trade will have a positive effect on our economy. Free trade supporters would also argue that for too long protectionist policies have defended inefficient, overpaid, unionized industries. They would also suggest that this system has also allowed a high tax structure and an overly large and expensive civil service. Therefore, according to them, under a more open global economy, industries must become more competitive and governments less involved in business.

Conversely, other economists believe that free trade is negative. They suggest that it will result in the erosion of workers rights and huge job losses for Canadians as we compete with cheaper markets. For instance, if a company wants to build a car factory in Canada it would have to pay Canadian workers at least the minimum wage in this country. But if it built its car factory in Mexico it would only have to pay Mexican workers about 80 cents an hour. This competition puts a great deal of pressure on businesses and governments to lower wages in Canada. As well, people supporting this point of view would argue that even though Canadian consumers pay more for imported goods due to tariffs, we are still getting a good deal because we are ensuring that jobs stay in Canada, and it ensures that our high level of public services continue. They are also concerned about our government losing its ability to create laws that defend its citizens. For example, if our government is concerned about drugs that are being injected into livestock from the United States, or additives in food, we must prove to the North American Free Trade Agreement (NAFTA) court that these chemicals are definitely harmful. Anti-free trade supporters claim that our government will be the defendant every time it wants to defend its citizens against any possible concerns with imported goods. There is equal concern about how closed these NAFTA court hearings are. Canadians do not have access to any of the details of the NAFTA trials; we only get to hear the outcome of the case.

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Why Does Globalization Matter?

As trade barriers drop, companies may shop around for the best place to actually manufacture or produce their products. They may set up their company in the country that is the most competitive in terms of production costs. According to many global investors, the most competitive country is simply one that has labour and social-political conditions that allow a company to make the most profits. Competitive labour and social-political conditions, however, may not be what Canadians are used to or would advocate.

A free trade proponent might suggest that despite the fact that a company sets up a plant in a developing country where standards are below those we would find acceptable in Canada, this situation benefits everyone: the presence of a vibrant international company in a nation stimulates the economy of the host country; consumers worldwide benefit from wider access to goods and services and lower prices; and ultimately the global economy becomes more synchronized, more unified.

Whatever the outcome of such a debate, it is clear that a number of main factors lead to high profitability no matter where goods and service are produced. The following play an especially important role in a global marketplace, although it is important to note that each factor is subject to interpretation and debate and can be implemented in ways that may be considered good or bad.

competitive corporate and property tax rates
competitive wages
fewer government regulations in the area of worker safety
fewer employee benefits
fewer regulated environmental standards

an excellent transportation and communications infrastructure
the availability of public health care for employees
a highly trained workforce
fewer restrictive labour laws
low cost or availability of natural resources

Applying Your Knowledge

1. In small groups, discuss the factors listed above and analyze whether or not Canada, in your opinion, is a very competitive country.

2. According to these factors what might be done to make Canada more competitive?

3. What impact would these changes have on the daily lives of average Canadians?

4. With reference to long-term as opposed to short-term thinking, to what extent might manufacturing in developing nations actually cost companies more?

The Race to the Bottom

In order for governments to keep companies operating in their countries or to attract new ones, they may find themselves in a race to the bottom. Critics suggest that governments find themselves in the position of either having to lower their environmental standards or decrease workers rights and living-working conditions in order to permit foreign corporations to maximize their profits. They would also argue that this is dangerous for Canadians because we have one of the best standards of living in the world, and in order to be competitive we would have to decrease that standard. Consider the following situations:

In 1987, there was a bitter two-month strike at Ford Motor Company in Mexico. The company decided to fire 3400 workers and cut wages by 45 per cent. When the workers came to the support of their labour leaders, gunmen shot workers at random in the factory.

In 1992, again in Mexico, 14 000 workers at a Volkswagen plant turned down a contract offered by the company. In response, the company fired them all. The workers appealed to an outside court for help; the court upheld the company s action.

Ironically, Mexico is considered to be a very competitive country, and international investors are rushing there to set up companies. Some might argue that in the long run, this benefits the entire continent by creating a greater cash flow between all three countries. For example, even though Canadian jobs might be lost and exported to Mexico, it could be argued that improving the living standard of Mexicans increases their ability to buy Canadian products whether they are made in Mexico or Canada. It could also be argued that any increased profits would simply go to the corporations that establish businesses there.

Discussion

1. In what ways might poorer developing nations like Mexico, Indonesia, and the Philippines be hurt by globalization? How might they benefit from globalization?

2. What legislation exists in Canada to prevent the human rights abuses you read about in Mexico from happening here? What does this have to do with global business? Could globalization have any impact on the rights we enjoy in Canada?

3. The cost of production directly affects the bottom line of a company. All companies try to maximize their profits by minimizing their production costs. Incorporating cost-cutting and cost-effective measures in any business is a logical and normal way of conducting business. Why, however, is this also the conundrum in the issue of globalization?

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Between A Rock and A Hard Place

Governments have a significant impact on the national economy of their countries. In fact, this is a fundamental role and the very nature of government. Governments have always directed and controlled their countries economies through fiscal and monetary policies. Fiscal policy allows the government to direct the economy by way of taxing and spending. Monetary policy allows the government to control interest rates and money supply. Globalization, however, can reduce the power that national governments have in both these areas.

The Risk of Fiscal Paralysis
Fiscal policy is affected by globalization because governments can be put in the position of having to satisfy the needs of the corporate world. Large corporations are naturally strong and powerful in terms of their financial and industrial influence as well as their ability to lobby governments to pass legislation that favours corporate interests. For example, if a government finds its country in a recession, it may want to spend its way out of the problem. The government might decide to run the risk of a higher deficit in order to stimulate employment growth. But international investors who put money into large corporations might consider this a fiscally irresponsible action that could lead to a less competitive marketplace, and they might sell off that country s currency. This, in turn, could lower the value of the nation s currency and force the government to raise interest rates in order to defend its currency. High interest rates are known to cause consumers to be more conservative with their money and spend less. This could conversely diminish any possible benefit of increased government spending.

Secondly, if a government decided to balance its books by increasing corporate tax rates, international investors, fearing reduced corporate profits, might withdraw the money they have invested in the nation s companies, which again might cause the currency to decrease in value. This would then set in motion the same scenario as outlined above. Some critics say that under globalization there is now a greater incentive for governments to lower corporate tax rates because, if they do not, corporations might threaten to leave the country, or choose not to set up business in a particular country in the first place. As a result, countries could be caught up in a bidding war for the favour of corporations. Currently, the Republic of Ireland is one of the most popular countries in which to build a new factory because it has the lowest corporate tax rate in Europe.

The Risk of Monetary Paralysis

Monetary policy can also be adversely affected by globalization. For example, if the Bank of Canada believes that lowering interest rates will stimulate the economy and proceeds to do so, thus permitting and encouraging Canadian charter banks to do likewise, global investors who invest their funds by putting them into the pool of money available in a nation through its financial institutions might leave in order to find countries in which higher interest rates will give them a higher return on their invested money. As a result, once again, the country s currency value can drop, because it is less desirable and worth less on international money markets. This can also lead to inflationary pressures in the country. Prices will rise. Wage demands will increase. Production costs will increase. Inflation in turn can force the government to raise interest rates.

Governments are aware that interest rates have a huge impact on investors, and that consequently if a country generally has higher interest rates than its neighbours it will raise the value of the currency in their own country. Recently, when the Canadian dollar was losing value on international money markets, the Governor of the Bank of Canada, Gordon Thiessen, raised interest rates even though some Canadian economists felt his action was not good for our national economy.

The Role of International Courts

Another way that globalization can reduce the power of governments is through international trade treaties, which can force a government to change laws that were put in place to protect its people. Consider the recent case involving the gasoline additive called MMT. The Canadian government banned the use of the additive in our gasoline because the government was concerned the chemical would cause adverse health effects. In other words, the government believed MMT would hurt Canadians. The U.S. company that makes MMT, Ethyl Corporation, took the Canadian government to court, claiming our government was unfairly restricting free trade. It did not matter that MMT did not meet the health standards outlined by Canadian environmental laws. In order to keep the additive out of our gasoline, the Canadian government would have to prove unequivocally that MMT was dangerous to our health. In effect, our government had to defend our environmental laws against a U.S. company. Our government, uncertain that it could win the case, had to settle out of court, paying Ethyl $13-million U.S. for court fees and lost profits. As well, the chemical may shortly be added to all Canadian gasoline.

Reducing Corporate Income Tax

Under globalization, governments may also have less power to tax corporations. Assume that a division of Ford Canada ships parts to a Ford assembly plant in Dearborn, Michigan. The price of the parts being shipped anything shipped across the border, even within a multinational firm, must have a price attached to it is strictly for Ford s internal books. It is in the best interests of a multinational company to declare their profits in the country with the lowest tax rate. Canada has a higher corporate tax rate than the United States. It would be advantageous for Ford to keep the price of its Canadian parts as low as possible since declaring profits in Canada would increase the income tax the company must pay to the Canadian government. As a result, Ford USA s profits would go up, but the Canadian government would receive less tax from this corporation.

On the other hand, Ford could argue that keeping its corporate tax level low, allows the company to be more profitable which is of course why it is in business and therefore it could do more business, more efficiently in Canada or elsewhere, thus providing more jobs, creating better working conditions, and actually putting even more money back into the Canadian economy.

The question of corporate income tax is a dilemma for a national government. If the government moves to raise corporate taxes, then the companies might decide that they will relocate their business to another country altogether. Another aspect of the dilemma is that, in Canada, governments also depend on corporate tax revenue to help pay for the country s social programs like health, education, and diverse social services.

Furthermore, companies need highly trained employees, but training them is costly. If they are to be trained through state or government-run programs, the costs must be recouped to a great extent through corporate taxes. Some of the largest and most advanced companies in the field of technology are located in the United States, where corporate taxes are lower. This allows them to pay higher salaries and to attract Canadian graduates to move there. However, Canadian companies might claim that they help pay for our education system through corporate taxes but are not able to reap the rewards of their investment because U.S. companies are getting our best graduates. A further complication can present itself. As corporations pay less tax, the tax burden shifts to individual Canadians and small businesses because social programs and government services must continue to be paid for.

Applications

1. International investors especially might argue that it is much better for the free market to control a country s economy and the global economy than for governments to control it. Working in small groups, make two lists. The first list should contain as many arguments in support of such a position as you can think of. The second list should contain arguments against such a position.

2. Globalization is a phenomenon that is not restricted to economic and business issues. For example, although certainly related to economic issues, globalization can also been seen as a factor in influencing how national cultures evolve. Some people express concern about the McDonaldization or the Americanization of a global culture. As you have seen, globalization is increasingly playing a role in international law. Because the global village is transcending national borders, many of the world s social and political issues are being globalized. As a class, discuss how this News in Review story reveals the potential clash between national and international law.

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Regulating the Global Market

As part of their mandates, international trade organizations exist so member countries that participate in free trade do so fairly. The trade organizations ensure that there is a level playing field for all parties involved and that governments do not get in the way of private enterprise. The North American Free Trade Agreement (NAFTA), for example, provides protection for companies against any law the governments of Canada, the United States, and Mexico might pass that could prevent them from doing business under the terms of the agreement. Because NAFTA is in place, companies can have more peace of mind about opening up for business in Canada.

Another safeguard exists in the global marketplace. If a country finds itself unable to make payments on its debt it may turn to the International Monetary Fund (IMF) for short-term loans to get out of trouble. This organization was set up, in part, for this purpose.

Recently, the IMF gave huge loans to South Korea ($70-billion U.S.), Indonesia ($40-billion U.S.) and Russia ($22-billion U.S.). This money was used by each government to defend its currency by buying more of it on the open market, thus increasing the currency s value. Some of the money was also used to stop large corporations in those countries from going bankrupt. Some was also used to bail out banks that loaned money to these companies and to the governments themselves. In other words, the IMF loans were used to take over the risk that banks assumed when they loaned money to these businesses and countries in the first place.

But how then does a country pay off its IMF loan? After all, the country could not make the payments on the previous debt it owed, and that is why it had to turn to the IMF. In order to pay back its obligation to the IMF, the country is required under the terms of the IMF loan to go through a restructuring program that critics of the IMF suggest can do more harm than good. As William Keeling, an Indonesian securities broker, has said, The IMF is not a fairy godmother. The IMF does not offer easy solutions. When the fund gives a loan, it often requires the governments receiving the loans to institute severe measures such as cutting spending, raising taxes and interest rates, and closing banks and other financial institutions that have a poor record in terms of their operations and financial stability. These can have a direct impact on the average citizen, especially if cuts are made to such programs as health and education. The currency of the country may be further devalued, and workers rights may be affected.

As well, IMF restructuring programs have a large impact on the debtor country as a whole. Foreign companies are allowed to buy domestic companies at a significantly reduced price. The IMF conditions can also have the effect of causing humiliation and embarrassment in the country being bailed out, as was the case in South Korea. To many South Koreans, the day the IMF agreement was signed is now known as National Humiliation Day. Michel Camdessus, IMF managing director, has suggested that in such countries there is a tremendous denial of reality. He points out that it is capital flight (foreign investment money leaving the country) that must be stopped initially. In his view, the IMF does not bail out a country but prevents it from sinking by repairing the country and creating new structures better fitting with the new world.

Although the terms of the IMF restructuring programs are harsh, it is true that many countries would have collapsed if they had not received IMF loans. And when companies and banks in these countries go bankrupt, the effect on the citizens of the country is devastating. In addition to the impact of a country s collapse domestically, there is usually a significant international impact as well. These countries would also have to default on their debts to banks. Because banks make money through loans, their profits would drop as a result of such defaults. A decline in a bank s profits would lead to a decline in the value of its stock market shares. And finally, stock exchanges as a whole would suffer losses.

The MAI: Agreeing to What?

The Multilateral Agreement on Investments (MAI) is an international economic agreement that would grant private investors and corporations more power. The Council of Canadians, a grassroots lobby group in Canada that challenges corporate power and defends citizens rights and interests in the new global economy especially, is opposed to Canada signing the MAI and believes that the agreement would have a devastating impact on Canada and the day-to-day life of Canadians. In particular, the Council believes that the following would occur if the MAI became law:

It would increase the possibilities of our health care, education, and public services being privatized and handed over to multinational corporations.
It would give corporations more power to challenge environmental regulations.
It would threaten our control of fisheries, forests, energy, and other natural resources.
It would leave our culture at the mercy of U.S. entertainment corporations.
It would give corporations the right to sue our elected governments to protect their profits.

Our federal government believes the MAI would benefit Canada but has delayed signing the agreement until it has been studied further. Visit the Web sites of both the Council of Canadians at www.canadians.org and the Department of Foreign Affairs and International Trade at www.dfait-maeci.gc.ca and prepare a complete list of arguments on both sides of this issue. Use your list of points to help you in a class debate.

Note: For further important information on the International Monetary Fund and its activities, see *The International Monetary Fund* in the story *Russia in Crisis: Yeltsin's Last Stand* on page 39 of this resource guide.

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Making Sense of Debt

Government and corporate debt have a huge impact on the global economy. Currently, the Canadian federal government has a debt of $580-billion. Some of this money (60 per cent) is owed to Canadians, but much of it is owed to foreigners. The government has a choice as to how this debt is structured, or dealt with. It can make long-term or short-term offerings to investors, opportunities for investors to put their money in government financial programs from which they will earn interest. Short-term debt issues are called T-bills or treasury bills. These offer the lowest interest rates, but the government must pay them back in full in a very short period of time: 30 days up to 180 days. Longer term debt, called bonds, are issued in durations of five to 20 years and pay higher interest rates than short-term issues, because the government is guaranteed that the interest rate will not change for the duration of the bond. The government pays interest to the investor throughout the life of the bond, and at the end of the bond s term, the government also pays back the entire amount invested. In the meantime, the government can use this money to pay bills or make more money.

When currency traders move their money between countries, they are putting their money into government debt either long-term or short-term. Over one trillion U.S. dollars is traded in currency every day. If traders are happy with the interest rate the Canadian government is offering on its debt, then currency traders buy Canadian dollars, and the value of our dollar goes up. If investors do not invest in Canada because of low interest rates, then the Canadian dollar drops in value. When this happens, the Governor of the Bank of Canada, currently Gordon Thiessen, is under great pressure to raise interest rates in order to defend the dollar. Consumers, unlike investors, do not like higher interest rates, because they increase the cost of mortgages and other loans.

When a company or government goes into debt, it must decide whether the loans it receives from banks will be in its local currency or in U.S. dollars. This can be a big gamble. Many times, a company or government can get a better (lower) interest rate if its loan is in U.S. dollars because there is less risk on the part of the institution loaning the money, less risk that the value of the U.S. dollars with which the loan is made will drop. But if the debt is in U.S. dollars then there is the additional risk that if the U.S. dollar goes up in value so will the original amount of money borrowed.

In the case of Thailand, most of its debt was in U.S. dollars. As a result, when the value of the Thai baht dropped, Thai borrowers had to pay more in terms of their local currency in order to match the U.S. dollar amount of the loan, which increased in value as the Thai baht dropped. In Russia s case, however, it is the international investment community that is outraged that the ruble has gone through a massive devaluation, because Russia s debt is in rubles and not in U.S. dollars. As a result, the debt is less, and foreign investors who have lent money to Russia will recoup less of their investment, if they recoup any at all.

Discussion
1. Should the IMF bail out the bad debt of these countries rather than letting them go bankrupt? Make sure you consider the fact that if these countries went bankrupt, international banks would lose a lot of money.

2. Currently the South Korean taxpayers are going to have to pay off the very large debt the country owes to the IMF. These debts were created by ill-advised loans to businesses and banks in Korea by foreign banks. How can we achieve a balance in our economic systems so that governments play some role in regulating the economy but do not interfere with the free market?

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THE CHANGING WORLD ECONOMY

Discussion, Research, and Essay Questions

1. Every day, approximately $1.2 trillion U.S. is traded on the open market through international money markets. Economist Linda McQuaig has argued that international investors should have to pay a small tax of less than one per cent every time they move their money from one country to another. This tax is called the Tobin Tax, after James Tobin, a Nobel Prize-winning U.S. economist. It would discourage short-term speculative movement of money. It would also create a large revenue source for all countries involved.
Do you think the Tobin Tax is a good idea? Would it have much of an impact on international investors? In what ways would Canada benefit if the Tobin Tax was implemented? What arguments could you make against the tax if you were an international investor?

2. Economists like to look at a country s current account as an indicator of investor confidence. If the current account, the difference between all the money coming into the country and all the money going out of it, is in deficit, then more money is leaving than is coming in. For example, even though $12-billion U.S. is leaving the country in the form of a trade surplus (we are exporting more than we are importing), our current account deficit is still around $11-billion U.S., which means that international investors are taking out $23-billion U.S. a year more than they are putting into our economy. However, since the Canadian economy is approximately $600-billion U.S. a year, our current account deficit is not considered to be a major concern. If you were Prime Minister Chrétien or the federal Minister of Finance Paul Martin, what would you do to stem the growth of the current account deficit in Canada?

3. Billionaire investor George Soros believes that The global capitalist system which has been responsible for the remarkable prosperity of this

country in the last decade is coming apart at the seams. If you would like to do further reading about this aspect of globalization, check your library for the following titles: *Whats Right: The New Conservative Majority and the Remaking of America*, by David Frum; *One World, Ready or Not: The Manic Logic of Global Capitalism*, by William Greider; *When Corporations Rule the World*, by David Korten; *The Cult of Impotence: Selling the Myth of Powerlessness in the Global Economy*, by Linda McQuaig; *All The Trouble In the World*, by P.J. O Rourke; *Shakedown: How the New Economy is Changing Our Lives*, by Angus Reid; *The Future of Capitalism*, by Lester Thurow.

4. Since the value of the Canadian dollar has dropped, U.S. products sold in Canada are now more expensive. Vacations to the United States also cost more because the U.S. dollar is worth considerably more than the Canadian dollar. Have you noticed products that you normally might buy have increased in price? Which ones? How has the Canadian dollar s decline affected your family s shopping decisions or vacation plans?

5. Many Canadians like a lower Canadian dollar because then our exports are cheaper. Following the law of supply and demand, more exports are produced, which creates more jobs in Canada. A lower dollar, however, also means that the average worker s dollars have less purchasing power on items imported from the United States. Write a one-page commentary discussing what, in your opinion, the government s response to the falling Canadian dollar should be.

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