

Linda McQuaig, *The Cult of Impotence: Selling the Myth of Powerlessness in the Global Economy* (Toronto: Penguin Canada 1998).

In the final quarter of 1998 the gathering momentum of global financial crisis pushes relentlessly at the frail prosperity of Canada and the other privileged economies of consolidated capitalism. Finance Minister Martin, only recently the proud darling of the executive class for conquering the budget deficit “come hell or high water,” now infuriates both organized labour and some businesses with a plan to seize the surplus in the unemployment insurance fund claiming it is necessary to cope with the mounting world recession. He hesitates to admit that recession will engulf Canada. What is really on his mind is preserving the integrity of both the embattled Canadian dollar and the probity of the Bank of Canada and the Finance Department monetary strategy.

Simultaneously a hedge fund gambler in New York nearly produces a world wide melt down in the financial community when his highly leveraged elite fund miscalculates on European bond price movements. The result is intervention by the US Federal Reserve to cobble together a bailout loan arguing that the \$120 billion failure would jeopardize the highly interrelated financial system. Those with a memory saw the spectre of the 1931 collapse of the *Creditanstalt*. Those who found the event incomprehensible will benefit from this book.

Linda McQuaig, in *The Cult of Impotence*, describes the forces and economic ideas now commanding Canadian (European and American) leaders. This is a very valuable study of what is presently the dominant ideology, who produced it and how it works. The body of ideas she examines is used to justify all manner of outrageous practices to reverse historic reforms and drive the “popular” classes back into a standard of living common early in the twentieth century. Any such study must reveal different class interests in financial reward and therefore in both “theoretical” interpretation and policy choices. McQuaig adopts simple rich and non-rich expressions for these differences. “The position favoured by the first camp has sometimes been identified as ‘right-wing,’ the second as ‘left-wing,’ although we could just as easily call them the ‘market’ position and the ‘popular’ position.” (28)

One important reason why the book is valuable is that the writing about complex struggles over economic strategy is so very accessible to non-specialists. McQuaig makes arcane concepts such as non-accelerating rate of unemployment (NAIRU), understandable to a lay audience and explains why it is “the most vicious euphemism ever coined.” She personalizes the economic strategy debate, pitting Martin and his advisers, such as David Dodge, the C.D. Howe Institute economists and Bay Street bankers, against such opponents as

Liberal MP Douglas Peters, Finance research economist Rodney Schmidt and American economists William Vickery and James Tobin.

By presenting ideas in relation to personalities the reader absorbs the drama of real struggle over policies to benefit the wealthy and powerful on the one hand versus the “popular” forces on the other. “This book is about ... exploring the real limits of what is possible and what isn’t in this age of the global economy. Is full employment possible? How about well-funded public health and education systems or a clean environment? Or is only all-night banking possible?” (17)

Since it is an axiom of conventional discourse today that globalization, with its causes in technological information explosion and uncontrollable market forces, makes independent government action impossible, McQuaig focuses on the reality of that claim of impotence. She begins by identifying a sample of players in this cult of impotence, the Department of Finance and its Minister, the Business Council on National Issues, the editorial voices of the *Globe and Mail*, stockbrokers such as David Jones (“If you inhibit cash flows, the alternative is war”) and London School of Economics professor Ian Angell explaining blandly how most of the working population will soon be redundant.

But because their views rest on what some believe to be more substantial economic theory, she describes what Milton Friedman has bequeathed to these opinion and decision makers. The most important of Friedman’s nefarious ideas for present purposes is the proposition that there is a natural rate of unemployment for every economy and there is nothing governments can or should do to alter that fact. In exploring this body of ideas McQuaig juxtaposes the later work of William Vickery, who won the Nobel economics prize in 1996, and some of those in the profession who opposed Friedman’s ideas. This is a chapter that nicely illustrates McQuaig’s ability to make difficult arguments of theory and the policy implications flowing from them accessible to lay persons. She always makes it clear why the information she develops is important to the “popular” camp.

Since the study has principally to do with the purported impotence of the Canadian government, she returns her attention to the way the dominant economic ideology of the Friedman era worked itself out in Ottawa and on Bay Street. The method is to develop the adversary figure of Douglas Peters, a maverick Toronto Dominion Bank chief economist who argued that while the federal budget deficit was important, the way to attack it was not through draconian interest rate increases and social program slashing, but through employment strategies that put the economy to work. Peters was elected with the Liberal government in 1993 and soon found himself in a losing battle with the neo-liberals in Finance whose primary task was to capture and domesticate Martin.

McQuaig also brings her magnifying glass to bear on Bank of Canada Governor John Crow's mean interest rates of the 1980s and early 90s. In his successor, Gordon Thiessen, those ideas live on. For these, the relation between high rates of unemployment and avoidance of inflation are paramount. They explain that the government and Bank of Canada policy of restraint is dictated by the mercurial behavior of the market and capricious investors. McQuaig responds by describing the alternatives of the Tobin tax and direct capital controls (such as the one year residency requirement for incoming investment in Chile and Columbia). The tax would put a low duty on every cross-border investment or disinvestment: not too large to discourage investment but too expensive for rapid cash movements of speculators. Her description of how it would work, who favours it, who opposes it and why are all developed, again, by introducing James Tobin himself and interviews with key actors.

Lurking in the background of her examination of the claim of powerlessness and impotence is the economic theoretical giant John Maynard Keynes who fought the repressive orthodoxy of the pre-World War Two financiers and economists who used the gold standard to discipline domestic government policy. She follows his career to the realm of international trade where he and Harry Dexter White of the U.S. Treasury Department in 1944 crafted the Bretton Woods Agreement that created the International Monetary Fund and World Bank.

Despite what these institutions have subsequently become, for Keynes and White the strategy was to prevent international finance from interfering with governments responding to popular forces to enact social programs, full employment and regulatory policies. Her point is that Keynes and his supporters at the time and afterwards used economic theory to empower governments to respond to democracy. The opponents such as Friedman devised theories to curtail democratically elected governments and empower the tiny elite who control the world's wealth.

As the book concludes Linda McQuaig writes:

To an alarming extent, we have become convinced that we are collectively powerless in the face of international financial markets. And with the widespread acceptance of this view, the rich have proceeded to create a world in which the rights of capital have been given precedence over and protection against interference from the electorate. In spite of democracy, they have largely succeeded in creating a knave proof world. (283)

The reference is to the anti-democratic purposes of the gold standard as

advocated by a nineteenth century British Treasury official for whom the claims of the ordinary people of Britain were knavish. (189)

In truth, the international financial community is already full of governmental and industry regulations and controls. Her description of the Bank for International Settlements is an example. Yet these are self (and self-serving) regulations, not those designed to prevent capital from controlling governments. Further, there are numerous alternatives to resist “market” domination of governments which are presently ignored or denied to be possible by governments. The message is we are not prisoners of a natural and impersonal global market though politicians may be reluctant and frightened to use their power.

Referring to economist Pierre Fortin’s evidence, she says, “Canada can have the autonomy to pursue policies aimed at full employment and well-funded social programs.”

Ottawa has implied that it is powerless to enact such policies, since fully mobile capital will flee. But ... this failure of government to deliver on these policies is not because of any real powerlessness. Rather, it springs from an unwillingness on the part of government to allow the national currency to drop in value when necessary — for fear of angering the influential financial constituency. Thus, what we have now is not real impotence but a self-imposed variety. (235)

Of course, since this book was published the value of the Canadian dollar has plummeted and unemployment has declined somewhat. But there has been no commensurate shift in strategy to favour government stimulation of the economy. Instead economists and policy makers watched helplessly as stock markets sagged and investors ran for cover. Through the third quarter of 1998 there was no agreement about what if anything should be done. Contrary to prediction, a low interest rate, low dollar value, declining unemployment did not drive away investors. But the *Globe and Mail* editors were adamant. An economic growth strategy is wrong, favouring instead exclusive use of any budget surplus on debt reduction. (23 Sept. 1998) Yet, as the October meeting of the IMF approached, Paul Martin and the *Globe* agreed some way had to be found to control speculative international investment.

This is exactly the environment in which the pressure of the financial community may produce enhanced supervisory powers for the IMF in exchange for expanded credit to bail out threatened national economies. As McQuaig says, “We are being told that we should put in place regulations that curb the power of

democratic governments to serve popular interests so that the interests of financial capital can be protected.” (272)

The author’s understanding and ability to present difficult information and thought in a way intelligent non-professionals can grasp is a great service. To do so she uses many metaphors that enliven the presentation. But there is always a danger metaphorical analogies will obscure even as they illuminate. For example, she correctly targets the present Liberal government as “presiding over a long-term redirection of our national income away from government programs. They are taking us much closer to the US model, with lower taxes and smaller government.” (8) But it is not self-evident how the smaller American government is measured.

Most readers will likely identify with Linda McQuaig’s critique of the neo-liberal project for its destruction of social and economic reforms hard won during the thirty years following World War Two. More important, they will endorse her criticism that this project constitutes a fundamental attack on democracy itself. It may not be so evident that capitalist democracy is what she defends. C.B. Macpherson demonstrated it is virtually impossible to yoke together capitalism and democracy to satisfy the potential involved in each. It is McQuaig’s argument that Keynes (and the subsequent economists and policy figures following him) showed us how the reconciliation could be achieved. McQuaig says about MIT economist Rudi Dornbusch, espousing the Tobin tax, as she herself does, he “argues ... for the Tobin tax partly on the grounds that it would make the capitalist system function better.” (166) What is needed is to regain Keynes’ spirit of the possible and use the existing tools to restore government for the people.

But it is clear from Keynes’ own history and the fate of his reforms that this kind of democracy does not belong to the “popular” classes. We need a different kind of state and a democracy that is not limited by the requirements of the tiny elite who control capital. The Keynesian reforms adopted were not the ones that would have eliminated the rentier class; that tiny minority of the population for whom so much is done to protect capital. As McQuaig shows (216-220), they were not the reforms that would have established capital export controls co-operatively enforced by the major trading nations.

Just as metaphors can disguise complexities and understanding at the same time they enlighten, so personalizing theory and policy arguments can mislead. McQuaig portrays Paul Martin as an unwilling recruit to neo-liberal economics. But what is most important for a person in his position is who he represents, not simply how he appears. For example, she recounts a sharp confrontation between Martin and the editorial board of the *Globe and Mail* after the 1994

budget when business columnist Andrew Coyne pursued the Finance Minister sharply. “Coyne was saying what the dull accountant types in the department had long been saying [that harsher cutback of social programs than the mild cuts in the 1994 budget was needed to bring down the deficit] and he was saying it publicly in a way that embarrassed Martin in front of the audience he most cared about.” (90, emphasis added) Martin (and all political, business, military, labour, academic figures) are put in positions where they must decide who they serve or who they represent or who they side with, regardless of what else they hold dear in their lives.

In part because of the method of personalizing policies, the discussion of the Bretton Woods Agreement is not entirely satisfactory. For McQuaig the principal creator of the Agreement was Keynes and it “was a radical thirty-year experiment in which the rights of the population as a whole were given a higher priority than the rights of capital holders. Those thirty years were arguably the best years ‘ordinary people’ have ever seen.” (238)

But it is misleading to attribute the prosperity of post World War Two capitalism to the Bretton Woods Agreement. The availability of a great deal of forced saving, the active state sponsored construction in Europe (*wirtschaft wunder*) and North America (suburbanization), the social democratic alliance, the rise of consumerism all contributed to “the golden age” and cannot be reduced to the Bretton Woods Agreement. Moreover, the account ignores the way in which the Agreement permitted the United States to expand its economic domain and “export” its inflation for almost two decades, obliging its trading partners to absorb the cost of sinking dollar values. This was not empowering to twelve democratically elected European governments, nor their citizens. At one point de Gaulle attempted to counteract the effect by hoarding gold.

The celebration of Keynes reaches the point where McQuaig declares that he laid out a plan for economic empowerment “producing for the first time in history a system in which the needs and desires of ordinary people had to be taken into account.” (247) Some justification for such a statement is due in light of nearly two centuries of socialist thought and system building. Even if the conclusion is that socialism failed, it was certainly a system in which the needs and desires of ordinary people were to be taken into account.

This may be the best of Linda McQuaig’s important contribution to contemporary Canadian criticism. Her work is reminiscent of the much maligned Muckrakers of the turn-of-the-century. Authors who delved into the workings of the new corporate giants and the politicians who facilitated their rise and demonstrated the corrupting of democracy and the Lincoln-Republican dream. Robert Lynd’s great *Knowledge for What* of the 1930s also resonates in

her exposition of economic theory. *The Cult of Impotence* is important because it opens for public and popular understanding the mystified subject of money, banking, international finance and economic strategy. Even if the concern is limited to making capitalism more humane and accountable, this study is an excellent example of what critical liberal thought can provide in the service of preserving or restoring democracy.

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